

ETHICS IN ACCOUNTING IN THE CONTEXT OF KNOWLEDGE-BASED ECONOMY

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Abstract: *The knowledge-based economy comes with a number of challenges in the field of accounting. Accounting must provide the information that internal and external users need for decision making and, in order to achieve this goal, it is necessary to integrate new IT technologies, standardize reporting and ensure compliance with ethical principles in the accounting profession. The paper aims to present the main ethical challenges in accounting in the present and foreseeable contexts.*

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1. INTRODUCTION

The role of financial information in making decisions determines the special importance of the ethical principles being observed by professional accountants. In order to ensure the efficient management of any economic entity it is necessary to have a well-structured economic information system that should be appropriate to managers' information needs.

Generally, a system is a set of items that interact in order to achieve an objective. Regarded as a system, the company can be broken down into: the operational (managed) system, the internal information system (which ensures the connection between management and execution), and the decision-making (management).

The role of the information system present in an economic entity (a company, a public institution, or another type of institution), is to provide managers with the information they need in order to make decisions. This system has the role to ensure the communication between the decision-making system, and the operational system. The communication takes place in both directions: both from the operational to the decision-making system, in the form of information concerning the activity carried-out by the company, and in the opposite direction, in the form of decisions.

Ever since its inception, accounting has evolved in close connection to human society. Accounting has reflected the changes that have occurred in economy and in the way the economic activities are organized; it has been influenced by the technological developments and has become increasingly complex over time.

The information provided by accounting can be distorted, and thus stakeholders' interests can be seriously harmed as a result of implementing erroneous decisions. In order to avoid such situations, a need emerged to define a few fundamental ethical principles in the accounting profession and to ensure the compliance with such principles by professional accountants.



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With the globalization of the economy, there has been a need for the standardization of accounting, in order to ensure data comparability and to facilitate capital movement. The need to observe the same ethical principles in accounting led to the emergence of many regional professional organizations, and also to the emergence of a professional organization that has included members from all continents.

2. ACCOUNTING IN THE CURRENT CONTEXT

We are currently in an era where a company's objective should be sustainable development by combining the knowledge-based economy with the ecological and social economy in a harmonious way. This type of economic development is determined, on the one hand, by the progress made in the ITC field and by its applications in economy, and, on the other hand, by the exhaustion of resources and the need to protect the environment and people. Thus, sustainable development is based on three major objectives: (1) improving the company's economic results (economic performance), (2) protecting the environment (environmental performance) and (3) developing human society as a whole (social performance).

The organisation of accounting in a company takes into account information users' needs, while also being influenced by cultural factors. These factors determine the legislation adopted in each country in the accounting field.

The risks faced by the company in the contemporary economy increase the role of the accounting information, which becomes indispensable for the achievement of an efficient management. In this context, the accounting knowledge should not be held exclusively by accountants, and the persons who manage and are responsible for the company assets should also have at least a basic accounting culture. The knowledge-based society is generally defined in the specialized literature as a society based on knowledge and ideas, in which performance is conditional upon the implementation of new technologies and of the sustainable development mechanisms in all sectors of activity.

The ethical behaviour of professional accountants is influenced by several factors, including universities, professional bodies, legislation, moral and religious beliefs, the law.

The educational system generally has the role of forming some positive moral attitudes. Universities have the role of training accountants through knowledge transfer, skills training and the transmission of professional ethics.

A professional accountant must prove his/her professional training at the highest level. In the current context, it is becoming increasingly obvious that, in economics faculties, the teaching of IT disciplines can no longer be optional. In the field of business in general and accounting in particular, it is now difficult to make a strict delimitation between accounting and IT because IT solutions are integrated into most activities. Januszewski and Śpiewak (2014), discussing the application of IT solutions for the teaching of some disciplines in the field of accounting, highlight the "need for applying IT tools to university courses". Education has to keep pace with technological developments and labour market requirements, but this is more difficult in countries experiencing economic problems and where education is underfunded.

