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Professional Ethics in Accounting as Assessed by Managers of Entities

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Abstract

The code of professional ethics in accounting constitutes a collection of ethical standards, the observation of which is an indispensable part of contemporary accounting. Their scope and practical use give rise to no doubts, and for this reason all necessary measures must be taken to ensure their correct and common application. The evaluation of the practical application of ethical standards in accounting as assessed by managers of organisational units gives rise to doubts and therefore the role of professional ethics must be strengthened by means of actions to promote and educate or to apply directly precautionary measures and the ones confirming the observation of ethical standards by units. However, introduction of such solutions requires a change in legal regulations and in the approach in all the business entities operating on the market.

Keywords: ethics, accounting, code of ethics, ethical standards in accounting,

JEL Classification : G01, M21, M41.

Introduction

Conduct that did not comply with legal requirements and social norms happened as early as in the ancient times, when human societies along with moral standards, which constitute the basis of ethics, were created [Hendriksen, Van Breda, 2002, p. 237]. European ethics stems from the philosophy of ancient Greece and Rome, however, business ethics concerns the moral dimension of economic activity and constitutes a collection of standards specifying what is morally correct and incorrect in business [Klimczak, 2003, p. 81]. It led to the formulation and implementation of ethical codes, which include the principles that should be followed by managers and employees of business entities. It seems that an effective implementation of international solutions concerning creating ethical codes in accounting requires a specific preparation of the Polish society, of both employees of accounting services and managers of business entities responsible for compliance with accounting principles for supervision but also of all stakeholders [G. Voss 2016 p. 58]. In the modern world, the need to implement ethics programs exists and it results from the necessity to introduce ethical principles in the world of business so that business is run honestly [Karmańska, 2007, p. 401].

Professional accountants constitute one of the occupational groups subject to ethical judgement. Being responsible for keeping accounting records and providing reliable reports is inseparable from professional ethics, which is described in "The Code of Professional Ethics in Accounting" prepared by the Accounting Standards Committee of the Research Council of the Accountants Association in Poland. The Code constitutes a collection of rules, ethical, moral and professional principles people engaged in accounting and related areas should possess, as well as a collection of attitudes and behaviours expected from people with professions of public trust, which include accountants, financiers and related professions.

The aim of the article is to present the results of a survey conducted to specify the degree of use of ethical standards described in the Code of Professional Ethics in Accounting by the management of selected entities in the Pomeranian and Kuyavian-Pomeranian Voivodships in 2015 and 2017 and also to indicate the factors influencing unethical behaviours.

Ethical Principles in Accounting

According to the Code of Professional Ethics in Accounting, people engaged in accounting regardless of the place of employment are expected to meet the following conditions [www.skwp.pl]:

- work will be performed in accordance with professional standards,
- it will aim at achieving the highest level of conducted activities,
- it will ensure the reliability of the results of conducted activities.

Based on ethical standards and due to their role in a business entity, people responsible for keeping accounting records and preparing financial reports should be: responsible, honest, professional, systematic, and loyal towards the owner and management of an entity [Nisengole, Sasin, 2005, pp. 20-24].

The code of professional ethics in accounting defines nine ethical principles to be followed at work. Those principles are included in the code and concern among others: professional competence, high work quality, professional independence, responsibility for preparing and presenting information in accounting in accordance with applicable law, professional and ethical standards; correct conduct, professional secrecy and providing services in accounting [*The Code of Professional Ethics in Accounting*, 2012, pp. 20-22].

The principles presented in the code primarily relate to professional competence, knowledge of accounting and related areas and following ethical standards. Particular attention is paid to reliability, responsibility, independence, timeliness and objectivity. Moreover, in the implementation of the presented principles, the role of the manager of an entity is emphasised as a competent person with relevant knowledge, who follows ethical principles and is held responsible for fulfilling duties in accounting specified in Article 4 Item 5 of the Accounting Act also for supervision.

Taking into account the abovementioned standards, assessment of ethical conducts constitutes an important element in functioning of all entities and for this reason the managers of business entities from the Pomeranian and Kuyavian-Pomeranian Voivodships were asked to evaluate the use of ethical standards in accounting and to specify what main premises concerning violating the principles could be indicated [G. Voss 2017 p. 218].

