Are Ethics Relevant to the Practice of Professional Accounting?

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What distinguishes professionals from other types of practitioner? Similar to the medical and legal professions, society grants professional accountants exclusive rights to perform certain services (e.g., auditing) and expects something in return. Thus, professionals have a higher-order duty to look after the public interest first and foremost, ahead of their own personal interests. This higher-order duty introduces a tension in the work of professional accountants as they try to balance, at times, conflicting objectives between their commercial interests and their duty to society, to the public interest.

This tension came to the fore following the banking crisis in 2008, with John McManus writing in the *Irish Times* in October 2010 about external audit as a mandatory statutory requirement, *inter alia* for societal good, and questioning the societal benefit of auditing as taxpayers footed the bill for the banking crisis. From the closure of Clerys in June 2015, 460 people lost their jobs arising from the Clerys' building being extricated from the trading company which was then immediately put into liquidation. I have questioned how Clerys' dealmaker and chartered accountant, Deirdre Foley, could hold herself out as a professional person exercising a duty beyond her own financial interests to the public interest.

Codes of ethics

To address the tension between their commercial and professional interests, professionals are subject to strict ethical and moral codes of conduct.

The application of ethical principles in professional accounting operates at three levels: (i) professional accounting bodies such as CPA Ireland, (ii) professional accounting firms and (iii) professional accountants as individuals. In relation to professional accountants as individuals, the ethical dilemmas facing individuals in practice versus those in business are somewhat different.

It is impossible for rules to address the complexity of the real world. Consequently, ethical issues are generally formulated in the form of high-level principles which offer flexibility to deal with new and different situations as they arise. Illustrating the regulatory challenge, CPA Ireland's *Code of Ethics* runs to 146 pages. CPA Ireland's Code sets out five fundamental principles:

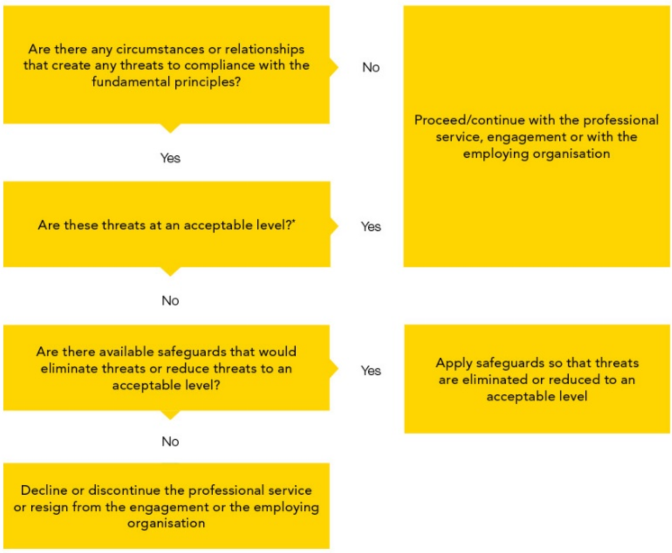
- Integrity: Being straightforward and honest in all professional and business relationships.
- Objectivity: Not allowing bias, conflict of interest or undue influence of others to override professional or business judgements
- Professional Competence and Due Care: Maintaining professional knowledge and skill to ensure that clients or employers receive competent professional service based on current developments in practice, legislation and techniques; Acting

diligently and in accordance with technical and professional standards when providing professional services.

- Confidentiality: Respecting the confidentiality of information acquired from professional and business relationships and not disclosing information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the member or third parties.
- Professional Behaviour: Complying with relevant laws and regulations and avoiding any action that discredits the profession.

CPA Australia has an effective diagram which I reproduce below on a process to adopt in applying these five ethical principles.

FIGURE 1: THE CONCEPTUAL FRAMEWORK



*'Acceptable level' in the Code is defined by using the third party test. It means a level at which a reasonable and informed third party would be likely to conclude – weighing all the specific facts and circumstances available to the Member at that time – that compliance with the fundamental principles is not compromised.