Professional bodies have a triple role: educational, supportive and coercive. Professional organizations develop guidelines to guide accounting professionals' behaviour in ethical issues and organize contextual training programs for professional accountants. On the other hand, in case of violations of professional ethics, professional bodies apply sanctions that can go as far as exclusion of a member.

Between universities and professional bodies there must always be collaboration for:

- adapting educational offer to labour market requirements;
- curriculum adaptation;
- ensuring the best professional training of future specialists;
- better information for students about career opportunities in the field of accounting.

The legislator has the possibility of intervening in society by issuing laws to punish deviations, depending on their severity. Consequently, the legislation is another factor influencing ethical behaviour by imposing penalties in case of failure to comply with the provisions. Cooperation between countries and exchange of good legislative practice can have positive results in the medium and long term.

At country level, the culture of each society is a determining factor for the accounting system adopted. At an individual level, each person's morale and religious beliefs can be another factor influencing ethical behaviour.

Strong professional bodies offer an extra insurance on the quality of work of professional accountants, increase confidence in the accounting profession and contribute both to the development of the economy and to the defence of public interest.

3. THE ROLE OF THE ACCOUNTING PROFESSION IN THE ECONOMY AND IN SOCIETY

Professional accountants are generally classified, according to their legal status, into:

- ✓ dependent accountants, having the status of employees;
- ✓ independent or self-employed accountants, providers of services making up the accounting profession. According to the manner of organizing the activity of the self-employed accountants, they can work individually, or in associative forms according to the legislation of each jurisdiction.

The accounting profession has a major role in defending the public interest and developing the economy. The movement of capital is essential for the development of any economy and takes place following a careful analysis of the financial information provided by professional accountants.

Exercising the accounting profession involves taking the responsibility of acting in the public interest, not just to meet the expectations of a particular employer, customer or client. The professional accountant must honour the trust conferred upon this profession, and observe the rules of professional conduct.

At an international level, the International Federation of Accountants (IFAC) includes as members professional bodies from most countries of the world. "Where accountancy flourishes, economies grow", as IFAC emphatically puts it on its website (2017). This statement underlines the important role of professional accountants in the development of each economy.

4. THE STATE'S INVOLVEMENT IN THE REGULATION OF THE ACCOUNTING PROFESSION

The state is directly interested in keeping ethics in accounting for a number of reasons. One of these is related to the fact that, by observing the ethical principles, professional accountants ensure the collection of the revenues to the state budget. There are three manners of implementing regulation (IFAC, 2011):

- ✓ self-regulation by the profession;

- ✓ self-regulation with public oversight and accountability;
- ✓ external regulation.

Half a century ago, most states in the world had authoritarian governments. Many of the world's economies were centrally managed by the government. Today, most of the world's states have democratic governments, and tend towards a liberal economy. The economic problems at the beginning of the 21st century, especially the unexpected bankruptcies of large companies that questioned the ethics of accountants, also influenced the regulation of the accounting profession. Thus, in nations with liberal economies, where the mix of regulation tended towards self-regulation, following scandals created by these bankruptcies, steps were taken to limit self-regulation through greater government involvement. In contrast, in states that tend to liberal economies, the trend has been to limit external regulation and favour self-regulation.

Self-regulation and external regulation must be combined in such a way as to complement each other, not to compete with each other. The combination between self-regulation and external regulation is influenced by a number of factors related to the specificity of each country and the previous results of the professional body.

5. THE FUNDAMENTAL PRINCIPLES OF ETHICS IN THE ACCOUNTING PROFESSION

In compliance with the *Code of ethics for professional accountants*, issued by IFAC (2005), a professional accountant is required to comply with the following fundamental principles:

- ✓ Integrity
- ✓ Objectivity
- ✓ Professional Competence and Due Care
- ✓ Confidentiality
- ✓ Professional Behaviour

This code was also adopted and adapted by the professional bodies that are members of IFAC, and is currently in force in more than 130 jurisdictions. As a consequence, similar accounting practices are being followed by accountants in ethical issues, and confidence in financial information from different states is increased.

