

## **THE MORALITY IN ACCOUNTANCY**

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### **Abstract:**

*Accountancy integrates directly and indirectly in the procedures of making decisions since economic decisions depend on the availability of financial information, which is generated by accountancy. The accounting system prepares the information to accomplish the needs of stakeholders. That integration can be done throughout two stages: a) designing and implement the accounting system, b) external auditing on the previous stage. The second stage has been highlighted by accounting foundations and institutions, accordingly, the internal standards are widely discussed, but that did not avoid the financial crisis that took a remarkable place in the business world and that led to several corporations' scandals even the financial reports of these corporation was clean from any financial hardship. That motivates academicians to discuss the current accounting qualifications and education in the light of the moral principles, in the light of that, the article tries to treat these qualifications that the accountants must have.*

**Key Words:** *Accounting, Auditing, Morality, Ethics.*

**JEL Cassification:** *G34, M41, Q56*

### **1. Introduction**

Accounting profession is always being in the center of academic discussion when the financial scandals take place, especial, the recent scandals clarify that the main problem is presented in the accounting profession, basically, the lack in morality and ethical acts in this profession play the main role in these scandals. The Enron scandal presented that perfectly; the financial reports did not mention the risky points even that account standards were applied, in addition, the reports flowed this scandal pointed out the immoral acts of executives and managers besides the non-ethic behaviors of external auditors.

The accounting standards have been improved and the fair value evaluation has been adopted, even though, the risk of repeating certain issues that lead to another scandal. In the light of that, there is a need to not

limit the movements on the practical side since the accounting as a profession is a social science concerning on ethics behaviors and moral acts. That attracts academicians and researchers to look deeply in this scandal besides others to analysis the consequences and the factors behind and to issue certain characters hold by an accountant.

## **2. The scientific and rehabilitative programs of accountancy:**

Accountancy has an important role in the financial community because it offers information that is necessary for facility studies and continues providing information to service the corporation sustainability. The information are used to measure the company's performance and contribute in the investment decision, also accountancy selects the good way to end the company's activities. The information system is generated by accounting system and used to measure the quality of the national economy and that helps the state to restructure companies and recognize projects at the macro level to serve the national needs. Therefore, the importance of accounting represents in the economy unit which represents the core stone of the economic system.

That encourages academicians and concerned institutions to focus more on the accounting as a career, which is divided into two categories; post-graduate of university, and Chartered Accountant and auditor, accordingly, the accounting standards of this career are important, especially, the auditors present reports over the macro and micro economic activities. Besides that, there are no stick terms that can control the individual behavior of the auditor and chartered accountant since both sometimes uses his personal estimations to evaluate certain economic activities.

Important features must be available in who occupies the accounting career:

- 1- Integrity
- 2- Objectivity
- 3- Independent
- 4- Reserved over clients' secrets.
- 5- Professional care
- 6- Ethics
- 7- Respect the professional standards

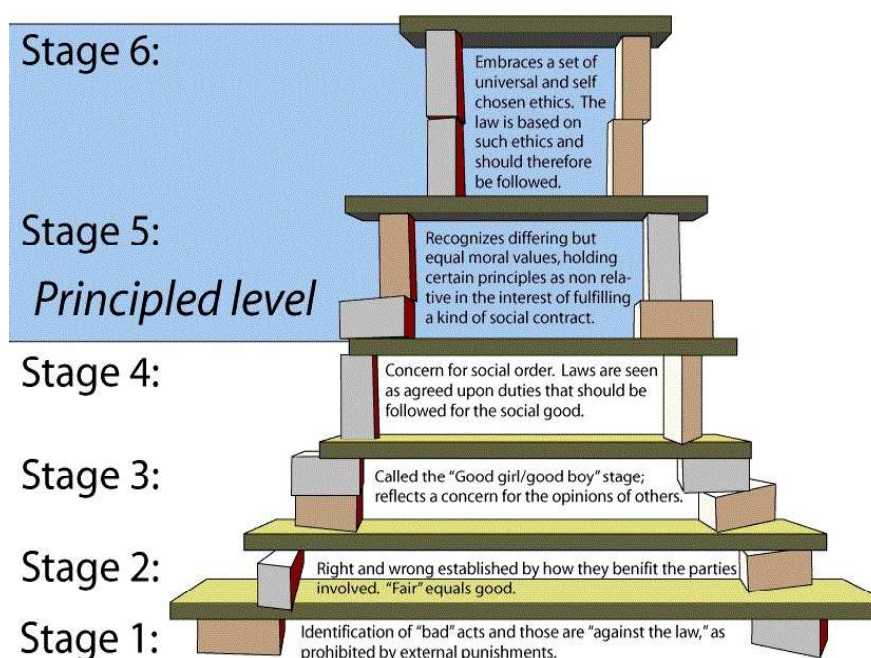
In the light of a statistic study has been done by Stonciuviene and Naujokaitiene (2013), show:

