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(Review Article)

# Accounting Ethics

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### Abstract

**Background:** Accounting information has many users, which comprise business holders, managers, investors, creditors and the government for tax and regulatory resolves. A businessman use financial statements to define particular information that will guide him in making vital business decisions. Accounting impacts a wide range of parties in society. From this point of view, accounting's codes of ethics are important.

**Conclusion:** Ethical codes are the essential principles that accounting professionals choose to abide by to enhance their profession, preserve public trust, and reveal honesty and fairness. Proper ethics and ethical behavior are tremendously important in accounting for a variety of motives. In the same way it is important that the industry itself does not become pilloried as an unethical one, something that could potentially destruction business for all accounting firms. Ethics and integrity are valued features in an accountant. They must know right from wrong and always parade integrity in his or her accounting and bookkeeping deeds.

**Keywords:** Ethics, Accounting, Ethical cods

### Introduction

#### *What is Accounting Ethics?*

Accounting ethics is among important topic because accountants are the key personnel who can reach the information of three Financial Statements (the income statement, the balance sheet, and the statement of cash flows). These three statements are linked to each other. Accounting ethics is primarily a field of applied ethics and is part of business ethics and human ethics, which

is the study of moral values and judgments as they apply to accountancy: an example of professional ethics. Accounting introduced by Luca Pacioli, and later developed different groups, professional organizations, and independent associations (1). Ethics is taught in accounting courses at higher education institutions as well as by companies training accountants and auditors. The nature of the duty carried out by accountants and

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auditors requires a high level of ethics. Shareholders, investors, and other users of the financial statements rely heavily on the annual financial statements of a company to use this information to make an informed decision. They rely on the opinion of the accountants who prepared the statements, as well as the auditors that validate it, to present a true and fair view of the company (2). Having knowledge of ethics can help accountants and auditors to prevail; ethical dilemmas, allowing for the right choice that will benefit the public who focus on the accountant/auditor's reporting.

### *History*

Luca Pacioli, the "Father of Accounting", has written on in his first book *Summa de arithmetica, geometria, proportioni, et proportionalita*, published in 1494 about accounting ethics. Ethical codes and standards from since have been developed through different groups, professional and independent organizations. These various groups had lead accountants to follow several rules and codes of ethics to perform their duties in a professional way and in a professional work environment (3). Accountants must follow these rules named the code of ethics set out by the professional.

In United States, in 1887, the American Association of Public Accountants (AAPA) was created; it was the first step in developing professionalism in the United States accounting. By 1905, the AAPA's first ethical codes were derived to educate its members. During its twentieth bicentennial assembly in October 1907, ethics was a major topic of the conference among its members. As a result, a list of professional ethics was used into the organization's bylaws. However, because membership to the organization was voluntary, the association could not put a must on individuals to conform to the suggested behaviors. The AAPA was retitled several times throughout its history, before becoming the American Institute of Certified Public Accountants (AICPA) as it's named today. They extended five divisions of ethical principles that its members should follow: "independence, integrity, and objectivity"; "com-

petence and technical standards"; "responsibilities to clients"; "responsibilities to colleagues"; as well as "other responsibilities and practices". Each of these divisions gave guidelines on how a Certified Public Accountant (CPA) should react as a professional. Failure to fulfill with the guidelines could have caused an accountant to be pent from practicing. When developing the ethical principles, the AICPA also considered how the profession would be viewed by those outside of the accounting industry (4).

### *Accounting Scandals*

Accounting ethics has been considered tough to resistor as accountants and auditors must consider the interest of the public (which relies on the information gathered in audits) while ensuring that they endured active by the syndicate they are auditing. They requisite contemplate how to best smear accounting standards even when faced with issues that could cause a company to face a significant loss or even be discontinued (5). Due to several accounting scandals within the profession, critics of accountants have stated that when asked by a client "what does two plus two equal?" the accountant possible to respond "what you alike it to be?" This thought course along with other criticisms of the profession's issues with conflict of interest, have led to various increased standards of competence while stressing ethics in the work situation.

The role of accountants is grave to society. Accountants serve as financial reporters and mediators in the capital markets and owe their primary compulsion to the public interest. The information they provide is crucial in assisting managers, investors and others in making critical economic decisions. Therefore, ethical indecorums by accountants can be detrimental to society, resulting in distrust by the public and disruption of efficient capital market operations.

