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Some Issues of Professional Accountants' Ethics

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Abstract. Paper focuses on the particular case of professional ethics in the context of the accounting profession. After briefly discussing recent events that made us reconsider our understanding of corporate governance, accountancy and ethics, we try to delimit the state of the art by looking at ethics from the accounting professions' perspective. Teaching ethics to accounting students should no longer try to convince them that they should act in an ethical manner, but raise their awareness with regard to ethical issues in accounting practice. Codes of ethics are therefore useful by considering common issues being dealt with within the business environment. It is here that we try to bring our contribution by developing a conceptual approach that would enhance ethical behavior. When aiming to clarify professional ethics, we closely analyze integrity based on the latest developments undertaken by European professional bodies. Findings are used in identifying ways to contribute to the endeavor of aligning the profession's performance with society's reasonable expectations.

Keywords: ethics, accounting profession, corporate governance, accountancy

1. Introduction

Corporate governance represents a highly debated topic, raising significant interest for researchers in different areas during the last decade. In the context of a worldwide recession caused by excessive credit expansion (Walker, 2010) central elements of corporate governance, such as executive remuneration; internal control; risk management; the board of directors; independent non-executive directors; and shareholders' role are nowadays being reconsidered and closely analyzed. Financial institutions using structured financial instruments assumes their buying and reconstruction within an even more complicated structure if possible and afterwards their selling at a higher price towards other financial institutions. The new buyers will and did of course follow the same recipe. It seems that this category of derivative financial instruments enjoyed the appreciation of nowadays sophisticated bank which seemed to be anxious in actually risking their shareholders' money in order to invest in complex structured instruments some knew only little about (Butler, 2009). That is why investigations searching to find exactly how things got the way they did and turned into such a serious financial crisis that will for sure make history are now focusing their attention on those being responsible with trading these instruments. Under poor corporate governance settings one of the risks that became obvious from the above presented discussion is that accountants might be pressured by directors in order to present a reflection that is likeable for the shareholders, but sometimes miles away from the economic truth. Using structured financial instruments creates a series of difficulties from the financial reporting point of view, such as fair value measurements through the use of mark to model valuation.

An important aspect that must be considered is avoiding the development of reward systems for directors and other employees that act as traders that allow the hiding of mistakes being made within their activity. When such systems exist there is also the possibility of consequences reaching up to the level of accounting practices and putting pressures on accountants as well. This practice actually represents a reality that comes up in history starting with the first financial scandals that shook the accounting environment at the beginning of the 21st century (e.g. Enron, World.com, etc.). Directors being able to obtain huge rewards even when considering cases that ended up with monumental bankruptcies and failures tempt them in undertaking exaggerated risks. The natural consequence will afterwards be for them to try and hide these risks and the potential losses therefore being generated for as long as possible. We are dealing here with moral hazard issues, an inappropriate rewarding system enhancing directors' behavior in maximizing their own bonuses while sometimes even destroying value from shareholders' point of view (Beaver, 1998).

Accounting professionals and their relation to stakeholders represent an essential component when considering corporate governance mechanisms. Furthermore the agency theory describes the complexity of the relation between shareholders and managers. While working with managers, accountants should aim for the faithful representation with informational content for stakeholders. Considering the complexity of their position, we find accounting ethics and professionalism to play an important role when constructing sound corporate governance structures. The idea is further developed through the remainder of the paper being organized as follows: we first try to delimit the state of the art by looking at ethics from the accounting professions' perspective. After discussing some theoretical aspects we follow accountants' development starting with their education and training as students and continue with them entering the profession which should further impose continuous training. Codes of ethics and their role for a profession are also discussed in this part of the paper. We then consider the issue of some well known financial scandals that represent the argument for nowadays debate on business ethics. Aspects related to the employed research methodology are presented. Our analysis further focuses on integrity in professional ethics by considering FEE's recent initiatives and presenting some further developments. The main findings of our paper are synthesized within the conclusions part of the paper.

2. Some Literature Review

Trying to place ethics in the economic context there can be used Friedman's (1988) argument that profit oriented businesses must meet their social responsibilities by accepting the restrains being imposed through society's basic rules, both those comprised within the law and those incorporated in the ethic content. Adam Smith's vision regarding the invisible hand emphasizing entrepreneurs' self-interest transforms the business market into a market that is incompatible with moral interferences. Bernard Mandeville's opinion places shareholders self assessing their behavior as a sine qua non condition for economic prosperity and the driving force for the society's civilization process, all these being critically reflected over time.

