

ETHICS IN ACCOUNTING: ROLE & RESPONSIBILITIES OF ACCOUNTANTS

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Abstract

The basic objective of this research is to contribute towards enhancing the knowledge regarding importance of ethics in accounting profession. Accountants have to face a number of challenges to carry out their roles and obligations. Accounting profession needs to uphold the principles of trustworthiness, transparency, and accuracy in financial reporting. This present research identifies the importance of effective ethical behavior among professional accountants to reduce ethical issues in practice.

Keywords: Ethics, Ethics in Accounting, Financial reporting

1. Introduction

Accounting may be considered as a profession that comprehensively depends on the professional's judgment and their principals. These Principles includes objectivity, independence, confidentiality, competency, integrity, professional behavior and ordinary care. Various accounting Activities like recording business events of financial character, classifying and summering them, presenting them in form of profit and loss statement, record and income statement helps businesses to trace their financial events (Jackling, Cooper, Leung & Dellaportas, 2007). It is very much important that satisfactory ethical standards should be maintained throughout the Process. Accountants are considered as a winner in business while it involves upholding a top-quality financial report and supply the interests' groups with reliable financial information (Andrew, 2018). We have experienced a big rise in financial scandals associated with misstatements and financial frauds involving variety of accountants and major accounting firms. It's true that there are a number of events had been transpired which has questioned the integrity of the profession and lighten the reputation it always poses. variety of times we found that accountant is involved in breaching accounting principles and standards; manipulating financial information; did not display professionalism, independence and due care; engaged in creative accounting and tax fraud; and other fraudulent activities. An established and success profession or business must have high and consistent standards of ethics. Ethical standards which are *established* by various professional accounting bodies in India can act to supercharge the engine of morality and good conducts within the discharge of auditing functions in India (Sahar, 2019). Efforts are being made to introduce and enforce the practice of ethical standards by the regulatory bodies; however, strict adherence to the standards has been a drag.

There has also been a growing concern regarding the ethics related to accounting profession. Ethical dilemmas might be quite common in accounting profession (Osayantin, Embele & Saidu, 2018). Present Research would re-examine some significant evidences regarding the role of ethics in accounting profession which will achieve success in preventing legal and financial dilemmas.

2. Problem Identification and Objectives

Ethics is defined as the “fundamental concept of right human conduct, which involves differentiating between good and bad, right and wrong.” Ethics is considered as the primary requirement in accounting because it is related with the economic growth and public interests. Accounting ethics contributes to profitability by reducing the worth of business transactions, building a foundation of trust with stakeholders, contributing to an inside environment of successful teamwork and maintaining social capital that's a part of an organization's market-place image. Thus, accountants should not engage in an activity which involves manipulation of financial figures or break the professional code of conducts under any circumstances. Professional accountants pay an important role in achieving the business object. They help to prepare budgets, providing financial advice, reducing costs, assisting top management, providing tax advice and by helping to alleviate risks. Therefore, considering the circumstances, it's crucial to analyses and understand why ethical practices play such a crucial role within the field of accounting and weather adopting ethical accounting practices has any influence on overall business performance.

The objectives of present study -

1. To understand what are accounting ethics
2. To assess the importance of ethic in accounting
3. Ethics in accounting and auditing
4. Ethical guidance in accounting and audit
5. Fundamental principles of ethics
6. Whether ethical codes of conduct address all the problems that approach ethical Practices.

3. Research Methodology

This research study is exclusively based on secondary data resources, and information analyzed and collected from these resources will be beneficial to existing and future accounting professionals/policy makers. The data for the present study is collected from various publications, databases and websites including Google, ProQuest, Science Direct, Springer, Emerald, Academic Search Complete and Google Scholar. This research has focused on

collecting evidences from the management databases and has specifically included the studies that were published with the amount of 5 years.

