

Influence of perceived economic dilemma on ethical choices of auditors

BELLO, Muhammed Akinkunmi* and OGUNGBENLE, Simeon Kayode

Mallam Sanusi Lamido College of Business and Management Studies, Igbinedion University, Okada, Edo State, Nigeria.

*Corresponding author. Email: otunbamammedbello@gmail.com; Tel: +234 8076182815.

Copyright © 2023 Audu and Babatayo. This article remains permanently open access under the terms of the [Creative Commons Attribution License 4.0](#), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Received 7th September 2023; Accepted 24th October 2023

ABSTRACT: This paper is an in-depth analysis of the pressures that come upon the auditors in public practice and corporate organisations. Struggle is the meaning of life. When you try to solve one problem you tend to complicate others. Several literature and previous were reviewed, the majority of them with discovery and strong perception that ethical dilemmas involved choosing powerful seemingly 'justifiable' non-ethical considerations over strict ethical choices. Such is sometimes the economic dilemma created when auditors are being accountable for their actions. The auditors are sometimes confronted with conflict of interest as considered in most literature reviewed. The TP (Temporary Predictive Behaviour) Cognitive Model with Moral Seduction Theory also forms part of the analysis in this paper. This economic dilemma faced is prop out of fright of the "self-fulfilling prophecy effect" which was further described as the auditor's fear to precipitate client failure after the release of a warning signal because of its impact on current and potential investors, creditors, suppliers, and customers. The paper concluded that the eventual evaluation of the auditors is vital to the investment decision of the clients' financial statement users and poses a danger to the continued existence of the client. The study further recommended action that may provide greater economic incentives for the auditor to conduct an ethical audit.

Keywords: Audit, competition, economics, independence, professional ethics, public interest.

INTRODUCTION

The audit profession is found to be economically and socially vital. The information assumption here is that free enterprise operation becomes threatened due to audit failure, the damage to markets and, more particularly to the individuals within them, can be devastating. If the opinion on which investors rely is not, itself, reliable then there is a cost to pay. It is argued that the integrity and independence of the auditor is a portion of the service quality which they bring to the exercise of providing an audit opinion. Auditors in public practice as well as in corporate organisations encounter economic dilemma in the process of meeting public expectations, meeting the competitive environment, pleasing the client-company and fulfilling the appearance of independence with practice which create pressures on the auditor to produce an 'opinion' that is less than independently-informed (Guiral *et al.*, 2007).

Auditors are often placed in situations where they serve two masters. Some conflicts of interest occur since a profession takes on several roles while serving one goal; while others assume one role but serve multiple goals. Of vital significance is the degree to which the interest would tend one toward bias on an issue. Moore *et al.* (2006) have recently suggested that the structural features of the close auditor-client relationship may cause auditors' involuntary lack of independence. These authors, using both moral seduction and issue cycle theories, provide persuasive arguments demonstrating that auditors have strong incentives to avoid the issuance of warning signals to investors and other stakeholders. After the consideration of those features, Moore *et al.* (2006) concluded that the current accounting reforms, such as the Sarbanes-Oxley Act (SOX), are not adequate in addressing the independence problem because the new regulation is a

consequence of an incorrect understanding of the main true source of auditors' biases.

The ethical dilemma is an ethical problem in which the ethical choice involves ignoring a powerful non-ethical consideration. A non-ethical consideration can be powerful and important enough to justify choosing it over stern ethical action. An ethical dilemma is a complex situation that often involves an apparent mental conflict between moral imperatives, in which to obey one would result in transgressing another. Sometimes called ethical paradoxes in moral philosophy, ethical dilemmas are often invoked in an attempt to refute an ethical system or moral code or to improve it so as to resolve the paradox.

Auditors are frequently faced with dilemmas (economic) in the exercise of professional judgment; these dilemmas are complex, unpredictable and not amenable to resolution through the application code of conduct (Gaa, 1992). The auditors' professional conduct has played a fundamental role in increasing the confidence of financial statement users, to confirm the integrity of the financial statements (Karajeh, 2004). Although accounting was once considered by the public to be the highest in integrity among all professions, the regard that this profession enjoyed has deteriorated in the wake of a succession of high-profile scandals (Herron and Gilbertson, 2004).

