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An Ethical Analysis for Development of Professional Accountants and Financial Executives in an Organizational Effectiveness

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Abstract

An accountant performs duties according to Generally Accepted Accounting Principles (GAAP). These principles have established standards for accounting that prevent ethical concerns if followed. The ethics of disclosure are important because under certain circumstances this information can be optional according to GAAP. What a business wishes to disclose and what an accountant thinks should be disclosed can lead to an ethical battle. Proper disclosures will avoid ethical dilemmas by being complete enough to maintain the public's trust at all times. The nature of the work carried out by accountants and auditors requires a high level of ethics. Shareholders, potential shareholders, and other users of the financial statements rely heavily on the yearly financial statements of a company as they can use this information to make an informed decision about investment. They rely on the opinion of the accountants who prepared the statements, as well as the auditors that verified it, to present a true and fair view of the company. Knowledge of ethics can help accountants and auditors to overcome ethical dilemmas, allowing for the right choice that, although it may not benefit the company, will benefit the public who relies on the accountant/auditor's reporting. Most countries have differing focuses on enforcing accounting laws. In Germany, accounting legislation is governed by "tax law"; in Sweden, by "accounting law"; and in the United Kingdom, by the "company law". In addition, countries have their own organizations which regulate accounting. For example, Sweden has the Bokföringsnämden (BFN - Accounting Standards Board), Spain the Instituto de Comtabilidad y Auditoria de Cuentas (ICAC), and the United States the Financial Accounting Standards Board (FASB).

Key words: *GAAP- information- BFN- ICAC- FASB*

Introduction

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. Ethics are taught in accounting courses at higher education institutions as well as by companies training accountants and auditors. Due to the diverse range of accounting services and recent corporate collapses, attention has been drawn to ethical standards accepted within the accounting profession. These collapses have resulted in a widespread disregard for the reputation of the accounting profession.] To combat the criticism and prevent fraudulent accounting, various accounting organizations and governments have developed regulations and remedies for improved ethics among the accounting profession. Accounting is a business field in which accuracy and interpretation are both very important. Small discrepancies can displace large sums of money, especially in larger companies. These discrepancies can be either introduced on purpose, or included by accident. Ethics is the practice of behavior that does not allow for intentionally inaccurate or false accounting practices. This pertains not only to following the law, but also to interpreting financial data as clearly and honestly as possible in all situations.

Growing Ethical Awareness

Ethics and the importance of ethical decision making have taken on increasing significance because of the pressures placed on business managers by stockholders, creditors, and other parties affected by financial performance. It is not surprising therefore that a recent survey of investment management firms revealed that nearly three-quarters of the respondents felt that unethical behavior, such as personal trading, insider trading, and fraudulent financial reporting are areas of high concern. Another survey indicated that nearly half of over 700 human resource professionals said they feel pressure to compromise their organizations' standards of ethical business conduct.

What are the factors that have led to the increased concern about ethics? Globalization of the economy has led to a mixing of cultures and socioeconomic systems. Increasingly, a company cannot assume that what was considered proper in its home market would be acceptable in another market. Technology has aided the globalization trend and made more transparent the effects of corporate unethical or illegal decision-making. Rising competition has resulted in increased pressure to cut corners, with companies looking for new ways to gain a competitive edge. The importance of meeting analyst forecasts for net income and EPS has dramatically increased the incentives for companies to manipulate their earnings to meet the forecasts. Finally, rising public expectations of ethical corporate behavior and the ability to use the legal system to be compensated for unethical or illegal corporate actions have increased the risk of personal and organizational liability.

Expectations of high standards of ethical corporate behavior are rising, as companies face legal and economic penalties for pursuing unethical and illegal activities. Indeed some companies have made ethical leadership in the market a central part of their corporate strategy. They believe that ethical behavior is not just the right thing to do, it is also good business**.**

Significant Events in the Establishment of Ethical Standards for Management Accountants and Financial Executives

The Sea view Symposium of 1970

An early effort to establish ethical standards for preparers of financial statements occurred at a 1970 symposium of members of the AICPA, the FEI, the Financial Analysts Federation, and the Robert Morris Associates (an organization of credit grantors), which took place atSeaview Country Club, Absecon, New Jersey. Papers and discussions at this symposium criticized the lack of a code of ethics for members of the FEI, given that the other three participating Organizations had such codes.4

The Equity Funding Fraud of 1973

In 1973, a major fraud, of about nine years' duration, was discovered at Equity Funding Corporation of America (Equity), a seller of mutual fund shares that were pledged by the investors to secure loans to finance life insurance premiums. During the nine-year period, at least $143 million of fictitious pretax income was generated—a period in which Equity reported a total net income of $76 million, instead of the real pretax losses totaling more than $67 million.5 The fraud was carried out by at least 10 executives of Equity, including the chief executive officer (CEO), chief financial officer (CFO), controller, and treasurer; several of the executives were CPAs with public accounting experience. The fraudulent conduct of these CPAs, all of whom presumably had at one time been subject to the AICPA's Code of Professional Ethics during their public accounting careers, furnished clear evidence of the need for ethics codes for management accountants and other financial executives.