A continuous fight for profit that is led by avarice and greed breaks the notion of justice and is therefore incompatible with the universal and humanistic concept of justice. Consequently, maintaining ethics in the business world can be done when the business environment imposes efficient self-regulation measures that exceed the high number of laws and regulations being adopted by governmental bodies and requirements being imposed by regulatory bodies. As long as businesses have an individual character, we must work towards a personal sense of morality that must be developed by considering deontological principles in codes of ethics. Ethical responsibility in the business world is not holistic, but what we can do is consider any phenomenon that within a certain context influences ethical behavior (Micewski and Troy, 2006).

The role of accounting ethics is to ensure a system of information that would encourage and support rational behavior. Accountants are not held responsible for the structure within which they produce and communicate information, nor for the purpose of that information. One of the main purposes that should be considered throughout accountants' continuous professional evolution is the development of moral judgment. The necessity of maintaining public trust in the integrity of the accounting profession has led to an increase in the number of studies analyzing the moral judgment abilities. Most of the studies look at accountants working within large companies (especially the Big 4), while only a few (such as Enynon et al. 1997) consider little entities or accountants working on their own. The main thing that differentiates the above mentioned categories of accountants is their working environment, large companies bringing the benefit of cooperation with colleagues, in-house training and organizational support.

Ethics looks at human behavior, moral principles and the attempt to distinguish good from bad. When trying to identify common issues being dealt with within the business environment, professional bodies' codes of ethics is the right place to look. These codes represent what we can consider to be the reflection of business ethics. Codes of ethics should mainly address the particularities of high risk activities and are built on the collective conscience of a profession as a proof for the group's acknowledgment of the moral dimension. In the particular case of the accounting profession we should mention the International Federation of Accountants' (IFAC) code of ethics establishing the standards for accounting professionals behavior and displaying the fundamental principles they should respect in order to fulfill their common objectives. IFAC's code of ethics generally adopts a principles-based approach. The five fundamental principles in the IFAC code are: integrity; objectivity; professional competence and due care; confidentiality; and professional behavior.

Accountants, employees working in financial control and top managers accept responsibilities with regard to financial reporting and providing information that investors should be able to use in the decision making process. These information are also being used in assessing management's performance. Auditors accept responsibilities to examine financial situations being filed by the companies' employee and asses their conformity with the financial reporting standards. Accounting academics accept responsibilities related to professionals development that will stand at the basis of their professional activity. Regulators and standard setting bodies also take responsibilities with regard to the financial reporting standards that will help faithfully represent economic realities. It is large financial scandals that make us reconsider the attributions of the above mentioned groups and to what extent they are being carried out.

Significant financial consequences usually draw the alarm regarding ethical failures. When management decides on the remuneration of auditors or of the board's members we can speak about complete independence. We will therefore have no independent control over management's reporting of its own performances except for the role being played by the auditor and the fear of sanctions in case failure is detected. The recent financial crisis represents a good example of managers and traders undertaking significant risks that further impacted upon shareholders. Ignoring corporate governance principles led to a series of worldwide known financial scandals such as Barings Bank, IBM-Hitachi, Lehman Brothers, Drexel Burnham Lambert, Enron, WorldCom and Parmalat. Ethical behavior can be questioned in many of the above cases for a number of involved parties. We will therefore further focus on developing a conceptual framework that would enhance accounting professionals' ethics and help them contribute to accountancy in the context of sound corporate governance structures.

3. Research Design

The employed research methodology mainly relies on literature review, allowing us to dimension the state of the art when considering ethics and the accounting profession. Our analysis is mostly based on accounting research and trade literature with economic interferences. Developing the conceptual framework to integrate ethics within the accounting profession can be classified as having a normative approach.

4. Results and Discussion

The manner in which ethics is incorporated in accounting professionals' activity naturally impacts upon the comparability of the accounting information being provided. This also brings the globalization process into the picture, or more precisely the accounting harmonization process. Since ethics represents a complex and philosophic enough concept, we will focus our analysis from a regional perspective by looking at the latest developments in the area belonging to the Federation of European Accountants (FEE - Fédération des Experts comptables Européens). We were previously mentioning the five fundamental principles in the IFAC code of ethics, integrity being one of them. It was in September 2009 that FEE was releasing a discussion paper on integrity in professional ethics, emphasizing the importance of this particular principle. Furthermore, a FEE press release from April 2011 was stating that personal and professional integrity is the first and foremost ethical principle for behavior in business (FEE, 2011b).

We consider the discussion paper being issued in September 2009 to represent a significant step in its demarche to clarify professional ethics. It is the FEE Annual Review that features the fundamental values and principles of professional accountants as being derived from IFAC's Code of Ethics. Therefore integrity is defined as being straightforward and honest in professional and business relationships; fair dealing and truthfulness; not being associated with information that contains materially false or misleading statements or information furnished recklessly. The discussion paper underlines that in taking into account the public interest, the professional accountant's responsibility is not exclusively to satisfy the needs of individual clients or employers. This is critical because of the need to align the performance of the profession with society's reasonable expectations (FEE, 2009). The philosophy of the analyzed context is underlined by using Francis Bacon's argument that: It's not what we eat but what we digest that makes us strong; not what we gain but what we save that makes us rich; not what we read but what we remember that makes us learned; and not what we profess but what we practice that gives us integrity.

