Leadership and Organizational Behavioral Journal
Vol.2, No.1 pp 13-21

The Ethical Dilemmas of an Accountant

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Abstract

Accounting professionals encounter an array of pressures from their clients and management to misrepresent their financial standing and involve in unethical activities. There are ethical codes of conduct in place and punishments for their violations which oblige accountants to avoid committing any felonies. Making ethical decisions in accordance with ethical codes can be challenging for accountants when they are dealing with ethical dilemmas. In this situation, rules-based and principles-based approaches can be very helpful for accountants to make ethical decisions. The core aim of this study is to highlight the major challenges faced by accountants with relevance to ethical conducts at workplace. The conceptual paper merely highlights those issues and offers an insight about possible options to address those.

Key words: Accountants, Conceptual Outlook, Ethical Dilemmas, Professionals.

Submission 27-July-22; Revision 12-Aug-22; Accepted 29-Aug-22; Published 15-Sep-22

Introduction

An ethical dilemma refers to a situation in which it is difficult to decide between two possible courses of action neither of which is clearly morally acceptable. Ethical dilemmas are very challenging situations and can occur in both personal and professional aspects of life. For example, insider trading is when an employee uses the inside knowledge of the company for his/her own personal benefit (What is an Ethical Dilemma?, n.d.)

Ethical dilemmas are difficult to solve and there are no clear methods to solve them. However, there are some applications that are helpful in solving ethical dilemmas;

- Thorough analysis of the situation to demolish the existence of the dilemma.
- Choosing the course of action which is closer to a moral principle.
- Finding different possible solutions to the problem.

Ethical dilemma of an accountant

Just like other professions, accountants are also prone to ethical risks. Accountants are responsible for providing important financial information about companies to the general public to help investors in making important investment decisions. Accountants are bound to present true and fair financial statements according to generally accepted accounting principles. Accounts are required to follow certain ethical standards to avoid fraudulent activities. Ethical guidelines are available to facilitate accountants in the decision-making process. The AICPA Code of Professional Conduct refers to ethical dilemmas as ethical conflicts and provides guidelines regarding the maintenance of ethical behavior. This code of conduct highlights principles of due diligence, integrity, confidentiality, competence, and objectivity (James, nd).

Some common examples of ethical dilemmas that an accountant faces include;

Management pressure

To demonstrate the good financial standing of the company to the investors, management pressurizes the accountants to show profitable financial statements by manipulating the financial statements. Ethical accountants are required to prepare true and fair financial statements according to generally accepted accounting principles regardless of the pressure. Unethical accountants who fail to follow ethical standards are subject to civil and criminal liability when fraud is discovered. Failure to disclose important financial information because of pressure is considered one of the ethical issues.

Whistleblowing

It is an ethical dilemma for an accountant whether he should report any illegal and unethical operations in the company or not. SEC rules and regulations require accountants to disclose any accounting information that can defraud investors and shareholders and violate ethical standards. When an accountant discloses such information in the company reports, it can damage the reputation of the company and financially harm them. It can also make the employees lose their jobs and jeopardize the career of an accountant. Accountants can report in writing to a higher authority in the company about the problem to avoid any legal liability. SEC provides provide legal protection through whistleblower laws to the accountants who report violations of the law.

Examples of whistleblowers may include the cases of Sherron Watkins, the executive who raised concerns on the accounting tricks used by the company management to boost share price. Similarly, Cynthia Cooper is also considered a whistleblower. She, being the head internal audit, raised concerns over the issues present in the company accounts and audit. She also reported the concerns to the audit committee (CPD technical paper, 2019).

Pressure of omission

Management may pressurize the accountant to make an omission of financial numbers from the financial statements that depict the financial condition of the company for the purpose of attracting investors. These omissions can adversely affect the reputation of the company after recognition of omission from the SEC. Such omissions can deprive the investors of the true financial condition of the company and can make the public lose trust in the financial information of the company. The omission of numbers leads to unfair financial statements due to which investors may not be able to predict the possible risks associated with the investment.

Personal benefits

An unethical accountant may prefer his personal benefits over the benefits of the company. He may commit serious ethical violations that can financially harm the position of the company but fulfill his own interests. Such employees are subject to criminal liabilities from SEC. For example, an accountant may misuse the asset of the company for personal gain or charge a personal expense as a business expense in statements. An accountant has a fiduciary duty to work in the best interest of his employer. An ethical accountant can never deviate from the ethical standards for his own desires and always work for the well-being of the company.

