# ETHICS FOR A SUSTAINABLE SOCIETY TOPIC- WHY ACCOUNTANTS FAIL ETHICS APPLICATION TEST IN ACCOUNTING PROFESSION

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## ABSTRACT

The quest for a just and equitable society has been the desire of many people, societies and groups for centuries. The appreciation of this fact resulted in coming together of diverse and similar interest groups and individuals which develop what were regarded as acceptable behaviour, code of conduct, general and specific attitude expected of a member of a society that govern the general conduct of affairs amongst the various members of that group-ethics. With the high-profile corporate scandals that have taken place in recent years, corporate ethics are more important to a business than ever before. The failure of ethical leadership in an organization is very destructive-it demoralizes the workforce, breeds public distrust, and ultimately results in organizational decay. There are times when the right and wrong decisions are obvious. Likewise, there are times when the outcome of taking decision is less clear. In some situations where, if nobody knows one makes the wrong decision, one would benefit financially, emotionally, or otherwise. Ethics help us navigate the gray area between absolute right and morally wrong that we experience in our daily activities. They provide the structure that helps us make a decision we can be proud of. So, ethics are the rules that society must adhere to ensure orderliness and equity. As we have ethics that governs a particular society, so do professional bodies have their own professional codes of ethics which serve as guiding principles in discharge of their duties. But what raises concern for this study is the fact that despite various professional bodies' ethics in place, there is still preponderance of unethical conducts levelled against corporate bodies managed by members of those professional bodies. In fact, most of the professional members of various organizations have been accused of dubious dealings and ethical misconducts in discharge of their duties which make the public to be losing confidence in the products and or members of these professional bodies. Bearing this in mind, one discovers that the tide has affected the noble accounting profession which calls for appraising the situation and identify the lapses. This is due to the fact that many international and local businesses have gone bankrupt due to professional negligence of many accountants who are in the administration, examination, supervision and reporting of events in these organizations. Therefore, this study is aimed at identifying the causes, the consequences and the way forward to achieving a vibrant and ethical accounting profession for professional members and the public.

**Keywords**: Ethics, professional bodies, corporate scandal, unethical conduct

This research question

WHY ACCOUNTANTS FAIL ETHICS APPLICATION TEST IN ACCOUNTING PROFESSION?

## INTRODUCTION

In all professions whether medical, media, logistics, accounting, business, trading, teaching, security or otherwise, ethics remains a critical reference point for legality, truthfulness, uprightness and sincerity of purpose. Ethics is as intrinsic to professional decision-making as are the technical aspects of audiology and speech-language pathology (Jason, 2010). What distinguishes a profession from a trade, or craft, is the profession's mandate that its practitioners adhere to a set of ethical principles and rules of professional conduct (Denton,2013).

In the meantime, it is arguably said that accountants' ethical compliance level attracts more public attention than other professions. As a result, the rate of outcry on unethical attitude of accountants speaks volume of the significance of accounting profession. However, it is common to hear of accountants engaging in unethical conducts which threaten the continuity of organizations where such ethical misconduct occurs. Perhaps that was why former Fijian Prime Minister Commodore Voreqe Bainimarama said in 2010 "The adherence to form over substance and neglect of the moral and the ethical has led to the ENRONs (Fijisun,2010).He said this at the Fiji Institute of Accountants congress meeting of June 11,2010.

Lister (2013) is of opinion that 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. This is because 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. Despite hundreds of pages of policies, codes of ethics, codes of conduct, organizational values, and carefully defined work environments, company cultures, lapses in workplace ethics occur every day (Heathfield, 2013).

It is as a result of realization of the grave consequence of the accountants' failure to comply with ethics and the failure of various accountancy bodies to strictly ensure the compliance with existing codes of conduct that this paper seeks to examine why accountants fail to comply with the ethics of the profession, highlight the consequences of their unethical behaviour and recommend approaches to ameliorate the situation.

