

Towards The Integration of Islamic Ethics in To the Accounting and Auditing Environments

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Abstract: This study aimed at considering the current trends in the newly introduction of ethics into the accounting and auditing environments, where many financial organizations engaged in the developments of various ways and measures to ensure credibility, reputation and accuracy and ensure sustainability of the organizational structures especially in aspects of accounting and audition. Islam on the other hand, had already an existing ethics governing the entire financial services, this ethics solely depends on the original sources of Islamic law enforced on all financial practices, this principles where considered as an obligatory duties to be maintained by all Islamic financial institutions. Recently, there are developments in the Islamic financial services that resulted to the establishment of the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI). This institution and others of similar objectives have emerged to give best outlooks to Islamic financial institutions and earn the customers and workers confidence. This paper aimed at reviewing the Islamic ethics from the original sources of shariah as a guide for the Islamic accounting and auditing institutions with a view to see its practicable integration into all accounting and auditing environments.

Keywords: Accounting and auditing Environments, Towards the Integration of Islamic Ethics.

I. INTRODUCTION

Ethics are set of principles and values employed by an individual to guide his daily activities and decisions. Ethics are designed by organizations as guide to the organizational structures, activities, policies, and decisions. A code of conducts designed by organizations determined its reputation, productivity and bottom line of business (Rolando 2008).

For an individual, ethics often goes hand in hand with morality, which refers to the social norms and values applied by individuals to guide their interaction with their fellow begins within and outside their environments. It is generally believed values, are protected by clear rules and norms with duties implied on social roles and positions with a view to foster this values and further the rules and Human virtues and capabilities that enable us act accordingly. It is also believed that moral features and ethics are more effective when they are droved from religious beliefs, practices and social power structures (Jackling, Cooper, Leung, & Dellaportas, 2007).

Recently, the Enron scandal revealed in 2001 that leads to bankruptcy of the Enron cooperation where Enron ‘the most popular energy company in Houston is bankrupted. Studies indicates that the situation that leads to the dissolution of Arthur and Andersen even though one of the most senior accounting, auditing and bankruptcy reorganization firms in the world, was the biggest accounting and auditing failure related to Enron in 2002. This study believed that, one of the reasons that led to that failure is lack of individual guided ethics in the accounting and auditing profession.

To avoid the occurrence of these unfortunate situations, the Islamic accounting and auditing systems are designed to meet a particular laid down principles governing the ethics, moralities and conducts of a man in all his financial and social lives. In Islam, the entire life a man is guided meet the basic requirements of a life full of peaceful coexistence and free from all sorts of cheating, deceit or fraud.

This study works to put to light the conventional concepts of ethics the Islamic concepts of ethics, the imperatives for Islamic ethical values in financial systems, and propose the Islamic ethics governing the financial services as a solution to excessive unethical behaviors in financial systems.

1.1 Research Question:

Accounting and auditing professionals have designed values and ideals that are expected to guide the practicing accountant and auditor in his professional activities, these values comprise of all kinds of righteousness that are adopted by every right thinking man to attain success in his dealings. Unfortunately, despite all the laid down rules and ethical guidelines, the challenges of unethical behavior is still persistent in accounting and auditing environments, this formed the central questions of this research;

- a- What are the factors for the increasing of unethical behaviors in accounting and auditing environments despite the already designed ethics of accountants and auditors?
- b- What are the roles of Islamic ethics in ensuring a moral ethics and conducts in accounting environments?

1.2 Research Objectives:

The major objectives of this paper revolves around the establishment of a sound accounting and auditing environments free of unethical attitudes, through the integration of Islamic ethics by;

- a- Examine the concepts of ethics in conventional accounting and auditing profession
- b- Asses the imperatives for Islamic ethical values in financial systems
- c- Propose Islamic ethical values as a solution to address the increasing unethical behaviors in accounting and auditing profession.

The proposals of this study if adopted will help maintain sanitized monetary and financial institutions to conduct its business operations free of greed and financial manipulations.

II. DEFINITION OF ETHICS: CONVENTIONAL PERSPECTIVES

2.1 Definition of Ethics:

Ethics is a word originally derived from Greek word “ethos” and used in philosophy to mean character or custom the philosophical definition of the word ethics connotes with the concept given to ethics in economics as it is reflecting to effective leadership in organizations and serves as a code conveying moral integrity and consistent values in services paid in such organizations.

Fleet (1999) maintained that ethics are those standards values or morals that an individual believes regarding what he believes to be right and wrong, good or bad. He also maintained that, for a person to exhibit ethical behavior there must be provisions set to ensure that there are never any chance left for the victimization of employees who chosen to follow due process and maintained ethical behaviors. Policies of employment and personal management shall contain provisions protecting the employees from all kinds of unfair treatments or even termination.

