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REVIEW ARTICLE

Accounting Ethics: Principles to Work by

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Abstract

In this article, two things are attempted, hoping that the combination of these things will aid anyone confronted with an ethical dilemma in the field of accounting. First, a 1990 article on business ethics in general is revisited. This article "Corporate Codes of Conduct: An ethics model founded on basic ethical principle "married" to cost accounting principles' degrees of difficulty of achievement of the ideal standard of behavior, whether that be reporting or in upholding ethical standards. After reviewing the points and suggestions presented in that article, an examination current issues surrounding the field of accounting and its attendant ethical issues is made. Finally, we suggest that there are very basic values upon which a uniform code of ethics for accounting professionals can be developed.

Keywords: *Accounting ethics, Business ethics, Professionalism, Values, Morals.*

Introduction

In light of the current financial crisis, many have sought to understand the evolution of the crisis in terms of how it happened: who allowed it to happen, who participated in its creation or progression and how could it have been prevented are all good questions. Some answers lie in the realm of business and professional ethics. In particular, the ethics of the accounting and financial industries have been called into question. These professionals have been on the "hot seat" with regard to their practices in the failure of, for example, the mortgage markets: the question is how have their practices contributed to these market failures? A review of their professional practices and ethical standards may shed light on the evolution of the failures; a critical review is also likely to invite change to higher standards of professionalism and ethical behavior. This article focuses on the accounting profession and accountants' professional and ethical responsibilities and obligations as a part of the problem and as a part of the solutions in the hope that further financial or economic problems will not be attributable to any material degree by the unethical conduct of accountants.

Williams [1] offers that the profession of accounting is part of a moral order; as such, the members of the profession should be able to provide good reasons for why all persons should be subjected to accounting directives. Accounting procedures are moral directives or norms; these directives are not merely a means to reveal economic fact, as a purely informational point to accounting might suggest. These questions support Williams's [1] contention that these ethical connotations of accounting discourse reveal the additional supposition that accounting is also regarded as inherently about the moral, that is, accounting is a moral discourse.

Moral norms are basic ideas of what behavior is right or wrong; one experiences satisfaction for doing the morally right thing and feels badly for engaging in morally reprehensible behavior. In the field of accounting and finance, the ability to defend with "good reason" one's presentation of transparent reporting is important, legally and ethically. This article attempts to define some concepts integral to the issues of transparent reporting, information use and presentation and assessment of facts presented. Further, our review concludes that accounting professionals are indeed professionals, who encounter a number of reasons for engaging in fraud and whose behavior has precipitated legal and ethical action and examination. Fundamental definitions of ethical debate are reviewed as a precursor to the presentation of ethical values and edicts of and for accounting professionals in this attempt to construct a code of ethics for accounting professionals. The roots of this proposed code of accounting ethics are found in the broader and generally societally accepted moral values and ideals. Such a comparison of accounting ethical principles with the more broadly known and accepted moral standards/reasoning of society reveals that accountants should and often do follow the basic premises of ethical behavior common to all professionals, in business, in accounting and in general among the populous.

Essential Starting Points

One predicate point to make before plunging into a comparison of multiple codes of accounting and business ethics is that the law and ethics are not the same things. According to Raiborn and Payne [3], the letter of the law is designed to reflect society's attitudes and desires about how society's rules of order will be laid out and followed. Generally, the legality of actions can be traced to what a society as a whole feels is right or wrong; it is not always a complete or an accurate reflection of each member of society's views, nor can it always capture the morality of the actions.

In a way, this premise can be likened to the accounting concept of substance over form. The substance of a transaction represents its underlying actuality or "morality;" the form of a transaction is simply its legal appearance. To properly present a transaction, accountants should overlook the express legal form (the "letter" of the transaction) if it is in conflict with its substance (the "spirit" of the transaction).

The Symbiotic Relationship of Society and Business

Two other points that must be addressed before essaying into the development of a code of ethics for accounting professionals are the ideas that there is a need for accounting ethics and that this need is based, in part, on the symbiotic nature of society and the accounting profession and business in general. Both Joseph [3] and Raiborn and Payne [2] have noted emphatically that the relationship between business (and subsets of business, like accounting) and society is symbiotic: the one could not exist without the other. Throughout his article on stakeholders in the journal *Accounting and the Public Interest*, Joseph [3] references this symbiotic relationship by asserting five separate times that stakeholders and society are interdependent and must be able to accept this reciprocal relationship: society as a whole, stakeholders and accounting professionals with whom stakeholders deal must be able to trust in the integrity of the work product and the character of the accountant.

