ASA University Review, Vol. 8 No. 1, January–June, 2014

Ethics in Financial Reporting: A Must

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Abstract

To achieve an orderly business environment around the world, the corporations must provide investors, creditors and other stakeholders with relevant, reliable and timely information. Accounting, auditing and the structure of corporate governance that they operate within are the essential components in the flow of accounting information to capital market participants. However, recent corporate scandals pointed out the need for ethical developments in financial reporting. This is an initiative to entail the need for ethics in financial reporting and recommend guidelines for developing an ethical working environment. The study is descriptive and qualitative one by nature and is based on a critical review of both primary and secondary data. This paper concludes that, with suggested changes and proper implementation of existing standards and laws, an ethical misconduct free reporting system will increase the credibility of the financial information to protect our financial market.

Key Words: Corporate scandals, auditing, corporate governance, financial reporting, ethics

Introduction

In recent years numerous scandals has been witnessed around the world notably at Enron, WorldCom, HealthSouth, AIG, and others. As the scandals came to light, public confidence on financial reporting in general is shrinking.

Repeated disclosures about questionable accounting practices have worn out investors' faith in the reliability of financial reports, which in turn has sent stock prices dipping. To carry on a business or invest money depending on the financial statements that are not honestly prepared is unthinkable. Information would have no credibility. There is no doubt that a sound, well-functioning economy depends on accurate and reliable financial reporting.

All employees within an organization are expected to act ethically in their business activities. Given the importance of ethical behavior to corporations and their owners (stockholders), an increasing number of organizations provide codes of business ethics for their employees. Despite these efforts, recent business scandals resulted in massive investment losses and numerous employee layoffs. A recent survey of fraud by international accounting firm KPMG reported a 13% increase in instances of corporate fraud compared to five years earlier. It noted that while employee fraud (such things as expense account abuse, payroll fraud, and theft of assets)

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represented 60% of all instances of fraud, financial reporting fraud (the intentional misstatement of financial reports) was the most costly to companies. That should not be surprising given the long list of companies such as Enron, Global Crossing,WorldCom, and others that engaged in massive financial frauds which led to huge financial losses and thousands of lost jobs.
With the passage of time not only a lot of standards have been developed by accounting practitioners but also a numbers of act issued, monitoring system has been developed for implementing the said standards. But research shows that fraud is increasing day by day irrespective of numerous accounting standards. Hence, attaining an ethically developed working environment should be the first priority to regain the scam-free orderly business environment.

Objectives of the study

The main objective of this study is to identify possible ways of achieving ethically developed working environment that helps to prepare and present financial statements representing true and fair view of state of affairs of corporations. Another objective is to recognize the need for ethics in financial reporting while understanding why people behave unethically, scope of unethical behavior all of which are considered supportive to attain the primary objective.

Methodology

The study is a descriptive and qualitative one by nature and is based on a critical review of both primary and secondary data. Primary data are used in very limited cases and those are obtained through discussion with the relevant expert. The main sources of data used in this study are secondary data collected from various publications, texts, annual reports, the daily newspapers and other publications by different leading institutes (i.e. ICAB, ICMAB, ICAEW etc). However, the secondary data are carefully scanned prior to using them in this study. Data collected were then analyzed, sorted and presented to represent findings and arrive at a logical conclusion.

