

Ethics in Accounting

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Introduction

Ethics in Accounting is one of the most important, yet most misunderstood, concerns in the world of business today. The field of business ethics deals with questions about whether specific business practices are acceptable. Regardless of their legality, actions taken in such situations will surely be judged as right or wrong, as either ethical or unethical. The very nature of business ethics is controversial, and there is no universally acceptable approach for addressing these issues. On the other hand, governments encourage organizational accountability for ethical and legal conduct. However, the public accounting profession has long relied on its reputation for integrity and veracity as justification for its professional status and monopoly privileges based on claims of acting in the public interest. If such status and privileges are to be justified and sustained, it becomes ethically imperative for the profession to give serious consideration to what constitutes ethical behavior, how such behavior is motivated, and what rights and interests of affected parties may have (Dillard, 2002, pp. 49-64.)

The definition of ethics is very broad and there is no universal consensus, but in a general sense ethics is defined as the systematic study of conduct based on moral principles, reflective choices, and standards of right and wrong conduct (Wheelwright, 1959). Ethical behavior from a professional standpoint also involves making choices based on consequences of alternative actions. Thus, general theories of ethics can be used to explain and understand the professional conduct that is expected of accountants: as indicated in the following quote from the *Philosophy of Auditing*:

Ethical behavior in auditing or in any other activity is no more than a special application of the general notion of ethical conduct devised by philosophers for men generally. Ethical conduct in auditing draws its justification and basic nature from the general theory of ethics. Thus we are well advised to give some attention to the ideas and reasoning of some of the great philosophers on this subject (Mautz & Sharaf, 1961, p. 232).

Since the professional accountants are increasingly facing complex challenges in both business and professional environments as a result of the events of the last decade, pressures for more ethical behavior are growing in the business environment. This is true because the accounting profession serves the public interest; the professional accountants need to understand what is expected of them in order to respond effectively in the future. A case in point, during the financial scandals of the early 2000s, investors and creditors lost most of their investment which range from millions to billions of dollars. As a result, the U.S. Congress passed the Sarbanes-Oxley Act of 2002. This act, popularly known as Sarbanes-Oxley is one of the most important laws affecting U.S. companies in this century.

The purpose of this law is to restore public confidence and trust in the financial reporting by businesses, especially public companies. Because of this move by Congress companies are paying more attention to their financial controls and reporting. This has also got the attention of companies of all sizes. It has also some important implications for corporate governance and the regulation of the public accounting profession. Sarbanes and Oxley also emphasizes on the importance of internal control by businesses which include but not limited to:

- Ensure compliance with laws and regulations
- Safeguarding of the company assets
- Avoid falsification of information in the financial records
- Accountability and responsibility for functions assigned

These are measures are intended to deter fraud, padding, falsification of financial records or any other activities that may lead to misleading financial reports.

Accounting Code of Professional Conduct

Accounting codes of professional conduct significantly influence the behavior and judgment of practicing accountants. Various accounting organizations revise and amend these codes periodically to adapt them to the changing socioeconomic, business and accounting environments. Most of these codes contain technical and ethical rules designed to help accountants fulfill their professional obligations with competence and integrity. In 1988, American Institute of Certified Public Accountants (AICPA) adopted the most recent version of its Codes of Professional Conduct (AICPA, 1988).

Ethics and ethical dilemmas surround our lives. Television, radio, newspapers, magazines and World Web sites feed us with stories of ethical violations in politics, sports, religion, and business. In a survey taken six years ago, over 60 percent of workers surveyed reported greater pressures than just five years earlier, and 40 percent reported that the pressures had increased in just one year (Greengard, 1997). Thus, today's organizations have a clear need to understand and control the ethical forces at work inside their walls, and more are attempting to do something about it. As recently as 1994, only 13 percent of firms had formal ethics codes and only 7 percent utilized ethics training programs. Currently, nearly three quarters of all companies have formal codes of ethics and over 40 percent have ethics training programs (Weaver, Trevino, & Cochran, 1999).

The beginning of this century will evidence a great challenge to the continuance of accounting as a profession. The challenge is centered on the profession's need to strengthen public confidence in its effectiveness and ethics. Social concern regarding accounting ethics in the United States has focused on the interaction of ethics and professionalism and has emphasized the importance of self-regulation (McCarthy, 1997).

Problem Background. An analysis of attitudes towards ethics in the accounting profession showed that Certified Public Accountants (CPAs) perceived that chances to engage in unethical dealings did exist in the accounting profession (Finn, Chonko, & Hung, 1988). According to many knowledgeable observers, the United States is experiencing a shift in values, which brings profound implications for business and the accounting profession (Fatt, 1995). Today's CPAs seem to have values that are personal rather than socially oriented, and they do not seem to emphasize the values characteristic of today's society (Swindle, 1987).

The recent blatant violations of the Independent Rule by the world's largest accounting firm, Arthur Anderson and co, suggest there is a serious gap between what society expects of accountants and what accountants expect of themselves. Unquestionably, the Enron scandal has wreaked more havoc on the accounting profession than any other case in the United States history. Critics in the media as well as members of the United States Congress are calling into question not only the adequacy of U.S. disclosure but also the integrity of the independent audit process. Methods the company used to disclose its complicated financial dealings were erroneous and very deceptive.

The company's lack of transparency in reporting it's financial affairs followed by financial restatements disclosing billions of dollars of omitted liabilities and losses, contributed to its demise. The most striking thing was that the whole affair took place under the watchful eye of Arthur Anderson LLP. Events of recent years which led to the closure of many banks, businesses, foreclosure of thousands of homes, created financial crises that could have brought down the economy and many people were out of job. That is an indication that more action has to be taken by government to plug the loopholes that made it possible for businesses and financial institutions to engage in illegal financial practices.