Therefore, more than increasing penalties for corrupt auditors, the accounting profession should centre on an involuntary lack of independence. In contrast, Nelson (2006) to Moore *et al.* (2006) defend that the current auditing reforms (i.e., SOX) have the potential ability to reduce auditors' incentives and clients' pressures to bias reporting. As a result, it appears to be a dilemma between two extreme positions.

First, from a psychological point of view, the current auditing systems may be interpreted as fatally flawed due to auditors' unconscious biases. Second, some believe that the auditing profession is self-correcting and conflicts of interest can be resolved through detection and the release of more regulations (Moore *et al.*, 2006).

This seminar paper, calls for further empirical research by building on previous theories and providing the first empirical testing of the moral seduction theory regarding both auditors' conscious and unconscious versions. In this paper, conscious behaviour relates to auditors following the auditing rules and guidelines; whereas "unconscious" behaviour is driven by auditors' biases induced by perceptual framing of a situation (Tversky and Kahneman, 1981).

Using the Throughput Model (TP) in connection with moral seduction theory will enable the examination of how conflicts of interests may unconsciously bias auditors' decision-making process (Guiral *et al.*, 2007).

REVIEW OF RELATED LITERATURE

Auditors are part of a set of professionals that are confronted with conflicts of interest. This became obvious

after the world-acclaimed humongous financial scandals that involved Enron, WorldCom, Global Crossing, etc. as well as the demise of Arthur Andersen. Auditors have the responsibility to evaluate in every audit, the ability of their clients to remain a going concern (i.e. continue in existence). If doubts exist, they should release a "going concern" opinion alerting investors and other stakeholders regarding clients' risk of bankruptcy (Duska, 2005).

This type of report is extremely important since the issuance of a warning signal would significantly affect investors' and other third parties' investment decisions (i.e., re-allocation of credit). However, several studies have shown that the number of warning signals for firms with bad financial health is scarce (Weaver and Mitcham, 2008).

Self-fulfilling prophecy effect

Auditors have two strong incentives to report on the bankruptcy possibility of their clients. The first incentive refers to auditors' "reputation building" and its maintenance over time. The debacle of Arthur Andersen is a perfect example of how reputation loss may lead investors to distrust an auditing firm. The second incentive to issue a going concern opinion is related to auditors' perception of their litigation exposure. Audit firms are susceptible to being sued by financial statement users as a result of a client's unexpected bankruptcy. Several studies provide empirical evidence suggesting that most auditors are sensitive to litigations and believe that the issuance of warning signals would offer some protection in terms of potential lawsuits (Guiral *et al.*, 2007). However, auditors also face incentives that may induce them to avoid the release of a warning signal even in the case of a client with severe financial distress.

Auditors' conflicts of interest may help explain why they are so reluctant to issue going concerned opinions. The so-called "self-fulfilling prophecy effect" has been defined as the auditor's fear of precipitating client failure after the release of a warning signal because of its impact on current and potential investors, creditors, suppliers, and customers (Louwers *et al.*, 1999). Empirical research has found that warning signals issued by auditors can hasten the demise of an already financially distressed company, reducing a loan officer's willingness to grant a line of credit to that troubled firm, or increasing the point spread that would be charged if that company was granted a loan (Guiral *et al.*, 2007). Another underlying assumption is that auditors may fear being dismissed after the negative effects of the self-fulfilling prophecy.

Moore *et al.* (2006) have argued that auditors' deliberate corruption should be interpreted as an exception. They assume that in general terms auditors act as independent professionals and follow their professional standards and code of ethics. However, the problem at this point is that their decision-making may be unintentionally affected by the dilemma of the self-fulfilling prophecy effect. Thus, the

main true source of auditor's biases, rather than intentional, seems to be unintentional. While novices rely on surface knowledge structures, experienced auditors use both surface and deep knowledge structures which promote more accurate decisions due to a better representation, understanding, organization and aggregation of the extensive information affecting their judgments and reporting choices (Chi, 2006).

Furthermore, expert knowledge is considered crucial in complex audit tasks where frequency knowledge has been found as a vital component of an auditor's expertise. We suggest that auditors with previous experience and higher frequency knowledge in going concern evaluations may be more sensitive to the long-term consequences of their opinions (i.e., less prone to the discounting of information bias). Therefore, expert auditors, rather than be seduced by the short-term incentives (i.e., auditor dismissal), may offer a behaviour less affected by conflicts of interest in order to maintain their firm reputation and avoid undesirable lawsuits cost: auditors' expertise may lead them to look out for the interest of third parties, the public, instead of looking out for the interest of clients.