Literature review

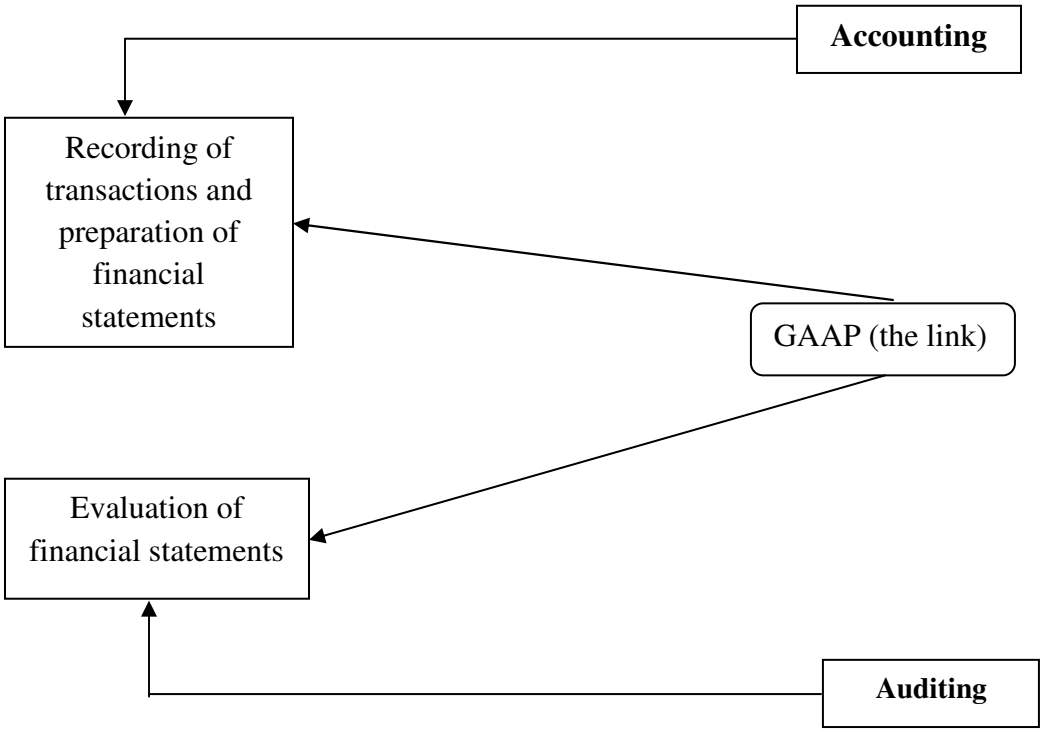
The standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair, are ethics. Effective financial reporting depends on sound ethical behavior. According to Jones (2008), "professional ethics are the moral values that a group of people uses to control the way they perform a task or use resources."

According to Mendonca, (2001) "leaders are responsible for the organization's moral climate. Through the use of morally appropriate influence strategies and tactics that are motivated and guided by moral intent, leaders can facilitate the moral development of followers". Hood (2003) suggests that leaders with their ethical behavior contribute significantly in shaping the ethical behavior of individuals in the organization. Van der Colff (2004) suggests that transformational leadership is one of the competencies required for the leaders of the 21st century. Chen (2004)

concluded that leaders affect their subordinates both directly through their interactions and through the organization's culture.

Josephson Institute described the six core ethical values those are: Trustworthiness, Fairness, Respect, Caring, Responsibility, and Citizenship. Among other potential sources of ethical values laws and regulations, codes of professional ethics, church doctrines, and individual organizations' codes of conduct are foremost.

Clikeman (2003) discusses the importance of accounting educators to promote ethical standards to accounting students. Clikemans (2003) affirmed the idea that accounting students with ethical standards will prevent future accounting scandals. Clikeman's research suggests that, "accounting education does influence students' professional attitudes" (Clikeman, 2003).
Many financial statements users and members of the general public confuse auditing with accounting. The confusion results because most auditing is concerned with accounting information, and many auditors have considerable expertise in accounting matters. Although auditing and accounting are related, they are distinct from each other.



Accounting and Auditing Contrast
(Larry F. Konarth, "Auditing: A Risk Analysis Approach")

Accounting is an information system that identifies, records, and communicates, in the form of financial statements, the economic events of an organization to interested users (Weygandt, Kieso, Kimmel, 2010).
Preparation and presentation of the financial statements are responsibility of the management where as the auditor's responsibility is to provide an independent opinion on the said financial statements, whether these are free from material error or bias. External users, who rely on those financial statements to make business decisions, look to the auditor's report as an indication of the statements' reliability. They value the auditor's assurance because of the auditor's independence from the client and knowledge of financial statement reporting matters (Arens, 2000).
The Institute of Chartered Accountants of Bangladesh (ICAB), is the National Professional Accounting Body of Bangladesh established under the Bangladesh Chartered Accountants Order 1973, provides its members with knowledge and guidance based on the highest professional, ethical and technical standards to ensure a high level of professional competence among the membership and those aspiring to be members (ICAB, 2012).