From the 1980s to the existing there have been numerous accounting scandals that were widely reported on by the media and resulted in fraud charges, bankruptcy protection requests, and the closure of companies and accounting firms. The disgraces were the result of creative accounting,

misleading financial analysis, as well as corruption. Numerous companies had matters with dishonest accounting practices, including Nugan Hand Bank, Phar-Mor, WorldCom, and AIG. One of the most widely reported violation of accounting ethics involved Enron, a multinational company, which for several years had not shown a true or fair view of their financial statements. Their auditor Arthur Andersen, an accounting firm considered one of the "Big Five", signed off on the rationality of the accounts despite the inaccuracies in the financial statements. When the unprincipled activities were described, not only did Enron disband but Arthur Andersen also went out of business. Enron's shareholders lost \$25 billion as a result of the company's bankruptcy (6). Although only a fraction of Arthur Anderson's employees were involved with the scandal, the closure of the firm resulted in the loss of 85,000 jobs.

Following these scandals a rule named Sarbanes–Oxley act was set. Sarbanes–Oxley was named after U.S. Senator Paul Sarbanes and U.S. Representative Michael G. Oxley. As a result of this act, top management must by discrete affirm the accuracy of financial information. Additionally, penalties for fraudulent financial acts are much harsher (7). In addition, this act has increased the omission role of boards of directors and the independence of the outside auditors that review the validity of financial statements.

This act, which contains eleven parts, was depict as a reaction to a number of major corporate and accounting scandals, including Enron, Tyco International, Adelphia, Peregrine Systems, and WorldCom. Not to mention that these scandals cost investors billions of dollars, since the share prices' of affected companies crashed and tremor public confidence in the US securities markets.

The act contains eleven titles, ranging from additional corporate board responsibilities to criminal penalties, which requires the Securities and Exchange Commission (SEC) to comply rulings on requirements to act with the law. Since it is distinct that: the mission of the SEC is to protect investors, preserve fair orderly, and efficient markets, and facilitate capital formation.

### *Ethics and the Code of the Conduct*

Ethics and ethical behavior advert more to general principles such as honesty, integrity, and morals. However, the code of professional conduct, is a specific set of rules set by the governing bodies. Although the rules set out by diverse bodies around the world are each unique, some rules are universal (8). One of the key rules set out by professional accounting bodies is the independence. This is auditors must be totally objective and must be without concerns to or relationships with the client since that could potentially impair their judgment and impair the overall course of the audit work.

There are two forms of independence:

Independence in fact recourse to any factual information such as whether auditors own any shares or other investments in the client firm, which is usually easy to determine.

Independence in attendance is more subjective. In order to solve a potential conflict of interest, a reasonable observer's test is used – i.e., what would a reasonable observer say about the situation that the auditors may have benefit form relation with client (9).

Some other rules themed by professional accounting bodies include the following:

- Contingent fees are not allowed: e.g., audit fees that are based on a percentage of the net income figure or a percentage of a bank loan received
- Integrity and due care: work must be done thoroughly, diligently, and in a timely manner.
- Professional competence: must be competent, which means he/she must have both the necessary academic knowledge and experience in the relevant industry.
- Duty to report a breach of rules: the whistleblower rule. If a CPA detects a associated CPA disrespectful any of these rules, he/she has a responsibility to report it.
- Confidentiality: must not reveal any information regarding the client to outsiders.

### *Code of Ethics in Accounting*

The International Ethics Standards Board for Accountants, itself an independent agency, has devel-

oped a code scheming the principles at play in ethical accounting (10). These principles cover many facets of ethical behavior for accountants, although unique situations may need judgment calls that aren't explicitly evoked in these principles.

- Integrity: Integrity isn't a set of guidelines or a development of achievement, but rather a state of awareness oriented near honesty, honesty and a obligation to acting succeeding principle rather than for the sake of personal gain.
- Objectivity: To the degree that it is physically possible, accountants shouldn't be prejudiced by the interests or outlooks of the individuals or companies who hire them. An accountant also shouldn't let individual biases or benefits influence either the numbers that go into an bookkeeping system or the fallouts that come out of it. Facts and results should be taken at face value and should determination assumptions and decisions.
- Professional Competence and Due Care: The arena of accounting isn't a still body of gen but rather an evolving frame of situation that changes as regulation and best practices are redefined over period. It is the duty of an ethical accountant to stay well-informed of these expansions and provide clients with up-to-date material and the highest eminence service.
- Confidentiality: Accountants switch sensitive information, and it is an accountant's ethical charge to exhortation from disclosing any of this information to outside parties who may stand to advance from it. Likewise, an accountant shouldn't use any information gotten while acting professional services for the sake of individual gain, such as vending stock in a business whose books appear doubtful.
- Professional Behavior: As with any living, an accountant should achieve tasks and tasks with an eye to the highest personal and specialized standards. These include completing tasks methodically and on

time, subsequent through on commitments and only compliant expenditures for services that have been condensed.