Professional ethics

The definition of ethics is shaped by personal, societal and professional values, all of which are difficult to specify. Some stress the importance of society's interests and others stress the interests of the individual. These conflicting viewpoints have dominated the discussion of ethics for a long time and may remain in the future as well. Thus, the term 'ethics' will have to be defined in this context. The word 'ethics' is derived from the Greek word 'ethos' (character) and the Latin word 'moras' (customs). Taken together these two words define how individuals choose to interact with one another. Thus, ethics is about choices. It signifies how people act in order to make the right choice and produce good behaviours. It encompasses the examination of principles, values and norms, the consideration of available choices to make the right decision and the strength of character to act in accordance with the decision. Hence, ethics, as a practical discipline, demands the acquisition of moral knowledge and the skills to properly apply such knowledge to the problems of daily life.

Ethics may be broadly defined as that division of philosophy which deals with questions concerning the nature of value in matters of human conduct. Ethics or moral philosophy is the branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong conduct. As a branch of philosophy, ethics investigates the questions "What is the best way for people to live? And what actions are right or wrong in any particular circumstances? In practice, ethics seeks to resolve questions of human morality, by defining concepts such as good and evil, right and wrong, virtue and vice, justice and crime. Smith and Lee (2009) define ethics as

the branch of philosophy concerned with values regarding human behaviour pertaining to the rightness and wrongness of actions and to the goodness and badness of the intent and consequences of such actions. Consequently, ethics connotes a set of moral principles or values.

The ethics of a business is currently a high-profile issue owing to sensational corporate scandals that have taken place in many countries causing extensive damage to the economy and society. These corporate scandals question the morality of businessmen in general and accountants in particular. It is argued that accountants have been the main contributors to the decline in the ethical standards of a business. International Federation of Accountants (IFAC) in its research report titled 'Rebuilding public confidence in financial reporting – an international perspective' (2003) issued in the aftermath of the collapse of Enron and WorldCom in 2002 concluded that financial scandals experienced in recent times were symptoms of deeper problems and identified that improvement of ethical standards, adequacy of financial management, reporting mechanisms, audit quality and strengthening of governance regimes as means to improve public confidence in financial reporting. The accounting profession has a responsibility towards these areas, whose deficiencies have led to corporate scandals and collapses. Hence today, the ethical conduct of accounting professionals has become a topical issue. Summarily, ethics is the set of moral standards for judging whether something is right or wrong (Earley and Kelly, 2004).

Ethical sensitivity

Ethical sensitivity is a fundamental element of human moral conduct. According to Weaver and Mitcham (2008), ethical sensitivity is the capacity to decide with intelligence and compassion, given the uncertainty in a care situation with the additional ability to anticipate consequences and then have courage to act. Fahimeh and Mahdi (2013) consider it as the ability to recognize the ethical nature of a situation in a professional context. Tirri and Nokelainen (2008) assert that to respond to a situation in a moral way, a person must be able to perceive and interpret events in a way that leads to ethical action. Consequently, ethical sensitivity is the ability of the decision-maker to recognize existing ethical issues. It is also the attention to ethical values, and considering them in decision-making, taking into cognizance its role and purpose particularly when confronting particular conditions.

Ethical sensitivity therefore is based on the premise that a dilemma is recognized as an ethical issue, or at least containing an ethical component. Ethical sensitivity connotes the ability to identify and recognize ethical issues when they arise. It could also refer to the moral reasoning judgment relating to how and why ethical decisions are made. If professionals are sensitive to ethical issues, then the decision-maker is likely to use moral dimensions in

resolving the dilemma, rather than take a heuristic approach (Hooks and Tyson, 1995). Therefore, the professional must recognize the ethical component of a dilemma before an ethical decision can be made (Armstrong *et al.*, 2003; Jones, 1991). The problem for professionals is that ethical issues are often hidden (Bebeau *et al.*, 1985) and they often lack the ethical sensitivity to recognize ethical dilemmas when they arise.