The main objective of an audit of financial statement is to enable the auditor to express an opinion on whether the overall financial statements (the information being verified) are prepared, in all material respects, in accordance with an identified financial reporting framework. The term "financial statements as defined by the council of the ICAB "framework of presentation of financial statements" covers balance sheets, income statements or profit and loss accounts. Cash flow statements, notes and other statements and explanatory material which are identified as being part of the financial statements. Although the auditors' opinion enhances the credibility of the financial statements, the user cannot assume that the opinion is an assurance as to the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity (ICAB, 2004).

Gary L. S. (2003), view brings us to the auditor's role. Are not auditors supposed to protect the public from the types of abuses we have witnessed? After all, even though financial statements are the responsibility of management, shareholders hire auditors to protect their interests and to add credibility to the financial information disclosed by firms. To add this credibility, auditors need both expertise and integrity. Expertise assures us that if there is a financial reporting irregularity, the auditor will discover it. Integrity assures us that auditors will disclose any irregularity they find. These two qualities are essentially multiplicative — if either is missing, the other has no value.

International Standards on Auditing (ISAs) are issued by the International Auditing and Assurance Standards Board (IAASB). The objective of the IAASB is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. International Standards on Auditing (ISA) are used by auditors in countries that have adopted ISAs as their auditing standards.

ISA requires auditors of listed companies should be independent, both in fact and in appearance, of the entity being audited. Independence in auditing means taking an unbiased viewpoint. Users of financial statements would be unlikely to rely on the statements if they believed that auditors were biased in issuing independent audit opinions.
Independence in fact exists when the auditor is actually able to maintain an unbiased attitude throughout the audit, whereas independence in appearance is dependent on others' interpretation of this independence and hence their faith in the auditor.

A peer review is a review, by CPAs, of a CPA firm's compliance with its quality control system. A mandatory peer review means that such a review is required periodically. AICPA member firms are required to have a peer review every three years. Registered firms with the PCAOB are subject to quality inspections. These are different than peer reviews because they are performed by independent inspection teams rather than another CPA firm.

There are differences in author's view of the meaning of corporate governance. one school of thought describe corporate governance as a "system" by which companies are directed and controlled; another school views corporate governance as "structures and processes for decision making, accountability, control and behavior at the governing body"; to others corporate governance is about "finding ways" to ensure effective decision making (Pound, 1995). Tannenbaum(1968) claims that an organization without some form of control is impossible. Committee on Corporate Governance (September 1999) suggests that external auditors shall perform fair audits independently from the corporation concerned, its management and controlling shareholders, so that shareholders and other users may maintain confidence in the corporation's accounting information. Sir Adrin Cadbury perfectly said, "Corporate governance is considered withholding balance between economic and social goals and between individual and community goals. The aim is to align as nearly as possible the interests of individuals, corporations and society" (Cadbury, 2003). Corporate governance has become a top priority for the regulatory bodies with the objective of providing better and effective protection to all stakeholders and also to make the market confident as research reveals a positive correlation between corporate governance and share prices (Ahmad, 2004). Various elements of corporate governance discussion includes the legal framework, ownership structure, shareholding and protection of minority shareholders, board of directors, and the role of capital markets and Securities and Exchange Commission (SEC) in corporate governance, accounting and auditing standards, independent auditor's report(Ahmed, 2005). Corporate Governance Committee (1997) stated remarkably, "An audit committee is to be created within the board of directors. All the members of the committee are to be non-executive directors. Its function will be to audit the quality of compliance achievements, as well as the appropriateness of risk management of management. Auditors should audit beyond the normal inspection of compliance by management, and at the very least should make due judgments on the strategic decisions made by the board of directors. The quality of corporate auditing has to be upgraded by designating more than one independent auditor and by a more systematized auditing" (Corporate Governance Committee, 1997).

The governance structure of an entity can play an important role in monitoring and safeguarding the independence of its external auditor. The exact form of an entity's governance structure and the roles that any individual governance bodies perform in relation to the external auditor may vary depending on the requirements of national laws. In some jurisdictions, a single body commonly known as an "audit committee" oversees all matters relating to the external auditor. In other jurisdictions, more than one body within the governance structure of a listed entity may assume this responsibility (OICU-IOSCO, 2002).

While the auditor is accountable and commonly reports to the shareholders, he or she does not in practice have a direct relationship with them. The audit committee should therefore serve as a proxy for the shareholders (OICU-IOSCO, 2002).

