

## **Audit Practice and Professional Ethics: A Study of Selected Auditors Practicing in Imo State, Nigeria**

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### **Abstract**

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**A**udit practice in Nigeria, as in many other countries, is guided by professional ethical codes of conduct, in addition to statute. The Institute of Chartered Accountants of Nigeria regulates the professional conduct of its members in the performance of their auditing functions with a view to ensuring the highest possible professional practice comparable and acceptable internationally. The Institute issues codes of professional conduct for its members which outline the propriety of conducts in matters of professional practice. Such codes of conduct relate to the requirements on the part of members in matters of: independence; integrity; honesty; technical competence; compliance to technical standards; confidentiality and accountability. This paper assesses the level of compliance to the codes of professional ethics by members of the Institute. Twenty (25) auditors and one hundred and fifty (150) investors were randomly studied in Imo. A three-point rating scale questionnaire was administered on these respondents to generate data and examine the level of compliance to the codes of professional ethics by practicing auditors in Imo state of Nigeria. The data collected were analyzed using descriptive statistics and the null hypothesis was tested using the Chi-square test. The result showed that the auditors practicing in Imo significantly comply with the codes of professional ethics in the conduct of their professional engagements as prescribed by the Institute. Though a great deal of concern has been expressed in recent years regarding the deterioration of ethical standards in business generally owing largely to the decay in social values in Nigeria, auditors' observance of codes of professional ethics in Imo is found to be capable in ensuring that the key role of the audit in monitoring corporate financial reporting is not passive.

**Keywords:** *Audit practice, Professional ethics, Ethical standards, Financial reporting*

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### **Background to the Study**

The application of ethical standards assists auditors to overcome ethical dilemmas which, allow for the right choice of professional behavior that may not only benefit the client but the public who relies on the auditors reporting. Auditors have an obligation to the clients they serve, their profession, the public, and themselves to maintain the highest standards of ethical behaviour. They have a responsibility to be competent and to maintain confidentiality, integrity, and objectivity. An analysis of attitudes toward ethics in the accounting profession showed that chances to engage in unethical dealings exist. In Nigeria, the application of ethical standards in business operation has seriously deteriorated generally, owing largely to the decay in social values (Aguolu, 2002). A great deal of concern has been expressed in recent years regarding the apparently negative effects on business ethics and morality in the Nigerian society (Bamballe, 2003). Research interest in the area of auditors' observance of ethical standards has been motivated by the key role of the audit in monitoring corporate financial reporting and a long-running controversy regarding the feasibility of auditor independence under current institutional arrangements in Nigeria (Lee and Gu, 1998; King, 2002; Dopuch, King, and Schwartz, 2003; Mayhew and Pike, 2004 and Schneider Schneider, Church, and Ely, 2006).

Accordingly, studies have investigated the application of ethical standards of professional auditors' abroad (Tsui and Gul, 1996; Au and Wong, 2000 and Shafer, Shafer, Morris, and Ketchand, 2001), and this area of research has received renewed emphasis in light of the recent wave of financial reporting scandals in the United States (Gul, Tsui, and Gul, 2003; Buchan, 2005; and Hwang and Staley, 2005) and in Nigeria. The issues which the professional ethical standards emphasize are to ensure objectivity, integrity, avoid conflicts of interest, ensure confidentiality of information obtained, communicate with previous auditor before accepting appointment where there is an existing auditor, ensure that fees charged are those agreed with the client or based on the Institute's scale of professional fees and ensure that practice names project the dignity of the profession. Ethical standards if strictly adhered to, become internalized and reflect extensively in professional assignments (Nwanyanwu, 2010).

This paper assesses the level of application of ethical standards by auditors in Nigeria. The paper is organized as follows: the next section presents the literature review and followed by the methodology section. Sections four and five of the paper present discussions of results and conclusions of the paper respectively.

### **Literature Review**

Accountants are subject to formal written codes of professional conduct. Reasons for the existence of codes of conduct in accounting could arise from any of the perspectives in the professional framework. In some countries, the formal establishment of codes of professional conduct for certified or chartered accountants dates back to the turn of the 20th century. These codes have since been expanded and updated to accommodate changes in the profession and the environment. In other countries, professional accounting associations (and their codes of conduct) have only been in existence for a relatively short period of time.