The need for ethical sensitivity in the present business environment cannot be overemphasized. In today's competitive economic world, the auditing profession has had a fair share of unethical scandals bringing to question its core values of independence, integrity and objectivity (Kristin, 2006). Financial scandals such as those of Enron, WorldCom, and Arthur Anderson, have tarnished public trust in auditors in performing comprehensive, trustworthy and objective auditing tasks. These financial scandals have increased organizational, congressional, and educational awareness regarding the ethical sensitivity of auditors - the direct result of which has been the enactment of a series of laws and regulations and existing ones becoming stricter while the profession itself too is now under great scrutiny. There is no doubt that auditors are faced with an ethical dilemma on a daily basis that calls for increased ethical sensitivity. It is therefore imperative that appropriate professional behaviour be ingrained to allow for proper decision-making in the environment in which they work (Kristin, 2006).

In performing the audit function and expressing expert opinions about financial statements, auditors have a responsibility to users of financial statements and managers. This obligation creates an ethical responsibility between auditors and the organization managers. Because of these ethical obligations, performing auditing tasks always involves contradictions. These contradictions stem from the obligations the auditor has for the public on one hand and for managers on the other. Hence the ability to make ethical judgments and behave ethically presupposes the accountant's ability to recognize an ethical issue when it arises. If professional accountants are ethically sensitive to the issues they face, then the decision-maker is more likely to use ethical principles in resolving the dilemma. Accounting professionals must not only be adept with the technical aspects of their responsibilities but they must also be able to deal with situations where the facts are ambiguous or stakeholders' interests conflict. Therefore, accountants must not only recognize ethical issues but must also be committed to taking actions which are ethically sound (IFAC 2005).

Ethical sensitivity is therefore imperative for every professional accountant cum auditor as it creates in them the ability to recognize an ethical threat or issue when it occurs and be aware of alternative courses of action leading to an ethical solution and how each alternative course of action affects the parties concerned. Enhancing ethical sensitivity through ethics education will enable accountants to more readily identify predicaments, which

they must then resolve (IFAC, 2005). Ahmed (2010) summarizes the need for ethical sensitivity in the following points;

Professional accountants have a responsibility to consider the public interest and maintain the reputation of the accounting profession. As such personal interest must not prevail over these duties. The professional sees himself or herself as responsible to the client; the mission is to solve the problem of the client and to create the value that the client requires. If that value is not created, if the problem is not solved, the professional has not done his or her job. It is only by producing the result that clients require- by performing the entire process that yields that result- that the professional discharges his or her responsibility.

Technically, professional accountants should carry out professional services in accordance with the relevant technical and professional standards. The professional accountants have a duty to carry out with care and skill, the instructions of the client or employer in so far as they are compatible with the requirements of integrity, objectivity and, in the case of professional accountants in public practice, independence.

Resolving dilemmas (economic) in audit practice

Many IFAC member organizations over the years have provided guidance, ethical resolution frameworks, and pathways to help accountants deal with economic and ethical dilemmas. A key question for a professional accountant is whether you would be able to justify your decision to deal with a problem or conflict. A common aspect of guidance on resolving ethical dilemmas is to help accountants define and apply the fundamental principles in their professional code of ethics. A distinguishing mark of the accountancy profession is the responsibility to act in the public interest and professional ethics places an expectation on accountants to self-regulate their behaviour in accordance with the Code of Ethics for Professional Accountants (the Code) developed by the International Ethics Standard Board for Accountants (IESBA). IFAC member organizations are required to abide by ethical standards at least as stringent as those stated in the Code.

Accountants' involvement with large corporate scandals in recent times shows that they have not complied with these expected ethical standards. It is often argued that accountants focus too much on technical issues and lack ethical sensitivity to recognize ethical dilemmas involved with their work, which would ultimately lead to making wrong decisions. Thus, accountants should be trained to be sensitive to identify the moral dimension of seemingly technical issues. This emphasizes the need to include ethics education as a core component of professional accounting education to prepare accounting professionals to face various ethical dilemmas that they face in carrying

Table 1. The sequence of steps that provide a framework for analysing ethical issues.

Steps	Framework
Step 1	Determine the facts of the situation. This involves determining who, what, where, when, and how.
Step 2	Identify the ethical issue and the stakeholders. Stakeholders may include shareholders, creditors, management, employees, government and the community
Step 3	Identify the values related to the situation. For example, in some situations, confidentiality may be an important value that may conflict with the right to know.
Step 4	Specify the alternative courses of action.
Step 5	Evaluate the courses of action specified in Step 4 in terms of their consistency with the values identified in Step 3. This step may or may not lead to a suggested course of action.
Step 6	Identify the consequences of each possible course of action. If step 5 does not provide a course of action, assess the consequences of each possible course of action for all of the stakeholders involved.
Step 7	Make your decision and take any indicated action in the interest of all stakeholders.

out their duties.