	<b>Perceived ethical behaviour</b>	
	<i>Correlation coefficient</i>	<i>p</i>
<b>Sense of duty</b>	0.376	0.000
<b>Integrity</b>	0.431	0.004
<b>Fairness</b>	0.311	0.000
<b>Attentiveness</b>	0.377	0.000
<b>Independence</b>	0.413	0.000
<b>Self-confidence</b>	0.572	0.000

That highlights important topics that concerned institutions and corporations must work over; all the percentage are less 0.50 except self-confident; still independence and integrity points must be adapted continuously to reach a trustable levels.

The concerned institutions and authorities highly apply certain procedures to ensure that these features are strictly respected. For example, the third standard of the American Institute of Certified Public Accountants assures that the chartered accountant must provide the necessary care over the responsibilities in order to avoid sanctions due to his negative behavior. In addition, Anderson County Government restructured the American constitution in 1988 to rebuild the internal structure of accounting as a career (AICPA;1988), The United Kingdom followed that through issuing the moral guide in the accountancy in 1992 to ensure the high quality performance of accountants. Even though, that takes the shape of recommendations rather than codes to be respected when the chartered accountant and auditor practice their responsibilities. In the light of that, any codes have been issued or may be issued in the future cannot avoid any crisis caused by the behavior of chartered accountants or auditors, an example, the financial scandal was integrated among local banks; Emirate Commercial Bank, Union Commercial Bank and Gulf Commercial Bank, the solution was by creating a new bank called Abu Dhabi Commercial Bank and the financial reports of those three local banks did not mention any issue.

Briefly, Kohlberg theory of moral development bases on an important fact that moral is a wide developed topic in physiological researches. The theory contains six stages of moral development from childhood to adulthood as the following:



### Kohlberg's Theory of Moral Development Angels Oswalt (1995)

#### 3. The role of accounting profession in the failure economic units:

In the recent three decades, several financial institutions collapsed and financial crisis affects the international economy besides other surprises that push concerned institutions and authorities to look up deeply over regulations that organize the accounting profession. Here, we may shortly highlight what happened in the United Kingdom, Bank of Credit and Commerce International in 1991; the bank had seventy nine branches around the world. The bank involved in illegal transactions for a while before the scandal, even though, its auditors' reports were free from any sign regarding those transactions.

Due to that, the British codes such as Financial Services Law (1986) and Banking Law (1987) could force chartered accountants and auditors to respect related standards to declare those illegal transactions. Besides that, Barings Bank crisis was sixth biggest bank in the United Kingdom in 1995; the reasons for the collapse are due to fatal errors that are made by one of its directors pointed by two points:

- 1- Serious deficiencies in internal auditing.
- 2- Non-application of internal control standards.

### 3- Serious deficiencies of the main branch responsibilities over controlling branches' activities.

Overall turns on the weak internal auditing system, besides, the financial reports did not include all the obligatory information that referred to the previous points.

Taffler and Meggy (1984) reached an important conclusion that seventy five per-cent of failure companies had clean auditing reports. They studied thirty one companies include the biggest six auditing companies in the United Kingdom.

