

Ethics and risk

A report of the 2003 National Business Ethics Survey conducted by Ethics Resource Centre in Washington, USA, raises some interesting thoughts about ethics and audit risk. This report details certain areas where ethical problems can occur. These areas could be regarded as potential areas where inherent risk could confront the auditor.

In general the survey reported an improvement in ethical behaviour. This improvement could be attributed to the fact that the survey was conducted in early 2003, after many well-publicised scandals arose. The areas relevant to audit risk are noted below. If the auditor identifies any of these circumstances, possible financial statement misstatement may arise.

- Nearly one-third of respondents say co-workers condone questionable ethic practices by saying they respect persons who successfully conducted these practices (page 2).
- Employees in transitioning entities, such as organisations undergoing mergers, acquisitions or restructuring, observe misconduct and feel pressure at nearly twice the rate as more stable organisations (page 2).
- Managers under the age of 30 who have worked for less than three years for an organisation are twice more likely to feel pressure to compromise ethical standards (page 2).
- Forty-four per cent of non-management employees do not report misconduct as they feel that no corrective action will be taken and fear that the report will not remain confidential (page 2).
- Younger employees with fewer years of service are less likely to report misconduct through fear of being viewed negatively by co-workers (page 2).

Perhaps the key finding is that employees who feel top management act ethically observe less misconduct than organisations, where top management only talk about ethics and display none of the essential elements of ethics (page 3). This indicates that a culture of ethical behaviour is necessary to ensure ethical behaviour occurs across an organisation and that this culture starts at the top.

Reference

Ethics Resource Centre, *2003 National Business Ethics Survey: Executive Summary*, www.ethics.org/nbes2003/2003nbes_summary.html