The 'Framework for International Education Standards for Professional Accountants' (2009) published by the International Accounting Education Standards Board (IAESB) of IFAC identifies that the overall objective of accounting education should be to develop competent professional accountants, who possess the necessary (a) professional knowledge, (b) professional skills, and (c) professional values, ethics, and attitudes. In this respect, the International Education Standard (IES) 4 - Professional Values, Ethics and Attitudes of IAESB recommends that a programme of professional accounting education should provide potential professional accountants with a framework of professional values, ethics and attitudes to exercise professional judgment and act in an ethical manner that is in the best interest of society and the profession. However, IES 4 requires professional accounting bodies to distinguish between teaching students about professional values, ethics and attitudes and developing ethical behaviour. Developing professional values, ethics and attitudes should begin early in the education of a professional accountant and should be re-emphasized throughout the career. Thus, developing ethical behaviour is part of the life-long learning of a professional accountant/auditor.

Ethical codes are informative and helpful. However, the motivation to behave ethically must come from within oneself and not just from the fear of penalties for violating professional codes. Presented in Table 1 is a sequence of steps that provide a framework for analysing ethical issues. These steps can help the accountant/auditor apply a sense of right and wrong to ethical dilemmas.

DeFond *et al.* (2002) concluded that only 4 per cent of financially distressed companies receive a warning signal from auditors. Thus, auditors' professional obligation competes against their self-interest since they simultaneously face the dilemma of the "self-fulfilling prophecy effect": the fear that the issuance of a warning signal may precipitate clients' failure because of its negative impact on current and potential investors, creditors, suppliers, and customers (Louwers *et al.*, 1999).

Thus, the self-fulfilling prophecy effect implies auditors' self-interest due to the fear of being dismissed after the release of that warning signal. This paper illustrates whether auditors unintentionally may be induced by this fear that, in turn, may help explain their reluctance to issue a going concern opinion.

Previous research has pointed out that less experienced decision-makers tend to examine superficially and not look at the long-term implications of a situation (Chi, 2006). It also tested whether expert auditors are more sensitive to the long-term consequences of their opinions. It was argued that auditors with higher expertise in going concern evaluations, measured by their auditing experience and the frequency with which they audit financially distressed clients, will offer a higher tendency to release warning signals in order to maintain their reputation and avoid the costs of financial scandals.

Connecting the TP with Moral Seduction Theory

Auditors develop analytical procedures in order to guide them to objective conclusions on the ability of their clients. It should consist of an analytical evaluation of the evidence (both positive and negative), its cognitive integration via judgment (i.e., an estimation of clients' bankruptcy probability), and finally a decision to issue an audit opinion (Information (I) → Judgment (J) → Decision (D) pathway in Figure 1).

However, since auditors may face threats to their independence the assumption of a normative behaviour seems to be far away from reality. Since Rodgers (1997) developed the TP (Transport Protocol), it has been applied successfully to different economic and social settings such as loan analysis, managerial ethical decisions and sexual harassment (Rodgers, 1999; Rodgers and Gago, 2001).

The TP separates the decision-making processes into four main processing stages of perception (P), information (I), judgment (J) and decision choice (D). Perception and information co-vary since information can influence how a decision-maker frames a problem (perception) or vice

