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ACCOUNTING BETWEEN LAW, ETHICS AND MORALITY

Viewpoint

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Abstract

This paper deals with the fact that nowadays, society and business show high expectations regarding the accounting discipline, and therefore professionals in this area should expand their horizons to meet all requirements. First of all, accounting assumed a certain responsibility to the public interest, by its fundamental purpose, namely to provide financial-accounting information, information that will form the basis of decision making. Second of all, for the successful fulfilment of the public responsibilities, accountants must rely on elements of doctrine, ethics, or ethics and morality. The article wants to show the importance of the accounting discipline, which has begun to increasingly focus on the creation of a moral or ethical basis, putting these issues on the same level with respecting the law. The boundary between what is legal but not ethical or moral is very small, and there were many business cases where unethical behaviour led to business failure.

Introduction

Nowadays, the society and the business environment, show high expectations regarding the accounting discipline. This is why the professionals from this field have to expand their horizons in order to respond to their customer's needs.

The accounting has assumed a certain responsibility towards the public interest, by its' fundamental purpose, that of offering financial-accounting information, which will help in taking decisions at a managing level. In order to fulfil this public responsibility, accounting professionals must use elements of doctrine, deontology, ethics and morality.

General Aspects Regarding Ethics and Morality

The term of "ethic" has its origin in the Greek language - "ethos", meaning an individual's character, a community's culture, or a good habit. The ethic is the science that studies the problematic and the determinants of the human behaviour, and also one human's obligations or duties in this world. It's difficult to define the concept of ethic or to establish some basic principles of its own, because the facts and situations, can be, often, differently interpreted, depending on their context and circumstances. Although, as a basic principle of ethics can be considered the fact that individuals must act taking in consideration the impact of their actions on their own person, on others and on the society, in general. So, an ethical behaviour consists in one person acting not only driven by its' own interest, but also by the interest of others that surround him.

Ethic behaviour consists not only in following the rules and legislation, but, more important, is a commitment of doing what is good and also allowed. Due to the fact that people are different, sometimes, their perception regarding what is good or bad can be different, and also their beliefs and principles. Being ethical is not

something one is born with, it is something gained, from the first years, with the help of the family, and later, something gained through education in school, university and also at a workplace. Ethical behaviour and attitude depend on the principles gained, on the moral and professional values, and also on the environment in which one person lives. No matter the personal or professional environment, a society without ethics couldn't function normally. Morality represents a set of rules that a person must follow in its behaviour. We could say that the ethic is the behaviours theory, and the moral is its' practice. The ethic isn't temporal, because it's based on divine and transcendent ideas, and on virtues. The moral is something spatial and temporal, and consists in rules that can be limitedly applied, only in a certain period and space. In other words, the moral is the "translation" of ethic at a spatial-temporal level.

According to the Josephson Institute of Ethics, the fundamental ethic values are: credibility (honesty, integrity, reliability and loyalty); respect (politeness, dignity, tolerance, and acceptance); responsibility (commitment, perseverance, excellence, moderation); equity (equality, impartiality, proportionality, honesty); empathy (altruism, generosity, kindness, solidarity) and civic spirit (legally, consistency, principles).

Appeal to Ethics to Achieve an Accurate Image

In the actual context, the accounting discipline, and also its laws and regulations, are in a continuous harmonization process. The harmonization is intended especially at the financial reporting level. The reason is that, together with the intensification of the globalization, the geographic borders are no longer an impediment. Multinational companies, foreign investments in companies from different states, cross-border relations and the unique market are

elements that define a normal business environment. So, the need for a common reporting language is obvious. It is necessary a unique model, easy to be understood by all the users of the financial information, no matter the state where they come from. Nowadays, the purpose of an accounting professional has evolved from the basically bookkeeping in order to respect the law and generate different reports to the managers or to the public administration, to the role of a consultant, specialist that make calculations, predictions, analyses, in order to identify and support the best strategies for the future.

The difficulties of this profession consist mainly in keeping equilibrium between: respecting the customer's wishes, which are usually oriented towards profit maximization no matter the means, and respecting the law and the ethic code imposed by the professional organism.

Maybe this is the reason why the accounting discipline is between the few that has special courses of ethic and professional deontology, in the academic environment, for the students, but also in the period necessary before becoming a chartered accountant or a financial auditor.