Some small adjustments of the code of ethics are necessary due to the specificity of each jurisdiction. In Romania, the professional body (CECCAR, 2011) has introduced a sixth principle: respect for technical and professional standards.

In the practical activity, professional accountants can face many situations, some of which are hard to foresee. Consequently, it is virtually impossible for a professional body to foresee them and to describe the behaviour that the professional accountant should adopt in each case. The code of ethics comprises the basic principles that must be observed in carrying out the activity.

In order to comply with the provisions of the Code of ethics on Professional Competence, a professional accountant must maintain his / her knowledge and skills at the required level, which means a number of theoretical and practical aspects regarding both accounting and working tools such as IT solutions.

6. ARTIFICIAL INTELLIGENCE AND ACCOUNTING

The use of information technology in accounting is no longer a novelty, and is even an imperative nowadays due to the obvious advantages it brings, such as:

- it ensures the possibility of sending, storing, organizing and processing huge volumes of data at low costs;
- accuracy – mathematical errors that used to be frequent before the implementation of these technologies are now eliminated;
- rapidity in accessing, sending and processing data;
- it facilitates the decision-making process due to the fact that managers receive detailed information rapidly and can thus make forecasts easier etc.

Currently, there is a lot of software designed to meet the accounting users' needs. However, in the underdeveloped regions, the costs of the implementation the modern ITC in accounting remain at a considerably high level compared to the companies' possibilities.

Roșca et al (2010) show that “users and information system specialists tend to have different backgrounds, interests, and priorities, and often pursue different goals. This is referred to as the user-designer communications gap”. This problem can be solved by providing multidisciplinary training for specialists. IT specialists must have basic accounting knowledge in order to ensure the design of IT solutions meant to serve users' needs. It is also necessary to establish ethics principles for them, given their increasingly important role. On the other hand, users must have IT knowledge required to use the software and understand how it works.

Technology advances constantly and artificial intelligence is a good example in this respect. In the field of accounting, “artificial intelligence isn't coming. It's already here”, as highlighted by Sarah Ovaska-Few (2017). The adoption of artificial intelligence in the business field in general, and especially in the accounting field, is still at an early stage, but, as witnessed in the past decades, the developments in this sector are rapid and bring about radical changes in the fields of activity in which they are applied. Accounting is a tool available to managers, not a purpose in itself, and any improvement brought to a tool is welcome. In the next decades, the intelligent systems are expected to take over an increasing number of decision-making tasks from people (ICAEW, 2017).

The implementation of ICT is decisively influenced by the management's attitude. In this respect, studies were carried out to determine if there is a “significant difference in the adoption of ICT between organisations where dominant management orientation is towards results, and organisations where dominant management orientation is towards people” (Čudanov & Jaško, 2010). The manager decides on the allocation of resources and therefore has a decisive role.

7. CONCLUSIONS

High-quality standards in the field of ethics in accounting are very important because accountants, users of accounting services and regulatory bodies have a solid basis in order to assess compliance with the best practice. Compliance of professional accountants with ethical principles provides confidence to investors, and contributes to the development of the economy and the establishment of a climate of trust in society.

Professional bodies should have a determining role in the regulation of the accounting profession because they are right in the middle of the issues faced by their members in the practical activity. Undoubtedly, the state also plays an important role because it must make sure that the professional body acts to defend the public interest. The state provides the legislative framework required for the development of the accounting profession.

The ability of the accounting profession to put the public interest first determines the increase in its prestige among the public and in the way it is viewed by the state regulation bodies.

The complexity of the links between the factors that influence the ethical behaviour of professional accountants demonstrates that it is difficult to achieve short-term results in the field of ethics in accounting. In recent decades, changes in the economy and technology have succeeded one another rapidly. In this context, accountants should face the challenge of permanently updating their professional training and skills to work with new technologies.

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