ETHICS

• Ethics refers to a code or moral system that provides criteria for evaluating right and wrong.
• It is about the rules of conduct that guide behavior
• The ethical code regulates behavior by spelling out the Dos and Don’ts.
• It has to do with expectations of others on you and your obligations towards them
Ethics and Professionalism

• Professionalism requires that members of a profession take responsibility for the interests of those it serves
• Therefore, a high standard of ethical behavior is expected of those engaged in a profession.
• These standards often are articulated in a code of ethics.
Why Ethics is important for accountants

• Like other professionals, Accountants have responsibility over the users of financial statements

• Yet, they provide information to a very wide range of users both firms and individuals whose interests at times may conflict.

• Based on this information, users make investment, financing and other decisions.
• These financial decisions would at times have far reaching consequences in the lives of individuals, firms, and the economy as whole.

• Therefore, individuals in the accounting profession have a considerable responsibility to the general public.

• It is therefore paramount that accounting information is credible and reliable.
• This can only be realized if accountants observe the ethical code in performance of their duties.
Ethical Dilemma

• An ethical dilemma is a situation in which an individual is faced with a decision that tests the ethical code or moral system.

• Forces in the situation demand or call for behavior contrary to the ethical code.

• The professional then is at a loss to what action to take.

• Ethical dilemma exists when the temptation to act unethically is high.
Sources of Ethical Dilemmas for Accountants

• Conflicts of interest
• Pressure from management
• Pressure from Clients
• Self Interest
• Illegal or fraudulent activities
• Human feelings
Conflicts of interest

• The **ethical dilemmas** that **accountants** face mainly revolve around conflicts of interest; Examples are:
  ➢ Requirement for independence and need to secure business/assignments by an auditor
  ➢ Need to retain a client and pressure from the client to manipulate financial statements or give an unqualified audit report
  ➢ Need to retain a job as an employee and pressure from management to either effect fraudulent transactions or manipulate financial statements
  ➢ Fraud perpetrated by a relative or friend
Self - Interest

• E.g. Where the accountant as a person stands to benefit from a fraudulent activity or transaction.
• Where the accountant would get a bonus, promotion etc. if the firm is seen to be doing well
Pressure From Management

• Management wants to see a healthy balance sheet, high income reports and good cash balances.

• Unethical accountants could easily alter company financial records and maneuver numbers to paint false pictures of company successes.
Human Feelings

• An accountant may be tempted not to report financial violations due to concerns about the consequences of such a report. E.g.
• Would the negative publicity lead to the decline of the company?
• What about the employee(s)? Would an employee loose his/her job as a result of the report?
• Would someone get prosecuted?
• You don’t want to put people into trouble
Threat to personal life or property

• This may occur when the stakes are high and a party or parties to a fraud threaten the life of an accountant
When Faced with Ethical Dilemma, an Accountant should:

• Determine the facts of the case.
• Identify the ethical issues and the stakeholders. Who will be affected by your decision and how?
  ➢ Think of that supplier who will advance a line of credit to an non-creditworthy company
  ➢ Consider that laborer who will invest their savings in a company that is not a going concern
  ➢ Remember your obligations to the stakeholders and expectations on you.
• Reflect on the penalties for violating the professional code.
• Do not allow your feelings to take a toll on you. Remember, as you empathize with one stakeholder, you are putting another into trouble!
• Remember that falsification of accounts may lead to short-term gains, but in the long run, altered financial records will ultimately spell the downfall of companies.
Conclusion

• Be a man/woman of integrity. The motivation to act ethically must be from within!
• You hold a fiduciary position
• The public has faith and trust in you!
• Never seek to please men, you will never manage to do so!