## LITERATURE REVIEW

### ORIGIN AND DEVELOPMENT OF ETHICS

Business organizations often develop several policies, rules and guidelines for governing their operations. While home-based or sole proprietorship businesses usually require fewer policies, larger organizations use these guidelines to manage employee behaviour. A code of ethics is a common organizational policy used in business organizations. The code of ethics policy usually sets the minimum standards for business owners, managers and employees to follow when completing various business functions (Vitez, 2013). Luca Pacioli, the "Father of Accounting", wrote on accounting ethics in his first book *Summa de arithmetica, geometria, proportioni, et proportionalita*, published in 1494 (Smith, 2008).Ethical standards have since then been developed through government groups, professional organizations, and independent companies. These various groups have led accountants to follow several codes of ethics to perform their duties in a professional work environment. Accountants must follow the code of ethics set out by the professional body of which they belong (Stuart,2005).

The risks of an ethical misconduct disaster have never been greater due to the complexity of the global business environment than we have now. The scandals and unethical conduct that have occurred globally have taught us that some people deliberately break the law or engage in inappropriate behaviour. Many others never see ethical issues when devising what they think as an innovative scheme for success ( Ferrell & Ferrell,2008).Meanwhile, it is observed that with the high-profile corporate scandals that have taken place in recent years, corporate ethics are more important to a business than ever before (Collins,2013).

Like most leaders, association executives would likely agree that high ethical standards are important in their organizations (Joseph, 2000).As Adelabu (2011) opines, the world economy in recent times has witnessed series of financial crisis. Similarly, organizations, both locally and globally have also experienced cases of corporate collapse. This can be partly attributed to fraudulent financial reporting and misrepresentation of financial information using various creative accounting techniques. A Code of Ethics is important on many levels. It sets the "tone from the top" of the company's culture. An effective Code of Ethics establishes the ethical expectations for employees and management alike, and sets forth the mechanisms for enforcement and consequences of noncompliance. When the Code is perceived as an integral component of the organization's culture, is understood, followed and enforced, it can provide protection for the organization from the actions of a "rogue employee(s)" (Stuart, 2005).

In general, at a minimum, the Code should contain policies on: conflicts of interest, insider trading, gifts and hospitality, information security and privacy, recordkeeping, cooperation with investigations and audits, and, of course, a "whistleblower" provision. The whistleblower provision establishes procedures whereby employees can report, without fear of reprisal, suspected illegal or unethical activities by others within the organization (Halbert and Ingulli,2006).

**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 expanded by government groups, professional organizations, and independent companies (Dellaportas, 2006). Similarly, **Professional ethics** encompass the personal, organizational and corporate standards of behaviour expected of professionals. Professionals and those working in acknowledged professions, exercise specialist knowledge and skill (Chardwick,1998).Professionals are capable of making judgements, applying their skills and reaching informed decisions in situations that the general public cannot, because they have not received the relevant training ( Jackling, et al (2007).

## 2.4SOME OF THE ETHICAL CHALLENGES MAKING ACCOUNTANT TO FAIL ETHICAL TEST

In practice, Lister (2013) observes that most of the ethical misconducts of which accountants are accused of are not the direct acts of accountants but as a result of some under-hand influences which may be due to any of the following:

### 2.4.1 Pressure from Management

The burden for public companies to succeed at high levels may place undue stress and pressure on accountants creating balance sheets and financial statements. The ethical issue for these accountants becomes maintaining true reporting of company assets, liabilities and profits without giving in to the pressure placed on them by management or corporate officers. Unethical accountants could easily alter company financial records and manoeuvre numbers to paint false pictures of company successes. This may lead to short-term prosperity, but altered financial records will ultimately spell the downfall of companies when the fraud is discovered.

### 2.4.2 Accountant as Whistleblower

An accountant may face the ethical dilemma of reporting 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.

### 2.4.3 The Effects of Greed

Greed in the business and finance world leads to shaving ethical boundaries and stepping around safeguards in the name of making more money. 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, resulting in sanctions from the regulators.

### 2.4.4 Omission of Financial Records

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.

## 2.5THREATS TO THE FUNDAMENTAL PRINCIPLES OF ETHICS IN ACCOUNTING

According to ACCA (2013), the fundamental principles of ethics could be threatened in one way or the other.