Even though the extent to which ethical codes are perceived to be effective in influencing accountant's ethical behavior is still being discussed, these codes represent the general consensus viewed by the profession as to what constitutes proper and ethical behavior. A professional code of conduct serves as a starting point in the examination of ethical issues and dilemmas faced by members of the profession.

In Nigeria, according to Aguolu (2002) the Institute of Chartered Accountants of Nigeria in 1979 issued the 'Codes of Professional Conduct of Members' (revised in 1989) outlining the codes of conduct for its members in matters of professional practice. Such codes of conduct relate to the requirements of the part of members in matters of: independence; integrity; confidentiality; maintenance of technical competence; conformity to technical standards and; maintenance of ethical conducts. Willingham and Carmichael (1968) described codes of professional conduct as the written code of relational norms and guides which describe the range of appropriate behaviour in interpersonal situations. The codes prescribe the proper ways of relating to clients, the public, peers, superiors or subordinates.

Witten (1990) described ethical codes as means of achieving orderly and courteous conduct of the profession. This could encompass both the smoothing of intra-professional contention and of the individual professional's relations with the collective profession. The recognition awarded by the general public requires in return some protection of public or client interests. Shaked and Sutton (1981) posit that code of conduct may define the relationship between the accounting professional and the external environment in several ways. It may serve to distinguish accountants from non professional alternatives entering the market. It also delineates the boundaries of the professional group more clearly, thus differentiating them from other occupations, and may be used to support arguments for the maintenance of any professional monopoly. Murphy (1989) states that codes describe the rules intended to guide present and future action. Ferrell and Fraedrich (1991) suggest that the function of codes is to influence the decisions that individuals make so that the resulting behavior is acceptable. Levy (1980) and Allan (1993) state that ethical codes set standards, state principles and summarize values. Codes often provide explicitly some of the criteria used for assessing the conduct of individuals in the profession. They also provide information to members on how ethical problems and dilemmas may be addressed. Fatt (1995) notes that auditors have an obligation to the organizations they serve, their profession, the public, and themselves to maintain the highest standards of ethical behaviour. They have a responsibility to be competent and to maintain confidentiality, integrity, and objectivity. Analysis of attitudes toward ethics in the accounting profession showed that public accountants perceived that chances to engage in unethical dealings did exist in the accounting profession (Finn, Chonko, and Hung, 1988).

Given this, one could say that the demand for a code of ethics arising from the need to regulate group interactions has been considered previously as a reason for such codes' existence. Codes of ethics are usually established by professional organizations to promote public confidence in the quality of the services rendered by members of the profession, regardless of the individual performing the service. Written codes of professional conduct typically identify what behavior the profession considers acceptable and unacceptable for members in the course of their work.

The framework of professional behaviour considered acceptable at any point in time is considered as the equilibrium among the groups' in and outside the professional circle. The shift in the expectations of any of these groups will disturb this equilibrium. This process of disequilibrium and change leads to altered views of professional behaviour. The conduct of auditors is considered to be in equilibrium when they observe the professional ethical standards in discharging their professional obligations.

According to Neale (1996) professional conduct is acceptable, in equilibrium, when it meets prior expectations. Shifting expectations of the groups affected by the accounting profession will alter the equilibrium in the profession's framework of behaviour. Once those expectations change in certain ways, previous modes of conduct become unacceptable. Those who persist in an old pattern of behaviour now exhibit professional misconduct. The process also works in reverse. Professional misconduct, frowned on under earlier sets of expectations, may be redeemed if circumstances change. Disequilibrium, or uncertainty in times of change, can lead practitioners to look for guidance on their behaviour to their written codes of conduct.

However, changes in expectations operate on written codes in a subtle way. Mount (1990) posits that the 'institutionalization of ethical values' is enacted to preserve the 'traditions, values, styles of operation and tendencies' of the institution. If these were not codified, they would be lost. Despite codification, these elements will nonetheless be in a constant state of pressure for revision. Willingham and Carmichael (1968) point out that the accounting professional code of conduct is partly written and partly unwritten. Some of the illustrations they provide for example, soliciting the employees of another member, communication with a predecessor if a client changes auditors, are firm-firm interactions which now form part of many written codes of ethics. Accordingly, other rules will have replaced these as the current set of unwritten rules.