Insider trading

Accountants have access to the confidential information of the company and are responsible for its protection. Accountants are not allowed to disclose that information without the permission of their employer. They are obliged to protect clients' personal information. Failing to keep that information confidential or using it for personal interest is one of the ethical issues. Insider trading refers to the use of confidential data of the company to gain an unfair advantage over others. SEC has established rules to avoid incidents of insider trading but still, it is very difficult to investigate such cases. Examples of insider trading include incidents of Albert H. Wiggin and Ivan Boesky. The Wiggin case dates back to the crash of Wall Street in 1929, and it was observed that his firm (Chase National Bank) had shorted more than 40,000 shares belonging to his own company. At that time no regulatory framework was present to question such practices. So, he held the family businesses and traded them in heavens to reduce the market effects. The act highlights the issues of both insider trading and personal benefits. The acts, later on, helped in adding Section 16 in the new Securities and Exchange Act, 1934 where insider trading was restricted (Charles & James, 2003).

Similarly, Ivan Boesky scandal dates back to 1980s when his registered brokerage firm was found to be guilty of using insider information to get information about upcoming takeovers. The stock brokerage company started operations in 1975 and earned a lot by speculating on the probable takeovers going to take place in near future. He used to pay the employees of bank involved in the merger and acquisition processes to get that information for stake of his brokerage house. Later on, he became informant of SEC that helped in identifying other corporate scandals. In 1986, he was convicted for $100million fine and imprisonment of 3.5 years (US Securities & Exchange Commission, n.d.). Giving confidential information to outsiders and competitors is also considered a violation of ethical standards (Decker, 2019)

Purpose of ethical codes of conduct

Ethical codes of conduct by AICPA are very important for companies to maintain the objectivity and integrity of accountants. Transparent financial statements prepared according to ethical rules with disclosed accounting methods are more trusted by the public and investors are more likely to invest in such companies. An accountant plays an integral part in the success of the company. If the accountant malpractices, it can ruin the reputation of the company, and the company can lose all its potential investors which can lead to bankruptcy.

The ethical conduct covers principles like integrity (being straightforward and honest in all professional dealings), confidentiality (i.e. to maintain and keep the information acquired and not to share with others), objectivity (i.e. make conclusions without biases or involvement of personal judgements), professional competence and due care (i.e. attaining important professional information and meeting the professional and ethical standards while preparing documents) and professional behavior (i.e. compliance with the major regulations and laws while working as a professional).

Penalties for the breach of accounting ethics laws

Accountants who breach the prescribed ethical codes of conduct in preparation of financial statements are subject to criminal penalties, and monitoring by AICPA, and serious fraudulent activities can also lead to the revocation of their licenses by AICPA. An accountant who files a fraudulent income tax return or commits a felony is subject to imprisonment of at least one year. An accountant who accepts unreasonable gifts from clients can be on the verge of his license being suspended or revoked depending on the circumstances. Financial statements which are not according to GAAP are considered fraudulent in the eye of the law. Since the formulation of the Sarbanes-Oxley Act in 2002, penalties have become harsher for accountants, auditors, and officers. This act came into effect because of the major frauds in the accounting field such as the Enron scandal for the protection of the investors and whistleblowers. This act requires companies to maintain internal control to avoid any kind of fraudulent activities. It mandates the companies to prepare and maintain financial information and disclose all the necessary accounting information according to SEC rules and regulations. (Kenton, 2020)

Threat to compliance

An accountant may face numerous threats that may undermine the ethical and professional conduct at the workplace. The major of them include: self-interest, self-review, advocacy, intimidation and familiarity threats.

Self-interest threat: The involvement of self-interest (valuing self over others) can be a form of self-interest threat to documents preparation process.

Self-review threat: This is a form of threat where individuals tends to review self or related firms' work. For instance, an audit firm reviews the books of accounts prepared by the sister organization. Here it seems logical and natural that the self-review threat exists over there. Similarly, a firm may have to relook at the audit report prepared by them in the past.

Advocacy threat: It is a situation when a member promotes the interests of his/her clients. For instance, an audit firm hired by an organization against a litigation is expected to safeguard the interests of its client instead of looking at the faults of client.

Intimidation threat: It is a form of threat which arises when an auditor or accountant is initiated by the client for some future happenings. For instance, an audit firm may be intimidated by the client for change in auditor in case of failure to protect the client. Here the issue of intimidation exists.

