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Importance of Ethics for Professional Accountants: Ethical Dilemmas and Pressures

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Absract

Accounting partially reflects moral compass of the world in which it is practiced. It has become a moral discourse, because of the prejudice that has occurred with regards to ethics within the accounting profession. Accounting ethics is primarily a field of applied ethics, the study of moral values and judgments as they apply to accountancy. It is an example of professional ethics. Accounting ethics were first introduced by Luca Pacioli, and later extended by government groups, professional organizations, and independent companies. Due to range of accounting services and recent corporate downfalls, attention has been drawn to ethical standards accepted within the accounting profession. These downfalls have resulted in a widespread disregard for the reputation of the accounting profession. To address the criticism and prevent fraudulent accounting, various accounting organizations and governments have developed regulations and remedies for improved ethics among the accounting profession. Accounting ethics has been deemed difficult to regulate as accountants and auditors must consider the interest of the public,which relies on the information gathered in audits, while ensuring that they remained employed by the company they are auditing. They must consider how to best apply accounting standards even when faced with issues that could cause a company to face a significant loss or downfalls or when they are under the threat of termination. Such criticisms and issues arising out of conflict of interest have led to various increased standards of professionalism while stressing ethics in the work environment.

Keywords: Moral Compass, Corporate Collapse, Fraudulent Accounting, Accounting Standards, Corporate Scams

Introduction

An accountant working in the public or private sector must remain impartial and loyal to ethical guidelines when reviewing a company or individual's financial records for reporting purposes. An accountant frequently encounters ethical issues regardless of the industry and must remain continually vigilant to reduce the chances of outside forces manipulating financial records, which could lead to both ethical and criminal violations.

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Ethics are important for Professional Accountants because accounting requires ethical knowledge and skills to a great extent. The understanding of ethics in accounting clarifies the concept of right and wrong. They help the professional accountants to build personal fortitude to make a right decision. By keeping in mind ethical factors, accountants can easily clear peer pressure. They should never focus on short term pressures for keeping up revenue growth for satisfying investors. They make them think in long term because all successful companies manage not for short term but for long term. Ethical behaviour forces to confront personal relations in case of fraud. Concentrating on ethical factors makes the accountants to build an inner strength which forces them to make an ethical decision of not ignoring the fraud. Accountants, whose first priority is ethics, can easily deal with ethical dilemmas, areas that are not black and white. They feel comfortable dealing with grey areas. They can easily go along with the crowd or do what their managers tell them to do, by never compromising with ethical factors.

Accountant as Whistle-blower

The role of accountants is critical to society. Accountants serve as financial reporters and intermediaries in the capital markets and owe their primary obligation to the public interest. The information they provide is crucial in aiding managers, investors and others in making crucial economic decisions. Accordingly, ethical improprieties by accountants can be detrimental to society, resulting in distrust by the public and disruption of efficient capital market operations.[1]

Corporate scandals over the last two decades have centred on fraudulent financial reporting. Fraudulent financial reporting is the misstatement of the financial statements by company management. Usually, this is carried out with the intent of misleading investors and maintaining the company's share price. While the effects of misleading financial reporting may boost the company's stock price in the short-term, there are almost always ill effects in the long run. This short-term focus on company finances is sometimes known as "myopic management."

An accountant may face the ethical dilemma of reporting the discovered accounting violations to the Financial Accounting Standards Board. While it is an ethical accountant's duty to report such violations, the dilemma arises in the ramifications of the reporting. Government review of company financial records and the bad press caused by an accounting scandal could cause the company's rapid decline and may lead to the layoff of thousands of employees. Executives and other corporate officers could also face criminal prosecution, leading to heavy fines and prison time.

The Effects of Greed and Omission of Financial Records

Greed in the business and finance world leads to clarifying ambiguity related to ethical boundaries and stepping around safeguards in the name of making more money. An

[1] URL: http://www.smallbusiness.chron.com. (Accessed on August 02,2013.)

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accountant can never let the desire to earn a better living and acquire more possessions get in the way of ensuring that she follows ethical guidelines for financial reporting. An accountant who keeps her eyes on her own bank account more than on her company's balance sheet becomes a liability to the company and may cause real accounting violations.

On an individual employee level, the most common ethical issue in accounting is the misappropriation of assets.[2] Misappropriation of assets is the use of company assets for any other purpose than company interests. Otherwise known as stealing or embezzlement, misappropriation of assets can occur at nearly any level of the company and to nearly any degree. For example, a senior level executive may charge a family dinner to the company as a business expense. At the same time, a line-level production employee may take home office supplies for personal use. In both cases, misappropriation of assets has occurred.

