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# Role of ethics in Islamic Thinking in the activation of accounting information quality

*Papel de la ética en el pensamiento islámico en la activación de la calidad de la información contable*

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### ABSTRACT

This study aims to discuss the relationship between religion and ethics on the one hand and such irregularities and financial fraud and unethical standards on the other. It aims to find out how the adoption of ethics based on a religious perspective can enhance the quality of professional services, especially in the light of the Islamic religious principles of considerable interest and works to strengthen commitment through the doctrine of faith, worship, and religious education. It is seen that the Muslims abide by these ethics as part of their religion, and such commitment results in achieving quality in business performance.

**Keywords:** Accounting Principles, Ethics, Iraq, Professional Conduct.

### RESUMEN

El objetivo de este estudio es analizar la relación entre religión y ética, por un lado, y tales irregularidades, fraude financiero y estándares poco éticos, por otro. Su objetivo es descubrir cómo la adopción de una ética basada en una perspectiva religiosa puede mejorar la calidad de los servicios profesionales, especialmente a la luz de los principios religiosos islámicos de considerable interés y trabaja para fortalecer el compromiso a través de la doctrina de la fe, la adoración y la educación religiosa. Se ve que los musulmanes acatan esta ética como parte de su religión y ese compromiso resulta en lograr calidad en el desempeño comercial.

**Palabras clave:** Conducta Profesional, Ética, Iraq, Principios Contables.

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## 1. INTRODUCTION

The consumerism in world accounting standards has given rise to many corporate scandals and conflicts, raising doubts about business ethics in general and accountants, accountants in particular. Reports issued by the International Federation of Accountants (Brown: 1981).

Issued in the wake of the Enron collapse, it confirms that such financial scandals are symptoms of deeper problems and lack of ethical standards. Moreover, these are evidence of inadequacy and failure of financial management, reporting mechanisms, and audit quality, irrespective of efforts made by governance systems is to improve public confidence in financial reporting (Thabit & Solaimanzadah: 2018). In the perspectives of integrating religion and morality with ethics in the accountancy profession, it may enhance the quality of professional services, especially in the presence of great freedom spaces when professional work is exercised outside the approved norms and standards contexts. The Islamic religion, for instance, cares about morality and gives much attention to strengthen compliance through belief and faith and worship and religious education.

The subject of business ethics and its relationship with economic development has gained greater importance after the increase in the number of corporate scandals, causing extensive damage to the economy and society (Walker: 2007). The corporate scandals have raised the issue of ethics for businessmen in general and accountants in particular. It has been stated that the accountants are the main cause behind the decline of the ethical standards for business in a research report issued by the International Federation of Accountants entitled (Brown: 1981).

Iraq has shown considerable interest in the subject of ethics of the practice of the accounting and auditing profession. It is often argued that such interest is raised due to a few primary and secondary characteristics. The primary characteristics include features like convenience, reliability, verifiability, honesty in expression, and neutrality (Sarea: 2012, pp.27-32). Reliability is reflected in preparing accounts free of significant errors and bias and can be relied upon by users as information that accurately reflects what is intended or expected to express reasonably (Nadzri & Aida: 2009).

Verifiability or objectivity means the ability to access the same results from the pre-existing accounting measurement if the same methods of measurement were used. Honesty in expression means financial transactions carried out by the accounting unit in its honest essence and not just a representation of form only (Thabit: 2013). Neutrality means all accounting information is characterized devoid of any bias by measuring results or displayed in a manner not overcoming the interests of a certain class of users of financial statements (Shahbakhsh et al.:2019).

The secondary characteristics, as recommended by the US Financial Accounting Standards Board (FASB), include stability and comparability (Velayutham: 2014). Stability means following the same accounting methods in the economic event logging and report them in a uniform manner from one session to another (Keys & Hendricks: 1984, pp.77-88). The application of the stability property in the use of accounting principles and procedures, make financial statements more comparable and more useful for users. Comparability means the accounting information, which has been measured and reported identically in different institutions, tends to be comparable (Atarzadeh & Seyedi: 2019).

At this moment, identically it means that the accounting procedures, measurement and tab and methods of disclosure and presentation applied to be the same in the various institutions (Mohamed et al.: 2010).

In light of this background information, this study was envisaged. The researcher believes that the provision of these attributes is the basis of accounting information depends on how accountants and auditors comply with the norms and ethics of the practice of the accounting profession and how they can determine the nature of this relationship. This study aims to discuss the relationship between religion and ethics on one hand and such irregularities and financial fraud and unethical standards on the other (Ladewi: 2014).