Familiarity threat: It's a form of threat that arises when the client and firm are closely related in the past. The relation could be direct (with the firm) or indirect (through employees, officers and directors). For instance, the audit firm is familiar with the directors of the company in the past and they are hired for being known.

Approaches to handling ethical dilemmas as an accountant

When an accountant faces ethical dilemmas, it becomes difficult for them to make ethical decisions according to the ethical rules of accounting. Here are some approaches that an accountant can adopt to deal with ethical dilemmas.

Rules-based and principles-based approach

To resolve ethical conflicts, accountants can use a rules-based approach and a principles-based approach.

- Rules-based approach involves the identification of ethical dilemmas and figuring out possible corrective actions to these dilemmas.
- Principles-based approach involves the identification and application of ethical principles according to the nature of the possible threats.

It is difficult to use a rules-based approach because it is not possible for an accountant to recognize every possible ethical problem that arises during the course of his employment. Accountants mostly prefer the use of a principle-based approach to deal with ethical dilemmas.

Threats and safeguards approach

It is a principle-based approach. The first step in this approach is the identification and evaluation of the threats encountered by the accountants due to noncompliance with ethical principles. Evaluation should be based on both qualitative and quantitative factors. In the second step, unimportant threats are often ignored but reasonable safeguards are used to reduce the significant threats to acceptable levels. If it is impossible to mitigate the threats using safeguards, accountants can escape that threat and act ethically by refusing to carry out that particular job or resigning from the firm. These approaches can protect accountants from criminal offenses. Ethical threats faced by an accountant include self-review threats where the accountant is appointed to audit the work done by him, the pressure of the client that influences the accountant's ethical decisions, the threat of preferring a known client's interest, and self-interest threat.

To deal with these threats, accountants should use safeguards to diminish the level of the risk to the allowable level. Some safeguards are already implemented at the workplace by employers to facilitate accountants in dealing with these threats. These safeguards include job rotation to prevent misuse of information, the implication of a reliable internal control system, restrictions on providing services to influential clients, application of certain rules to keep track of the work done, and providing ways to discuss the ethical threats with the senior management without any fear of punishment.

Safeguards are also proposed by the legislation and public regulations which include; proper education and training of the accountants before their membership, corporate regulations that do not allow performance of internal control services by the eternal auditor, compliance of generally accepted accounting standards and auditing standards and consideration of eternal assessment to reduce any risks. If there are no suitable safeguards available, the accountant can use his personal judgment to deal with the threats. (Reinstein, 2009)

Outside perspective approach

Taking an outside perspective approach can help accountant to solve ethical problems. Seeing the problem from a different point of view can facilitate a better understanding of the situation and better application of ethical rules. Having a different insight and distancing yourself from the situation can help you analyze the problem more evidently.

Identify potential stakeholders

The accountant can identify all the potential stakeholders who will be affected because of his decision. Considering those effects, an accountant may be able to take the best possible decision.

Seeking professional help

Accountants can seek professional help if it becomes difficult for them to handle ethical dilemmas. If they want to inform about any unethical activity carried out in the company, they can get legal advice and get information about whistleblowing laws. It is their moral duty to report such activities. Every company has a specific ethical code of conduct and monitors the employees to follow that conduct. This code of conduct can assist employees to make ethical decisions. Every employee should be aware of the consequences of not following the ethical code or not reporting any misconduct. (Caron, 2019)

Conclusion

Accountants are professional technicians. They play a very integral part in the growth of the business. They have the knowledge to tackle complex situations that arise in the work environment. As a member of the company, they are obliged to reduce the risks that can harm the company. Ethical codes of conduct implemented in the company help accountants to make the right decision. Even if there are no ethical codes, ethics are considered already a part of a professional personality. Professional accountants have an understanding of the company's financials and can use their skills to make ethical decisions. They can refuse to assist the clients who can influence their ethical decisions.

Accountants are not only responsible for the integrity of the company, but they are also agents of society. Their role plays a vital part in the prosperity of the society and growth of the economy. Accounting skills are very important in making everyday financial decisions like making investments or even paying bills. Effective financial statements are very useful for an effective decision-making process. There are some complex situations where it is not possible for accountants to apply ethical rules and principles. These situations allow accountants to use their inquiring minds to make reasonable decisions. They get the freedom to apply their own skill set and give them the opportunity to develop new safeguards for guidance for the other members. It is the moral obligation of accountants to prepare fair financial statements that can help investors and stakeholders to access the financial condition of the company and maintain its reputation of the company.

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