Accounting Ethics: A Panacea to Financial Statements Manipulation

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Abstract
The alarming rate in the incidence of manipulation of financial statements in recent times is becoming worrisome to industry watchers. The focus of this paper is on the need to embrace professional ethics as a panacea to financial crimes and statement manipulations in contemporary practices. The review method was used in providing answers to several questions that have agitated the minds of the researcher. It has being observed that a financial crimes and statement manipulations has become the order of the day. How did we find ourselves in this precarious situation? What is being done to rectify it and what does the future holds. It was discovered that accountant obligations transcend beyond their immediate clients to other stake holders. Therefore behaving ethically is an essential and expected trait. Regardless of accounting standard and rules, without professionals ethics, accountants can provide manipulated financial reports .The existence of accounting standards and rules parse does not guarantee a sound and appropriate financial report. It was concluded that a combination of professional ethics (business and accounting ethics) and qualitative characteristics of financial reporting must be used in developing quality financial reports.
Keywords: Accounting Ethics, Financial Statements, Financial Reporting, Accounting Standards.

Introduction

The business environment all over the world suffers from the revelation of several financial scandals in recent times. Financial statements manipulation has become the order of the day.

Traditionally, accountants have obligations to share holders, creditors, employees, suppliers, the government, and the public at large. In other words, their obligations go beyond their immediate client. The roles of the accounting is underscored by the decisions made on information provided by them can materially affect the lives of any or all of these stakeholders.

It is expected therefore, that accountants behave ethically societal expectation much and people need to have confidence in the accounting profession by providing quality service therefore. The information provided by accountants should significantly be efficient, reliable, realistic and are unbiased. Lack of professional ethics accompanied with qualitative picture of financial reporting. Regardless of accounting standards and rules, without professional ethics, accountants can provide manipulated financial reports. Hence a combination of professional ethics and qualitative characteristics of financial reporting must be used in developing quality financial reports.

Issues in Financial Statements Manipulation

The increase in the number of failed corporation as well as the increase in fraudulent activities has brought to the forefront the relevance of accounting ethics. The problem of failed corporations and financial statement manipulation is not restricted to Nigeria. It is a global issue that must be tackled using ethical standards in both accounting and business worlds. We have heard of the collapse of firms and companies in United States and Canada as well as much of the world. Sundem Enron (2003) reports that was a great symbol of a widespread problem in corporate America because its rise was a spectacular as its fail, Enron *was* formed in 1985 when Internorth purchased Houston Natural Gas. Soon, the combined company was being run mainly by Houston Natural Gas executives, with Ken Lay as CEO. In 1990, both Jeffrey Skilling and Andy Fastow were lived and, in 1996 skilling became president and coo. A meteoric rise in both reputation and stock value followed with Enron named as one of fortunes most admired companies in 2001 and its stock price peaking at N90.56 a share on august 23ld, 2000. Much of the company's successes was attributed to the financial wizardry of Fastow now CEO. However, the company's fall was just around the corner, with skilling resigning in August of 2001, followed by a $1.2billion write-off, and the start of an SEC investigation in October. By December, Enron had declared bankruptcy, Ken Lay had resigned, and the share price was No.26 per share. If Enron has been an isolated case, concern would have dissipated quickly and confidence in the capital market would not have plummeted. But it was not an isolated case. Without going into details the media have presented plenty of details we will mention just a few examples, before Enron, there were companies such as waste management and sum beam which may not all that be significant by themselves but what should have been a warning of what was to come.

Whereas Enron seemed to be trying to outsmart the accounting and capital market regulators, worldcom apparently made accounting "error" that even introductory accounting students would know was inappropriate. Global Crossing and quest, as well as Enron and several other companies, used energy swaps to artificially inflate their growth, and many of these same companies padded income using "mark-to-model" accounting to recognize extraordinary high values for financial assets, with the attendant recognition of income for the gains in values. Then we learn of manages is draining funds from organizations such as Tyco and Adel this presumably without knowledge of the boards of directors.

Finally, Healthsouth made apparent a disturbing aspect of many of these scandals - collusion among many executives. The last I heard, 14 healthsouth executives had pleaded guilty to financial manipulation changes.