4. What is Ethics

Ethics may be considered as a branch of philosophy considering value supported human behavior to truth or falseness of the acts or good or evil outcomes of those acts. In a broader definition, ethics could also be a group of ethical values. Each folk are with a group of values and consider them appropriately and sometimes we ignore them. As per the Philosophers, religious institutions and other groups ideal ethical values may be defined in various ways. Some samples of ethical values determined at executional level are including rules, religious teaching, ethical principles law in commerce for professional, industrial groups and professional ethics regulations n organizations. In other words, ethics may be a set of ethical criteria to research the reality or falseness of a problem (Zoran, 2018).

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5. Professional Ethics

The passage of some time, increasing development of knowledge and technology, complexity of social relations led into the profession's development. The standard of presenting the services and created trust continued the lifetime of jobs and employment of its members in history. In other words, society acceptance is that the most capital and continuance of each profession. The continuance of labor and keeping this capital are of great importance. Social acceptance and achieving society satisfaction are possible when presenting services is of tangible principles. The system of each job could also be a mixture of professional rules. The behavioral and ethical regulations of every job are the foremost important policies and a few items as defining the most concepts of job, the relations of members with society and members with one another are considered. Professional ethics is that the knowledge defining the acceptable behavior in each job and present practical guidance to work out the responsibilities (Feten, Ayadi, Ghram & Bouchekoua, 2016). Most of the recognized jobs formulate applied standards and principles for his or her professional ethics. The most goal of formulating behavioral standards is that ethical responsibilities are defined to the society, others and society. The medical jobs, engineering, lawyers, accounting, auditing and journalism besides common features have formulated professional ethics due to the social importance. The common features within the mentioned jobs are including: 1- Defining the qualification to enter the work 2- Complexity of technology and professional knowledge 3- Responsibility in presenting the services to society 4- the need to understand acceptability and society trust Ethical principles in these jobs are behavioral norms.

In social behaviors, what we should always do and that we shouldn't do is that the duty of ethics. The most issue of professional rules is that the norms. These norms are issued supported the accepted values and are described by some terms nearly as good, bad, false and true. Max Weber divided ethics into three sections: 1- Ethics in family and personal life 2- Ethics in economic life 3- Ethics in politics and social relations Thus, professional ethics in accounting and audit is related to business ethics and business ethics is the subdivision of ethics in economic life (Su, 2014).

6. Accounting and Audit Profession

Accounting and audit profession dates back to the first-person civilization. Actually, when trading was started, recording the transactions and reporting was taken into attention. In ancient civilizations, tax and assets of state were maintained. In 3,600 years before and in ancient civilization of Sumerians, there was a comprehensive financial system indicating the number of grains, livestock and thus the estates of state. In ancient civilizations of Lidi, Iran and Egypt, the incomes and expenditures of state were kept carefully (Ibidunni, Okere, Ibidunni & Joshua, 2018). In the 13, 14 century and with the expansion of industry, trading and banking, considerable progress was made in holding the accounts. Finally, in 1800, record and profit and loss statement were common. After the economic revolution, the manufacturing operation of capital markets was wide. As the ownership of the enterprises is separate from the management and with a rapid growth of companies, accounting was of great importance.

7. Ethics in Accounting and Auditing

Ethics is an important element of social life because it influences the relationships between peoples. Professional accountants are not only the members of a specialized organization; but they are members of a society also. It means that their behavior influences not just the business environment, but the entire society from the belongs to. IFAC has prepared a Code of Ethics. This code of ethics establishes ethical requirements for the professional accountants from all over the world. Accounting ethics is basically related with applied ethics, the study of moral values and judgments as they apply to accountancy. It is an example of professional ethics. Now a days Ethics are taught in accounting and management courses at r education institutions also as by companies training accountants and auditors.