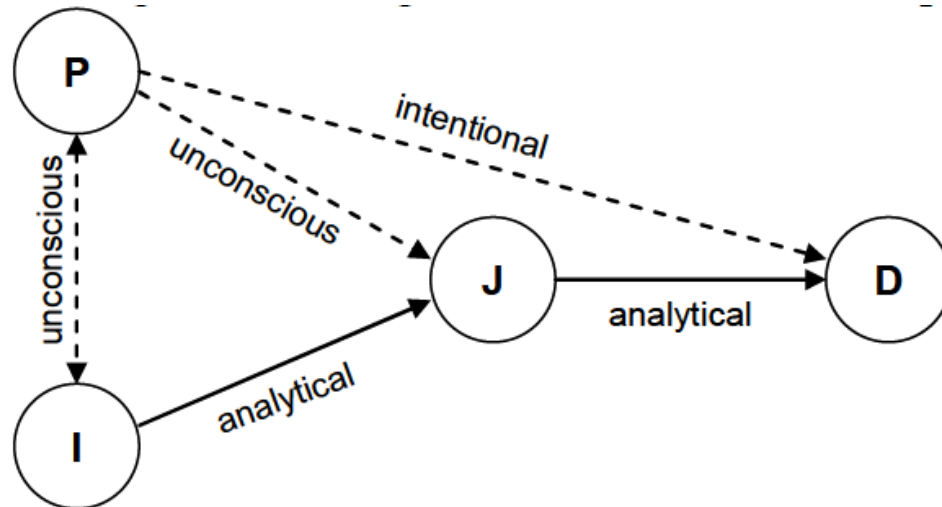


Figure 1. TP cognitive model/schematic representation (Key: P = Perception, I Information, J = Judgement, and D = Decision).

versa (see Figure 1), i.e., how an individual selects the evidence (information) to be used in the two later stages of the decision-making process (judgment and decision choice) is perceptually framed. The first processing stage (perception) involves the framing of information (Tversky and Kahneman, 1981). For auditors, this processing stage includes framing of financial information and other internal and external information that could affect their decision-making. The double-ended arrow connecting perception and information represents this relationship. Perception concerns heuristics of framing effects (Kahneman, 2003). Often perception is based on some kind of pattern matching process to earlier experiences with the use of information. These processes are neither voluntary nor verbally explicit; however, “judgments are always intentional and explicit even when they are overtly expressed” (Kahneman, 2003, p. 699). The second stage (information) involves issues of available information for processing that is important to independent auditors in their determination of a client’s ability to continue in existence.

The most recent theoretical development of decision theory emphasizes dual processes in reasoning and decision-making, with two corresponding systems (Sloman, 2002). The first system can be fast, associative, and intuitive (see perception and information stages), whereas the second one is typically slow, deliberate, and analytical (see judgment stage below). Dual process approaches provide an explanation for why human decision-making seems simultaneously impulsive and reflective, intuitive and analytical, qualitative and quantitative. In the third processing stage (judgment), perception along with financial and non-financial information is analyzed.

The judgment stage thus includes appraisal and judgment of alternative information and perception

outcomes. The perception link also can give ideas and suggestions based on the auditor’s previous experiences and knowledge bases. The appraisal of alternatives may be based upon a single criterion or methodology, or a combination of criteria or methodologies such as compensatory or non-compensatory weighting schemes. Finally, both perception and judgment elements affect the fourth processing stage, decision choice.

In the TP, the perception mode highlights the “moral seduction theory” that can provide further insights regarding auditors’ conflicts of interest. In addition, moral seduction theory indicates why auditors’ decision-making in the going concern task might be not exclusively based on the analytical behaviour required by auditing standards. Moore *et al.* (2006) define moral seduction theory as the cognitive processes by which the structural features of the auditor-client relationship exert their effects on auditors’ professional judgment. In this regard, these authors point out how selective perception, escalation of commitment and discounting of information biases may help understand auditors’ unintentional corruption. Selective perception bias refers to auditors’ involuntary tendency to reach their own self-interest even when they follow the auditing guidelines pertaining to independence.

Therefore, independence refers to following the rules and guidelines of the auditing profession, whereas self-interested actions are usually more immediate, compelling and certain. Since auditors are hired and fired by their own clients, they have persuasive economic arguments to support client-preferred goals. Thus, in order to maintain expected audit fees, auditors may be reluctant to issue qualified audit reports. Escalation of commitment is defined as the tendency to continue to invest in the losing course of action, in the hope of a favourable turn of events. Thus, assuming that after the issuance of a clean audit report the auditor will keep the client, he or she will be

morally compromised to act in the same “unethical” way for subsequent audits.

Further, discounting of information bias refers to people's tendency to be only aware of the immediate consequences of their course of action. This bias may lead auditors to perceive potential reputation losses and lawsuit costs as distant and uncertain, favouring the issuance of clean audit reports. Thus, Moore *et al.* (2006) moral seduction theory may help explain why strengthening independence through more regulation does not guarantee the elimination of conflicts of interest in auditing. The impact of these conflicts of interest should be interpreted as an involuntary bias rather than a deliberate corruption. This unconscious bias in auditor reporting is depicted in the TP by (i) the direct arrow from perception to the judgment stage, and (ii) the indirect interaction between perception and information when the auditor employs an analytical behaviour. Finally, the TP also illustrates the possibility that the presence of conflicts of interest may lead auditors to intentional corruption by a direct impact of perception on the decision. Thus, this potential unethical behaviour would lead auditors to make a decision based on their self-interest by disregarding available information (Rodgers and Gago, 2001). In sum, the TP in connection with the moral seduction theory is used in this paper to improve our understanding that auditors' failure when evaluating their clients' financial status may be a consequence of an unconscious reporting bias. This argument upholds that consideration of economic dilemma may override the ethical choices of auditors. The study further observed that, though auditors are assumed to be independent without considering the conflicts of interests encountered, auditors may unintentionally distort their decisions.