Raiborn and Payne [2], though not as comprehensively through-out the article as in Joseph's article [3], also reference the symbiotic relationship between business and society. The (fiduciary) duty owed to the society is born of the symbiotic relationship existing between the firm and the society in which it functions. The firm would not exist except that society granted it the right to operate; society benefits from the firm's existence because the firm is productive and adds value to society. So, both the firm and society benefit. If the firm breaches its fiduciary duty to uphold the spirit or letter of the law, both groups would suffer as the symbiotic effect declined.

This language, with the language used by Joseph [3], helps to address the second issue raised in this section: that of the need for accounting ethics. This need for accounting ethics encompasses two sets of thoughts: the need for ethics in accounting practice and the point of financial reporting as a whole.

The need for ethics in accounting practice can be found in the unethical behaviors accountants engage in, particularly as it relates to fraud or misrepresentation. Baskerville-Morely [4] lists a number of problems confronting accountants, including conflicting objectives of various stakeholders and preserving the profession's ability to continue profitably. Lasinsky [5] suggests three different reasons that accountants engage in fraud: a perceived need for money, the opportunity to defraud and rationalization schemes used in self-defense for one's knowingly illegal or immoral accounting practice. Albrecht, Albrecht, Albrecht and Zimbelman [6] also acknowledge the existence of the "fraud triangle." The fraud triangle includes the same three reasons for engaging in fraud that Lasinsky suggested: perceived pressure to attain money or other needs, perceived opportunity to defraud without getting caught and rationalization for why one's behavior is in fact acceptable [5]. All of these authors have set the stage for the ethics show: we must find ways to make it easier to prevent accounting fraud or misrepresentation of any sort by addressing the reasons people engage in fraud. Codes of ethics may not be able to address the first two issues of pressure and opportunity, but they can certainly address the rationalization of immoral and illegal behavior.

Financial Reporting As a Basic Business Requirement

Joseph [3] suggests that accountability is, in itself, a mission of corporate reporting. Williams [1] provides a list of roles of financial reporting: to provide information that is useful in making business and economic decisions, to provide neutral or unbiased information and to provide information helpful to potential investors and other stakeholders in assessing firm value and prospects. In listing these uses of financial reporting, however, Williams descries financial reporting as merely a scientific tool; there must be proper assessment and use of these tools to provide for the justification of decisions on a moral basis.

Williams [1] and Joseph [3] both also provide a definition of several accounting terms that provide further insight into the fundamental moral character of the profession of accounting. Williams begins his article with the definition of information. Information is "germane input to economic agents making optimal economic decisions. He also notes, citing Scott [7], that value-oriented information may be more subject to bias or manipulation, while historical-cost-based information would be less likely to be biased: the real problem is in getting these sets of information to match in a reasonable and realistic way. Such a match is important in that various stakeholders are quite interested in the information and what it represents, the decisions the information will aid in making. The issue with this, however, is that different stakeholders have different perspectives: the firm would like the information to show that the profit margin is great, while creditors or shareholders might like a more definitive idea of the firm's debt condition and the likelihood of a return on investment. Williams also notes that, according to well-established accounting principle, information is to be evenhanded, neutral or unbiased, which can be useful in making business and economic decisions. Joseph [3] also presents an ideal of information, as derived from SFAC concepts: accounting is to provide information that is useful in making business decisions. Information should be reliable, relevant and neutral. Reliable information reflects information that is timely and has good predictive value for making decisions. Reliability is the idea that the information is representationally faithful and verifiable. Neutrality is described as being information that is free from bias from a predetermined result: one should not decide what one is going to do until all relevant and reliable information has been received and processed.