According to Mariana, and Maria Ciurea, in the perspective of accounting and accounting profession, ethics could be connected with those moral values and standards that provide guidance to professional accountant to make sure the quality of accounting and to report financial statement as "true and fair". Studies have also argued that the main purpose of accounting and auditing is to provide the accurate and fair financial status of the company in

order to help stakeholders. Luca Pacioli, the “Father of Accounting” had mentioned in his book “Summary of arithmetic, geometry, proportions and proportionality the code of ethics has solid relation with profession of accounting. The basic principle of ethics related with accounting profession involves professional integrity, confidentiality, as well as professional behavior and competence. International Federation of Accountants (IFAC) has also recognized the importance of these ethical principles in accounting profession. IFAC has informed that association of ethics with accounting profession is not only to fulfill the interest of individual clients, but to act in public interest. Discussing the problem of accounting failures and financial frauds is very important because, it has resulted in causing a significant financial loss to countries.

8. The Reasons of Ethics in Accounting

Fraud: Fraud is considered as purposeful act of one or some managers, employees or third party being done with the aim of false financial statements and includes the followings:

1. Manipulation, forgery or changing the documents
2. Registering the transactions with positive documents
3. Registering the incomplete or ambiguous offices
4. False presentations of financial effects of transactions eliminating them of documents
5. The lack of observation related to financial and tax rules

Misusing the assets

1. Ignoring internal controls for misuse
2. Obliging the subordinates for false registering of transactions
3. Collaboration with auditor for the lack of financial disclosure scandal
4. False application of accounting procedures
5. Not giving information of trading or presenting false information to auditor and related organizations
6. Disclosure of confidential information of employee to the competitors
7. Not providing adequate reserve to reduce invoice value and non-registered costs
8. The lack of presentation of information or giving false information to capital market to affect stock price

The followings are considered in audit field:

1. Not observing professional qualification

2. Auditor giving up to abnormal pressures inside or outside organization
3. The involvement of auditor in activities in conflict to the profession rules
4. Financial dependency or employment on employer
5. Purposeful selection of the sample as it doesn't indicate the population
6. Purposeful mistake in generalized the discovered mistakes (of sample to total population)
7. False conclusion to hide important mistake or distortion
8. Statement of auditor before evidences discovery (before internal control test and content test) and prejudice
9. The non-disclosure of those transactions related with affiliated people
10. Non-disclosure of the events between balance sheet date and audit report date.

9. Ethical Guidance in Accounting and Audit

The professional ethical guidance is the set of fundamental and rules. Principles define professional responsibility to society, employer and members. Rules show practical use of principles (committee on formulating audit guidance, 1997). The major principles in professional ethics of accounting and auditing are including:

- 1- **Considering the beneficiary benefits:** Professional accountant should consider the benefits of all beneficiaries including society, employer, creditor and employees.
- 2- **Responsibility:** Deep understanding of professional, ethical and legal responsibilities is the necessities of works in this profession.
- 3- **Doing work truly:** Resorting of professional accountant to general ethical principles
- 4- **Impartiality in judgment:** The professional accountant should have a judgment without benefits contradict and others influence and don't prejudice.
- 5- **Autonomy:** The ability of professional accountant to keep impartiality and the independent auditor shouldn't have direct benefits or important indirect benefits in the unit.
- 6- **Confidentiality:** The information of employer should be confidential. The auditor is not obliged to disclose the employer confidential information without his permission and the disclosure is only in legal courts.
- 7- **Observing the type of service:** This principle shows that the limitations of services are observed and the work is compatible with the professional role.
- 8- **Professional qualification:** The professional accountant should have adequate information of techniques in professional work and should have required skills and experiences.

9- **Observing the technical regulations:** Observing the accepted accounting and auditing standards is obligatory. The professional accountant should consider professional care in the work as observing law, report form, timely report, and accuracy in figures, work appropriate method, quality standards and other accepted standards.