Expectations of Entity Managers in Connection with the Implementation of the Code of Professional Ethics in Accounting – Presentation of the Research Results

The survey was conducted in November and December 2015¹ and repeated in the period from March to May 2017². All the 220 respondents from 2015 and 2017 were the managers of business entities functioning in the Pomeranian and Kuyavian-Pomeranian Voivodships of diverse organisational and legal forms and belonging to different sectors of economic activity. The group of entities which employed the biggest number of respondents consisted of limited liability companies (Sp. z o. o. – 81 enterprises in 2015 and 82 in 2017) and entities of the public finance sector (50 entities in 2015 and 52 in 2017). The results are presented in Table 1.

Table 1. The employment structure of respondents in diverse organisational and legal forms

Organisational and legal form	2015	2017
cooperatives	4	2
non profit entities	6	7
public finance sector entities	50	52
natural persons	20	18

¹ The research results were published in G. Voss, *Przestrzeganie zasad etycznych w rachunkowości w ocenie kierowników jednostek*, *Studia Oeconomica Posnaniensia* 4 (11) 2016, pp. 286-301.

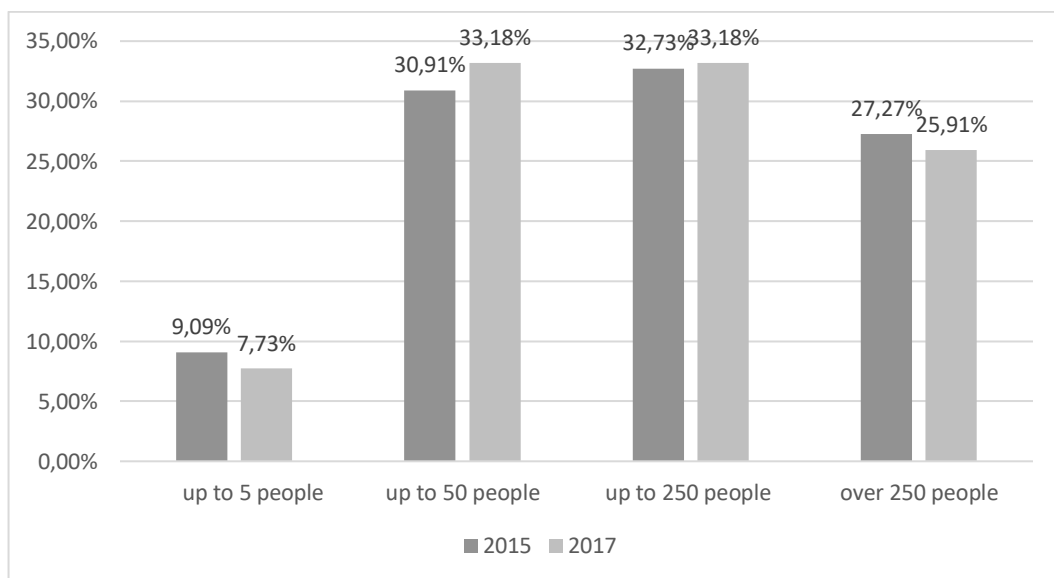
² For the purposes of identifying the research results, the author used a shorter version and generalisation and refers the results to 2015 and 2017 omitting complete time periods with specifying the months.

partnerships	16	17
joint-stock companies	43	42
limited liability companies	81	82
ALTOGETHER	220	220

Source: own study based on the survey.

The majority of the respondents (112 – 50.91% in 2015 and 129 – 58.67% in 2017) indicated that they were not employed in entities required to audit financial statements by statutory auditors, only 108 respondents in 2015 and 91 in 2017 were employed in big entities where financial statements were audited. The requirement of auditing financial statements is defined by the Article 64 of the Accounting Act¹. The people participating in the research were employed by entities with various number of employees. The majority of the respondents worked in entities employing up to 250 workers (72 people in 2015 and 73 in 2017). The smallest group constituted of entities with up to 5 employees (20 respondents in 2015 and 17 in 2017).