What should we make out of all this? An important observation is that was not one cause of the scandals. Each one had is own motivation and models. There is no single accounting rule or practice that made all these companies vulnerable to executive excesses or crime. What these financial crime and manipulation reports have in common was a culture that was pervasive in corporation, one that made it possible to Jettison accounting and business ethics and also permissible to lie to shareholders and the capital markets, "The ends justify the means" became a corporate mautra.

Impact of Business on Financial Reporting Quality

The concept of ethics has come to mean various things to various people, but generally it's coming to teach what is right or wrong in the workplace and doing what is right regarding products/services and in relationships with stakeholders.

Attention to business ethics is critical during times of fundamental changes especially, times like those faced now by businesses, both for-profit and not-for-profit making. Wallace and Pekel (2011) explain that in times of fundamental changes values that were previously taken for granted are now strongly questioned. Many of these values are no longer followed. Consequently, there is no clear moral compass to guide leaders through complex dilemmas about what is right or wrong, He concluded that attention to ethics in the workplace sensitizes leaders and staff to know how they should act. Perhaps most importantly, attention to ethics in the workplace helps to ensure that when leaders and manage are struggling in times of crises and confusion, they retain a strong moral compass. However, attention to ethics provides numerous other benefits including.

What Is Accounting Ethics?

Whihington and Pany (2004) define ethics as the study of moral principles and values that govern the actions and decision of an individual or group. MC Namara (2006) sees it as involving learning what is right or wrong and men doing the right thing. Jenifa (2004; 339) sees ethics as the moral principles that an individual uses in governing his or her behavior. It is the personal criteria by which an individual distinguish from wrong.

The oxford dictionary of English defines ethics with four possible views i.e. ethics is:

i. The science of morals
ii. Moral principles.
iii. A philosophy.
iv. A code.

The truth definition of ethics as a code is commonly preferred in professional discussion.

Essence of Accounting Ethics

The principal reason for financial reports is to ensure a true and fair view of the financial reports. Therefore, without ethical adherence, the objective of the true and fair financial position cannot be achieved. Wechrich and Koontz (1993) defines accounting ethics in this direction, as the code that guides the profession conduct of accountants.

Accounting Ethics Scope and Dimensions

Accounting ethics can be considered in the following ways:

a. Creative accounting, earnings management and misleading financial analysis.
b. Executive compensation and excessive payment to corporate CEOs.
c. Bribery, kickback, facilitation payment etc,

Causes of Financial Reporting Problems

The regulatory environment may not have been set up as well as possible to prevent financial reporting abuses. There are many reasons why financial crime and statement manipulation became the order of the day, not any one of which dominates according to Baktiari (2013:28) it was a confluence of circumstances that opened our eyes to the problems amongst which include the following:

a. The bin sting of the bubble economy was a main reason financial abuses came to light: when everything was rosy, no one questioned companies' financial reports. The "new economy" was to last forever. When it did not last, investors began to ask hard questions. And, for many of the questions, there were no good answers, only denials and cover-ups.

b. The passivity and possible naivety of corporate boards also had an effect. This was exacerbated by the growing number of complex financial transactions, many of which were beyond the understanding of board members who gained their experience before such instruments existed. Even a former accounting profession who headed Enron's Audit Committee, and a person of utmost integrity, probably had difficulty understanding the full implications of some of the company's financial maneuvering. When hoards must rely on management's explanations of their actions, it becomes hard to also monitor those actions.

c. The financial analyst culture added to the problems. First, most analysts did not fully understand the complex financial reporting transactions undertaken by companies. Many did not have extensive accounting coursework in their educational backgrounds. Second, incentive systems did not motivate analysts to disclose detrimental information about a company.

Ethical Issues in Accounting/Remedies

Accounting to Baktiari (2013; 63), the fundamental principles in ethical standards needed to be considered by professional accountants include the following:

a. **Integrity:** lyoha (2005, 13), defines integrity as the aspect of one's character rooted in his conviction which serves to deter him from taking advantage of his position of strength to gain at the expense of his organization, customers, clients or subordinates. From the above, it is clear that integrity is a personal virtue that an accountant must process. Integrity also implies that the accountant should be a man of his words and should always act honestly in the discharge of his professional duties (Izedonmi, 2012), In the absence of specific standards or guidance, or in the face of conflicting opinions, a professional member should always test his decisions and deed by asking one simple question "am I doing what people of integrity do under this situation? Have \ retained my integrity? (Mintz, 1997, 7), Integrity is measured in terms of what is right and just. It requires the accountant to be very observant in carrying out his duties,