It aims to find out how the adoption of ethics based on religious perspective can enhance the quality of professional services, especially in the light of the Islamic religious principles, which are concerned with

morality considerable interest and works to strengthen commitment through the doctrine of faith, worship, and religious education. It is seen that the Muslims abide by these ethics as part of their religion, and such commitment results in achieving quality in business performance and positive economic development (Thabit & Alnasrawi: 2016).

**Research Objectives:** This research study sets the following two objectives:

1. To investigate the reality of accounting information quality, mechanisms, level of technology used in the preparation, strategic purposes, and operationalization of accounting standards in the Iraqi perspective.
2. To determine the extent of the impact made by the adoption of ethics and value-added concepts in the framework of financial statements management.

**Problem Statement:** The profession has faced great challenges especially after the collapse of global companies such as Enron, for embezzlement; Arthur Andersen for auditing, and not to forget the collapse of World.Com corporation. These instances have led to many criticisms and accusations of accounting and auditing professions about offered feasibility and quality of services. The participation of accountants and auditors in scandals of big companies reflects that they did not comply with the expected ethical standards (Hameed & Yaya: 2005, pp. 75-92). No doubt there is an increasing dependence on technical gadgets, software and information technology even in the accounting profession (Hossain et al.: 2007, pp.39-53).

Moreover, there are some accounting principles within the free choices of accountant fields that external rules and standards cannot reach and it is only subject to the authority of conscience and ethics carried by accountants (Ferretti: 2019). Based on these philosophical issues, this study thus frames a few research problems, as follows:

1. Is there a need for ethics in accounting in light of the extensive use of information technology?
2. Does shifting to technical frameworks in accounting limit the effectiveness of the ethical aspects of accounting profession practice?
3. How to take benefit from ethics according to the Islamic perspective in building an ethical system for the accounting profession?
4. Are there any restrictions for ethics directions in accounting towards the most comprehensive ranges when practicing the profession? What is the nature of these restrictions?
5. What are the expected contributions that caused to strengthen ethical aspects when exercising the profession of accounts on the strategic direction of the profession?
6. What is the logistics system to support the shifting process towards adopting ethical aspects when exercising the accounting profession?

These research questions shall be addressed in this study and an attempt shall be made to seek logical answers based on research data from the respondents.

**Hypothesis:** In order to find answers to the research problem, and accomplish the stated objectives, the following two hypotheses are stated for this study

H<sup>1</sup>. The presence of ethical principles in accordance with the Islamic ideology does not deny the need to prepare rules of professional conduct in accounting and auditing.

H<sup>2</sup>. The presence of ethical principles in accordance with the Islamic ideology does not deny the need to prepare the rules of professional conduct in accounting and auditing.

**Literature Review:** In order to raise the professional and social level of its members, the Iraqi Association of Accountants and Auditors Act (law No. 185 of 1969) defend their rights, facilitate their work and ensure their future when they become old or in cases of sickness, disability, and unemployment. The Act also regulates the rules of practice of the profession.

The rules included manners, etiquettes and ethics of auditing profession in Iraq, which is a set of principles representing moral values characterizing the ideal standards of professional conduct, and a set of rules embodying behavioral traits that an auditor should show them when doing their profession and when dealing with professional colleagues, clients and others (Sedlák et al.:2019).

The perspective based on Islamic institution that is related to the fixed principle in the Koran and the Sunnah. In spite of the multiplicity of definitions, but they focused on the launch of Islamic thought from Islamic sources of Islamic legislation, as well as being a general perception of life and its launch of the Islamic culture.

Similarly, with the quality perspective, accounting aims to provide useful information to rationalize decisions and to accept accounting information to be useful for economic decision- making (Marandi et al.: 2018). To be useful, there are characteristics of recipes that must contain in the accounting information. These characteristics are defined as the quality of the properties, and will make it clear in the figure below, the qualitative characteristics of accounting information as presented by the FASB.

## 2. METHODS

A closed-ended questionnaire based on the Likert scale was adopted to collect data for this study. The data was evaluated in SPSS, version 25 in order to check its validity, reliability, Cronbach Alpha and perform the discriminate analysis. The questionnaire and the subsequent data analysis were divided into two items: first, ethical principles that emerged on Islam will lead to enhance the quality of accounting information; second, the relationship between ethical principles according to Islamic thought and the rules of professional conduct.