Collins (2007) defines ethical behavior as a good or expected type of conducts. While unethical behavior is simply referred to unacceptable behavior. Any behavior that is devoid of good characters is considered a bad behavior or an illegal act that may be subject to punishment by law. He also believed that there is absolutely no room for any form of unethical behavior in the professional world under whatever circumstances.

The words ethics and morality are often used for one another in many instances, in order clarify morals from ethics Hazard (1994-1995: 451) defines morals as ‘notions of right and wrong that guide each of us individually and subjectively in our daily existence’. Erhard *et. al.* (2009: 35-36) view morality as a societal issue and defines it as ‘the generally accepted standards of what is desirable and undesirable; of right and wrong conduct, and what is considered by that society as good behavior and what is considered bad behavior of a person, group, or entity’. They place morality in the realm of ‘social virtue domain’. Morals are embedded in cultures and determined by a variety of factors such as upbringing, education, religion and environment. Morals tend to have emotional orientation whereby its validity is taken as given (Ray 1996).

2.2 Definition of Ethics: Islamic Perspective:

The definition of ethics from the Islamic point of view does not go far beyond the conventional concepts of ethics is also referred to as morals or ideals (*khuluq*). The Quran used the word *khuluq* in two ways:

“And surely you (Muhammad) are of sublime morals” Quran 68:4.

“This no other than khuluq (customs) of the ancient” Quran 6:137

Imam Qurtubi in his interpretation to *khuluq al-awwalin* says it refers to the religion, character, ideology, or doctrines.

2.3 The Imperatives for Islamic Ethical Values in Financial System:

Although, Islam as a religion is based on the belief in the sovereignty of Allah as the creator and controller, the teachings of Islam does not stop at worshipping and establishing relationship with the creator, rather it exceeds to cover the aspects of socio-economic life of mankind. The concept of *tauheed* implies that Allah is the ultimate source of power and source of values and norms, and Allah in his justice to mankind established set of rules governing the conducts of mankind to ensure his welfare (Kamali 2008).

It is natural to have a set of ethical regulations in the society so that people don't unjustifiably tramp on other people's rights. Islam does not however wait till such ugly situation occurs before it puts in place these ethical values. The emergence of the welfare economics in the 1930s was an indication of the significance of ethical values which economists considered as an ingredient of societal well-being. However, Mobolaji (2010) considers the self-interest models of the conventional economics as a major barrier hampering the welfare economics, the negative impact which consequently led to the new call for ethically based studies. He equally quoted Sen (1987) to have argued that “the distancing of economics from ethics has impoverished welfare economics and also weakened the basis of a good descriptive and predictive economics.” In the same vein, Hassan (2009) is of the opinion that the global financial crisis is a crisis of failed morality, manifest in forms of greed, exploitation and corruption. The fact that human nature might not guarantee a set of ethical values which favours a group of people and difficult for another to adhere to, makes the Creator Himself to give a clue as per what should be the content of the ethical values for mankind. This, in our view has being the major focus and guideline for Muslims to formulate ethical regulations which are acceptable to the world. The level of acceptability of the Islamic financial ethical value could be appreciated in the level of compliance with the AAOIFI and its intrinsic ethics by its members.

The global acceptance of Islamic banking and finance is enormous and the level of its acceptance differs. For instance, while all the financial institutions in the Islamic Republic of Iran and Sudan are being operated in compliance with the principles of Islam; Pakistan is in the process of joining them to transform its financial system to become fully Islamic. In Malaysia, Indonesia, Bangladesh, Jordan and Egypt, Islamic banking system is being operated alongside conventional banking through “the opening of Islamic “windows” in conventional institutions, or establishment of separate banks, or branches and subsidiaries, that specializes in Islamic financial products” (Sundararajan & Lucarrico, (2002).

III. ETHICS AND ACCOUNTABILITY

3.1 Ethics and Accountability:

Accountability is defined to mean the fact of being accountable or undertaking a required or expected actions to justify simply responsibility. The main objective of an accountant or an auditor is to help in ensuring accountability (Lewis 2006).

In the Islamic perspective being accountable refers to one's reflections to being accountable by Allah the creator in all his undertakings of his life time, a Muslim is asked to believe that all that is on earth belongs to Allah, human beings are only trustees of what is on earth as His vicegerents. A Muslim believes that he is liable to be rewarded if he maintained what he is entrusted with in the day of resurrection and liable for punishment of distrustful attitudes, Allah the glorious says in the Qur'an:

“O you who believe, betray not Allah and His messenger, nor betray your amanat (things entrusted to you, and duties ordained for you by Allah) Q 8:27.

