

## **Research Note**

# **An Urgent Need for Ethics Education for Accountants**

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### **Abstract**

Social, political and technological changes have challenged traditional idea of professional practice by accountants. Accounting is both an essential practice and a vital profession in the economically developed world of today (Ronald F.Duska and Brenda Shay Duska,2003). Today, professional accountants cannot exist by technical knowledge alone; they have to possess and apply that within a framework of professional values, ethics and attitudes.(Peter Williams, 2007). Ethics, values and principles serve as benchmarks of the accounting profession. They determine what is right and wrong, appropriate and inappropriate, on a universal basis every time. (Joe Lienandt, 2003). Enron's bankruptcy case, in which their auditors and consultants from the accounting firm Arthur Anderson, came under criticism for not apparently carrying out their responsibilities as accountants. The Enron/Arthur Anderson's case has raised the ethical question, 'what is the appropriate behaviour for accountants?' and 'what are the accountants supposed to do?' This paper attempts to address the following issues: How to teach ethics to those entering the profession; How to ensure that the ethical standards and behaviour of experienced accountants are as fresh and relevant as technical knowledge.

**Keywords:** *Professional bodies, professional ethics, accounting education, code of ethics, ethical behaviour*

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### **Introduction**

The purpose of accounting is to provide information on economic affairs. Accounting is a skill demanding expertise and since accountants have clients who depend on that expertise, accounting is included among professions. At the

same time, accounting has an ethical dimension. In carrying out their responsibilities as professionals, accountants should exercise sensitive professional and moral judgment in all the activities. (American Institute of Certified Public Accountants –Code of Ethics). Accountants have a duty to provide infor-

mation to stakeholders that is understandable, timely and relevant, and they bear the responsibility of ensuring that these purposes are met.

### **Ethics**

Institute for Global Ethics defines ethics as “Ethics in its broader sense deals with human conduct in relation to what is morally good and bad, right or wrong. It is the application of values to decision making. These values include honesty, fairness, responsibility, respect and compassion”. (Kidder)

### **Ethics and Accounting**

An article in the Wall Street Journal quoted a young entrepreneur in Russia as saying that he was getting ahead in business by breaking laws. He stated, “Older people have an ethics problem By that I mean they have ethics.” Conversely, Roger Smith, former chairman of General Motors said, “Ethical practice is , quite simply, good business.” First and foremost, practicing good ethics is the right thing to do. Second, unethical behavior always comes back to haunt you. Most large companies have a code of ethics designed to encourage ethical and responsible behavior by employees. However, general guidelines may not be specific enough to identify misbehavior, and list of dos and don'ts can lead to the false view that anything is okay if it's not specifically forbidden. Most businesses are intolerant of unethical conduct by employees. Codes of conduct are not enough. Senior management must set a high ethical tone that is steadily reinforced by management words and actions.

### **Literature Review**

In 2002, the accounting profession was under attack with the fall of Enron/ Arthur Anderson and WorldCom. Accountancy profession thus faced a credibility crisis. (Earley and Kelly, 2004; Zabibullah, 2004). Accountants, in performing their functions, face not only legal rules of behaviour but also moral elements created by specific circumstances. It is a never ending challenge to make sure that a mix of honesty, objectivity, integrity and judgment are in equilibrium. As a result, there has been a proliferation of code of ethics or of professional conduct. The drafting of such a code provides an opportunity for accounting professionals to examine the nature and goals of their work, and offer information to others about what can be expected from them. (Catherine Gowthorpe and John Blake, 1998).

“Ethics’ in all forms is concerned with right or wrong, good or bad. Brook (1989) noted that accountants are always faced with a dilemma – to satisfy the need of their clients or risk losing them. Higgs and Kepelianis (1999) also pointed out that the need to satisfy multiple interest groups do create ethical conflicts among accountants. A number of studies suggest that cultural factors have an effect on the ethical beliefs and attitudes of accountants.

### **Research Methodology**

This paper is purely based on secondary research- local news papers, professional journals, magazines and government sources.