The main objectives of a professional from the financial-accounting domain are established in a manner that ensure fulfilling the highest standards of performance, in order to respond to the public interest of all users of accounting information. The society has higher expectations from professionals than from others, this is why they must pay attention, be rigorous, never forgetting the most important aspects in their mission: trust, credibility, professionalism, and quality of services provided. The relationships between accounting professionals and their clients or employers, and also the relationships between more professional accountants, must follow some rules and principles, established by the professional organism, in order to avoid offering some

financial information that could negatively affect decisions.

The professional organism from the national and also international level has between its attributions also establishing rules and ethical principles, and also monitoring of their follow and implementation. In the case of identifying some bad behaviour, it has the obligation of applying sanctions in order to avoid similar actions in the future.

After the great financial scandals that occurred in the United States, among which may be mentioned Enron, Arthur Andersen, WorldCom, Barings, etc., the discussions about the cause of these failures have highlighted the importance of the role of professional accountants in these actions. They discussed various reasons, such as errors in accounting and auditing practices, incomplete and inadequate regulations issued by the responsible accounting organisms, emphasis on fast monetary rewards at the expense of sound accounting principles, professionals' reluctance to take responsibility for detecting fraud. In fact, the main cause of these scandals was the deviation from the moral values and ethics of all those involved, managers, accountants and auditors. All these scandals were based on fraudulent financial reporting, which presented a non-existent reality, in fact lies were involved, both from the authorities and from employees, partners and the public.

Nowadays accounting discipline has begun to focus more and more on the creation of a moral or ethical regulation of the professionals, putting these issues on the same level with respecting the law. The boundary between what is legal but not good in terms of ethics and morality is very small, there are many business cases where unethical behaviours led to the failure of a business. Some examples might be: secretly providing information to competitors, presentation to shareholders and potential investors of some untrue

financial statements, an intentional incorrect classification of elements such as revenues and expenditures to reduce the tax burden, over- or under evaluation of assets, liabilities and claims of an entity, etc.

People act corrupt because of a variety of reasons. A researcher in philosophy, Kohlberg, has established certain cognitive frames that have given rise to ethical behaviour, considered also stages or levels of moral development. These are in number of six and can be briefly described as follows:

- The first level is characteristic for those persons acting in an ethical manner for fear of not being caught or punished;
- The second level describes individuals acting ethically thinking only of their own sake;
- The third stage in the development of individuals' ethics concerns ethical behaviour in response to the actions of others, which in turn act ethically;
- The fourth stage describes individuals who act ethically because it's required by law, regulations, rules or standards by which they are guided;
- The fifth step in the evolution of ethics describes individuals' ethical behaviour as a result of the concern for others, due to a sense of social responsibility;
- The last step, the ideal that all should achieve, carefully describes ethical behaviour and ethical principles as a result of the individual's awareness that things need to be done just this way.

The results of studies show that the most commonly achieved by most individuals is the fourth, so most people behave ethically motivated by law or regulations imposed by a certain profession. There are very rare cases where ethical behaviour is based on the concern for others or on the awareness of the importance of making a good thing because it is right, to have strong moral principles.

And the things are certainly alike also for professional accountants. The main motivation underlying the ethical

behaviour is respecting the law and the Code of Ethics required by the profession. What would it be the behaviour of an accountant who, faced with an ethical dilemma, with little risk of being punished (first stage), with personal rewards that are not sufficient (level II), when there is no ethical behaviour from its' peers (third level), or meets with an ambiguous regulation, with different interpretations, which leaves a certain freedom of action? If this individual has not passed the fourth stage of ethical development, there are very high chances that his actions in the situation described above are no longer ethical.

If indeed the fourth stage is often reached by professional accountants, this explains why the existence of codes of ethics issued by accounting is not always sufficient to achieve a moral and ethical behaviour.

However, the existence of a set of rules and principles to be followed is important for any profession. The Code of Ethics for Professional Accountants issued by the IFAC (International Federation of Accountants) sets out rules and principles to be observed by all professional accountants. Fundamental principles of the code of ethics, applicable to any professional, are: integrity, objectivity, competence, confidentiality, professional conduct and respect for the technical and professional standards. Integrity refers to the fact that the professional accountant should be fair, honest and incorruptible. Trust and credibility granted are based on the accountants' integrity. Objectivity requires impartiality in presenting information; the opinion expressed by the auditing report must not be influenced by the auditors' own interests or the interests of others. Competence involves resolving tasks with professionalism, applying knowledge, skills and experience acquired over time. Another very important rule is privacy, which requires that confidential data and professional contacts are forbidden to be

used for personal interest or for the interest of others. Professionalism is complying with the main laws and regulations and avoiding any action that would discredit their profession.