Figure 1. The level of employment (number of employees) in the enterprises employing the respondents



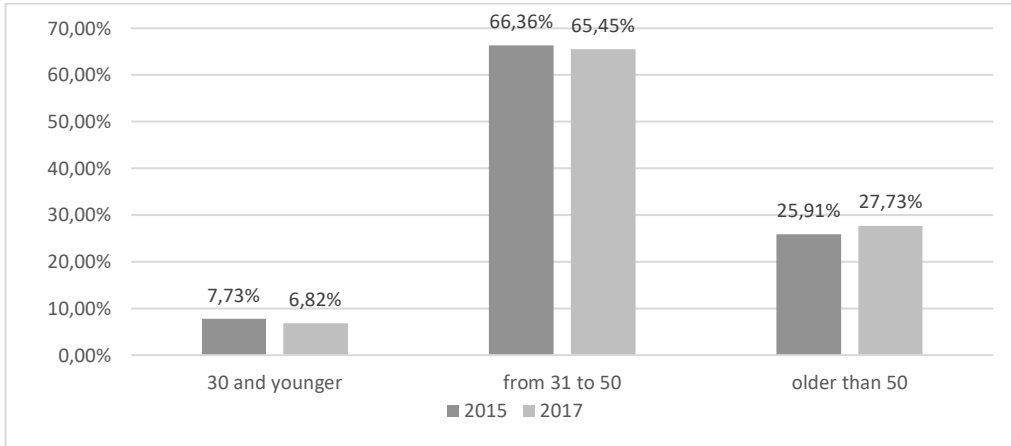
Source: own study based on the survey.

In the conducted research, a significant diversification in terms of the respondents' employment, both in terms of the organisational and legal form and the size of the enterprises with regard to the level of employment, can be noticed. The presented criteria do not have any impact on the business entities' implementation of ethical standards in accounting, which concern all business units.

The questionnaire was completed by people holding managerial positions in the examined entities. The majority of the group consisted of women (119 people in 2015 and 124 in 2017). People aged 31-50 were most numerous (146 people in 2015 and 144 in 2017), and the smallest group consisted of relatively young people of 30 and younger (17 people in 2015 and 15 in 2017). The results are presented in figure 2.

Figure 2. The age structure of the respondents

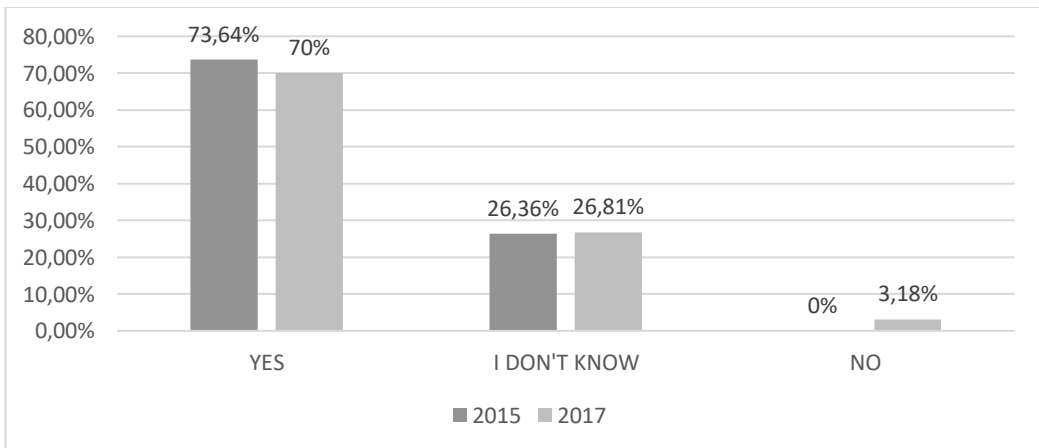
¹ The Accounting Act of 29th September 1994, Journal of Laws 2017, Item 2201.



Source: own study based on the survey.