Research on codes of ethics suggests enforcement mechanisms are important. Professional codes of ethics are self-enforced. A major challenge for professional accounting bodies is enforcement of their ethical standards. Considerable extra costs (ultimately paid by members) are now imposed from the quasi-judicial and even judicial processes professional accounting bodies have to deal with in ensuring members not adhering to proper standards suffer appropriate consequences and sanctions.

Are codes of ethics effective means of promoting ethical behaviour? Cowton (2009) cautions against expecting too much from such codes, but goes on to say that “in the context of ‘re-membering the professional body’ they have the potential to help build a decent moral community.”

Ethics and individual professional accountants

Is there too much emphasis on technical and not enough on behavioural issues? Following Enron, and again following the banking crisis, there is growing recognition of the importance of understanding social psychology (Bazerman, Loewenstein and Moore, 2002). We need to recognise the existence of bias and moderate its effects. Our desires powerfully influence the way we interpret information. When we are motivated to reach a particular conclusion, we usually do. As we saw in the banking crisis, many professionals do not set out to engage in deliberate conscious corruption. Rather, they suffer from unconscious biased judgements, which cannot be deterred by threats of sanctions. Rooting out unconscious bias, or tempering its effects, will require more fundamental changes to the way professional accounting operates.

There are a number of features of professional accounting that make it particularly prone to subconscious biased judgements including:

- Ambiguity – accounting is an art, not a science
- Attachment to client / employer – accountants generally think well of their clients/employers and are pre-disposed to act in their favour
- Approval – professional accountants endorse or reject clients' / employers' choices: self-serving bias becomes even stronger when endorsing others' biased judgements
- Familiarity – people are more willing to harm strangers than individuals they know well, such as clients and employers/colleagues.
- Discounting – people are more responsive to immediate consequences than delayed ones. Professional accountants may hesitate to implement tough decisions because the adverse consequences are immediate.
- Escalation – people conceal or wave away minor discretions: biases may lead professional accountants to unknowingly adapt over time to small imperfections in client or employer practices

Academic research shows that a significantly higher proportion of individuals with a Myers-Briggs sensing/thinking cognitive style are recruited into professional accounting (Abdolmohammadi, Read and Scarbrough, 2003). What is worrying about this finding is that research has found that individuals with a sensing/thinking cognitive style have lower levels of ethical reasoning, regardless of gender.

Adopting a principles-based approach means individuals cannot rely on detailed rules but instead have to exercise and take responsibility for their own judgements. It is all very well to write about ethical issues in an article such as this. The reality in practice, as most readers will know, presents many dilemmas where the exercise of judgement is crucial. For readers who would like to practice their ethical standards, the Institute of Chartered Accountants of Scotland published a series of 28 dilemmas faced by professional accountants ("*Shades of Grey: Ethical Dilemmas*"). I am adding a companion volume (currently in press) for company directors ("*Shades of Grey: Directors' Dilemmas*").

Ethics and professional accounting firms

Disentangling the profession of accountancy, individual professional accountants and professional accounting firms, and the application of ethical standards thereto, is fraught. Individual professional accountants have complex inter-relationships with professional accounting firms as trainees, employees, alumni or clients. The structure and characteristics of professional accounting firms are likely to influence ethical practices of the professional accounting stakeholders of those firms. Large accounting firms increasingly look more like multinational with a strong commercial ethos than organisations with a distinct professional culture. The tensions between professionalism and commercialism are increasingly to be seen, for example, in relation to tax avoidance schemes devised by clever professional accountants resulting in companies such as Google and Facebook not paying their fair share of taxation in the eyes of society.

Concluding comment

A relatively straight-forward test of ethics is: Does it pass the front-page of the *Irish Times* test? If not, don't do it! As the Greek philosopher, Socrates, has observed:

> Regard your good name as the richest jewel you can possibly be possessed of - for credit is like fire; when once you have kindled it you may easily preserve it, but if you once extinguish it, you will find it an arduous task to rekindle it again. The way to gain a good reputation is to endeavor to be what you desire to appear.

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