



Accounting ethics(02)

- **Principles of Ethics for Accountants**

Now that we understand the significance of ethics in accounting — and the pivotal role accountants play in managing financial information and making impactful decisions affecting individuals, organizations, and society at large — it's crucial to comprehend how to act ethically. This is where accounting principles come into play.

Established to ensure the integrity and trustworthiness of the profession, ethical principles in accounting serve as guiding beacons. They steer accountants in their daily practices, upholding the highest standards of professionalism. Within this section, we'll delve into six fundamental principles every accountant should grasp.

1. Integrity

In accounting ethics, integrity refers to the uncompromising adherence to moral and ethical principles. Accountants with integrity maintain truthfulness in their work, resisting pressures to manipulate figures or misrepresent financial data.⁴ The importance of integrity can't be understated. A lack of it, as exemplified by the Lehman Brothers' bankruptcy in 2008, in which the company used questionable accounting techniques to hide its debts, can lead to devastating outcomes, damaging businesses and shaking economies.⁵

2. Transparency

Transparency, another fundamental pillar of conduct in the accounting profession, implies the open and honest disclosure of financial information. It ensures that all stakeholders, including investors, employees, and regulators, have access to clear,

timely, and meaningful, financial statements and data. Without transparency, companies risk investor confidence and regulatory scrutiny. The Parmalat scandal, often dubbed as "Europe's Enron," was a stark example of negative consequences of opacity in accounting. The dairy giant collapsed in 2003 after it was revealed that its accounts had a €14 billion hole, resulting from fraudulent practices concealed by lack of transparency.⁶

3. Accountability

Accountability in accounting ethics pertains to the responsibility that accountants bear for their actions, decisions, and the resulting outcomes. It mandates that a professional accountant must answer to stakeholders for the financial information they provide or the decisions they make. The absence of accountability often results in severe missteps, as was the case in the Satyam scandal in 2009. The Indian IT giant's founder admitted to a \$1.47 billion fraud, falsifying revenues, margins, and cash balances. The scandal, a result of inadequate accountability, led to a significant decline in investor trust in Indian markets.

Together, integrity, transparency, and accountability form the bedrock of ethical business conduct in accounting. Their absence not only causes financial loss but also erodes the trust on which the entire economic system is based. Upholding these principles is critical to maintaining public trust and ensuring financial stability

4. Objectivity

Objectivity is essential for accountants to provide unbiased and impartial financial information. They must exercise professional judgment without being influenced by personal interests or external pressures.

Accountants should base their decisions on factual evidence and avoid any conflicts of interest that could compromise their objectivity.

5. Professional competence

Accountants are expected to possess the necessary knowledge, skills, and expertise to perform their duties competently. Continuous professional development is crucial to stay updated with the latest accounting standards and regulations.

By enhancing their professional competence, accountants can provide accurate and reliable financial information to stakeholders.

6. Confidentiality

Confidentiality is a fundamental principle in accounting that ensures the privacy and security of sensitive financial information. Accountants must respect the confidentiality of client data and refrain from disclosing it without proper authorization.

Upholding confidentiality builds trust between accountants and their clients, fostering a strong professional relationship.

7. Professional behavior

Accountants should conduct themselves in a manner that upholds the dignity and reputation of the profession. They should avoid engaging in any activities that could bring disrepute to the accounting profession.

Professional behavior includes being respectful, courteous, and maintaining professional boundaries with clients and colleagues.

8. Professional skepticism

Professional skepticism is the mindset of questioning and critically evaluating financial information. Accountants should exercise professional skepticism to detect potential errors, fraud, or misstatements in financial records.

By adopting a skeptical approach, accountants can ensure the accuracy and reliability of financial information, thereby protecting the interests of stakeholders.

Adhering to these ethical principles in accounting is not only essential for individual accountants but also for the overall credibility and trustworthiness of the profession. By upholding these principles, accountants contribute to the integrity of financial reporting and decision-making processes.

❖ TextBased Activities

Exercise 01: Comprehension Questions.

1. Define integrity in the context of accounting ethics. Why is it considered a fundamental principle?
2. How does transparency contribute to ethical accounting practices? Provide an example from the text.
3. Based on the text, how does a lack of accountability impact financial markets and stakeholders?

Exercise 02: Mark the following statements as True (T) or False (F), and correct the false statements.

1. The Parmalat scandal is an example of financial transparency.
2. Objectivity in accounting means that accountants can allow personal interests to influence their financial judgments.
3. The Lehman Brothers' collapse was due to a lack of professional competence rather than integrity.
4. Objectivity requires accountants to base their decisions on evidence rather than personal interests.
5. Professional skepticism means that accountants should always assume financial statements are fraudulent.
6. Confidentiality allows accountants to disclose client information without restriction when requested by investors.

Exercise 03: Complete the sentences using appropriate terms from the text (integrity, objectivity, professional behavior, accountability, transparency).

1. _____ requires accountants to disclose financial data openly and honestly, ensuring stakeholders have access to accurate information.
2. The principle of _____ mandates that accountants must remain unbiased and avoid conflicts of interest when making financial decisions.
3. Without _____, accountants might manipulate financial statements, leading to ethical breaches and financial scandals.
4. An accountant's _____ is reflected in their adherence to professional standards, respectful conduct, and responsible decision-making.

5. _____ ensures that accountants take responsibility for the financial information they provide, maintaining credibility in financial reporting.

Exercise 04: Match the following terms with their correct definitions:

| Term | Definition |
|----------------------------|---|
| a. Transparency | 1. Ensuring financial information remains private and secure. |
| b. Accountability | 2. The obligation to answer for financial decisions and actions. |
| c. Professional competence | 3. The ability to provide accurate financial information through knowledge and expertise. |
| d. Confidentiality | 4. The honest disclosure of financial data to stakeholders. |