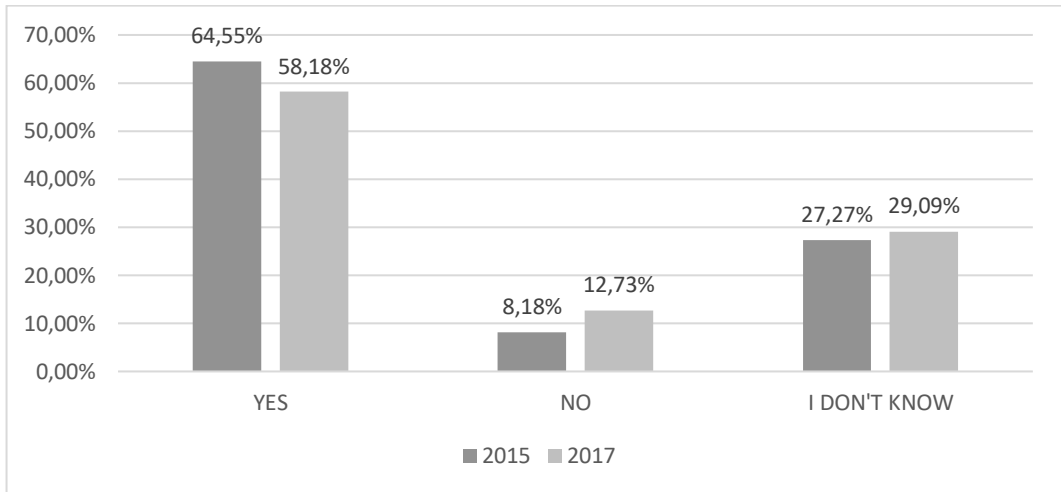
Almost 73.64% of the respondents in 2015 and 70% in 2017 indicated that the entity where they worked based on the patterns from the code of professional ethics. However, over 26.36% of the respondents in 2015 and 26.81% in 2017 did not know whether the economic entity used those standards. Special attention should be drawn to the responses from 2017, since then seven respondents indicated that their entities did not base on ethical standards in accounting, which is presented in figure 3. Moreover, the respondents concluded that the standards ensured knowledgeable, objective, reliable, professional, and honest completion of accounting tasks. Such an opinion was expressed by over 64.55% of the respondents in 2015 and 58.18% in 2017. In 2017 the respondents more often than in 2015 indicated that the standards in the code of professional ethics in accounting did not ensure or were not sure whether they ensured knowledgeable, objective, reliable, professional, and honest completion of accounting tasks. The results are presented in figure 4.

Figure 3. The structure of the entities in which accounting bases on the ethical standards included in the code (N = 220)



Source: own study based on the survey.

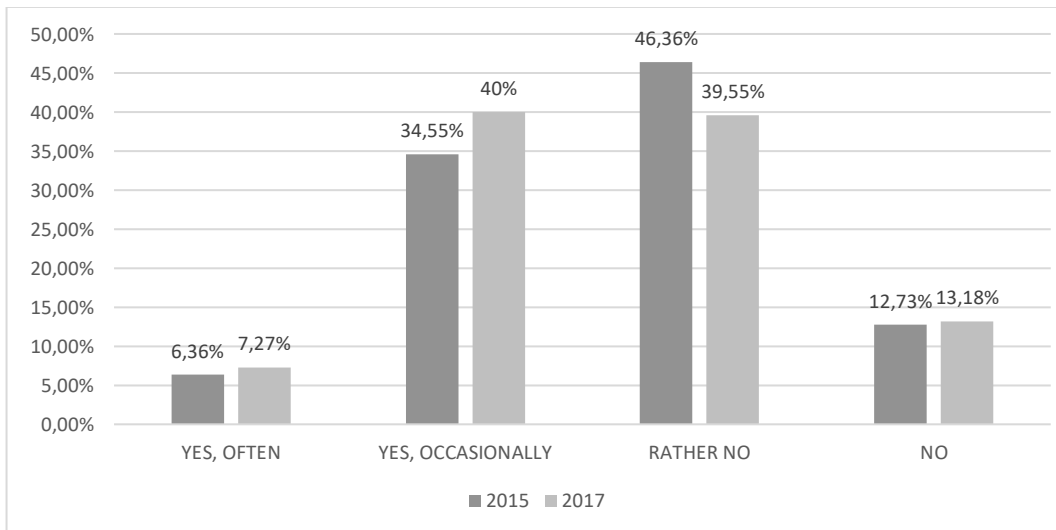
Figure 4. The evaluation of the use of ethical standards in ensuring knowledgeable, objective, reliable, professional, and honest completion of accounting tasks (N = 220)



Source: own study based on the survey.