A corporate officer or other executive may ask an accountant to omit or leave out certain financial figures from a balance sheet that may paint the business in a bad light to the public and investors. Omission may not seem like a significant breach of accounting ethics to an accountant because it does not involve direct manipulation of numbers or records. This is precisely why an accountant must remain ethically vigilant to avoid falling into such a trap.

Maintaining Workplace Accuracy and Confidentiality

Accountants are given a large amount of trust by their clients. Clients and employers trust accountants with very personal financial information. It is imperative that an accountant be able to keep this information confidential. If a client's personal financial information was released it could lead to theft of assets and possible litigation. In order to avoid this type of situation, which would at the least ruin the professional reputation of the accountant, accountants must take steps to safeguard information, including bank account numbers, tax files and social security numbers. Examples of these steps include limiting file access, encrypting computers and servers and refraining from discussing information with co-workers or acquaintances.

One of the larger ethical issues facing accountants is accuracy in reporting. In accounting there is no room for error. Every fact and figure that an accountant presents to his or her client or employer has to be correct and easily verifiable by another accountant. Accountants are charged with having to be completely honest in their positions. The reports generated by accountants are used to make business and financial decisions, supplement tax filings and are reported to shareholders. Accountants ethically cannot change numbers on reports or falsify ledger information.[3]

[2] URL:http://www.smallbusiness.chron.com. (Accessed on August 05,2013)

[3] URL:http://www.everydaylife.globalpost.com. (Accessed on August 04, 2013.)

As a subtopic of fraudulent financial reporting, disclosure violations are errors of ethical omission. While intentionally recording transactions in a manner that is not in accordance with generally accepted accounting principles is considered fraudulent financial reporting, the failure to disclose information to investors that could change their decisions about investing in the company could be considered fraudulent financial reporting, as well. Company executives must walk a fine line; it is important for management to protect the company's proprietary information. However, if this information relates to a significant event, it may not be ethical to keep this information from the investors.

As with other professional disciplines, understanding and upholding ethics is very important in the accounting field. Small-business investors and leaders consistently rely on the ethical component of the available data and delivery of that financial information, and are sometimes placed at risk if accounting ethics are not sustained. For a small-business owner, investor or manager, learning the basics of accounting ethics and their function is a good way to avoid legal and financial trouble.

Need for Integrity in Accounting and Code of Ethics

Businesses rely heavily on accounting ethics, whether they're aware of it or not. Unless investors, creditors and managers can be reasonably confident that the financial recordkeeping practices of their accounting professionals are honest, straightforward and consistent with industry standards, it is unlikely they can trust their records' accuracy. In addition, either investors or creditors may be exposed to the risk of fraud if accounting ethics and integrity standards are not upheld, which can also undermine trust in the larger markets.

The professional accounting organizations establish codes of ethics and integrity standards that their members must adhere to in their practice. The accounting boards in each state also lay out ethical standards for membership, and state law usually requires accountants to certify with the state board in order to legally practice. States punish the violation of state-adopted ethics and integrity standards with penalties that can include the suspension of an accountant's license.

Generally Accepted Accounting Principles and Ethical Theory

At the core of accounting ethics is the strict adherence -- as much as is possible -- to generally accepted accounting principles (GAAP). These are the basic rules of accounting laid out by the Financial Accounting Standards Board, and their use ensures the reliability, comparability and integrity of financial statements. In some rare cases, business circumstances may require diversions from GAAP. In these situations, accounting ethics require that any departures are fully documented and clearly justified for investors or others reading the resulting financial statements.[4]

[4] URL:http://www.smallbusiness.chron.com. (Retrieved on August 07,2013).

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In accounting, ethics and integrity standards are based on a broad commitment to honesty, impartiality and objectivity. Ethical standards also require that accountants present information in the clearest and most accurate way possible, with the expectation that the information constitutes an independent report of a business' financial situation. In most cases, this requires not just observing professional rules but also recognizing the potential for harm, using reasoning and judgment to resolve ethical conflicts and displaying moral integrity and motivation to apply a resolution.

As with other professional disciplines, understanding and upholding ethics is very important in the accounting field. Business investors and leaders consistently rely on the ethical collection and delivery of financial information, and are sometimes placed at risk if accounting ethics are not preserved. For a small-business owner, investor or manager, learning the basics of accounting ethics and their function is a good way to avoid legal and financial trouble.

Global Survey on Business Ethics

In order to highlight the importance placed on business ethics, ethical performance and ethical management within organisations, and the specific role played and challenges faced accountants a recent survey on global business ethics was conducted by the American Institute of Certified Public Accountants (AICPA) and the Chartered Institute of Management Accountants (CIMA).In this survey there were approximately 2,000 respondents from close to eighty countries.

