J. Flanagan: “Values, Codes of Ethics and the Law: Is it enough to Comply with the Law? Should we go further and are there potential conflicts?”

ICAA Discussion Paper, (September 2006.)

The Institute of Chartered Accountants in Australia (ICAA) states that its core purpose is “...to enhance and promote the reputation and role of chartered accountants, which in turn will benefit the business community and the public interest (emphasis added).”

A major precursor to enhanced professional recognition is the belief that practitioners have chosen to act in a manner beneficial to the community in which they operate. For accountants to maintain or enhance their professional identity, the broader community must perceive that the discipline has made choices that are aligned with the social obligations expected of it. Allegations that accountants are systemically violating this public trust plus increasing government regulation of accounting issues may ultimately result in the demise of the accounting profession as we know it today.

To maintain this trust the accounting professional has (a) issued codes of professional conduct as a form of guidance to their membership, (b) tried to ensure that those individuals wishing to become professional accountants undertake some course of study that acquaints them with their respective codes; and (c) instituted disciplinary procedures to deal with complaints about the conduct of their membership. While such policies deal adequately with the perception of ethical behaviour, it is still an open question whether the policies deal with the reality of ethical behaviour.

Little focus is placed on educating new or existing accountants in how the code of ethics is to be used. We thus have a paradox. The ethical character and the notion of serving the public interest are fundamental to the survival and development of the accounting profession, yet almost no time is devoted

---

1 ICAA, 2005, Core purpose of ‘ICAA”, Professional Standards and Ethics Section, Members’ Handbook, August.
to ethics education nor understanding the notion of the public interest that the professional bodies assert is an important guide.

It is asserted that ethics is not an add-on to accounting and auditing education but a fundamental principle that should inform all deliberations. In carrying out the financial reporting function it can be asserted that all accountants are earnings managers. The question is whether they manage earnings in the interest of all stakeholders, one group of stakeholders, or themselves.

Today, professional codes of ethics need to work hand-in-hand with relevant legislation. Professional codes are promulgated in the belief that they are clear in what they require and how they are applied in practice. However, nowhere in professional codes of ethics is allowance made for any conflict between the relevant laws and the code of ethics. There appears to be an assumption that ethical codes and ethical values are hierarchical, with personal ethical values influencing the law and ethical codes and vice versa, with no contradictions.

If an accountant believes that there is a conflict between the public interest and an obligation to comply with the law and code of ethics, (especially in the area of confidentiality), then acting in the public interest may involve an acknowledgement that the authority of the legal requirements and ethical codes is not absolute. Under these circumstances how can accountants ensure that their actions are based on sound professional judgment and not self-interest, prejudice, or coercion?

We need to accept that accountant have to make a private living. Conflicts will be ever present if accountants are expected to serve the public interest. The issue is to be aware of the conflict and learn how to deal with it in an ethical manner. If accountants are found to have been acting unethically the reaction will be swift and severe. The rapid demise of Arthur Andersen, one of the giant accounting firms of the Twentieth Century, occurred because its clients no longer had faith in its ability to do the job it was being paid for.

There are three fundamental and critical aspects of all professional preparation: thinking like a professional (training the head), performing like a
professional (training the hand), and acting with professional integrity (training the heart). A potential problem arises when ethical reasoning is regarded as being outside the scope of professional training, when, in reality, it is central to that training.

There is some evidence, mainly from the USA, which indicates that accountants rarely get beyond conventional moral reasoning, with auditor ethical judgment being most influenced by rule-based reasoning, with accountants focusing on compliance with standards\(^4\), and with moral reasoning declining as accountants progress to higher levels in firm. Does this mean that accounting attracts people who cannot progress beyond conventional level of ethical reasoning, or is there a deficiency in accounting education, or are there problems with the Kohlberg model?

For accountants to satisfy professional obligations for integrity and objectivity of judgment, it would appear that some form of self-directed ethical reasoning based on values is necessary. If accountants do not have self-directed principled reasoning capabilities at post-convention level, the consequences are that they will be less resistant to client pressures or socialisation strategies and may tend to accept that rule following is sufficient to discharge their duties.

A part of that education and development may require a reassessment of the role of the public interest in guiding an accountant’s deliberations, and a re-investigation of truth claims in accounting.

This would require some educational intervention at the university and or professional year stages of an accountant’s education, and preferably both.

Unless the professional bodies develop effective strategies to oblige their members to pay some attention to and translate these characteristics into the choices they make in their accounting practices, the professional accounting bodies are likely to continue to attract adverse criticism of their practices.