b. **Objectivity**: That a professional accountant should take into professional Judgment, the business realities and not allow prejudice, conflict of interests or influence of others to affect their professional judgment. Izedonmi (2012; 87) posited that objectivity is the state of mind which has regard to all considerations relevant to the task in hand before a final decision is taken by the accountant or a professional opinion is expressed. Objectivity involves taking decisions without bias or giving preferences. It 15 a mental attitude that is characterized by the fulfillment of professional responsibilities without compromising honest judgment or ethical beliefs or yielding to the demands of others within and outside the organization. In the US, every member accountant must conform to the technical standards promulgated by the institute or financial reporting standards council. In Nigeria also, we have the Financial Reporting Council of Nigeria (FRCN] and the two recognized self-regulating professional bodies of 1CAN and ANAN in which every member is expected to confirm to the technical standards and code of conduct promulgated by the above bodies.

A professional accountant while carrying out his duties to his clients, must ensure that he comply with the requirements of the law, integrity and objectivity. The principles of objectivity imposes a serious obligation on all accountants whether in private practice or industry to avoid job, assignments, situations, relationship and situations that are capable of compromising their professional judgment due to either coercion, undue influence from people, conflict of interest or even bias.

Objectivity is very much a desirable and vital ingredient in the work of an accountant. However, objectivity tends to suffer some threats. According to the Act, a threat to objectivity includes:

- Self interest.
- Advocacy threats.
- Familiarity threats
- Intimidation,
- Self Review threats

c. Principle of independence: According to Izedonmi (2000;33) "independence implies the ability of an auditor to perform his/her audit work in accordance to his judgment, free from any undue influence and without being biased". Independence means exemption from external influence, control and support in conducting an audit assignment at all the stages. This involves gathering of evidence, evaluating interpreting it and communicating its findings. We have planning independence, programming independence, implementation/execution independence and reporting independence- and reporting independence. Basically independence is an attitude of mind which involves conducting the audit work with individual liberty of an auditor or professional accountants to perform audit work in accordance with his judgment free from any undue influence whether subtle or not and without being coerced or biased,

Accountant in public practice should be independent in practice and in appearance when providing auditing and other attestation services. Despite the fact that in practice external auditors are actually appointed by the directors of the company (who may later on impose their dominating personality) the auditor must ensure that his judgment or opinion is free from any form of undue interference from the board. Principle of confidentiality:- that a professional accountant should not disclose the information the information obtained in the course of professional service without explicit permission of the employer on the employers such information can only be disclosed otherwise of legal duty or count permission.

In paragraph 4.1 of the rules of the ICAN professional conduct for its members, the institute requires all Its members to respect the confidentiality of information and to be scrupulously adhered to in the course of professional work except where permission has been obtained from the client or employers where there is legal right or duly to disclose.

Accountants are in a fiduciary relationship with their clients. According to Sanni (2003; 9) "they must not divulge secret information that come to their knowledge in the course of their duties concerning the state of the account of their client without any lawful justification". The question on whether the rule of confidentiality at all times forbids an accountant from exposing criminal and legal activities of his client therefore arises. Sanni posits that the answer to the question of where confidentiality to the client stops and that of loyalty to the case. The option then, obviously available to the accountant is either to be a "whistle blower" or to participate in the offence.

d. Professional competence and due care: - that a professional accountant should perform the services which is possible to afford.
   A professional accountant should have knowledge and skills in their professional development, such as new methods and techniques to the level at which the employer or employees will be assured of professional services efficiency. A professional accountant should approach his work with professional skill and care having regard to generally accepted accounting principles and practice and also in conformity with the standards set by FRCN, his professional body and legislation. He should not carry out professional work of which he lacks competence, except he obtains adequate advice and assistance necessary to complete the assignment.
e. Professional duty of care and diligence;- the guide provides that members should carry out their professional work with skill, care, diligence, expedition with proper regard to technical and professional standards expected of them as members. The principles of professional duty of care and diligence imposes professional obligations on the accountants to:-
   - Maintain such professional knowledge and skill at the level needed to ensure that audited, clients at services or benefits for the fees paid.
   - Be highly diligent with the application of professional standards and technical skills in providing professional services to their clients.
   - Ensure that those working under the accountant are well trained and also posses knowledge and skills and
   - Update their skills and knowledge.