Stakeholders

All these definitions and rules and concepts are aimed at one thing: to give the decision-maker a better foundation upon which to base decisions. The next question, then, is who are the stakeholders. Williams [1] also very specifically lists "two protagonists: managers and providers of capital. This author also acknowledges that everyone else besides these named groups seemed to be excluded in the accountant's assessment of the relevancy, reliability and neutrality of the information they prepare and present. Williams even names a stakeholder group that is typically excluded from accounting information debate: "vast majority of people who comprise the 'managed,' i.e. those who are under the direction of management.

Baskerville-Morley [4] listed seven types of stakeholders, identifying them by name or professional classification, with the more important classification being whether the stakeholder had power, urgency or legitimacy in the decision-making process and its consequences. This is a far broader list than the other writers provided and, in this current effort, one that is more reasonable in the construction of a code of ethics for accountants. We would include, among others, customers/clients, management, end-users of products, the personal standards of individual employees/accountants, shareholders of all companies affected by the firm's behavior, employees of the various firms involved, the community, society at large, and current and future financial backers of the project. Other stakeholders include professional associations, governmental regulatory agencies, competitors, suppliers, the accounting profession itself and the environment.

Accounting as a Profession

According to Richard De George [8], certain characteristics identify the existence of a profession. First, professionals engage in their jobs as a full time career, with the expectation of being paid for their expert work. Second, professionals are usually associated with status or prestige, and respect. The autonomy that professionals are granted carries with it the responsibility to set standards regarding entry into the profession, the discipline of members of professional associations. Additionally, professionals function with fewer societal constraints than non-professionals do.

In return for such increased autonomy, however, they properly are expected to serve the public good, to set higher standards of conduct for their members than those required of others, and to enforce higher discipline on themselves than others do… Society … imposes less social control, on the condition that the profession be self-regulating and self-disciplinary.

It is further suggested that professions should be allowed to regulate themselves on the basis of two arguments. First, members of the profession have specialized knowledge with social utility; such knowledge is not easily understood or used by non-professionals. Second, members of the profession set higher standards for themselves than society generally requires of non-professionals.

Stuebs and Wilkinson [9] Covey, Merrill and Merrill [10] and Covey [11] label accountants as professionals in that they have a professional requirement to serve the public interest in preference to their own private interests. They must meet this requirement by developing competence and character as an accountant. Bollom [12] reiterates both a key characteristic of accounting as a profession and the problem confronting the profession:

The main objective of the professions is not personal gain, but service to and protection of the public. Individuals may enter a profession for personal gain or prestige. Clearly, there is nothing wrong with making a lot of money if the professional does what she is licensed to do. However, without the public benefit, there would be no profession. Yet, the public equates a high degree of crassness and selfishness with the professions. Our ethics are under question.

The Purposes of Codes of Ethics

Purposes of a code of ethics are also similar between the fields of general business and accounting. De George [8] has suggested that codes have several characteristics or purposes. The code should be regulative: ideals for behavior and punitive regulations should be included to guide behavior and correct inappropriate behavior. The public interest and those interests served by the profession under consideration must be protected. Professional codes should not be self-serving and should be specific and honest in their provisions and implementation.

Codes should be sufficiently comprehensive as to act as effective behavioral guides, regardless of the moral dilemma in which the decision-maker finds himself. Codes should be positive in nature, structured to assume that behavior will be proper. Finally, codes should be enforceable: as noted by De George [8], failure to enforce codes of ethics renders them useless [2].

For the accounting profession, similar purposes are found in codes of ethics. Felo [13] and Stuebs and Wilkinson [9] both have suggestions for why accountants have and should abide by codes of ethics, even beyond the mandates in groups like the AICPA. For example, Felo [13] suggests that codes will help a firm develop a more forthcoming and transparent attitude concerning disclosures. He further suggests that merely having a code of ethics, without proper implementation and enforcement is pointless. Stuebs and Wilkinson [9] create a model for restoring confidence in the accounting profession which includes the creation or strengthening of self-regulation. These authors are clear: accountants need codes of ethics to achieve many of the same ends that general codes of ethical behavior do.

Common Concepts of Morality and Traditional Ethics Frameworks

The effort to generate a single code of accounting ethics requires an understanding and comparison of the myriad accounting ethics codes and general codes of ethics. Such a comparison is the basis for the idea that a single code of ethics for accountants is reasonable: Codes are built on like concepts all can understand and utilize. Concepts like values, ethics and specialized ethics, such as business ethics and accounting ethics are examined to reveal similarities in accounting and business codes.