Thus, any noticeable gaps in codes of conduct are filled by unwritten rules which have a chance of becoming incorporated in turn as an institutional value. Any alteration in groups' expectations will alter the unwritten code of conduct. If such alterations conflict with the written code, the latter will not necessarily take precedence in determining conduct, because groups view professional conduct from different but equally legitimate perspectives of the accounting professional framework. What is regarded as the acceptable norm will always be dependent on perspective (Flint, 1982). Behaviour which is unprofessional according to the written code of conduct could simply be conforming to an unwritten rule. By extension, unwritten rules could also affect professional interaction. The pricing of professional work will be used to illustrate both directions of change in expectations about conduct. The usual way to forestall unethical behaviour or deal with it once it occurs is to tackle the problem directly. Such measures focus on unethical behaviour, make it clear what unethical behaviour is, proscribe it, and attempt to deter and punish it by imposing or threatening to impose sanctions (Brien, 1998). Such measures may also involve, conversely, measures that seek to highlight and reward ethical action. Another measure of tackling unethical behaviour is self-regulation. Such an approach leaves questions of ethics and discipline to the profession. It is

not uncommon in the case of the professions for these mechanisms to give codes of ethics a central role in the overall regulatory program. Consequently, unethical behaviour may be identified and proscribed or ethical behaviour prescribed by maintaining, rewriting, updating, or writing for the first time, a code of ethics. However, Cullen (1978) argues that the effectiveness of ethical codes is not 'borne out by observation'. Codes are often poorly known and not used as a basis for action. They do not appear to diminish the level of unethical behaviour on the part of professionals. Or they simply may be "window dressing", intended for public consumption, but not intended to be used (Beder, 1993). An important reason for the ineffectiveness of codes is that often they are not enforced or implemented. In fact, effective and vigorous enforcement of self-regulatory codes often is considered to be contrary to the primary goals of many professional bodies of protecting and promoting the interests of their members (Tomasic and Bottomley, 1993).

According to Barber (1983) it is this absence of enthusiastic enforcement, or even more seriously, the absence of effective and active enforcement mechanisms that is the cause of the major failure. Brien (1998) concludes from this that codes of ethics, in either a regulatory or self-regulatory regime are ineffective in promoting ethical behaviour unless they are promoted, implemented and enforced. Codes that are implemented and enforced do have an important role to play in professional life. When well formulated they do not only prohibit but may prescribe certain actions, and may, therefore, be used as benchmarks of behaviour and a basis for discipline or praise. More importantly, they express the values and ideals of the profession. At the heart of such codes will be a vision of professionalism for that profession. Such codes, if implemented and enforced, have the capacity to be used, not only as a cudgel but as a lamp. Brien (1998) argued that instead of aiming for ethics directly; professions ought to aim indirectly, at some proximate goal. That goal is trust. Not only is this a prudent goal for a profession to aim for but one that it ought to aim at. Trust was a goal that was attainable only through ethical action. Thus, by aiming for trust ethical action was attained indirectly.

Several studies were carried out on auditors' ethical conducts. For instance, Fatt (1995) considers the perceptions of the public, students, and accountants of the values of accountants in the working world. A questionnaire was given to a sample population of 500 which included the public, accounting students, and accountants. The questionnaire was designed to examine the personal qualities of accountants. It is discovered that the perceptions of the personal qualities of accountants are that accountants should be ethical and have integrity. These perceptions reflect the importance of ethics in the accounting profession. Gendron, Suddaby and Lam (2006) explore the relationship between work context and professional ethics. They generated data through an online survey of auditors on the degree to which changing work conditions have altered individual auditors' commitment to the core professional value of auditor independence. They observe that auditors working outside of public accounting have a higher commitment to independence than auditors working in the context of public accounting firms. They further observe that auditors in large international audit firms report lower commitment to auditor independence than do others in public accounting. Satava, Caldwell, and Richards (2006) describe how the rule-based traditions of auditing became a convenient vehicle that perpetuated the unethical conduct of