SUMMARY OF DISCUSSION

Ensuring the highest ethical standards is important to a 'public accountant' (one who renders professional services such as assurance and taxation service to clients for a fee) as well as to an 'accountant in business' (one who is employed in a private or public sector organisation for a salary). Both public accountants and accountants in business are in a fiduciary relationship, the former with the client and the latter with the employer. In such a relationship, they have the responsibility to ensure that their duties are performed in conformity with the ethical values of honesty, integrity, objectivity, due care, confidentiality, and the commitment to the public interest before one's own. Ethical dilemmas faced in the accounting/auditing profession vary in type and intensity. Examples of the most common ethical dilemmas in the business environment may include:

1. Dealing with pressure to act unethically, particularly from dominant superiors;
2. Balancing confidentiality with blowing the whistle on

illegal or improper actions of others;

3. Disclosing information in the public interest; and
4. Wrongful trading in a distressed situation where insolvency might be imminent.

These ethical dilemmas cover various ethical issues, such as overstating performance and valuation, participating in fraudulent activity, non-disclosure and withholding of information from auditors and other stakeholders, and making a decision without adequate information.

CONCLUSION AND RECOMMENDATIONS

This paper reviewed theoretically the relationship between auditing and ethical sensitivity: resolving the dilemma. It reviewed the conceptual base of ethics; the relationship between auditing and ethical sensitivity, the need for ethical sensitivity, ethical dilemmas and threats faced by accountants and auditors and also suggested resolutions to ethical dilemmas that could confront the auditor in the course of practice. The paper emphasized the important role played by auditors in the evaluation of the client's ability to continue in existence as crucial to financial statement users. Investors, creditors, customers, and other market participants desire to know whether a company in which they are interested in is in danger of failure. Thus, considering the auditor's expert knowledge and their access to inside information, financial statement users expect early warning signals from auditors.

We therefore conclude that accountants and auditors both in private and public practice do face ethical dilemmas or issues that call for increased ethical sensitivity with outcomes that reinforce public trust, integrity and credibility in the profession. Thus, it is therefore recommended that;

1. Accountants and auditors both in private and public practice should fully regard and follow ethical standards to rebuild trust and confidence in the profession;
2. It is imperative that the profession equips the auditor with strong ethical awareness in order to prepare them to successfully meet ethical challenges;
3. The firm and the profession should monitor strict auditors' compliance with ethical and professional standards.

CONFLICT OF INTEREST

The authors declare that they have no conflict of interest.

REFERENCES

- Ahmed, A. (2010). Ethics in auditing; and ethical studies in different accounting bodies. Available at SSRN 1631346.
- Armstrong, M. B., Ketz, J. E., & Owsen, D. (2003). Ethics education in accounting: Moving toward ethical motivation and