The audit committee should be the key representative body with which the external auditor interacts. The audit committee should report to the shareholders on the actions it has taken to safeguard the independence of the auditor, including satisfying itself that the auditor is independent in accordance with applicable standards (OICU-IOSCO, 2002)..

Why people behave unethically

"Character does not stay at home when we go to work". This is a plain statement from which we can draw an inference that character is momentous to one's personal life as well as professional life which in turn is affected by one's intrinsic ethics- a set of moral conducts that guide the people what is "right" or "good" as opposed to what is "bad" or "wrong". Ethical behavior is values driven and consideration of a behavior as ethical varies among moral reasoning approaches or even it may differ from culture to culture, country to country or man to man based on several factors. A lot of researches have already been taken place by people from diverse background to explore why people indulge in unethical behavior so as to maximize his self interest. One major factor aggravating the magnitude of unethical behavior within a particular community is that the society, surrounding which the community is evolved, is losing its values and emphasis on norms day by day. Less interaction among the parents and the children is clearly evident in the present scenario as parents have little time to spend for grooming their children which is a crucial factor for societal deterioration in terms of ethics. This picture is same for the academics too as they are overloaded although they were primarily responsible for ensuring proper moral training among their apprentices. People's perception is another important aspect that influences people's decision to involve in unethical practice. People's attachment with unethical conducts not only depends on their wiliness to commit wrong or bad but also their perception about the world. For an individual the world itself is not the actual world rather the world is basically what a person perceives regarding it- the most important catalyst revitalizing the people's participation in unethical behavior. There are some other factors which we have to consider beside perception with a view to having a better insight on the statement "Why do people engross in unethical behavior". Furthermore the emergence of complex social structure and complicated life style, feeling of deprivation in terms of basic needs, detachment from

fastidious religious practice and lack of economic solvency are prime causes stimulating the people caught up in unethical behavior. Capacity to rationalize the unethical behavior is also an energizing factor to indulge people in unethical behavior. The followings are several ways how do people rationalize their unethical behavior to feel themselves comfortable:

1. **Shifting the Blame**: "Everyone does it."
2. **Pleading Ignorance**: "I can't see that it hurts anyone."
3. **Moral Justification**: "I'm protecting the company... the employees...my family..."
4. **Advantageous Comparison**: "This is nothing compared to..."
5. **Letting Victim Take the fall**: "They had it coming."
6. **Euphemistic Labeling**: "I am trying to level the playing field."

Arens (2001) mentions there are two primary reasons why people act unethically; the personal ethical standard different from those of society as a whole, or the person chose to act selfishly. Ataur Rahaman (2013) found pressure of the business environment, the organizational culture and individual philosophy influences one's ethical behavior. Meeting sales target, cut costs, increase efficiency or overtaking competitors, superior and co-workers behavior, personal moral philosophy etc. may cause people to behave unethically.

Scope of unethical behavior

Besides perception of the people and other catalyst of unethical behavior there is also a vast scope in financial reporting system for doing ethical misconduct which we have discussed from various point of view.

Accounting issues

Accounting has some inherent limitations as in accounting all the economic events need not be recorded to get the trial balance balanced and besides accounting involves a significant degree of subjective and discretionary judgments and estimations etc. which may give the accountants the room for manipulating the financial numbers so as to maximize their own interest at the expense of the investor. The accountants may be persuaded to maneuver the accounting figure in the situation where poor documentation regarding expenditures and asset value is evident. This manipulation may involve constituting figure that may or may not be good reflection of the actual number. Although such force may emerge from the top level management, this exercise is not only unethical but also a sheer deception. Creative accounting also includes the manipulation of accounting information in preparing the financial statements as well as intentional omission of material asset or liability information from the financial reports. A company may inflate its profit figure to catch the attention of its investor or it may devalue its liabilities to aggravate the investor's confidence to the entity. Perspective "Rule Based" accounting allow the perpetrator to do cook accounting for the items in such a way that could make the financial statement look more lucrative in the eyes of the people than they actually are in practice. For instance, the company may offer each other free advertising in a "swap" arrangement but consider it as sales to make the sales more lucrative than they really are. This does not bother the auditor as it ensures a true and fair view of the state of affairs of the company according to accounting rules, but may not actually be true and fair in practice to the users of accounting information. Many giant companies