10- **Professional behavior observation:** Observing the position of professional accountant is necessary. The accountant should behave as making the job creditability problematic (Ali Madad, 2004)

10. Ethical Dilemma in Accounting

Ethical problem in accounting and auditing of firms is associated with the problem that auditors face in presenting the true and fair financial statement of the firm and the pressure of protecting the interest of management. Ethical Problem may also arise in producing the fair financial statements because of the agency problem that could occur between the management and stakeholders as well as between the accountants and stakeholders (Shawver & Miller, 2017). Management's pressure, interest and greed could result in production of manipulated financial statements. However, the dilemma could occur because the auditors want to maintain the long-term working relationship with the management of companies, while also required to conduct their duties with scrutiny. Financial frauds and misstatements could be the main problem in current accounting system because of the non-adherence of the accountants to accounting standards, rules and regulations. The quality of accounting and auditing is also affecting by the Organizational governance and internal control systems adopted by the organization. One of the main reasons of causing ethical issues is that management holds pressure over accountant (Valeriya, Nassiripour & Wong, 2019). The conflict of interest takes place when the interest of the management of the organization do not support with interest of its stakeholders. Management holds a significant influence over auditors and also have the power of damaging interest of auditors, it creates serious ethical problems for accountants. Due to Lack of supervision and quality control, ethical issues in accounting profession are increasing (Tianjing, Higgins & Deeks, 2019).

11. Fundamental Principles of Ethics

The international federation of accountants has given various instructions regarding ethics for professional accountants. These instructions can be presented as fundamental principles:

1. **Integrity**—Professional accountant should be straightforward and honest in all business relationships.
2. **Objectivity**—Professional accountant should not tolerate bias, conflict of interest or undue influence of others to override professional or business judgments.

3. **Professional Competence and Due Care**—Professional accountant has a continuing duty to maintain and update his professional knowledge and skill. He should make ensure that a client or employer may receive proficient professional service. These services should be based on based on current developments in practice, legislation and techniques. A professional accountant should act carefully and in accordance with applicable technical and professional standards when providing professional services.
4. **Confidentiality**—Professional accountant should respect the confidentiality of information acquired. He should not disclose any such information to third parties without proper authority. All the Confidential information acquired as a result of professional and business relationships should not be used by him for the personal advantage.
5. **Professional Behavior**—Professional accountant should obey with relevant laws and regulations. He should try to avoid any action that dishonors the profession.

12. Discussion and Conclusion

Ethics is entrenched in human nature (wisdom and emotion). Human devoutness is a natural. Infinite reality and observing ethics are one of the indicators of this spirituality and the primary basis of social life. Ethics play an important role in accounting as accounting ensure efficiency, integrity, accuracy, confidentiality and presentation of accurate financial information for any corporation. In accounting and auditing, professional ethics may be considered as a measurement index of appropriate behavior. It may be used as a tool to determine true and wrong relations. Truly, Ethical principles in accounting profession regulate the professional accountant responsibility to the society, employer and other beneficiaries. The reality is that now we cannot trust others without ethics. Guidelines for Professional behavior and ethics in accounting and auditing are an attempt to respond such needs. It is true that every accounting institution provides high level of studies about ethical principles for volunteers. It is also true that most of their proposed courses are associated with ethical principles. Thus, it becomes the duty of auditors to observe the instruction of ethical principles. They should maintain their independence during assurance and giving their opinions to financial statements. Accounting has important general responsibilities. As professional accounting institutions presented adequate researches about ethical principles to professional accountants. The accountants are obliged to execute these studies in practice to be sure of responsiveness and trust. Accounting and auditing ethics can reduce the ethical offences and scandals. Such ethical accounting and auditing at individual level can be followed in accounting institutions even for accountants working business. We should work on long-term plan to increase the knowledge of accountants regarding development of professional behavior and ethics. Although educational plans are necessary, they cannot organize the affairs. To promote ethics and professional behavior in the country, a serious attempt should

be made by professional accounting communities, professional institutions and professional accountants in three levels of rules, training and execution.

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