Threats to ethical standards fall into one or more of the following categories:

- Self-interest- the interests of a family member or relations or friend to influence judgement.
- Self-review- knows that no one else (who would challenge one objectively) would be reviewing the book entries before the manipulation is perfected.
- Advocacy- promoting oneself /situation beyond its merit
- Familiarity- ethical misconduct may be either due to complacency or familiarity that has developed over a period of time between two or more people.
- Intimidation- influences in relation to one's job security and career progression.

Threats may be created by a range of circumstances. These circumstances can include relationships between various people such as the following:

- Colleagues
- Friends
- Managers
- Clients
- Former clients or colleagues
- Regulatory or legal agencies

Threats can serve to compromise, or be perceived to compromise, a professional accountant's compliance with the fundamental principles of ethics. Fundamental principles of ethics can be threatened in a number of ways depending on the circumstances. Majorly, the accountants' worldwide failure of the ethics test in their various organizations could be linked to self-interests, self-review, intimidation, advocacy and familiarity.

## 2.7THE WAYS OUT OF ACCOUNTING ETHICAL MISCONDUCTS AND CORPORATE SCANDALS

Having a good knowledge of the law and applying fundamental principles of professional ethics may not in every instance provide sufficient guidance on what exactly to do. Personal values and personal integrity play a part in the process. ACCA (2013) suggests that to mitigate the effect of ethical failures in accounting, the following should be employed:

### 2.7.1 Safeguards in the work place

These might include:

- Strong ethical leadership;
- Strong internal controls, such as review procedures and internal audit;
- Timely communication of policies and procedures relating to ethical behaviour (and any changes to them);
- Policies and procedures to deal with illegal or unethical behaviour, and threats to the fundamental principles;
- Appropriate and rigorous recruitment procedures;
- Well-established and understood consultation procedures within the organisation;
- Effective and well-publicised complaints system; and
- Engagement of specific safeguards, including quality control procedures and the selection of the assignment team.

### 2.7.2 Safeguards created by the individual

These might include:

- Complying with one's own training and development requirements;
- Maintaining a record of ethical dilemmas encountered and steps taken to resolve them; and
- Consulting with colleagues, legal advisers or one's professional body as appropriate (always being mindful of the fundamental principle of confidentiality).

## 2.8DETERMINANTS OF WHY ACCOUNTANTS FAIL ETHICAL TEST

### 2.8.1 Rules vs. Principles

According to ACCA (2013), individual conduct and behaviour should be guided either by rules or principles. This is an important debate in accounting regulation and in financial reporting. For clarity, we need to define what is meant by these terms:

- ***A rule*** *externally compels someone, through force, threat or punishment, to do the things someone else has deemed good or right. People obey or break rules.*
- ***A principle*** *internally motivates people to do the things that seem good and right. People develop principles by working and living with people with similar principles and seeing the positive consequences and real benefits of appropriate conduct.*

Failures in accounting and financial reporting in the cases of Enron, WorldCom, Parmalat and the global banking crisis were not necessarily due to accountants breaking rules and regulations, but to a lack of consideration of the broader consequences of the effect of rule and principle breaking by these accountants. Practices such as 'creative accounting' are based on a belief that as long as the 'letter' of the law and accounting regulations are complied with, then all is well. This demonstrates a fundamentally immature attitude to ethics and business. This attitude perceives rules as barriers or obstacles to be overcome and fails to recognise that wider principles are usually involved. This is not a view which is morally or ethically acceptable.

### 2.8.2 Personal Values

Personal values relate to standards of behaviour that human beings should uphold in the many situations in which they find themselves, as friends, parents, children, citizens, teachers, professionals, etc. Many philosophers and ethicists have tried to answer these critical questions. They have suggested different sources of ethical standards as follows:

### 2.8.3 Consequentialism

A popular way of viewing personal ethics is to consider the consequences of decisions or your actions for other people and yourself. Using this theory, it is necessary to consider the effect decisions will have and attempt to evaluate these effects. Generally, this way of thinking determines that an action is right if it leads to the most benefit or 'pleasure' and the least 'pain' for the greatest number of people. This is sometimes known as 'utilitarianism' (ACCA,2013).