For ICAN, it is called mandatory continuing professional education scheme (MCPE) while for ANAN, it is called mandatory continuing professional development (MCPD). The essence is to update member's knowledge and skills about latest development in the field of accounting and auditing with a view of enhancing their competency in the practice of the profession.

f. Professional behavior:- that a professional accountant should deal with each other when carrying out their duties, act with courtesy and regulations and to refrain from actions that would discredit their profession.

Societies are expecting .a lot from the professional and the public must have confidence in the complex quality services offered by the accounting professional. According to Alimadad (2004;27), the information provided by accountant should significantly be sufficient, realistic and unbiased as a proof that the accountants are not only qualified and competent professionals, but also enjoys a high degree of honestly, integrity and professional competence as their most valuable assets.

Mahdavikhou and Khotalou (2011) also stated that ethical behavior are one of essential personal skill that professional accountants must posses but it has been proven by the recent reports that professional accountants are following all the rules relating to their professional except moral duty and obligations or ethics. They concluded by saying that ethical behavior does not only protect the professional accountant but that of the accounting profession as a whole.

Masoud (2013) stated that the importance of ethics in accountancy has been proven by many previous scandals. Professional accountants can learn a lot from the mistake like Enron scandal, Tyco, Adelphia, worldcom etc. the scandals have damaged the reputation of professional accountant and also damaged public confidence in the accounting profession. Ever since, he concluded that ethics has became n major issues for all professional accountant all over the world,

Auditors' Role in Ethical Practice

The auditor as mention earlier is suppose to be a watchdog protecting the public from the type of abuses we have seen and heard of after all, even though financial statements are the responsibility to management shareholders hire auditors to protect their interests and to add credibility to the financial information disclosed by firms. Taking about credibility, auditors need both expertise and integrity. Expertise assures the shareholders and the general public that any irregularities in financial reporting will be discovered by the auditors, while integrity assumes that auditors will disclose any irregularity they find. These two qualities are essentially multiplicative in nature and if either is missing, the other has no value- fn most cases, both qualities are missing. Expertise was missing because audits had become "'loss leaders "for public accounting firms. Their goal was to minimize the cost of audits often at the expense of quality, because managers and investors a like had lost sight of the importance of audit and this were not willing to pay for quality audits. And integrity was lost when auditors forgot who a professional's first allegiance is to the public by the American institute of certified public accountants (AICPA), the accounting profession had spent the decade of the 90's trying to provide value-added services to its clients, where it defined client as the firms (and more specially, the executives) that hired them. Looking out for the public interests became secondary. Thus, seldom did auditors betray management to benefit the public. So, even if they did discover financial reporting problems, they often helped management devise ways around the reporting problems rather than reporting them to the public.

How did auditors fall into this deplorable position? The answer is not that they were incompetent, but partly due to unethical practices and mainly because of the cultures in the major accounting firms. Here caught up in an economic struggle that led to an undue focus on revenue generation rather than the core value of their professions, fn the case of Enron, the auditors tried to skirt the edges of what was acceptable financial reporting practices and helped management devise methods that might be technically acceptable but were surely unethical.

Also aiding the disclosure of misleading information was the rule-based accounting standards with many "objectives" methods of determining compliance with generally accepted accounting principles (GAAP). Meeting the letters of the law rather than a true and fair disclosure became the objectives with this objectives in mind, auditors could justify misleading financial reports if they could in some way show that they satisfied the violated the intent.

Conclusion

The accounting profession is in the midst of a challenging times and ethics is a central element in the accounting profession if these challenges are to become a thing of the'past. The future of accounting profession depends on leaders of moral leadership by professionals. There is need to explain the importance of the moral standards of honesty and personal training needs to current and future accountants to lead the noble way. However, the existence of accounting standards and rules parse does not guarantee a sound and appropriate financial reporting. Hence, a combination of professional ethics and qualitative characteristics of financial reporting must be used.

The accounting profession is based on the confidence of investors and business owners, in addition to working in skill, proper moral perspective is also important. Thus, perhaps a more detailed plan for developing the moral lesson plans and discussions with other potential financial issues in specialized accounting students as managers of firms can be considered. This can help improve the quality of financial information and compliance with professional ethics.

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