Values are views expressed as statements describing objects or features of objects that have worth and may also be defined as socially or personally desirable elements [14] [15] [9]. In a business context, values have been described as the core set of beliefs and principles deemed to be desirable (by groups) of individuals [16] [17]. When values are added to attitudes, beliefs and behavior, a continuous spiral of values, culture, behaviors, etc. is formed [18].

Carroll [19] and Freeman and Gilbert [20] have defined ethics as an understanding of what is right and fair conduct or behavior. Noted business ethicist Richard De George [8] defined business ethics as the interaction of ethics and business is business ethics. Velasquez [21] has defined business ethics in similar terms: "Business ethics is a specialized study of moral right and wrong. It concentrates on moral standards as they apply particularly to business policies, institutions, and behaviors…Business ethics is a study of moral standards and how these apply to the systems and organizations through which modern societies produce and distribute goods and services ".

The authors used several frameworks as the basis for a determination that societal and accounting ethics are similar enough to be used to develop a basis upon which a code of ethics of business people and accounting professionals could be built: the Kantian [22] analyses, the approach taken by Raiborn and Payne [2], and the Aristotelian virtues. These approaches are classified as deontological approaches to ethics, which are duty-based: an action is morally right or wrong based on the action itself.

The Kantian analysis [22] can be simplified into three questions, the answers to which must all be positive for a moral duty to exist. The questions are: is the action universally consistent, does the action respect the person acted upon as inherently valuable and does the action respect the freedom of the person acted upon. The Kantian analysis can be reduced even further to the simple statement that one should do unto others as they would have others do unto them.

At the highest level of morality, these values can be described in the following ways. Integrity is an ideal combining the values of sincerity, honesty and candor. The concept of good faith is critical in this value. Justice entails the use of equality and fairness in decision-making. Competence is the value that forces workers to be competent, to maintain state of the art knowledge in their fields. The concept of utility dictates that the decision-maker will “actively seek information on the impact its decisions will have on all parties and it will weigh this information equally [2].

The Aristotelian virtues [12] [23] also provide a construct upon which to base our proposed code. There are seven Aristotelian virtues arguably related directly to business. The seven virtues are: courage, self-control, generosity, magnificence, magnanimity, justice, and sociability. Courage is the ability to regulate fear. Self-control reflects attitudes towards pleasure and self-gratification. The third virtue is generosity, which deals with the concept of the attainment of wealth. Magnificence is closely related to the concept of generosity: it implies the expenditure of large sums in the right way for a good reason. Magnanimity, closely related to magnificence, is the idea that one should have value and respect for great honors, in this case, the receipt of trust from the community and its business and consumer members. Sociability is the ideal that one should act pleasantly and professionally with others. Clearly, this attribute should permeate business dealings regardless of what the nature of those dealings are. Finally, the virtue of justice, in its most simplistic form, reflects the idea of proper allocation of goods. Although there are many levels to Aristotle’s discussion of justice [23], it is appropriate to use this easily understandable definition of justice and to apply it to actions of any professional. Table 1 is a representation of the comparison between the Kantian analysis, that provided by Raiborn and Payne [2] and Aristotle’s [23] virtues.

Table 1: Frameworks of ethical concepts

Author Concepts	**Kant** [22]	**Raiborn & Payne** [2]	**Aristotelian Virtues** [23]
Consistency	Universally consistent actions		Self-control
Respect individuals	Respect individuals as inherently valuable		Generosity
Autonomy for all	Respect autonomy of all rational beings		Sociability
Integrity		Integrity	Courage
Justice		Justice	Justice
Utility		Utility	Magnificence
Competence		Competence	Magnanimity

The Accounting Codes

Finally, we have determined a base of ethical values upon which a model of a code of ethics could be based. Such a code, when finally fully developed, could be manipulated into a very specific code of professional conduct, a code that would be easily comprehended by accountant and non-accountant alike and that might be more easily utilized and embraced by accountants and their stakeholders. Exhibits 1 and 2 represent the codes of professional ethics of the AICPA and the IMA, respectively. Table 2 is a comparison of the substantive principles found in those codes, while Table 3 is the culmination of this effort: the last column is reflective of broad societal ethical edicts as applicable to accountants.