In Iran, Iranian Association of Certified Public Accountants (IACPA) is regulating and promoting accounting and auditing profession and oversight of the work of members by:

- Organizing CPAs
- Enhancement and development of professional services through preparation, compilation, publication and promotion of accounting, financial services and ethics standards;
- Enhancement of professional knowledge of certified public accountants through development and improvement of training, research and issuance of specialized and professional publications
- Safeguarding the professional interests of members.
- Communication with regional and international professional bodies and becoming a member thereof with the goal of advancement of professional connections.

### *History of Iranian Association of Certified Public Accountants*

Audit of profit and non-profit entities, a system of professional accounting, establishment and domain of non-governmental auditing were left undecided for the first 10-15 years after the revolution. The 'Use of Specialized and Professional Services of Qualified Accountants as certified Public Accountant Act' (the Act), enacted in 1993, was a desirable response to this need. According to the Act, government may utilize the specialized and professional service of Certified Public Accountants (CPAs) as it thinks proper and fit, to monitor financial affairs of manufacturing, trading and service entities and also, to ensure the reliability of their financial statements in order to maintain investors, other interested parties and the public interests. According to sub-section 1 to the Act, the "Recognition of Qualification of Certified Public Accountants" procedural manual was ratified in 1995 by the

Council of Ministers and in early 1996, Minister of Economic Affairs and Finance introduced the first group of CPAs as founders of Iranian Association of Certified Public Accountants to develop the association's Articles of Association. The Articles of Association was ratified by the Council of Ministers in September 1998. The first general assembly of CPAs was convened on August 24, 2001, to elect High Council members. High Council members were duly elected by direct vote of CPA members and the Association was duly established.

The governing bodies of IACPA are as follows:

### ***High Council***

High Council comprises 11 experienced and expert CPAs elected from within the members by the members for a three year term. One delegate appointed by the Minister of Economic Affairs and Finance, one by the Stock Exchange Council, and one by the High Council of Banks also attend the meeting without voting right. High Council is the highest governing body, and is responsible for matters such as setting the strategy and approval of plans, manuals, annual budget, financial statements of IACPA, appointment of the board of directors and disciplinary board members. Approval of specialized committee members competency, determining entry fees and performance of professional oversight through specialized committees are part of High Council duties.

### ***Board of Directors***

Board of Directors comprises 3 or 5 CPAs selected from within the members and appointed by the president for three years. The High Council appoints one of the members of the board as Chief Executive Officer and Secretary General who will handle the Association's affairs on a fulltime basis. Implementation of High Council directives; planning; organizing; preparation of manuals, annual budget, financial statements and execution of plans are among the duties of Secretary General and the Board. Each member of the board is responsible for part of the activities of the Association. Other duties of the board include establishing specialized committees; recommending entry,

fixed and variable membership fees; and preparation of directives necessary for execution of duties.

### ***Supreme Oversight Board***

Supreme Oversight Board comprises one chief and two members, all CPAs, appointed from within the members of the Association by the Minister of Economic Affairs and Finance for a two year term. The Board has the duties of examining and expressing an opinion on the fairness of information reported by the Board of Directors, annual financial statements of IACPA, performance of the Association and its members, and also to render regular reports of its activities to the Minister of Economic Affairs and finance, High Council and the Board of Directors as necessary.

### ***Conclusion***

Ethical codes are the fundamental principles that accounting professionals have chosen to abide by to increase their profession, maintain public trust, and demonstrate honesty and fairness. . Sadly, not everyone whose task is in the accounting field is trustworthy. Accounting ethics is originally a field of applied ethics and is part of business ethics and human ethics, studying the moral values and judgments as they apply to accounting. Accounting first introduced by Luca Pacioli, and later prolonged by government groups, professional administrations, and independent firms. It interconnects a lot of the information that owners, managers, and investors requisite to appraise a company's financial enactment. In fact, the resolution of accounting is to help investors make better business resolutions by providing them with financial information. Many negative significances can result from poor ethics in accounting applies. The first result is generally a holdup in business. Accounting corporations rely seriously on word-of-mouth for campaign, and it's all too easy for a few bad stories about unethical performance to expert prospective clients away from a precise firm. There can also be serious legal outcomes for those who are found to be disrespectful legal codes and standards for their au-



thority. Generally speaking, all accountants are to deed in the public interest. In this regard, accountants are to evade exclusively sustaining the needs of an individual employer or individual client, but rather to comply with the ethical requirements in upholding respect for public interest. The essential principles include integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. These fundamentals are acute to sustaining the high ethical standards of the accounting industry as a whole. To sum up, the reputation of ethics in accounting cannot be stressed adequate, as ethical standards lay the substance for which the entire industry must be held answerable to and blossom upon.

### Ethical Consideration

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