like Motorola, IBM and Nike use intricate systems to control and evaluate the performance of the managers. They deploy substantial resources to monitor and effectively measure the performance of the employees. Unfortunately, these sophisticated systems and control measures unconsciously create incentives for managers indulge in unethical behavior. For example, companies set up budgets to provide direction for the managers. As it is an effective evaluation tool, some managers try to engage themselves in budgetary game by undermining their predetermined performance so that it will be easier for them to attain their performance goal. On the contrary, if the budget is set at an inaccessible level, managers sometimes involve in unethical actions to reach their performance goal with a view to receiving higher compensation or even in some cases to save their jobs. For instance, in recent years, airline manufacturer Boeing was snowed under a series of financial scandals including charges of over-billing, corporate espionage, and illegal conflicts of interest. Some long time employees of Boeing censured the deterioration in ethics in the corporate arena that occurred after Boeing merged with McDonnell Douglas. They suggested that evaluation criteria implemented after the merger took place to monitor and evaluate the performance of the employee compelled the employees to believe that they need to succeed no matter how. As another example, manufacturing companies have to set their production standard in order to ensure a control environment. Again, if that control initiatives are not effective and realistic in the respective area, then it may cause serious problem to the entity. To illustrate, Schering-Plough, a pharmaceutical manufacturer, found that employees were so anxious with meeting production standards that they paid less heed to monitor the quality of the product, and as a consequence of which the dosages formulated were often wrong.

Auditing issues

Auditors work on the basis of sample. Hence, they cannot provide absolute guarantee regarding the financial statements rather they provide reasonable assurance about the true and fair view of financial statements. An auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the auditor's ability to detect material misstatements. These limitations result from factors such as:

- The use of testing.
- The inherent limitations of any accounting and internal control system (for example, the possibility of management override or collusion).
- The fact that most audit evidence is persuasive rather than conclusive.

Also, the work undertaken by the auditor to form an opinion is permeated by judgment, in particular regarding:

- The gathering of audit evidence, for example, in deciding the nature, timing and extent of audit procedures; and
- The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.

Further, other limitations may affect the persuasiveness of audit evidence available to draw conclusions on particular financial statement assertions (for example, transactions between related parties). In these cases certain BSAs identify specified audit procedures which will, because of the nature of the particular assertions, provide sufficient appropriate audit evidence in the absence of:

- Unusual circumstances which increase the risk of material misstatement beyond that which would ordinarily be expected; or
- Any indication that a material misstatement has occurred.

Accordingly, because of the factors described above, an audit is not a guarantee that the financial statements are free of material misstatement (ICAB, 2004).

Moreover the true picture is that clients go to the audit firm which is familiar to them and where the client can get a comfort zone to exert his or her familiarity advantages. Code of Ethics issued by IFAC and adopted by ICAB says that ethical point should be considered before taking on a new audit. But due to self-interest (audit fee/income of the firm) partners do not care it. Auditors go to the client with an objective motive. They are told to find out the real scenario and dig into the risky sides of the financial statements. Funny things are that when we go to the firm to the manager (the layer before partner) he/she most of the time do not get the point, do not care about the evidence we collect. All these happen may be due to the lack of his/her qualification (unqualified manager). Managers are most of the time hired on the basis of experience and not on the basis of the level he/she passed. Those who cannot pass stay in the firm and firm welcome them but do not welcome the qualified (passed) students. The reason behind this nonsense decision is the overhead cost (salary of managers) of the firm. They want to minimize the cost of the firm not the audit risk by appointing qualified students. These nonqualified students become the manager and head the audit team so what can you expect from them.

Another major issue is the audit fee. When we come across with new audit finding enough to qualify the audit report we are asked the audit fee of the client. If the audit fee is a major portion of the firms' total income the manager at the initial stage reduce the strength of the audit findings. Sometimes he/she discusses with the partner about the finding. After hearing the matter partner says to present the qualifying points in such a way which does not look a threat to the financial statements.

Sometimes reports are pre-decided does not matter what the practical scenario is. Clients directly come to the partner (specially from the NGO) and says that we need the report clean and tells about the other requirements in exchange of a handsome fee.

Overstating/understating assets, liabilities, expenses and incomes are common in case of audit of private companies and some listed companies. Request from clients are taken for consideration to tamper the financial statements. This happens obviously because of securing the contracted audit fee. Where the audit fee is a considerable amount to the firm in comparison to the total income of a partner of the firm materiality level in case of audit finding is also diminished and not taken into consideration.