The discussion paper comprises an introduction and a background part and afterwards considers the importance and meaning of integrity, behaving with integrity, integrity in organizations, the role of individual accounts and the role of FEE member bodies. A number of 30 responses were received for the discussion paper. Respondents were FEE member bodies, audit firms, other professional accounting bodies, other professional bodies, regulators and individuals. The consultation brought interesting observations regarding the meaning of integrity and how it is instilled in the respondents' own organizations (FEE, 2011a). Respondents' arguments documented FEE's consideration of integrity as the core fundamental principle from which the others derive. Its interaction with the other principles and their importance was still underlined by some respondents. Threats to integrity were interpreted to vary depending on the economic period (downturn or boom). The idea was further supported, FEE president, Philip Johnson stating that it will be key to look at how codes of ethics and disciplinary arrangements can respond better to unethical behavior in the different economic cycles (FEE, 2011b).

In relation to the interaction of personal and professional integrity respondents agreed that personal character was relevant to professional integrity, but the effect of this on accountancy bodies' disciplinary arrangements raised mixed opinions. When asked whether it would be helpful for the accountancy professional bodies' codes of ethics to include more discussion on integrity, the small majority favoring this pleaded for coordination at international level (such as IFAC). Respondents also greed that the individual accountant has a responsibility, though this will vary according to the circumstances, but once again disagreed as to where additional useful guidance in this regard could come from (FEE, 2011a). Another significant aspect revealed through the consultation process is that the integrity of organizations is a relevant matter and that further analysis and guidance on how to promote such integrity and determine to which extent it exists in an organisation may be useful.

As Michael Niehues, chairman of FEE's Ethics Working Party was underlining, further debate at different levels on the characteristics of integrity, possible guidance and the way accountants can promote (organizational) integrity is strongly favored (FEE, 2011b). Discussing and trying to clarify integrity represents only one part in the complexity of professional ethics. FEE (2011a) already suggested further actions such as as round table discussion; academic research; a booklet for educational purposes highlighting the key message of integrity (both personal and corporate); seeking to interest other organizations in the work, like the International Ethics Standards Board for Accountants (IESBA) and national ethics standard setters but also academic researchers and other organizations which are connected to the audit world. We find these perspectives to offer insights and potential ways for many of us to contribute to the interesting debate on professional ethics.

5. Concluding Thoughts

During the last decades, public interest for business ethics has significantly increased due to an apparently continuous flow of business fraud and fraudulent management. It therefore doesn't surprise us that public trust in businesses and accountants is decreasing. This represents our argument for finding ways to incorporate ethics both within the educational environment and accounting practice. We consider accounting education should be viewed as a potential remedy for the professional ethics crisis. If we want to have ethical professionals we should start including ethics in their education early so that there will be no differences between their initial training and its continuation. When looking at the academic environment, students already have significant background that should have built the foundations of their ethics as persons. Therefore, teaching ethics to accounting students should no longer try to convince them that they should act in an ethical manner, but raise their awareness with regard to ethical issues in accounting practice. This should aim at enhancing their analytical abilities and develop a sense of moral obligation. In this regard research literature discusses three main methods of teaching ethics in accounting such as: as a separate class, integrated within other classes, or both two approaches.

Accounting education has been criticized for its inability to adequately develop competences that are necessary for students when being faced with ambiguous and unstructured problems. Educators were in this regard recommended to use alternative teaching methods that would develop students' critical thinking together with a series of aptitudes and competences. Studies such as Alam (1998) have documented the development of moral values to be among the educational objectives as seen by employers for some time now. In this regard educators should consider simulating an attracting business environment within the classroom, organizing workshops aimed to develop abilities and competences, having invited speakers coming from the business environment etc. Some consider that practitioners should also be consulted when establishing the curriculum. Finding ways for students to be involved in practice and have stages within different companies as well as educators using real examples and case studies is also strongly recommended. Summing up, educators should make sure students acknowledge the financial and social implications of their business decisions.

Our findings are also consistent with Smith's (2003) argument that those who govern the accounting profession and academics hold the responsibility to imprint ethical behavior and personal integrity within students' and practitioners' minds. This would be the only way to restore the accounting profession's credibility which was significantly hindered by a series of ethical failures. Encouraging an ethical behavior would not only discourage fraud, but would also help us contribute to the state of accountancy that would make us be proud of our profession.

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