<b>Auditing Company</b>	<b>Number of failure companies</b>	<b>Number of companies that have reserved reports</b>	
Arthur Anderson	4	1	25%
Coopers and Lybround	3	-	0%
Deloitte Haskins and sells	4	2	50%
Enest and Whinney	3	1	25%
Peat Marwich Michell	6	3	50%
Price Waterhouse	4	1	25%
Touch Ross	3	-	0%
Thomson	1	-	0%
Author Yound Mccell and Moorse	4	-	0%

That means, the average of reserved reports in these big auditing companies do not exceed twenty six percent and for normal auditing companies is twenty four percent.

In the United States of America, the loss of auditing reports prepared by biggest auditing companies was approximately One thousand three hundred and fifty million of American dollar, in addition, others financial scandals happened without any given sign in auditing reports. That put the American and the international economies on the edge because of useless auditing reports. However, that pushed Price Waterhouse – International Auditing Corporation declares that the creditability of the auditors is lost. Over all opens the door to discuss corporate governance by its codes as a part of solution, thus, governance codes have been continuously adapted after each scandal and crisis even they are still dealt as recommendations.

Cadbury code 1992	-	↓	Main principles
Greenbury code 1995	-		
Combine code 1998	-		
Revised combine code 20003/06/08	17		
British corporate governance code 2010	18		
Cadbury code 1992	-	↓	Supporting principles
Greenbury code 1995	-		
Combine code 1998	-		
Revised combine code 20003/06/08	26		
British corporate governance code 2010	24		
Cadbury code 1992	-	↓	Principles
Greenbury code 1995	-		
Combine code 1998	17		
Revised combine code 20003/06/08	43		
British corporate governance code 2010	42		
Cadbury code 1992	19	↓	Provisions
Greenbury code 1995	39		
Combine code 1998	47		
Revised combine code 20003/06/08	48		
British corporate governance code 2010	52		

**Corporate Governance Relation with Accounting Standards**  
Saltaji (2013)

**4. How the moral sides strengthening the accounting profession?**

The issue that leads to failures mentioned above mostly is related to the ideological side of accountancy, which may return to weak procedures in the internal auditing system especial those monitor the moral side of accountants or connected to the character of the person in the charge.

Accounting and auditing are sciences like a social science that are structured on a theoretical and acknowledgement base depending on logic and abstract thoughts, which extrapolate the reality of business and scientific field. These two sciences are not like natural sciences proved through verification the results of the recorded facts, but the social science including accounting and auditing, are under verification till use the results as facts in the light of the objectives. However, the philosophical perspectives and the practical perspectives of the moral side in accounting and auditing sciences are far from each others. Due to that, the American Accounting Association (AAA) concerned on that through studying moral and ethics as courses besides other courses in a college, besides that, the American Chartered Accounts Institution recommended the same courses. Due to Lybrand, Ross Bros & Montgomery accounting firm, now:

Pricewaterhouse Coopers, says that these two sciences are provide public services. The accounting as a profession and as an asset is provided by the fact that it is responded to certain standards beneficial for the public interests. Accounting is focused with setting professional ethic and moral behaviors standards, and the performance in the financial activities is complying with moral and ethical perspectives. That means, the possibility of developing a consensual reflection on accounting basing on philosophy. Kerven (1993), tried to highlight the importance of accounting system made the distinction among ethics and strategic, in the light of that, individuals and organizations tend to not consider always that accounting standards lay at the social and ethics values. The Anglo-Saxon school tried to present professional ethics rules by accounting institutions, and these standards basically include; competence, objectivity, confidentiality and integrity.

### **Conclusion**

If something is clear regarding the current crisis, it is that lack in the morality of executives and auditors, and the issue is not an academic issue due to an ideological point since it is related to a social science. All the adapts of accounting standards will have a limit effect since governance codes are shaped as recommendations and as an individual opinion, the financial regulations should be rolled back, in the light of that, there is an urgent need to set certain characters of the accounting profession throughout teaching certain courses in the faculty in order to formulate the future accountants and auditors. Besides that, the stages' of Kohlberg theory should be implemented in the faculty's courses and that should be continued to adopt these stages in the procedures of issuing governance codes next to the moral and the ethics codes.

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