It is still the strict rules for the listed company of our country to have audited by different audit firms by rotation and the rotation period is three years. It is normally followed by all the firms now-a-days. But those companies/NGOs/Non-profit organizations that are not listed with DSE or CSE are not bound to follow this. But still there is a question of ethics. Firms retain some permanent clients. Every year firms audit them. Most of the cases the permanent clients are different NGOs. The foreign donors are just relying on the same audit firms report years after years. No authority to see this. Even ICAB is just sitting relaxed.

Low bowling is another problem. There are some firms who bid such a lower fee to get the client which is really incredible. They do not think about the audit time period and standard staff members in a team. This all happens due to not having the proper investigation and watch dog role by the ICAB or other authority.

Involving in an audit engagement without having proper knowledge of client's business, work programs are not followed properly, very quickly rotation of article students from one audit engagement to another, Lack of training facilities for the new students, lack of supervision, difficulties in obtaining required audit evidences, difficulties in issuing an adequate audit opinion are the common findings of the article students of CA firms in Bangladesh. All these are in contrary to code of professional conduct applicable for a CA firm.

In many countries ethical standards are issued and the monitoring of compliance with them is performed by the profession itself. Audit failures highlight concerns about whether this method of self-regulation is appropriate or effective. Questions are also raised about the integrity of the auditors where close relationships have developed between the audit firm and the client. In particular the issue of the provision of non-audit services has been a contentious one. Where the fees for other services vastly outweigh those received for the audit it may be difficult for the auditor to argue that his view is impartial. This was one of the key issues raised by the Enron collapse. Similarly, where senior executives in finance roles were former auditors their judgment is likely to be perceived to be influenced by this.

Corporate governance issue

Corporate governance, the system of laws, markets and institutions designed to control and discipline the corporate activity in the service of the public interest, is one of the most talked of the topics in the recent business world. Intricate business environment, diversity of business operation, using of multi culture workforce in to the business operation, deterioration of ethical values, complicated organizational structure etc are posing a continuous challenge to the practice of good corporate governance into the business arena. Poor salary structure, lack of proper incentive to employees, deficiency in the monitoring of regulatory bodies, accounting based bonus plan, lack of neutrality in the appointment of directors, indifference of the companies to CSR (Corporate Social Responsibilities) etc are the prime responsible factors negatively affecting the practice of good corporate governance in the business and thus endangering the public interest on a continuous basis.

Transparency, integrity, openness, trustworthiness, honesty and accountability are very much instrumental and pervasive to the implementation of good corporate governance in an organizational context. Truly it can be uttered that ethics is an essential ingredient for corporate governance and it will continue to serve as the blueprint for success in the 21st century. Failure in good corporate governance is a real threat to the future of every company.

Corporate governance practices in Bangladesh are quite absent in most companies and organizations In fact, Bangladesh has lagged behind its neighbors and the global economy in corporate governance. One reason for this absence of Corporate Governance is that most companies are family oriented. (Enamul Haq A.K., 2007).

Within our financial reporting environment, we have provided incentives or scope for the managers to manage earnings and to delay or conceal bad news. For better or worse most cash incentive plans as well as most stock option plans are based on accounting results that directly motivate the managers to maximize their ulterior motive by manipulating financial statements.

Irrespective of all formal laws and regulations regarding corporate governance, in the real situation it is experimental that the board of the co. is not directly elected by the shareholders. Although they are chosen by the shareholders through a proper electoral system, true reflection of the choices are not offered to the ballot paper which gives birth to the question then "How do the proposed directors get their name in the Ballot Paper". Here, actually the role of the CEO & top officials of the company is instrumental to the selection of the member of the corporate boards. The scenario is not quite unusual in practice where the chairman of the board either current or former or CEO of the company nominate new board members and control the agenda of all board meetings. This undue influence of the top officials in the constitution of the corporate boards and decision resembles a serious threat to the good corporate governance and thus may create serious agency problem. Furthermore, the board members are frequently rewarded with stock options which also enhance their control in the co. jeopardizing the interest of the stake holders.