Action by the IMA

In 1983, the IMA issued Standards of Ethical Conduct for Practitioners of Management

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Accounting and Financial Management, the third in a series of Statements on Management Accounting. The current IMA standards, which are presented in Appendix 1 at

the end of this chapter (pages 8 through 10), cover the management accountant's obligations as to competence, confidentiality, integrity, and objectivity, and they provide guidance for resolutions of ethical conflict. Noteworthy in the preamble to the standards (pages 8–9) is the management accountant's obligation not to condone violations of the standards by others in the organization.

Action by the FEI

The **Code of Ethics** first promulgated by the FEI in 1985 and as subsequently amended isin Appendix 2 (pages 10–11). Although briefer than the IMA standards, the FEI's code covers essentially the same areas of professional conduct as do the IMA standards.

Tread way Commission Recommendations

The National Commission on Fraudulent Financial Reporting (Treadway Commission),which had been sponsored by the AICPA, the IMA, the FEI, the American Accounting Association(Composed primarily of accounting educators), and the Institute of Internal Auditors, Issued its report in 1987. Defining fraudulent financial reporting as "intentional orreckless conduct, whether act or omission, that results in materially misleading financials statements,"6 the Treadway Commission made 49 recommendations for curbing such reporting. The recommendations dealt with the public company; the independent public accountant; the SEC, financial institution regulators, and state boards of accountancy; and education. Stating that "the responsibility for reliable financial reporting resides first and foremost at the corporate level,"7 the Tread way Commission included the following among its recommendations for the public company:

Recommendations: Public companies should maintain accounting functions that are designed to meet their financial reporting obligations. A public company's accounting function is an important control in preventing and detecting fraudulent financing reporting. The accounting function must be designed to allow the company and its officers to fulfill their statutory financial disclosure obligations. As a member of top management, the chief accounting officer helps set the tone of the organization's ethical conduct and thus is part of the control environment. Moreover, the chief accounting officer is directly responsible for the financial statements, and can and should take authoritative action to correct them if necessary. He generally has the primary responsibility for designing, implementing, and monitoring the company's financial reporting system and internal accounting controls. The controller may serve as the chief accounting officer, or the chief financial officer also may perform the functions of a chief accounting officer. The chief accounting officer's actions especially influence employees who perform the accounting function. By establishing high standards for the company's financial disclosures, the chief accounting officer guides others in the company toward legitimate financial reporting. Moreover, the chief accounting officer is in a unique position. In numerous cases, other members of top management, such as the chief executive officer, pressure the chief accounting officer into fraudulently manipulating the financial statements. An effective chief accounting officer is familiar with the company's financial position and operations and thus frequently is able to identify unusual situations caused by fraudulent financial reporting perpetrated at the divisional level. The chief accounting officer has an obligation to the organization he serves, to the public, and to himself to maintain the highest standards of ethical conduct. He therefore must be prepared to take action necessary to prevent fraudulent financial reporting. His efforts may entail bringing matters to the attention of the CEO, the CFO, the chief internal auditor, the audit committee, or the entire board of directors.

The Financial Executives [International] (FEI) and the [Institute of Management Accountants (IMA)] Play active roles in enhancing the financial reporting process by sponsoring research, technical professional guidance, and continuing professional education and by participating in the shaping of standards. Both organizations also have promulgated codes of conduct that strongly encourage reliable financial reporting. Public companies should encourage their accounting employees to support these organizations and adhere to their codes of conduct.8

Revision of AICPA Ethics Rules

In 1988, the members of the AICPA approved a revised Code of Professional Conduct to replace the Code of Professional Ethics that previously had been in effect. This action was triggered by the 1986 Report of the Special Committee on Standards of Professional Conductor Certified Public Accountants (Anderson Committee), which recommended restructuring the AICPA's ethics code to improve its relevance and effectiveness.9 A key element of the Anderson Committee recommendations was extension of applicability of the Rules of Professional Conduct of the revised Code of Professional Conduct to AICPA.

What Are the Benefits of a Code of Ethics in the Accounting Profession?

In any profession, a code of ethics serves to remind professionals in the field about the way in which they should conduct themselves. In the accounting profession, it's especially beneficial to have and adhere to a code of ethics because accountants are entrusted with handling the money of both companies and individuals. It's a trust that can be reinforced by a policy like the American Institute of Certified Public Accountants' Code of Conduct, which sets forth a set of values and ethics for the profession.