The respondents were not unanimous regarding the prevalence of unethical conducts which they had noticed and experienced at work. In 2015 14 people noticed such conducts and 16 in 2017. In 2015 76 respondents indicated occasional contact with such conducts and as many as 88 in 2017, which means that the number of people experiencing unethical conducts is growing. As far as the group of respondents who concluded that they had not experienced unethical conducts is concerned, a change can also be noticed (2015 – 102 people, 2017 – 87 people). Disseminating information on ethical standards in accounting or ethical norms used in business might have made respondents choose the answer stating that they were not always able to identify or recognise and classify unethical conduct. The commonness of trainings and publications on this subject improves social knowledge and awareness regarding the use of ethical standards and social impacts resulting from unethical behaviour [A. Huterska, pp. 7-12]. The results are presented in figure 5.

Figure 5. The percentage of encounters with unethical behaviour in accounting

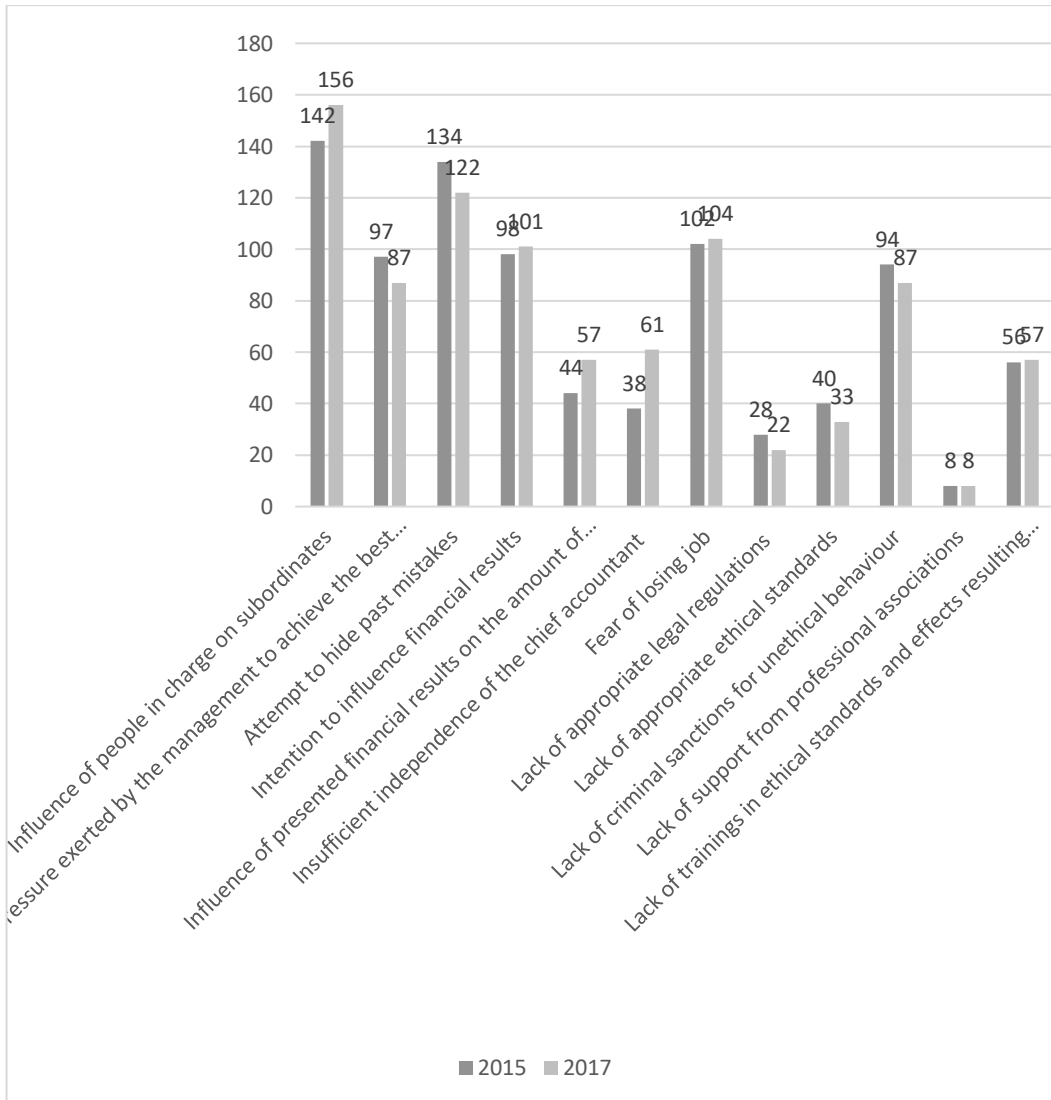


Source: own study based on the survey.

The respondents were also asked to indicate a few examples which in their opinion could contributed to unethical conduct, which is presented in figure 6. The most people, 142 in 2015 and 156 in 2017, indicated the influence of managers on their

subordinates, and an attempt to hide mistakes made earlier was indicated by 134 respondents in 2015 and 122 in 2017. The most significant change and an increase in the number of indications concerned the need to increase the independence of the chief accountant. In 2015 38 respondents and in 2017 61 people mentioned insufficient independence of the chief accountant. The activities that can contribute to the violation of ethical standards are varied, however, they