The survey findings show that there are pressure points and ethical gaps within organisations and highlights the role management accountants can take. The survey - Managing Responsible Business: A Global Survey on Business Ethics - explored some key ethical questions by focusing on four business challenges.[5] *Ethical culture* -the moral nature of an organization and the framework and architecture; *accounting for ethics* -the range and types of information collected and analyzed and how such information is reviewed and used; *ethical dilemmas and pressures* -the types of threats that employees and management accountants face; and business issues -core areas of ethical concerns for business and how they are prioritized.

The survey revealed that companies are recognizing the importance of establishing an ethical culture against a backdrop of a more competitive business environment. This has been arrived at as a result of 80 percent of survey respondents reporting that their organization has a code of ethics or a similar document to guide staff about ethical standards in their work; 57 percent providing training on ethical standards at work; 25 percent offering incentives for staff to uphold the organization's standards of ethical conduct;60 percent stating that their board of directors has formal responsibility for ethics, while 49 percent felt that it's the responsibility of the CEO.

[5] URL: http://www.accountingweb.com .(Accessed on August 11,2013.)

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The survey also revealed both good and bad news when it comes to accounting for ethics (the collection and reporting of ethical information). While more firms are gathering information, it's still only a minority, which indicates there's a gap between what firms say and what they do. This has been arrived at as a result of 36 percent of organizations collecting ethical information; 40 percent reporting ethical information;61 percent feeling it's important to collect and analyze ethical information, but only one in five believing their organization will do so in the near future;62 percent collecting ethical performance information as part of the organization's regular management information gathering processes and 45 percent collecting information in separate focused exercises.

The survey showed that although the majority of respondents see their organizations as ethical, they're experiencing greater ethical dilemmas and pressures. This has been arrived at as a result of 35 percent feeling under pressure to compromise their organization's standards of ethical conduct;23 percent personally having observed conduct that has violated organizational ethics standards and/or policy in the last twelve months. Of those respondents, a majority (69 percent) reported it, despite 26 percent feared that they could be regarded as troublemakers. Of the 69 percent, only half felt satisfied about the way their ethical concern was handled.22 percent said they perceive the most pressure to compromise ethical standards of conduct comes from "working with colleagues from different functional areas within the organization."

There's a wide range of ethical business issues that can impact business success, and some have a greater impact in particular sectors and regions. Security of information, bribery and corruption, conflict of interest, and environmental impact are issues management accountants are likely to encounter. When asked what ethical issues are relevant to their organization,91 percent cited security of information, 78 percent said bribery, 74 percent reported conflict of interest, and 73 percent said environmental impact.86 percent said they contribute to managing the ethical performance of their organization by upholding their professional code, 83 percent said they ensured the integrity of management information, and 80 percent said they believed in leading by example.

Scandals in Unethical Accounting

Financial accounting is a major ethical battleground in business, and no amount of industry or government regulation seems able to prevent dishonest businesspeople from reporting financial information in unethical ways. Certain unethical accounting practices are illegal, such as flat-out misrepresenting income or expense figures on financial statements. There are a number of legal accounting practices that are considered unethical, as well, such as padding the goodwill figure on a balance sheet or unjustifiably shifting expenses to inappropriate periods to influence current financial results.

There are a number of examples in the field of accounting that are almost universally considered unethical and for which numerous developed nations maintain criminal laws

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to prevent. Reviewing a few examples of ethics violations in the accounting world can help one to understand the kinds of things that are unacceptable in almost every culture

High-profile downfalls of corporate CEOs are not a new phenomenon. But legislation such as Sarbanes-Oxley[6] makes corporate oversight and protection of shareholder rights by the board of directors a priority. It also uncovers an increasingly alarming set of CEO ethics violations, many of which land the corporate head in jail.[7]

Kenneth Lay – Enron: Enron's downfall, and the imprisonment of several of its leadership group, was one of the most shocking and widely reported ethics violations of all time. It not only bankrupted the company but also destroyed Arthur Andersen, one of the largest audit firms in the world.

Bernard Ebbers – WorldCom: As the SEC was conducting its investigation of Enron, an even larger CEO ethics violation was brewing. WorldCom, which at the time was the United States' second-largest long-distance telecommunications company, entered into merger discussions with Sprint. The merger was ultimately dashed by the Department of Justice over concerns about it creating a virtual monopoly. The situation took its toll on the company's stock price.

