

Special Write-Up

Professional Conduct in Limelight: European Survey Reveals as to How Accountants Respond to Pressures to Act Unethically



Professional ethics has become a hot topic in recent years, fuelled by scandals such as Enron and the realisation by professional bodies, including the Association of Chartered Certified Accountants (ACCA), that the importance of acting ethically needed more emphasis in professional training. If finance professionals don't act in line with laws, tax rules, and accounting standards, how can business and society at large put their trust in financial statements or tax returns? Recognising the interest in professional ethics, the European Federation of Accountants and Auditors for SMEs (EFAA) and the Accountants Association in Poland (SKwP) conducted a survey among accountants in business and practice (mainly small and medium-sized firms). They looked at how often accountants have come under pressure to act unethically and how they responded. The online survey gained 662 responses from 23 countries, with particularly strong participation from accountants in Spain, Germany, and Poland. Read on to know more...



*Anna Karmanska, **Marie Lang, ***Robin Jarvis

(The authors are *Professor in Economic Sciences, SGH Warsaw School of Economics, **Director, Professional Development, EFAA and ***Professor of Accounting, Brunel University, London respectively. Comments can be sent at eboard@icai.org)

Ethical Dilemma

Acting ethically is at the core of professional conduct of accountants world-wide, which is the key to not only retaining but also augmenting the trust bestowed on them by economies, societies and the governments. However, in view of a wide range of their clientele and other stakeholders, accountants often come under pressure to circumvent the ethical values and due procedures,

Special Write-Up

processes and practices. As such, to look and study deeper into this important aspect of professional conduct of accountants, the European Federation of Accountants and Auditors for SMEs (EFAA) and the Accountants Association in Poland (SKwP) recently conducted an online survey among accountants in business and practice, mainly small and medium-sized firms. The objective was to study as to how often accountants have come under pressure to act unethically and how they responded. The survey results were based on 662 responses from 23 countries, with particularly strong participation from accountants in Spain, Germany, and Poland.

The resulting report—*Accounting and Ethics: Pressure Experienced by the Professional Accountant*—written by the authors of this article—confirms that pressure is widespread. The majority (64%) of respondents confirmed that they had, during their professional career, been put under pressure to act contrary to their professional ethics or to tax and/or accounting legislation. Some 37% had been the subject of such pressure on five or more occasions.

Accountants in all types of roles had come under pressure: internal and external auditors, tax advisors in practice and in business, accountants in practice and in business, bookkeepers, and external consultants. Those exerting the pressure included clients and owners of the business or practice, directors or board members, line managers, and colleagues or people of similar seniority.

The actions requested typically affected the reporting of the entity's performance and often its tax position. The most common request was for

The survey report — *Accounting and Ethics: Pressure Experienced by the Professional Accountant*—written by the authors of this article—confirms that pressure is widespread. The majority (64%) of respondents confirmed that they had, during their professional career, been put under pressure to act contrary to their professional ethics or to tax and/or accounting legislation. Some 37% had been the subject of such pressure on five or more occasions.

the postponement of cost and expense recognition (see list “Pressure to do what?”). This was closely followed by pressure to manipulate the value of inventories, and requests to categorise personal expenses as company expenses.

When asked about potential rewards for acting unethically or contrary to legislation, the vast majority (88%) of those responding said they were not offered or given any explicit reward. However, many felt that there was a perceived reward in the sense of a continuing relationship. The researchers suggested that a lack of explicit rewards being offered could indicate that the pressure accountants come under is seen as “normal behaviour” in business.

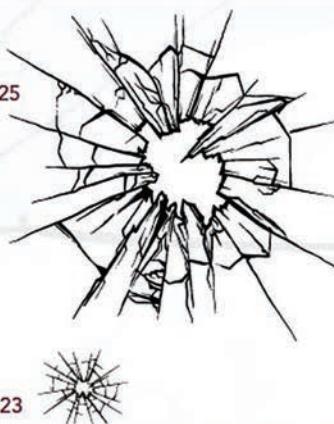
Some respondents said they had been threatened by the person exerting pressure on them. These threats typically involved some sort of financial loss, such as loss of income to the practice, loss of employment to the individual, or the termination of an ongoing relationship.

Levels of Resistance

Based on the survey findings, most accountants do not succumb to pressure: 68% (of 304 respondents)

Pressure to do what?

Postpone the recognition of costs and expenses	125
Manipulate the value of inventories	122
Treat employee, director and shareholder expenses as the company's	119
Overstate expenses (accounting for fictional expenses)	91
Change the nature of items for accounting purposes	70
Non-recognition of income or sales (understatement of income)	69
Create excessive provisions so as to release them to profit later	67
Accelerate income recognition (overstating income)	66
Account for repairs as capital expenditure	52
Manipulate depreciation and amortisation	51
Amortise costs that should have been immediately expensed	41
Enable cash wages to be paid to people not registered as employees	36
Manipulate long-term contract measurement	23



Special Write-Up

Based on the survey findings, most accountants do not succumb to pressure: 68% (of 304 respondents) did not do as asked. They refused to act for ethical reasons or provided sufficiently strong arguments to persuade those applying the pressure that the actions they wanted were unnecessary.

did not do as asked. They refused to act for ethical reasons or provided sufficiently strong arguments to persuade those applying the pressure that the actions they wanted were unnecessary. The researchers identified a number of themes in the arguments respondents put forward, including:

- their need to protect their professional reputation;
- the fact that accountants are bound by professional ethics;
- the requested action not being in line with accounting rules and legislation; and
- the idea that accounting professionals cannot be associated with tax evasion.

Some respondents argued that the pressure to act unethically was caused by short-term problems that accountants could help to resolve, enabling appropriate decisions to be taken so that the business could be sustainable in the long term.

A significant minority (32%) did succumb to the pressure put on them to act contrary to their professional ethics or legislation. Many did so because they felt their employment and livelihood were under threat. Some were bullied in the workplace. The survey also revealed that, when respondents came under pressure to act unethically or contrary to legislation more than once, they ultimately left their employment. The researchers, therefore, concluded that these respondents perceived some sort of moral line that could not continually be crossed.

Those facing difficult situations in the workplace described a sense of feeling alone and without support. Accountants working in businesses felt less supported and more distant from their professional body than those working in professional practices. The researchers also highlighted the finding that respondents were more likely to succumb to pressure when they were acting



as an employee within an entity rather than as an external consultant. They, therefore, concluded that an individual's ability to put some distance between them and the person applying the pressure helped them to withstand it.

Just over half (51%) of respondents said they had consulted with someone at the time they felt under pressure. They most often turned to a colleague, followed by their professional body or a manager not associated with the issue. Although respondents generally found consultation to be helpful, the researchers found no link between the act of consultation and the respondent's subsequent actions.

Based on this extensive European survey, it is clear that finance professionals in business and in practice can expect to come under pressure to act contrary to ethics or legislation during their careers. The good news is that most are likely to withstand such pressure, even though it can create a difficult working environment or even the loss of a job or client. A significant minority are likely to succumb, however, at least the first time pressure is exerted. The inclusion of ethics in professional qualifications and subsequent development activities, therefore, remains vitally important, not only to help individual finance professionals to withstand pressure, but also to defend the reputation of the profession as a whole. ■

(Courtesy: IFAC Knowledge Gateway)

Based on this extensive European survey, it is clear that finance professionals in business and in practice can expect to come under pressure to act contrary to ethics or legislation during their careers. The good news is that most are likely to withstand such pressure, even though it can create a difficult working environment or even the loss of a job or client. A significant minority are likely to succumb, however, at least the first time pressure is exerted.