mostly aim at benefits resulting from the improvement of results and economic indicators or keeping a job. Unfortunately, the respondents chose all the examples that could influence unethical conduct mentioned in the questionnaire. The respondents were also allowed to choose more than one answer here (220 respondents chose 881 answers). The reasons for unethical behaviour and detailed indications are presented in figure 6.

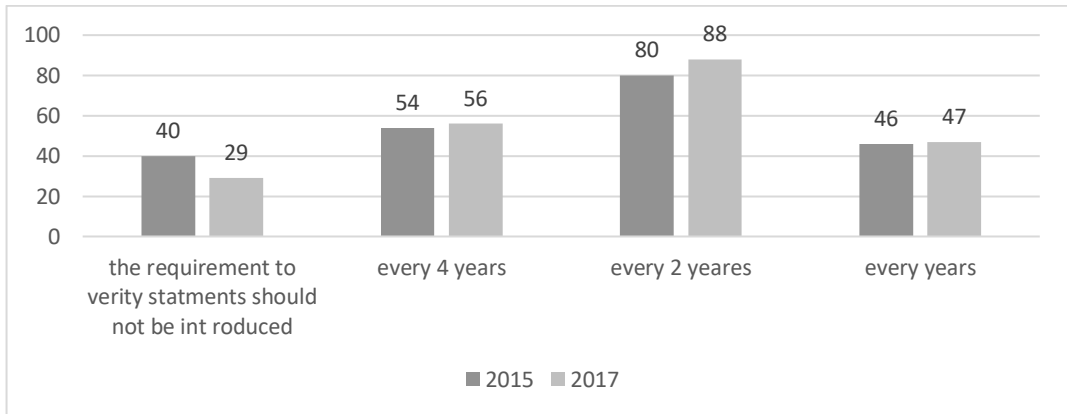
Figure 6. The assessment of the frequency of the occurrence of specific situations influencing unethical conduct (2015 – N = 881, 2017 – N = 895)



Source: own study based on the survey.

The respondents (81.82% in 2015 and 86.82% in 2017) were willing to admit that introducing a general obligation to audit financial statements by statutory auditors (in entities not mentioned in Article 64 of the Accounting Act) might contribute to promoting ethical behaviour in accounting. The main problem however is the frequency of conducting such auditing. The majority of the respondents, 80 people in 2015 and 88 in 2017, concluded that such auditing could be conducted every two years, 54 respondents in 2015 and 56 in 2017 indicated that every four years would be frequently enough. Only fewer respondents, 46 in 2015 and 47 in 2017, concluded that such auditing could be carried out every year so that all objectives could be achieved. The results are presented in figure 7. Although 108 respondents in 2015 and 91 in 2017 managed entities whose financial statements were audited by statutory auditors, over 80% of the respondents saw the need to supervise the reliability and following ethical standards. The statutory obligation to verify financial statements involves changes in legal regulations, however, it does not constitute the only solution in the area of verification of the standards of accounting and ethical norms.