Being accountable does not only brings benefits to an individual or a set of people only, rather it brings benefits to the entire community.

Among the reasons that leads to unethical behaviors are selfish interest, it has been a habit of human being to be to show self interest in most of his dealings, and that affects ethical judgments especially when it come in line with ones interests. A survey carried out by Jackling *et al* (2007) shows self-interest as one of the leading reasons leading to unethical behaviors. Other factors that could affect moralities are absence of independence, lack of ethical sensitivity, and failure to maintain objectivity (Grojean 2004). In another survey carried out by Elias & Farag (2010) indicates that the love of money cannot actually affect judgment, rather it affects illegal activities.

Management of unethical behaviors in accounting and auditing profession is discussed by many scholars, and they mostly believed that identifying values that guides behaviors in the organization and giving them much priorities, and establishing associated policies and procedures that help in ensuring the achievement of expected behaviors. Mc Namara (1999) listed six basic ethical values to cover:

- a- Trustworthiness, honesty, integrity, promise keeping, and loyalty
- b- Respect, autonomy, privacy, courtesy, tolerance, and acceptance
- c- Responsibility, accountability and pursuit of excellence
- d- Caring, compassion, consideration, sharing kindness and loving
- e- Fairness, procedural fairness, impartiality, and consistency, and
- f- Justice, equity, equality, and due process.

Generally the above mentioned ethical values covers all kinds of good moralities expected of man, the provision of this values as ethical standards of accountants and auditors leads to discussion as to why despite all the above mentioned ethical values, cases of unethical behaviors still continue to exist in accounting and auditing profession at high speed. This forms the central question of this study which is expected to be answered by proposing Islamic solutions to unethical behaviors in all economic dealings.

3.2 Islamic Ethics as an Alternative to Unethical Behaviors in Accounting and Auditing Profession:

Ethical values in Islam are not different in an essential from those known to humanity from the time immemorial to date. The common standards of goodness known to most human beings are maintained by Muslims. Islam as a religion works towards reviving and articulating the fundamental righteousness of a man and his moral traditions. Those traditions inherited from earlier prophets of Islam including Noah, Abraham, Moses, and Jesus Christ may peace and mercy of Allah be upon them all. Prophet Muhammad peace be upon Him is reported to have said "I was sent to emphasized and complete moral values" (Ibn Hanbal 2012)

Islamic ethics governing accounting and auditing practices are distinguished from conventional ethics of accounting practices; Islam views all transactions and attitudes of a man towards it to be governed by two basic codes; Ethical beliefs and ethical values.

Ethical values have earlier been mentioned to be a moral conducts required by entire human beings for a better and happy living, and it is shared by all mankind regardless of their beliefs or traditions, while ethical beliefs are set of codes governing the beliefs of a Muslim. This paper proposed ethical beliefs as a tool to a sanitized accounting and auditing environments.

a- Islamic Ethical Beliefs; a Tool to Sanitized Accounting and Auditing Environments:

Accounting and auditing is an integral part of Islamic economics systems, Islamic economics systems are buildup of two important ethics as mentioned earlier; ethical beliefs and ethical values. This two ethical concepts are considered a sole to sanitizing the accounting and auditing environments. It is to be observed that Islam gives the former much emphasis as it has to do with the Muslims faith and creed; only a Muslim with sound faith and beliefs is expected to earn Allah's pleasure and is saved from His anger. The following are set of ethical beliefs governing all financial transactions in Islam.

b- Firstly: The Concept of Belief in Allah as the Originator and Rightful owner of everything:

A Muslim is obliged to believe in Allah as the creator and sustainer of the universe and the rightful owner and overseer of all that is on earth. Human beings are only entrusted with these properties as Allah's trustees and vicegerents for the period that Allah decides for them to stay on earth, this is affirmed in the Holy Qur'an where Allah says:

(knowest thou not that to Allah belongeth the dominion of the heavens and the earth? And besides Him ye have neither patron nor helper) Quran 2:107

In similar verses Allah has called on mankind to use the wealth given to them by Allah according to His wishes, and threatens that those who spend against His wishes are subject to face His wrath in the day of resurrection, this is confirmed in the Qur'an:

(O ye people! Eat of what is on earth, Lawful and good; and do not follow the footsteps of the evil one, for he is to you an avowed enemy) Quran 2: 168

He also stressed in another verse that all belongings of a man will finally be returned to Him as the original owner;

(Not one of the beings in the heavens and the earth but must come to ((Allah)) Most Gracious as a servant. He does take an account of them (all), and hath numbered them (all) exactly. And every one of them will come to Him singly on the Day of Judgment). Quran 19:93-95