Poor salary structure, existing in the public sector of Bangladesh, inducing the employees to perform unethically so as to mitigate their feelings of inequity in comparison with the private sector, is also a threatening factor to the good corporate governance in Bangladesh. Again lack of accountability of the top level management is also a good instance of ill corporate practice, continuously jeopardizing the public interest. Furthermore, the negligence of the company towards performing CSR is also a good example of bad corporate governance. In our Garments sector it is more clearly evident resulting continuous labor strike, riots etc which in turn is affecting the profitability of that industrial unit and the total economy as well.

With effective corporate governance based on core values of trust and integrity companies will have competitive advantage in attracting and retaining talent and generating positive reactions in the marketplace. Having a reputation for ethical behavior in today's marketplace it engenders not only customer loyalty but also employee loyalty. This effective corporate governance can be achieved by adopting a set of principles and best practices. A great deal depends upon fairness, honesty, integrity and the manner in which companies conduct their affairs. Companies must make profit in order to survive and grow; however, the pursuit of profits must stay within ethical boundaries.

Companies should adopt policies including environmental protection, whistle blowing, ethical training programs and so on. Such compliance mechanisms help developing and building corporate image and reputation, gain trust and loyalty from consumers and heighten commitment to employees. Ethical compliance mechanisms contribute to growth and stability since it instills confidence; management, leadership, and administration are essentially ethical tasks. The focus of the ethics in governance is to establish a series of practical responses which depend on the consistent application of core values and principles as well as commitment to ethical business practice.

Need for ethics

People won't buy a lottery ticket if they think it is fixed. Likewise, people won't take part in the stock market if they think stock prices are rigged. Proper exercise of ethics in regular conduct is a must for the society to be regulated in an orderly manner. It is argued that ethics is an adhesive that bond the society together. Just think about it that what would happen if we could not rely on the people with whom we are dealing with. The implication of ethics is not only imperative in personal life but it affects the professional life also. Proper implementation of ethics is essential for the professional to uphold the confidence of the investors and general public. The requirement for maintaining ethics in professional conduct for a CA is equally important to other profession. It is strongly desired that all the professionals are proficient enough to perform their services with due professional care by recognizing their responsibility to the clients properly. The major distinguishing feature between CAs & other professional groups is independence in professionalism. As CAs have a responsibility to protect the interest of the financial statement users, it is critical that auditors be independent in both fact and appearance in their profession. Most of the other professionals, such as lawyers, doctors, coach are assumed to be an advocate for their clients. Therefore the need for maintaining independence is minimal for them.
Ataur Rahaman, (2013) identifies twelve points regarding importance of ethics in business including stop business malpractice, improve consumer confidence, survival of business, protecting consumer right, protecting investors and other stakeholders, develop good relations between business and society, create good image of business, consumer satisfactions, healthy competition etc.

Code of Ethical Standards

To keep investors' confidence in corporate accounting United States regulators and lawmakers were very concerned and hence the Congress passed the **Sarbanes-Oxley Act of 2002** (SOX, or Sarbox) which intends to reduce unethical corporate behavior and decrease the likelihood of future corporate scandals. As a result of SOX, top management must now certify the accuracy of financial information. In addition, top managers must certify that the company maintains an adequate system of internal controls to safeguard the company's assets and ensure accurate financial reports.

Another result of Sarbanes-Oxley is that companies now pay more attention to the composition of the board of directors. In particular, the audit committee of the board of directors must be comprised entirely of independent members (that is, nonemployees) and must contain at least one financial expert.

Furthermore, top management now faces much more severe penalties for fraudulent financial activity. Also, SOX calls for increased independence of the outside auditors who review the accuracy of corporate financial statements and increased responsibility of boards of directors in their oversight role. Again there is question of ethics. What would be the consequences if auditors behave unethically? The act will be of no worth because of the jeopardy of its application.

Responsibility of accounting educators

According to the writing of Gary L. S, (2003), it is regrettable to enunciate that the perpetrators of most of the financial reporting scandals emerge from ex- students, graduates of accounting and pupils from MBA programs. Therefore, as an educator we must have to perceive that what we are actually doing is wrong and simultaneously we must have to detect the ways how to fix that problems without any delay. The surest response to that particular problem is to call attention to the importance of ethics on business and accounting curricula. It is undoubtedly important, but at the very inception we have to affix that how we should do it? The mentors in the accounting ethics class can't deter someone who has fondness of doing fraud. But it is encouraging to note that most of the perpetrators do not willingly commit a fraud rather they simply get caught on a slippery slope. Furthermore, the most embarrassing point is that although most of the financial scandals are being committed by a few number of people, a large number of people though not personally involved knew about it but simply did nothing. As a consequence of which the main focal point of the ethics class should be on recognizing situations that can lead to compromise one's ethics and then to prop up the recognition and reporting of inapt behavior.