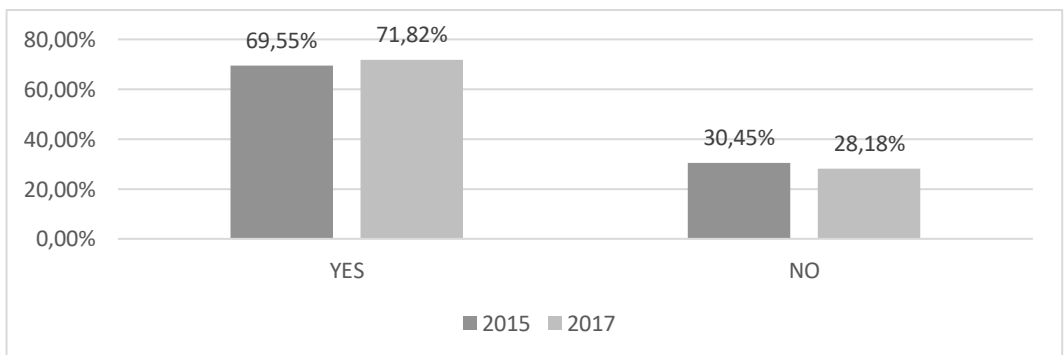
Figure 7. The evaluation of the frequency of financial statements auditing by a statutory auditor in the entities not mentioned in Article 64 of the Accounting Act (N=220)



Source: own study based on the survey.

Answering another question whether in order to ensure greater professional independence of accountants and a more significant role of ethical standards an "organisation" certifying financial and accounting activities and issuing the certificate of ethics in accounting, which would confirm ethical conduct, needs to be established, 153 people in 2015 and 158 in 2017 assumed that establishing such an organisation would ensure more independence of accountants and increase the role of ethical standards in accounting. 67 respondents expressed the opposite opinion in 2015 and 62 in 2017, which figure 8 presents.

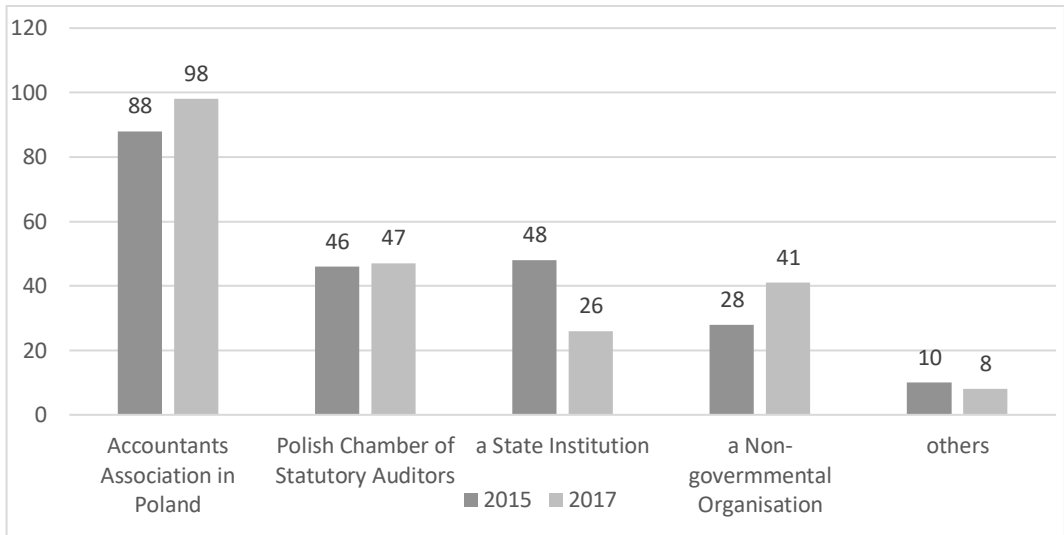
Figure 8. The assessment of the need to establish an organisation certifying the confirmation of the use of ethical standards (N = 220)



Source: own study based on the survey.