## 3. RESULTS

The validity of the questionnaire was measured through the split-half test, particularly because data were collected from different areas and it was necessary to ensure the stability and consistency of data. In this research, the researcher used (Split –Half) and (Cronbach Alpha) to test the Stability. Split Half is the method to gage the reliability of a test; two sets of scores are obtained from the same test one set from odd items and one set from even items, and the scores of the two sets are correlated. Spearman-Brown Coefficient test was used in this study to correct correlation coefficients. Table (1) shows that the value of correlation coefficients and correct correlation coefficients for items were high. Consequently, it shows that the stability of the answers was very high.

Item	Item content	No of Paragraphs	Correlation coefficients	Correct correlation coefficients
First	Depending on ethical principles that emerged on Islam will lead to enhance the quality of accounting information	9	0.982	0.986
Second	The relationship between ethical principles according to Islamic thought and the rules of professional conduct	10	0.974	0.978
	Total	19	0.979	0.977

**Table (1).** Split- Half test

Cronbach's alpha was used as a second method to measure the stability of this study. The table (Table 2) below shows that Cronbach's Alpha coefficients were high, which means that the stability of answers was high.

Item	Item content	No of Paragraphs	Cronbach's Alpha coefficients
First	Depending on ethical principles that emerged on Islam will lead to enhance the quality of accounting information	9	0.970
Second	The relationship between ethical principles according to Islamic thought and the rules of professional conduct	10	0.981
	Total	19	0.957

**Table (2).** Cronbach's Alpha coefficients

This causal relationship indicates that the basic function of the accounting profession is to provide useful information contributing to the rationalization of the decision as to the role of the auditing profession is to give confidence to the information, which is contained in the financial statements. In recognition of this role and achieve their mission, respondents of this study have committed themselves to a set of principles and behavioral rules that govern their work and express members' commitment to these rules of the accounting profession's recognition of its responsibilities towards the community, customers, and colleagues in the profession. Their acceptance of these rules of ethical behavior in the performance of their professional responsibilities leads to raise the level of the profession and gain the community's trust, and increase the effectiveness.

**Data Analysis:** The use of frequencies for the analysis of the questionnaire was found positive in the sense that respondents disapproved of the content if the number of iterations of the scale (I agree, strongly agree). The average size of the sample exceeds a 23.5 relative weight is greater than 60%). It is a negative paragraph, in the sense that the sample does not agree on the content if the number of iterations of the scale (I agree, strongly agree) does not exceed the average size of the sample, a 23.5 relative weight of less than 60%.

**First Axis Analysis:** The adoption of ethical principles emanating from the Islamic religion that will enhance the quality of accounting information.

The use of iterations in the table (5), shows the views of the study sample in the first section of this study: The adoption of ethical principles emanating from the Islamic religion that will enhance the quality of accounting information)

The Relative Weight	Standard Deviation	Variance	Arithmetic Mobile	Neither Agree Nor	Neutral	Total Agree / Strongly	First section	
0.81	1.02	1.04	4.04	3	0	44	The adoption of the principle of sincere testimony leads to support the usefulness of accounting information	1
0.71	0.74	0.55	3.55	2	6	39	The adoption of the principle of honesty and integrity leads to support the usefulness of accounting information	2
0.79	0.98	0.96	3.96	2	2	43	The adoption of the principle of integrity leads to support the usefulness of accounting information	3
0.82	1.05	1.11	4.11	2	5	40	The adoption of the principle of secrecy secrets leads to support the usefulness of accounting information	4
0.80	0.99	0.98	3.98	0	0	47	The adoption of the principle of honesty leads to support the usefulness of accounting information	5
0.78	0.95	0.89	3.89	2	0	45	The adoption of the principle of perfection leads to support the usefulness of accounting information	6
0.55	0.48	0.23	3.23	44	0	3	The adoption of ethical principles in Islamic thought will not affect the usefulness of supporting accounting information	7

0.80	1.0 0	1.0 0	4.0 0	8	3	36	The adoption of the principle of integrity leads to support the neutrality property in accounting information	8
0.77	0.9 2	0.8 5	3.8 5	2	2	43	The adoption of the principle of honesty leads to support the property in the honesty of expression in accounting information	9
0.77	0.9 2	0.8 5	3.8 5	62	1 8	340	Total	

**Table (5).**The first axis analysis, The adoption of ethical principles emanating from the Islamic religion that will enhance the quality of accounting information