The above verses indicate how Muslim is asked to view all that is on earth and what he is given as a property of Allah and therefore must be treated according to His wishes. Muslims submit to Allah to design the systems in which they are to manage His trust under their control, and finally everything is turning back to Him.

c- Secondly: Belief that Allah has created all what is on earth for the benefit of Mankind:

This concept helps accountants and auditors in preparing them to believe that they are working to ensure the betterment of life and maintain social welfare as wanted by Allah. This can only be achieved when accountants and auditors strictly maintained fairness and equity in their discipline.

d- Thirdly: Belief in Social and Economic Differences among Mankind:

Islamic economic system neither supports socialism nor communism; it is rather a combination of two. Islam believes in the existence of social and economic difference according to one's hard labor, intellect and abilities to strive in looking for better life, and in the other hand shunned against any forms of monopolization of wealth and deprivation of welfare in the interest of few groups. To ensure this principle Islam strongly advocates for wealth redistribution through the viable means of *zakat*, *sadqah*, and *waqf* (Zulkifli 2009). And punishments are ascribed to people found guilty of act of monopolization of wealth.

This is important as whenever accountants and auditors are trained to be fully aware and believed in social and economic difference it helps them understand that they are working to ensure quality and accuracy not establish equality among mankind, by trying to force equality they may be found confusing figures in order to balance between the clients or beneficiaries. It will also develop in them a sense of being contented with their earnings as they can never beat the natural social and economic difference among mankind.

e- Fourthly: Believe in Accounting and Auditing Profession as an Act of Worship:

Accounting and auditing are encouraged by Allah and His messenger as an act of worship. A Muslim believes that he is to be rewarded by Allah on the day of resurrection for being accountable, conscious and fair in all his dealings, and liable for severe punishments if he is found cheating, manipulating or displaying any unethical behavior with the trust of Allah or the trust of fellow human being entrusted in his care. Allah said in the Glorious Qur'an in respect of two brothers arguing over Goats;

(This man is my brother: He has nine and ninety ewes, and I have (but) one: Yet he says, 'commit her to my care,' and is (moreover) harsh to me in speech."

"He has undoubtedly wronged thee in demanding thy (single) ewe to be added to his (flock of) ewes: truly many are the partners (in business) who wrong each other: Not so do those who believe and work deeds of righteousness, and how few are they?"...and David gathered that We had tried him: he asked forgiveness of his Lord, fell down, bowing (in prostration), and turned (to Allah in repentance) Q:23-24

This belief helps in building a pious and trustful accountant and auditor, conscious in any form of deceit or manipulations.

f- Fifthly: Belief in Eternal Accountability:

A Muslim is obliged to believe that, he is accountable for all his dealings in the day of resurrection after his death from this earth, and Allah is reported to have said:

(Therefore, by the Lord, We will, of a surety, call them to account, For all their deeds). Qur'an 15:

The prophet of Allah said "on the day of resurrection mankind shall be asked on his wealth where he founds it and how he spends it" (every one of you is a trusty of what Allah has given him to take care of, and he will be surely be accounted for it on the day of resurrection) Ibn Rajab (1996)

The concept of believe in eternal accountability develops in man a sense of self consciousness and avoidance of corrupt practices.

g- Sixthly: Belief that Allah oversees all activities of His Servants:

Muslims believes that Allah the creator oversees all that is on earth and no one or action is hidden from Him. This help develops in Him a natural fear of God in his dealings and prevent him from any form of corruption. Allah is reported to have said:

(He it is Who created the heavens and the earth in Six Days, and is moreover firmly established on the Throne (of Authority). He knows what enters within the earth and what comes forth out of it, what comes down from heaven and what mounts up to it. And He is with you wheresoever ye may be. And Allah sees well all that ye do). Qura'an 57:4

This six itemized ethical beliefs if added to the above mentioned ethical values helps in guiding men towards good habits and ethical conducts in their entire activities.

4. CONCLUSION

The discussion so far has reiterated the imperativeness of strict adherence to ethical credentials of Islam by the Islamic financial. Undoubtedly, the ethical principles of Islamic financial institutions cannot be compromised in view of their divine origin, as it is dangerous and catastrophic to solely rely on conventional laws and principles to guide mankind on their financial activities. While trying to expand the scope of the institutions and gaining a good position in the markets, the Islamic principles and regulatory system should not be handled with levity. The Ummah is accredited as the best community ever raised for mankind by virtue of enjoining virtues and eschewing vices. This should be rigorously exploited to avoid falling victim of what befell the conventional financial institutions. In short, for Islamic financial institutions to be viable alternative to the current economic system, the ethical values guiding them should be upheld.

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