Explains Responsibilities

The AICPA's Code of Conduct explains what an accountant's responsibilities are to himself, his employer and his clients. It also outlines principles of professional conduct. While new accountants may know how to do taxes and maintain a company's financial records, they may have less preparation in dealing with the numerous, complex, real-world scenarios that will require them to respond ethically. An ethics code for new professionals can act as a guide to help them navigate tricky ethical situations.

Creates Trust

Most people are probably not familiar with all the laws and regulations that their money and finances are subject to. They count on accountants to understand those complexities. This requires a level of trust, according to the Money Instructor website. "If the accountant is to remain as a trusted advisor, he or she can't lie to their customers, the public, or the government," it notes. An ethics code explains that accountants understand that their business is based on trust and that accountants will not knowingly break that trust.

Establishes Credibility

An ethics code in the accounting profession tells others outside of the profession that accountants care about acting with integrity and transparency. That's important for the health of the profession as a whole, because if people lose faith in accountants, fewer accountants will be able to find employment. "The accounting profession has its own board of peers that oversees the discipline of members that do not behave in the moral and ethical way they are expected. Suspension of their license, termination of their right to practice, and even payments of investigation, fines, and penalties associated with their behavior are very common," notes Money Instructor. Hence, this code tells the public that, like lawyers, accountants not only should, they also must, act ethically.

Why Are Ethics Important in the Field of Accounting?

Ethics are important throughout the business world, but they are especially important for accountants and all accounting practices. In general, this is because accounting deals more with facts, figures and hard data than any other business area. This means that there is less room for perspective, and the results of unethical behavior are much more widespread.

CPAs

CPAs are certified public accountants, or accountants who work at large firms offering tax and audit services to a large number of companies and individuals. It is important that CPAs be honest and accurate in all their services, because from a personal perspective, their jobs depend on it. A firm suspected of unethical behavior will not be able to remain in business. There is no demand for an accountant without ethics. CPAs must take courses in ethics, and the American Institute of CPAs (AICPA) requires members to follow a specific code of conduct.

Accuracy

For accountants who work in businesses or for businesses, accounting needs vary, but ethical behavior is always paramount. Businesses depend on accurate information to make most of their key decisions. Investors, in turn, depend on accurate financial statements to make decisions about investing in the company. Accountants are in charge of making sure these reports are honest, forthright, and accurate. The entire business structure depends on this ethical approach.

Fraud

Fraud is the act of misrepresenting information, and in accounting it usually means misrepresenting financial data. This does not usually mean replacing one number with another--these mistakes are often easy to catch--but rather showing certain types of financial data in more positive categories where the data do not belong. This type of fraud is easy for accountants to commit, which is why there are such strict laws regarding ethical behavior and fraud.

Larger Economic Issues

In a general sense, the entire economic condition of countries (especially countries that tend toward capitalism, like the United States) depends on accuracy, fairness and honesty in accounting. Accounting documents are used as a basis for almost every business and government decision, from marketing to taxes. Widespread fraudulent behavior leads to widespread mistrust in financial systems, so people refuse to invest their money for fear businesses are not being honest. The stock market suffers, as well as businesses trying to raise capital. A chain reaction begins that causes underfunded businesses to raise prices, further worsening economic conditions.

Codes of Conduct

Since ethical behavior in accounting is so important, there are numerous codes of ethics created for accountants. Business and accounting firms typically have their own code of ethics for accountants and accounting processes. Every accounting organization those accountants belongs to (depending on their position) also has a code of ethics that the accountant must uphold.

Ethics in Accounting Education

With the financial meltdown of recent years--and the parade of chief financial officers being held accountable for breaching the public trust--ethics education is being discussed as an unmet need in the study of accounting. The debate rages between whether ethics is something that is taught or something that is ingrained in someone's personality. The discussion is an international one. U.S. accounting standards focus on "What we are required to do?" But international accounting standards ask: "What should we be doing?"

Brief history

The push for ethics in accounting education began in 1979, when the Association to Advance Collegiate Schools of Business required ethics education in a business curriculum. Ten years, and several committees later, the group required ethics education for accounting majors. Much of the ethics education is presented by way of case studies.

More than mere knowledge

It’s generally understood that people continue to develop an ethical sense throughout adulthood. There’s good and bad news in this. The good news is that an education steeped in ethical standards will mold a student's understanding of how to do the job. The bad news is that if you take that ethically steeped student and place him in a workplace that is unethical, he can be swayed in his beliefs. Therefore, it is important to instill a deep sensitivity to ethical guiding principles. This can be done on three levels.

Macro

The first level is the macro level, the big picture. Students would learn about the major problems in the accounting industry over the past two decades. They would learn about Enron and Arthur Andersen. They would understand the gap between public expectations and what truly happened to cause the financial mess still being cleaned up in 2010. Because of the industry's inability to police itself, Congress stepped in with the Sarbanes-Oxley Act of 2002. The act holds public companies to high financial standards in order to restore the public confidence in capital markets.