Conrad Black – Hollinger International :Canadian Conrad Black created Hollinger Inc., the parent company of Hollinger International, in the mid-1980s with the purchase of the controlling interest in the Daily Telegraph. The board of directors confronted Black in 2003 over payments the company made to him and four other directors in the $200 million range. The board called in the SEC to investigate the validity of the payments and the accounting transactions created to account for them. Charges were laid against Black for fraud, tax evasion and racketeering, among others.

Dennis Kozlowski – Tyco: Kozlowski, the CEO of Tyco, a massive security and electronics company, was also caught with his hand in the corporate coffers. In 2002, the board of directors discovered that Kozlowski and Mark Schwartz, the company's CFO, had taken unauthorized bonuses and loans in the amount of $600 million. The men were brought up on charges of grand larceny and securities fraud, among others. Kozlowski had paid for lavish parties, a Manhattan address and expensive jewellery with corporate funds. His first trial in 2004 resulted in a mistrial, but in 2005 he was sentenced to between eight and 25 years.

Scott Thompson – Yahoo! : Compared with the other four infamous CEO bad boys on the list, Scott Thompson's transgressions may not seem so egregious. What shocked shareholders and media alike was the brazenness of his deception and the lack of oversight that allowed it to happen. Thompson was brought in as Yahoo's new CEO in early 2012, in an attempt to reverse the struggling company's fortunes. By May, a shareholder activist group alleged that Thompson had embellished his resume by claiming he had a degree in computer science, along with an accounting degree. He has only an accounting degree.

6 The Sarbanes–Oxley Act of 2002 (Pub.L. 107–204, 116 Stat. 745, enacted July 30, 2002), also known as the "Public Company Accounting Reform and Investor Protection Act" (in the Senate) and "Corporate and Auditing Accountability and Responsibility Act" (in the House) and more commonly called Sarbanes–Oxley, Sarbox or SOX, is a United States federal law that set new or enhanced standards for all U.S. public company boards, management and public accounting firms

7 URL:http://www.forbes.com.sites/investopedia. (Accessed on March 18,2013)

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The few of the many scandals highlighted above reinforce the need and a growing recognition of accounting issues in ethics and governance as an essential complement to codes, policies and legislation. Increasingly companies worldwide realise they need to take risks to their reputation very seriously if potential crises are not to turn into catastrophes. Negative media coverage and both the rise and power of social media emphasise this – with a direct link to corporate value. The challenge of achieving this is not underestimated; it is much harder to bring about genuine behavioural change than it is to establish policies and processes. Despite the increase in pressures to compromise ethical standards and shortcomings in ethical performance management, more organisations are implementing ethical codes and other policies. This is a first step to embedding ethical business practice – both assessing and reporting on ethical information helps highlight what is working, and where there are shortcomings. Organisations need to continually strive towards building ethical businesses, while not losing sight of the very real demands this makes on them. By strengthening the capacity of organisations to both gather and use non-financial information, by upholding their code of ethics, in addition to regulation and policies, professional management accountants are well placed to contribute to the embedding of an ethical culture.

Conclusion

Codes of conduct offer an invaluable opportunity for responsible organizations to create a positive public identity for themselves which can lead to a more supportive political and regulatory environment and an increased level of public confidence and trust among important constituencies and stakeholders.[8]

There is a concept that 'ethics can never be taught, it is something inherent". This concept cannot be supported totally because there are some qualities and skills which are in our blood but there are also many skill and abilities to be learnt for being successful in any profession.

Lynda Helps", a consultant of the department of accounting and finance at Manchester Metropolitan University suggested a way for implementation of ethics in the accounting profession at four levels-before the student begins study in profession, towards the end of the study, training in actual work place and continuous updates of skills.

Management accountants recognize the importance of their role in upholding ethical standards, and that they primarily focus on security of information and the integrity of the numbers. In addition there are increased pressures within the workplace to compromise ethical standards, despite the increase of ethical codes, policies, and statements that have been put in place. It's key that leadership teams ensure that their stated commitment to ethical practices is fully embedded within the operating culture of the organization. Without it, ethical behaviour is likely to be compromised.

[8] Principles of Stakeholder Management, The Clarkson Centre for Business Ethics, 1999, p. 12.

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An ethical code of conduct is intended to be a central guide and reference for users in support of day-to-day decision making. It is meant to clarify an organization's mission, values and principles, linking them with standards of professional conduct. As a reference, it can be used to locate relevant documents, services and other resources related to ethics within the organization. A code is an open disclosure of the way an organization operates. It provides visible guidelines for behaviour. A well-written and thoughtful code also serves as an important communication vehicle that "reflects the covenant that an organization has made to uphold its most important values, dealing with such matters as its commitment to employees, its standards for doing business and its relationship with the community."