

ETHICAL DILEMMAS FOR ACCOUNTANTS

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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 lose 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!