- ethical behavior. *Journal of Accounting Education*, 21(1), 1-16.
- Bebeau, M. J., Rest, J. R., & Yamoore, C. M. (1985). Measuring dental students' ethical sensitivity. *Journal of Dental Education*, 49(4), 225-235.
- Chi, M. T. H. (2006). Two approaches to the study of experts' characteristics. In Ericsson, K. A., Charness, N., Feltovich, P. J. & Hoffman, R.R. (eds.), *The Cambridge handbook of expertise and expert performance*. Cambridge Press.
- DeFond, M. L., Raghunandan, K., & Subramanyam, K. R. (2002). Do non-audit service fees impair auditor independence? Evidence from going concern audit opinions. *Journal of Accounting Research*, 40(4), 1247-1274.
- Duska, R. (2005). The good auditor—Skeptic or Wealth accumulator? Ethical lessons learned from the Arthur Andersen debacle. *Journal of Business Ethics*, 57, 17-29.
- Earley, C. E. & Kelly, P. (2004). A note on ethics educational interventions in an undergraduate auditing course: is there an 'Enron effect'? *Issues in Accounting Education*, 19 (1), 53-62.
- Fahimeh, S., & Mahdi, M. (2013). Factors influencing auditor's ethical sensitivity in ethical decision making: evidence from Iran. *Universal Journal of Management and Social Sciences*, 3(11), 1-16.
- Gaa, J. C. (1992). Discussion of a model of auditors' ethical decision processes. *Auditing: A Journal of Practice and Theory*, 11(Supplement 60), 66.
- Guiral, A., Gonzalo, J. A., & Rodgers, W. (2007). Information content and recency effect of the audit report in loan rating decisions. *Accounting and Finance*, 47, 285-304.
- Guiral, A., Rodgers, W., Ruiz, E., & Gonzalo, J. A. (2007). *A Cognitive Model Testing Moral Seduction Theory: Unconscious bias and the role played by expertise*. Financial Support of the Ministry of Education and Culture, Spain. Research Project.
- Guiral, A., Rodgers, W., Ruiz, E., Gonzalo, J.A. (2007) Ethical dilemmas in auditing: Dishonesty or unintentional bias. *A paper presented at the International Symposium on Audit Research, 31st European Accounting Congress in Amsterdam*
- Herron, T. L., & Gilbertson D. L. (2004). Ethical principles vs. Ethical rules: The moderating effect of moral development on audit independence judgments. *Business Ethics Quarterly* 14(3), 499-523.
- Hooks, K. L., & Tyson, T. (1995). Gender diversity driven changes in the public accounting workplace: a moral intensity analysis", *Research on Accounting Ethics*, 1, 267-89.
- International Federation of Accountants (IFAC) (2005). IFAC Annual Report. Retrieved from <https://www.ifac.org/publications/2005-ifac-annual-report>.
- Jones, T. M. (1991). Ethical decision making by individuals in organisations: an issue contingent model", *Academy of Management Review*, 16(2), 366-95.
- Kahneman, D. (2003). A perspective on judgment and choice: Mapping bounded rationality. *American Psychologist*, 58, 697-720.
- Karajeh, A.A.-A.H., (2004). How far external auditors are committed to the code of conduct in Jordan, and the ways which encourage them to follow professional behaviour. In: *Accounting Amman Arab University Amman*.
- Kristin, S. (2006). Corporate accounting scandal. Crime legislation; State Boards and Commissions; Accountants; Whistleblowing; Corporations; Auditors. *OLR Research Report, 2006-R-0122*. Retrieved from <https://www.cga.ct.gov/2006/rpt/2006-r-0122.htm>
- Louwers, T. J., Messina, F. M., & Richard, M. D. (1999). The auditor's going-concern disclosure as a self-fulfilling prophecy: A discrete-time survival analysis. *Decision Science*, 30, 805-824.
- Moore, D. A., Tetlock, P. E., Tanlu, L., & Bazerman, M. H. (2006). Conflicts of interest and the case of auditor independence: moral seduction and strategic issue cycling. *Academy of Management Review*, 31, 10-29.
- Nelson, M. W. (2006). Ameliorating conflicts of interest in auditing: Effects of recent reforms on auditors and their clients. *Academy of Management Review*, 31, 30-42.
- Rodgers, W. (1997). *Throughput modeling: Financial information used by decision makers*. JAI Press: Greenwich, CT.
- Rodgers, W. (1999). The influences of conflicting information on novices' and loan officers' actions. *Journal of Economic Psychology*, 20, 123-145.
- Rodgers, W., & Gago, S. (2001). A model capturing ethics and executive compensation. *Journal of Business Ethics*, 48, 189-202.
- Slooman, S. A. (2002). Two systems of reasoning. In: Gilovich, D., Griffin, D. & Kahneman, D. (eds.). *Heuristics and biases*. Cambridge University Press: New York.
- Tirri, K., & Nokelainen, P. (2008). Identification of multiple intelligences with the Multiple Intelligence Profiling Questionnaire III. *Psychology Science*, 50(2), 206-221.
- Tversky, A., & Kahneman, D. (1981). The framing of decisions and the psychology of choice. *Science*, 211(4481), 453-458.
- Weaver, K., Morse, J. & Mitcham, C. (2008). Ethical sensitivity in professional practice: concept analysis. *Journal of Advanced Nursing*, 62(5), 607-618.