This paper attempts to address the following issues:

- How to teach ethics to those entering the profession (new accountants)
- How to ensure that the ethical standards and behaviour of experienced accountants are as fresh and relevant as technical knowledge.(Integrity)

## Discussion & Findings

### The Professional Accountant and the Code of Ethics

Today, professional accountants act as business advisors, financial analysts, communicators, negotiators and managers.

A qualified accountant is able to use certain designatory letters and that provides valuable signals, in the market place about the standard of behaviour that can be expected from the individual member. (Christopher J.Cowton, 2007). The accounting profession is self-regulated through various professional bodies rather than being regulated by the government. Violations of ethical standards can lead to a person being publicly expelled from the professional organization. The professional accounting bodies have taken adequate steps to combat unethical behaviour among accountants. They want to make sure that public confidence on the profession remains high. Code of ethics by accounting professional bodies have become a self-control or self-governing mechanism of the accounting profession. Professional accounting bodies have introduced codes of conduct for their members. These are independent of contract or state law, and these are self-enforced. These codes demand more than conventional moral-

ity and law. (Christopher J, Cowton, 2007). Chua and Mathews (1995) noted that public confidence in the work of accountants will enhance the trust of accountants. " Mere rule following will not make accountants get respected". (Turpen and Whitner, 1997). People value accountants for their skills, knowledge, independence, objectivity and integrity. ( Mohammad Adam Bakar).

### Ethical dilemmas faced by accountants

It should be recognized that rules cannot cover all eventualities and ambiguities will remain. (Page and Spira,2005). When deviant behaviour is exhibited by top management, and accountants within the organization are in a position to identify them, then it must be in the public interest for accountants to 'blow the whistle'. (Susan Richardson and Bill Richardson, 1998). In practice, how many accountants will be able to do this?

The tax practitioner, acting as an agent of a client, has a professional ethical duty to that client to minimize the client's tax liability by legal means. Pressure to exploit the law and find loopholes come from the client, and fear of losing the client will intensify the personal moral dilemma of the tax practitioner. Hansen et. al. says that 'tax professionals should be more concerned with what is right than with technical compliance with the law. Ethical standards and conduct should be above the self-serving action taken by those with a vested interest in the outcome of a particular event . (1992:685-6).

Tax evasion involves deliberate falsification of information and deceit,

whereas tax avoidance involves arranging events and transactions, in a certain time scale to secure a tax advantage. The ethical conflicts faced by tax practitioners can be grouped into four areas:

- the grey area governing tax avoidance and tax evasion
- the discovery of error made by tax authorities which results in a under-collection of tax or an over-repayment of tax
- The discovery of an irregularity perpetrated by client
- Extent, manner and time of disclosure. (Catherine Pilkington, 1998) AICPA has clearly issued the standards for tax services and expects its members to follow these standards.

“Irregular auditing practices “are not uncommon in the profession. Pressure upon auditors to meet time budgets appear to have grown, because of reduced audit fee resulting from keen competition in audit market. Those auditors who manage to complete their work by whatever means, within the budget allocation of time are much more likely to receive favourable personal performance evaluations.

### **Ethics Education for Accounting Professionals**

For many accountants – either professional or not – after university and qualification in many countries, on-the-job training has been only ethics education that they been likely to get. (Hunt, 2000).

Enriching ethics in accounting education and improving the moral behaviour of its members is one way to restore the credibility of the profession. (Mchail,2001).

Ethics education is a journey of sensitization and development. In this journey, a person becomes more aware of the ethical dimensions of a matter, develops the capability to reflect on norms and values in order to differentiate rights and wrongs, and learns the means to reach a decision and the methodology for actioning such critical decisions. (Steven Dellaportas, Berry J.Cooper, Philomena Leung, Beverley Jacking, 2005). Ethics education should not only be taught, it should be reinforced by business organizations, senior professionals and professional bodies.