firms such as Enron and Arthur Andersen. They present a model of ten ethical perspectives and briefly describe how these ten ethical perspectives impact rule-based and principle based ethical conduct for auditors. They conclude by identifying six specific suggestions that the auditing profession should consider to restore public trust and to improve the ethical conduct of accountants and auditors. Nwayanwo (2010) examines the observed and expected acceptance of the significance of ethics in accounting practice in Nigeria using Chi-square test. He disclosed that a large difference exists between observed and expected acceptance of the significance of ethical standards in accounting practice. From the review and to the best of the researcher's knowledge, there is no empirical research on the subject matter particularly from Imo. Therefore, this paper fills the existing gap in the literature.

### **Theoretical Framework**

Two theories are considered relevant to analyzing unethical cases as in this case and they are Utilitarian Theory and Theory of Duties (Spencer and Lehman, 1990). These will provide a theoretical frame work for this paper. The Utilitarian Theory according to Mill (1863) states that one should do the most good over harm. In making the decision, one must evaluate the alternatives to decide on the one which benefits the most people. The Theory of Duties states that one should consider the duties of not harming innocent people, keeping promises, showing gratitude, acting in a just way, and providing reparations to those who have been harmed by one's actions in making an ethical decision (Beauchamp and Bowie, 1979). The essence of ethical codes is to ensure that the services of auditors do not harm innocent people, exhibit propriety of behaviors and promote public confidence in the quality of the service rendered by members of the profession. Then, the Utilitarian Theory and Theory of Duties are the most apt theories to serve as framework for this study since they enforce propriety of behavior.

### **Data and Methodology**

Data were generated from the selected investors and auditors in Imo. A total of 25 auditors who are members of the Institute of Chartered Accountants of Nigeria and 150 investors were randomly selected for the study. Three-point rating scale questionnaire was administered on these respondents. Twenty (20) copies of the questionnaire were returned from the auditors' while 120 from investors. This makes usable response rate in this research is 80 percent. The non-response rate of 20 is not significant. As a result, the case of bias is limited. The questions contained in the instruments were designed to generate responses on ethical requirements of integrity; independence; honesty; confidentiality; maintenance of technical competence; conformity with technical standards; and maintenance of ethical conducts as issued by the Institute of Chartered Accountants of Nigeria and summarized by Nwagbara (1999). The investors were asked to rank the level of compliance to the codes of professional ethics by the auditors in Imo while the auditors were asked to rank the quality of the codes of professional ethics. The responses were analyzed using the descriptive statistics and the null hypothesis which states that auditors practicing in Imo do not significantly comply with the professional ethical standards in Nigeria is tested using chi-square test.

## Results and Discussions

In the first parts of this section the descriptive statistics of the responses generated is presented and the test of the null hypothesis, which states that auditors in practicing Imo do not significantly comply with the codes of professional ethics in Nigeria, is made in the second part.

**Table 1:** Descriptive Statistics  
**Investors' Responses**

			Auditor's Qualities of the codes	Investor's & Analyst compliance to the codes
Professional codes	Mean	Dev.	Mean	Dev.
Accountability	2.45*	0.6863	2.45*	0.7316*
Ethical codes	2.35*	0.8757	1.93	0.7120
Honesty	2.10*	0.8522	2.19*	0.7367
Independence	2.30*	0.8645	2.05*	0.7653
Integrity	2.50*	0.6883	2.05*	0.7283
Technical standard	2.35*	0.8127	1.88	0.7355
Technical competence	2.35*	0.8127	2.02*	0.7935
Confidentiality	2.25	0.7164	1.98	0.7935

**Source:** Survey 2019

Table 1 presents the descriptive statistics of the responses from the sampled investors and analysts on compliance to the codes of professional ethics by auditors in Imo and the responses from the sampled auditors on the quality of codes of professional ethics in Nigeria. A questionnaire with three-point rating scale which ranges from 3 = 'Complied', 2 = 'Fairly Complied' to 1 = 'Poorly Complied' was used in assessing the level of compliance to the codes of professional ethics by auditors in Imo and another three-point rating scale which ranges from 3 = 'Good', 2 = 'Fair' to 1 = 'Poor' was used in assessing the qualities of codes of professional ethics as perceived by the auditors in Imo. An asterisk (\*) on the mean indicates that the mean is not significantly different from 3.00, which represents 'Good' or 'Complied'.