Figure 9 presents the suggestions put forward by the respondents with respect to what institution could certify ethics in accounting. 88 respondents in 2015 and 98 in 2017 concluded it could be the Accountants Association in Poland. 48 respondents in 2015 and 26 in 2017 suggested that such a role should be played by one of the State Institutions, 46 people in 2015 and 47 in 2017 indicated the Polish Chamber of Statutory Auditors, and a non-governmental organisation was indicated by 28 people in 2015 and 41 in 2017.

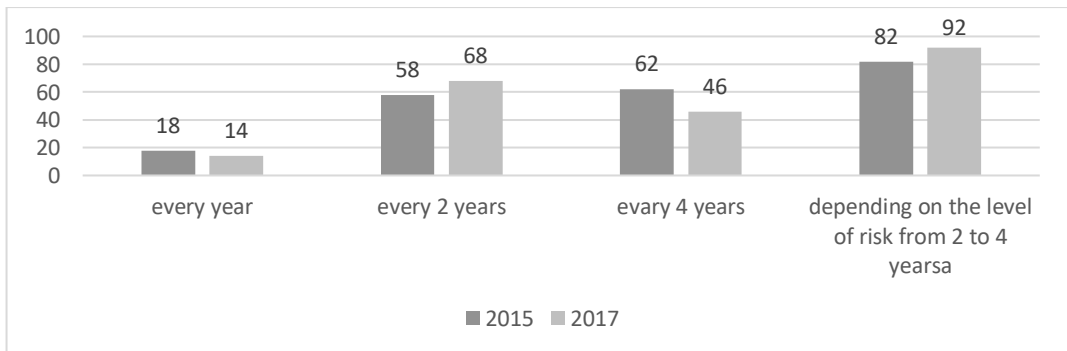
Figure 9. A list of institutions issuing the certificate of ethics in accounting (N = 220)



Source: own study based on the survey.

The question of the period of time such a certificate should be issued for constitutes another issue. Almost 28% in 2015 and 21.82% in 2017 of the respondents concluded that a period of four years would be appropriate. The need to certify every two years was indicated by 58 respondents in 2015 and 68 in 2017. However, 82 respondents in 2015 and 92 in 2017 suggested that the period of time should depend on the level and area of risks appearing in a certified entity and it should be issues for two to four years. Figure 10 presents the results.

Figure 10. The period of time for certifying (N = 220)



Source: own study based on the survey.

Introducing the certificates would constitute a showcase of a company and a confirmation for stakeholders of its reliability and accuracy in the area of following ethical standards in accounting. It would bring numerous benefits for both the interested entities and other stakeholders. Issuing them for the period from two to four years would be justified and would improve the quality of financial information presented by entities in financial statements.

Conclusion

Financial statements are based on reliable accounting books, whose rules of keeping are clearly specified by legal regulations. However, the frequency of changes in the national and international standards does not allow everyone interested to interpret the results correctly and in accordance with the changes. Financial information constitutes the basis for making decisions for stakeholders and for this reason reliable information is a valuable source of data. An entity manager supervises the correct preparation of statements and in the case of selected units external and internal auditors confirm their reliability. Discussing the supervision attention should be drawn to various irregularities described as frauds, malpractices or financial scandals. In order to improve the situation, business ethics and ethical codes including professional codes are more and more often discussed. Accountants have the code of professional ethics. However, the conducted research shows that it can be violated by both accountants and managers. The reasons for irregularities are often connected with the influence of managers on their subordinates, an attempt to hide mistakes made earlier, fear of losing jobs, the willingness to create a financial result, pressure exerted by the management aiming at the best results and economic indicators, as well as the lack of criminal sanctions for unethical conduct. If unwanted activities are not perceived negatively by the business environment, the temptation to violate the standards increases especially in the situation when the reason for the violation is the fear of losing a job or measurable financial benefits. For those reasons the respondents indicated the obligation to conduct financial statements auditing for all economic entities. However, entities managers indicate the need to verify the following of ethical standards in accounting, issuing quality certificates and informing the public opinion about the results of verifications as alternative solutions for the problem of following ethical standards.

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