Ethics education can provide insights into how to adjudicate between conflicting principles and show why certain courses of action are more desirable than others. Ethics education, as defined by Langenderfer and Rockness, is more than studying the code of professional conduct, but rather a process whereby individuals become more consciously involved in making ethical decisions. Unfortunately, in the past, ethical aspects of accounting have been accorded relatively little attention in accounting courses run by universities.

The goal of teaching ethics is to help students acquire skills to deal effectively with ethical challenges and to create a supportive ethical environment for their subordinates.

(Konrad,1978; Hansen,1987; McDonald and Donleavy,1995). Ethical education should centre on thinking about ethical issues and how the students as individuals will face the issues before they are confronted with real world dilemmas. Business schools seem to be inadvertently overemphasizing technical training for accountants and ignoring ethical

considerations.

### Objectives of Ethics Education

The common objectives of Ethics education are:

- Relate accounting education to moral issues in business context
- Recognise accounting decisions that have ethical implications
- Develop a sense of moral obligation and social responsibility
- Develop the abilities needed to deal with ethical conflicts or dilemmas
- Learn to deal with the uncertainties of the accounting profession

(Adaptation of Loeb's (1988) goals for accounting education)

Ethics education helps accountants identify the basic ethics principles that can be applied to action. Ethical reflection can make accountants more knowledgeable and conscientious in moral matters.

The authors concur with the findings of Owen (1983), Cohen and Pant, 1989 and Bok (1976) about the problems facing ethics education. The authors have added their views to these findings:

- Lack of sufficient training for business and accounting teaching staff to properly teach ethics as a subject
- Teachers feeling uncomfortable teaching ethics in the class room
- Teachers reluctant to display their personal values in the class room.
- Reluctance of universities to treat 'accounting ethics' as a separate subject in their curriculum
- Few ethics case studies in accounting and finance
- Accounting text books are too philosophical in their approach to ethics

- Educators teaching ethics will be increasingly be looked upon as role models by students

Research has shown that students can improve their ethical reasoning ability through exposure and practice. (Rest, 1986). The ethical curriculum helps students develop a moral point of view.

### Summary and Conclusion

What can be done in the future?

Empirical evidence suggests that ethics education is now integrated into accounting curricula mainly in auditing courses. Entry level accountants will only make morally dependable decisions if the business environment and universities support ethics education. Students should be first taught general business ethics. Accounting ethics topics must be integrated into each and every accounting module through out the programme. Universities must develop a capstone course that deals with complex issues of business social responsibility and professional responsibility for senior professionals. Accounting firms need to evaluate periodically the design and operating effectiveness of the organisation's compliance and ethics programmes and to assess their overall effectiveness.

Teachers teaching ethics courses must undergo training in ethics education. They must be trained to use a combination of teaching methods that make teaching of the subject interesting and effective. Interactive learning, group learning, real life case studies, role-plays, reviewing of literature and films are the ways through which students

interests can be sustained to learn more about ethics.

A simple six-part ethical decision-making model suggested by LaRue Hosmer of Michigan Business School would be useful in ethics training.

The questions to be answered are:

- What is the moral issue?
  - Who has been harmed?
  - In what ways?
  - What are the alternatives that exist?
  - What facts need to be known to make a reasoned decision?
- What are the personal impacts on the person making the decision?

A profession's ability to self-regulate may be ineffective unless individual professionals understand and apply their profession's ethical standards in actual practice. If professionals do not exercise self-regulation, then governments will have to intervene. Ethical education has to be kept up-to-date as knowledge about specific tax laws or auditing standards.

The authors are happy that attitudes to ethics education are changing. Academic institutions and professional bodies are of the opinion that ethics should be taught as a dedicated unit within professional programmes and degree courses. This is a good sign and we believe that the goals of ethics education in creating an awareness of ethical dilemmas and providing methods of resolution will be soon achieved throughout the world. Ethics education for accountants should be a life-long learning commitment that might begin early in-a-pre-qualification programme and can continue throughout his or her career.

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