Circumstances come first and then adherence to ethical conducts is situational. It is not very intricate for a student to go into the ethics class and answer to the question as per desire of the instructors as he knows what his instructor wants. But it is completely a different scenario to put oneself in a vulnerable situation surrounding with conflicting pressures and compel him to determine the right action when ethics is a crucial factors affecting a decision.
Besides knowledge, emphasis should be on process- learning by discovery, not by repetition. As rules, regulations and techniques have become enormous, learning of them would mean unnecessary wastage of time and there will be less time for conceptual development and discovery of why people behave in a certain way in a particular situation. We are required to turn around that trend so as to produce graduates who can adapt to new situations and who can decide for themselves swiftly what is right or wrong in a particular situation.

Finally, accounting graduates should have a better insight of the economic role of accounting and auditing. At present these professions are seriously jeopardized arising from the failure to assume the importance of integrity in auditing and financial reports. A better understanding of the issues that is value adding to accounting and auditing will lead the future accountants to behave in an ethical way in complex situation so as to protect the interest of investors. Through studying the pros and cons of accounting a graduate may get a job, but it is necessary but not a sufficient condition to make him or her a professional.

Recommendations and conclusions

Accounting information, the output of accounting, is not reliable without auditing and auditing without good corporate governance is skeptical, and good governance without ethics is unthinkable. As we found why people behave unethically and we also see that there are scope for unethical behavior. So initiatives must be taken to limit the scope of unethical behavior side by side developing the moral of the people in business.

The Bangladesh Securities and Exchange Commission (BSEC) along with other legislative and regulatory body should take the initiative to improve the governance systems. They can go for some important changes including prohibition of the CEO or any other past or current managers from acting as chairman of the board of directors (BOD), from being involved in any way in the nomination of directors, from being responsible for setting agenda of the board's meetings. In addition to the above, no outside director would be entitled to hold stock option in any entity of whose board of directors they are a member. Make the board consists of outside directors, except one (CEO or other), who have not been employed or had significant business relationship with the entity or its top executives. Mandate continuous development for all outside board members so that they would be able to cope up with rapidly changing business environment.

What can be done to enhance the independence of the auditor? Actually the standards and acts are already there. But implementation or compliance to such laws is far behind. A mandatory peer review system, which means that such a review is required periodically, can be initiated and implemented. Aptitude test can be used before selecting the accounting students. Establish the minimum qualification requirement for the manager of a CA firm. Fix the audit fee based on size of the client organization and time and staff requirement to complete audit to protect low bowling attitude. For setting materiality level, emphasis should be given on number not judgment. ICAB should take step to investigate the clients base of the firm and of a particular partner, how they rotate, when they rotate, check the working paper files on a sample basis, analyze audit report on a sample basis, investigate into the threats available to the firms and partners about a constant client, investigate into the safeguards available and applied by the firms and partners where there is any threats to take on a new audit.

In an organization, for employees to behave in an ethical manner, **setting the tone at the top** is important. Employees need to know that they are working for a moral boss. They will be much less likely to display signs of unethical behavior if they know that this type of behavior will not be tolerated or ignored. Creating a policy dealing with ethics stating the expectations from employees as well as outlining what is and is not considered acceptable. Having a clearly written policy will help take action to the employee acting unethically. A code of ethics can serve as a helpful reference when employees are faced with challenges and are unaware of appropriate action. Employees should be allowed to report unethical behavior in a safe environment. Ethical training to workforce in basic business ethics can go a long way towards helping the employees learn what is not acceptable. Any violations of ethics policy should be punished. A single effort of a bad employee can ruin the image of the entire entity. Therefore, it is of utmost importance to establish a zero-tolerance policy for unethical behavior. Furthermore, an equitable pay scale along with lucrative compensation scheme should be installed in an organizational context to make the employee feel comfortable to behave ethically when they are in ethical dilemma.

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