This summary statistics of the survey results in the table depict that the mean response for all the codes of professional ethics assessed in terms of their quality are not significantly different from the highest rating, '3', which indicates 'Good Quality'. Therefore, it could imply that the sampled auditors believe that the codes of professional ethics in Nigeria are of good quality and if applied are capable of promoting professionalism among the auditors in Nigeria. The other statistics show the responses from investors and financial analyst on auditors' compliance with codes of professional ethics in Imo. The results of the responses imply that not all the codes of professional ethics are significantly complied with. The participants indicate that for some codes such as accountability, honesty, independence, integrity and technical competence, the auditor are complying significant their requirements. For other codes such as ethical codes, technical standard and confidentiality, the participants believe that the auditors are not complying significantly.

**Table 2:** Compliance to Professional Ethics

	Observed N	Expected N	Residual
Non-compliance	244	320.0	-76.0
Undecided	398	320.0	78.00
Compliance	318	320.0	-2.0
<b>Total</b>			

**Source:** Generated by the author, using SPSS 15

Table 2 lists the number of cases (both observed and expected frequencies) in each category of the variable being analyzed. Each option is to have an expected frequency correspond to all categories having equal frequencies, a distribution of 320 frequencies 'Complied', 320 frequencies 'Fairly Complied', and 320 frequencies 'Poorly Complied'. As observed from the table the responses generated for Complied is 318 frequencies, 'Fairly Complied' is 398 frequencies and 'Poorly Complied' is 244 frequencies. Residual lists the difference between what is observed and what is hypothesized. Residuals identify categories which vary from the hypothesized distribution. The results show that the investors favoured 'Complied' with a lowest negative residual of negative 2. A chi-square test for the data, in table 3, shows that the chi-square statistic ( $\chi^2$ ) is 37.075. The probability of obtaining a statistic this large or larger on the 2 degrees of freedom that we have is  $p = .000$ . Since the set alpha level is .05, the null hypothesis that auditors in Imo metropolis do not significantly comply with the codes of professional ethics in Nigeria be rejected, and thus auditors in Imo metropolis significantly comply with the codes of professional ethics in Nigeria. This result is consistent with the findings of Haladu (2003) which states that auditor in Nigeria strictly comply with professional ethical standards. However, this result is contrary to the findings of Nwanyanwu of (2010) who studied acceptance of ethical codes in auditors practicing in Port Harcourt, capital of Rivers State and discovered that a large difference exists between observed and expected acceptance of the significance of ethical standards in accounting practice.

**Table 3:** Test of Statistics

	Compliance to Professional Ethics
ChiSquare (a)	37.075
DF	2
Asymp.Sig	0.000

a O Cells (0%) have expected frequencies less than 5. The minimum expected cell frequency is 36.7.

**Source:** Generated by the author, using SPSS 15.

### Conclusions

Based on the data collected and analyzed, the study concludes that auditors practicing in Imo state of Nigeria are putting in efforts in order to safeguard their integrity and independence, that is, they apply to some extent the codes of professional ethics as prescribed by the professional institute. Based on this result, it could be argued that the conduct of auditors practicing in Imo State of Nigeria is considered to be in somewhat in equilibrium since to



significant extent they observe the professional ethical standard in discharging their professional obligations. However, ethical rules themselves do not make ethical people. While it is clear that, in general, enforcement and implementation is not done nearly as much as it ought. Codes that are implemented and enforced do have an important role to play in professional life. When well formulated they not only prohibit but may prescribe certain actions, and may, therefore, be used as benchmarks of behaviour and a basis for discipline or praise.

Except that in some instances the auditors have to solicit for clients through lobbying, friendship ties and registration with the client's organizations which clearly violates the provisions of the ethical standards. This implies that the auditor's certain instances go against the provisions of the codes in order to secure jobs. This poses a great ethical threat on the auditors' integrity and independence. The results also indicate that the auditors are engaged in continuous training as organized by the profession bodies in order to keep them connected with developments in the accounting profession.

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