The revelations have the following implications

- A.** In question (1) reached the relative weight (81%) and the number of iterations of the scale (I agree, I strongly agree) (44) which shows that the adoption of the principle of sincere testimony leads to support the usefulness of accounting information for the respondents.
- B.** My question (2) was the relative weight (71%) and the number of iterations (I agree, I strongly agree) (39) suggesting the principle of honesty and righteousness leads to support the usefulness of accounting information.
- C.** In question (3) were the relative weight (79%) and the number of iterations of the scale (I agree, I strongly agree) (43) which indicates that the adoption of the principle of integrity leads to support the usefulness of accounting information.
- D.** In question (4) were the relative weight (82%) and the number of iterations of the scale (I agree, strongly agree) (40) which indicates that the adoption of the principle of secrecy secrets leads to support the usefulness of accounting information.
- E.** In question (5) reached the relative weight (80%) and the number of iterations of the scale (I agree, I agree strongly) (47) which shows that the adoption of the principle of perfection leads to support the usefulness of accounting information.
- F.** In question (6) were the relative weight (78%) and the number of iterations of the scale (I agree, strongly agree) (45) suggesting that those who prepare the budget do not care and scientific research and educational activities at the university.
- G.** In question (7) were the relative weight (55%) and the number of iterations of the scale (I agree, strongly agree) (3) which shows that the adoption of ethical principles in Islamic thought support Accounting information.
- H.** In question (8) reached relative weight (80%) and the number of iterations of the scale (I agree, strongly agree) (36) which indicates that the adoption of the principle of integrity leads to support the neutrality property in accounting information.
- I.** In question (9) were the relative weight (77%) and the number of iterations of the scale (I agree, strongly agree) (43) which shows that the adoption of the principle of honesty leads to support the property in the honesty of expression in the accounting information.
- J.** In general, it turns out that the arithmetic average of all the paragraphs of the first axis (the adoption of ethical principles emanating from the Islamic religion that will enhance the quality of accounting information) equal to 3.45 weights.

Relative equals 77%, is greater than the relative weight neutral, "60%" and the number of iterations of the scale (I agree, I strongly agree) (340), constitutes 82% of the total occurrences axis indicating the respondents agree on the adoption of ethical principles and Islamic clerics that will enhance the quality of accounting information. This was due to the adoption of ethical principles derived from faith and worship more effective in human behavior from the rules adopted the principle of punishment in case of violation.

Through statistical analysis as well as the Z test it was accepted the first hypothesis, which states that adoption of ethical principles emanating from the Islamic religion that will enhance the quality of accounting information.

In general, it turns out that the arithmetic average of all the paragraphs of the first axis, the relationship between moral principles, according to Islamic thought and the rules of professional conduct equal to 3.99 relative weight equal to 80% is greater than the relative weight neutral, "60%". The number of iterations of the scale (I agree, I agree strongly) (447), which constitutes 95% of the total occurrences axis indicating the respondents agree on the adoption of ethical principles emanating from the Islamic religion that will enhance the quality of accounting information. This was due to several factors and effects including:

1. The use of technology in accounting methods lead to the increasing importance of the adoption of ethics according to Islamic ideology to the presence of the possibility of the manipulation of accounting figures using those techniques.
2. That there is a complementary relationship between moral principles and according to Islamic Ideology and rules of professional conduct, then, that the adoption of ethical principles stemming from the belief and worship in the issuance of ethical rules will increase compliance with those rules.

#### **4. CONCLUSION**

The study derives several conclusions: First, the multiplicity of professional conduct is linked to communities and working professionals who must interact at a single state of level in order to remain consistent with the adherence and compliance of conditions. Second, the application of the rules of professional conduct is focused on the external auditor more than other practitioners of the profession like accountants, employees and internal auditors. Third, rules of professional conduct do not specify objective evidence that there are many cases of manipulation between the accountants and auditors, despite the virtual adherence to those rules. Fourth, the compliance to ethics and rules of practice of the profession of accounting and auditing gives the impression of their importance to the presence of some aspects of the exercise of these professions.

Fifth, there is a causal relationship between the qualitative characteristics of accounting information and the rules and ethics of the practice of the profession of accounting and auditing. Lastly, the principles and moral values required by the rules of conduct and ethics is not a new innovation. On the contrary, they represent Islamic values, authentic source of the Qur'an and Sunnah and advocated by the principles of Islam. It is a sincere testimony to avoid perjury and no concealment of the truth and integrity and honesty and adherence to truth.

This study thus has stressed upon the adoption of ethical principles emanating from the Islamic religion that will enhance the quality of accounting information. The study also found that the existence of moral principles in Islamic thought to discharge the need to issue the rules of professional conduct.

The significance of this research is represented in the importance of restoring the lost trust between the accounting and users of financial statements. It sets importance to create a set of ethical standards that boosts confidence in the quality of services provided by the accounting profession. The study recommends to set up rules of professional conduct at the level of a single state and that should be developed and updated to fit with the circumstances in which they operate.

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