Professional accountants have a duty to execute with skills the instructions given by their client, but only to the extent that they are compatible with the requirements of integrity, objectivity and, in the case of self-employed accountants, with the independence. In addition, they must comply with relevant legislation and professional and technical standards issued by professional organizations: IFAC, IASB, CECCAR, CAFR. The Code also addresses to certain "sensitive" situations that may give rise to ethical dilemmas, such as the independence of the auditor to its client, taxes and fees, activities incompatible with the auditing profession, etc.

Not just in our business environment, but also in other countries, when a decision has ethical implications, in general, the first question to ask is "can I be caught?" Or "is it legal?". However, to ensure long-term success, the attention should not be directed by speculations of the moment, immediate gains, but to the long-term implications, to what is truly good, both for business and for partners.

A natural thing is to give consideration to ethics in the accounting profession, which is the underlying quality of all work performed by professional accountants. This shows the importance of the ethical appeal to limit the use of creative accounting techniques.

There is no disputing about the relationship between accounting and ethics governing the profession, so that if we make an analysis, ethics is what determines accountants to make a difference between good and bad, which is why, it is very important from this point of view, that a professional accountant always takes the decision that complies with professional ethics.

Although fulfilling the users' needs of accounting and financial information is normally considered the main objective of the professional accountant when preparing financial statements, sometimes there are cases when ethics failures lead to future financial statements „managed " so as to manipulate users in decision making. Since ethics in accounting and auditing is called professional deontology, we can see that in addition to ethics, in the true sense of the word, comes the moral and due to the fact that without it, the search for what is good and true cannot be successful. It is, therefore, a need for a minimum level of moral purpose to give ethics to a precise business.

Regarding the creative accounting and the accounting scandals, if ethics had been well known and respected by all those involved in creating and transmitting the financial information, there wouldn't have been such disastrous results.

What is clear is that to get the truth a user wants, the auditor should ensure that the accounting rules are followed, so that the results "enjoy" the credibility of the users, especially because its main purpose, as we mentioned earlier, that is the true image, is given by the annual statements.

American researchers found that views on creative accounting change depending on the involvement in the practice of accounting, meaning that students are more concerned about handling transactions, with high interest on the welfare of the users of the information or the managers' interventions, while practitioners are being more concerned about how they exercise their professional judgment. They tend to criticize more the inobservance of the accounting rules.

The importance of the auditor relies on the verification and certification of the annual financial statements, but we must not forget that this profession, in order to fulfil the right objectives, must respect the professional ethics of the audit, and there are several factors that must be taken into consideration to ensure accuracy of the

work performed by accountants. The most important feature of the accounting profession is to accept that you must first fulfil the responsibility towards the ones that take use of the information that you, as a professional, offer.

Accounting scandals stand as evidence that the auditors' independence is very important. In the examples of accounting scandals mentioned above, the most important thing to be mentioned is that most of them took place with the silent "agreement" of the audit firms, which were normally supposed to ensure the honesty of the annual financial statements, for the purposes of using accounting policies, appropriate and fair methods.

These scandals led to the main result, that was new regulations in the U.S., which clarified certain things regarding the auditors' independence and incompatibilities that may occur and may cause that the audit engagement cannot be done, but also on his appointment, in the sense that not the manager must decide the auditor, but the general meeting of shareholders, to ensure no different benefits.

Conclusions

Ethics, however, is unclear because there are no generally accepted ethical principles that define what is good or what is wrong, allowed or disallowed, supported or unsupported, in other words, ethics is what you need to do without someone or something compelling you to do so. Ethics should be exercised, within the company, at all the levels, should be distinguished by transparency, fairness and consistency. With the constant progress in accounting and financial reporting, professionals should give more importance to ethics and morality because, nowadays, respecting the law is not enough. Clients are interested not only in finding an accountant that knows and applies the law, but also a trustworthy person, who will give the best advices, not only for the business, but for all the parts involved.

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