Company

Beyond the global issues, accountants need to work within a company setting. Here, case studies are probably the most helpful. Students can see how the corporate greed at Enron affected its accountants, while the standard at Johnson & Johnson infuses a sense of mission and usefulness. These personal choices can have a wide-ranging impact. For instance, if the accounting firm had stood on principle--even at the risk of losing the client--how differently would the Enron situation have ultimately turned out?

Micro

The micro level, however, is where most collegiate courses can have the most impact, by instilling within each student a strong sense of the right thing to do. Ethical behavior truly is a continuum. First, there's ethical sensitivity--being able to spot the issue. Then, ethical reasoning comes into play. What can be done? Ethical motivation gives the student the desire to do the right thing. Lastly, ethical behavior is the follow-through, making sure that each individual's actions are highly ethical. Today's students gradually will become tomorrow's trendsetters. Providing each accountant with strong, ethics-based standards can help ensure that Enron and other such breaches of the public trust don't happen again.

Problems of Ethics in Accounting

Accounting is a career field where high ethics and morals are important character traits for individuals. Poor accounting ethics can lead companies into bankruptcy from improperly reported financial information.

Fraud

Accountants with poor ethical standards may conduct fraudulent activities, such as overbilling clients or delaying vendor payments. Most fraud cases involve hiding cash for internal purposes. Embezzlement. Accountants may embezzle from their employers when given too much responsibility and little oversight. These situations give accountants more control than necessary and the ability to mislead their employers on financial information.

False Information

Some companies employ accountants who have the ability to manipulate financial transactions into positive company results. These ethical situations were seen in the accounting departments of Enron and WorldCom.

Tax Evasion

Some accountants create illegal tax shelters to hide company income. Companies use these shelters to avoid paying government income tax.

Personal Loss

Poor accounting ethics can cause great personal damage in addition to business problems. Accountants found guilty of manipulating financial information are sent to jail, creating difficult situations for the accountant's family members.

5. How Can Professional Ethics in Accounting Be Improved?

Accounting ethics are the principles individuals must follow when working in this professional environment. The American Institute of Certified Public Accountants (AICPA) is a professional organizational that currently develops a professional code of conduct for accountants. This represents a good start to understanding professional accounting ethics.

Types

The AICPA code of professional conduct includes integrity, objectivity, independence and due care. Although code of conduct is required for individuals holding professional certification, all accountants should understand and follow these principles regarding their professional stature.

5Considerations

Accountants holding professional certification---such as the certified public accountant (CPA) license---are typically require to complete a certain amount of continuing professional education. Although the AICPA allows state accountancy boards to set these standards, requiring accountants to include ethics refreshers could improve the accounting profession.

Purpose

Professional ethics help accountants avoid situations that will compromise their professional independence. In addition, accountants have a responsibility to the general public by reporting all financial information from a company. Reporting false information damages the trust individuals have in professional accountants.

Ethical Standards 1. **Accountants**

Ethics in any industry is important, but for Accounting professionals and those in need of their services, it s a particularly stressed element. Information provided by accountants is used to make major decisions, including investing, downsizing, expanding, etc, so accountants are expected to be competent, reliable, and have a high degree of professional integrity. Because of these high expectations, the professional ccountancy industry, like many other professions, has adopted professional codes of ethics (Woelfel, 1986). These ethical codes go above and beyond the requirements for state or federal laws and regulations. There are several professional organizations within the accounting industry that have adopted a code of ethics for their specific field of accounting. For example, the National Institute of CPAs has instituted the “Code of Ethical Conduct” that sets forth ethical standards and rules of conduct for its members. Also, the Institute of Internal Auditors (IIA) has a Code of Ethics that applies to its members and to Certified Internal Auditors. However, the focus of this paper will be on the ethical standard for Management Accountants, which has been set forth in the Institute of Management Accountants (IMA) Standards of Ethical Conduct.

The vast majority, approximately 80%, of accountants and financial professionals work inside businesses and organizations – not in public accounting firms. Therefore, ethical standards play a huge role in the financial reporting of organizations around the world. According to the IMA, the roles and responsibilities of management accountants include the following:

1. Managing functions that are critical to business performance
2. Supporting organizational management and strategic development
3. Provide accurate and insightful information for better decisions
4. Ensuring the organizations operate with integrity

Conclusion

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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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 maneuver 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 Securities and Exchange Commission discovers the fraud.

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. 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. 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 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, resulting in sanctions from the SEC. 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.

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6. Report of the National Commission on Fraudulent Financial Reporting (New York: 1987), p. 2.
7. Ibid., p. 6.
8. Ibid., pp. 36–37.
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14. and academia.
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