Exhibit 1: AICPA Code of Professional Conduct

The Preamble states that an accountant assumes the obligation of self-discipline above and beyond legal requirements or regulations, as well as responsibility to the public, clients and colleagues: there must be an unswerving commitment to honorable behavior.

- Responsibilities: In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities
- The Public Interest: Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism
- Integrity: To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity
- Objectivity and Independence: A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services

Exhibit 2: IMA’s Code of Ethics

IMA's commitment to ethical professional practice includes overarching principles that express our values and standards that guide our conduct. These principles are described in the *IMA*

Table 2: Comparison of the AICPA and IMA codes of ethics

AICPA	IMA	Codal Synthesis
Self-discipline	Conduct guide with ethical commitment	Do right
Responsibility for sensitivity and use of moral judgment	Integrity requires no conflicts of interest, no appearance of impropriety and no discreditable behavior	Foster trust and fairness
Serve public interest Honor public trust Demonstrate commitment to professionalism	Confidentiality of all information is required until authorization or legal mandate All those privy to confidential information should be aware that it is confidential	Respect of/responsibility to stakeholders
Maintain and broaden public confidence with highest sense of integrity	Competence requires maintenance of expertise, legal compliance and clear, concise, and timely information disclosure	Honesty, good faith, sincerity
Objectivity and independence assuring freedom from conflicts of interest	Resolution of ethical conflict requires use of the organization's pertinent policies and procedures, followed by consultation with an IMA representative or personal attorney	Autonomy for all, including accounting professional
	Credibility requires fair, accurate and complete communication, with appropriate disclosure of communication delay or deficiency	Respect of legal requirement

Table 3: Supra-professional code of ethics

Concepts Derived from Synthesized Frameworks and Consolidated as to Principle	Ethical Ideals Summary	AICPA and IMA Codal Synthesis	Proposed Base upon which to form a Uniform Professional Code of Business Ethics
Consistency Respect for individuals	Use of reason in decision-making Recognition of duties owed to stakeholders Confidentiality in relationships Do no harm	Respect of/responsibility to stakeholders Do right	Treat constituents fairly, with uniformity in consistent situations, regarding safety, knowledge and good faith
Autonomy for all	Autonomous decision-making ability	Honesty	Assure freedom of choice by providing information that is accurate, relevant and complete to all appropriate stakeholders
Integrity Justice/Fairness	Honesty/integrity Submission to appropriate sanction of wrongful professional conduct	Foster trust Fairness	Use good faith in decision making and assessment activities
Utility Competence	Utility of efforts Service to society/stakeholders Legal and moral accountability to society/stakeholders Adherence to highest standards of professional conduct	Respect of legal requirement	Assess utility and competence of project and self in light of the social and individual needs and abilities of stakeholders and society

Statement of Ethical Professional Practice, which sets forth standards:

- Competence
- Confidentiality
- Integrity
- Credibility
- Resolution of Ethical Conflict

IMA members are required to act in accordance with these principles and to encourage others within their organizations to adhere to them [24].

Conclusion

Accounting is not generally considered to be a profession wrought with ethical dilemmas. However, given the questionable, yet creative accounting practices at the center of several major corporate scandals over the past 2 decades, the need for a uniform code of ethics is apparent. We recommend that these principles should include upholding the codes of ethics in accounting practices, as well as reporting suspected instances misconduct. Further research in this area is merited to utilize these values to define particular ethical principles that should bind all accounting professionals.

A profession-specific ethics code is meant to supplement, not take the place of, more general ethics codes that apply to all employees regardless of position. For many organizations, ethics codes are broadly written so that they apply collectively to all members in an organization or to certain stakeholder groups (e.g., employees, customers). However, we assert that organizations would benefit from creating more narrowly focused, position-specific or profession-specific codes of ethics. Broadly based codes of ethics, though fully warranted, do not detail ethical dilemmas that are likely to occur for specific occupational groups or departments within an organization. Publishing organization-wide and profession-specific ethics codes will clarify the ethical expectations for stakeholders, in addition to protecting organizations against legal liability in instances of internal misconduct [25]

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Remark: Abbreviations: GAAP, GAAS, AICIP, IMA IFAC