### 2.8.4 Duty to others

Another view of personal ethics is based on duty to others. It determines what is right by examining the behaviour or the act itself, rather than the consequences of the behaviour as in consequentialism above. In this approach to ethics, people are expected to behave out of a duty to act according to the rules and obligations as generally expected by society or by the profession to which someone may belong. A simple way to understand the difference between these two ethical perspectives is to think of lying as an act.

Consequentialists might consider a lie to be ethical in certain situations, but only if by doing so more benefits than harm would come to all those involved. Under the duty to others perspective, lying would always be thought of as being wrong within most societies.

### 2.8.5 Mirror test

Once you have ensured that your behaviour complies with legal requirements and professional standards, you can use a reflective approach or a 'mirror test' to apply these ethical perspectives in quite a practical way. The mirror test reinforces the idea that you are responsible for your own behaviour and you must therefore consider both the consequences of your actions and their moral acceptability before you act (ACCA, 2013).

## CONCLUSION

Despite hundreds of pages of policies, codes of ethics, codes of conduct, organizational values, and carefully defined work environments, company cultures, lapses in workplace ethics occur every day. Lapses in workplace ethics result from inappropriate officer behaviour such as insider stock trading, expense account fraud, sexual harassment, and involvement in conflicts of interest. Lapses in workplace ethics do not need to rise to that level to impact the workplace environment organizations provide for employees though. Lapses in workplace ethics can occur because of simple issues such as toilet paper, unauthorized surfing, copy machines, and lunch signup lists.

Some failures to practice every day workplace ethics are invisible. Even the smallest lapse in workplace ethics diminishes the quality of the workplace for all employees. The immutable fact is that everybody has the tendency to behave unethically. However, the decision of when, whether, the extent and how to behave ethically or otherwise is a function of the internal control system an organization puts in place to forestall dubious practice as well as the organization culture, ethical codes, leadership qualities and the employees' welfare scheme the organization puts in place for its workforce to promote organizational values and the interests of stakeholders. So, based on the foregoing facts, some accountants play safe and smart by engaging in unethical ways which tarnish the image of accounting profession if made public, lead to loss of corporate reputation if financial loss results, job loss if there is unsustainable loss from the consequence of the unethical act and bad records for the culprits. Therefore, the accountants' failure in ethical test is a catastrophic end for the accounting profession resulting from inability of all stakeholders to enforce the ethics without fear or favour.

## RECOMMENDATIONS

Whether it is a team, small group, or a large international entity, the ability for any organization to reason, act rationally, and respond ethically is paramount. The implementation should be done accordingly to the entire areas of operations within the organization. If it is not implemented pragmatically and with empathic caution for the needs, desires, and personalities (consider the Big Five personality traits-openness, conscientiousness, extraversion, agreeableness, and neuroticism.) of the stakeholders, or the culture, then unethical views may be taken by the stakeholders, or even unethical behaviour throughout the organization. Further, it is leadership that has to be able to influence the **stakeholders** by presenting the strong minority voice in order to move the organization's members towards ethical behaviour. Therefore, stakeholder management, as well as, any other leadership of organizations have to take upon themselves the arduous task of ensuring an "ethics system" for their own management styles, personalities, systems, performances, plans, policies, strategies, productivity, openness, and even risk(S) within their cultures or industries.

As suggested by Bankersonline (2002),the following are right steps to ensure employees follow ethical standards;

- Review your Code of Ethics. If you don't have one, take steps immediately to develop a Code of Ethics.

- Work from the top down and the bottom up. Find out what the Board of Directors and Senior Management expect from staff. Also find out what staff thinks the prevailing ethics standards are in your institution. If there is a gap, you need to take steps to close it.
- There is more to ethics than ethics. Consumer protection laws set a standard for customer treatment. Look at your most recent compliance audits and examination reports for issues relating to ethics.
- Review and revise your Code of Ethics. Use a team whenever possible. Make sure that the management of the Code is ongoing and active.
- Ask the ultimate question: if all the facts and circumstances regarding the matter were made public, would the employee involved and the organization be proud to be associated with the activity? If the answer is yes, you've done a good job.

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