Professional ethics and public trust

What does being a professional mean? This was a question I raised a few years ago during a talk with university students interested in pursuing professional careers. While they understood that a professional has special knowledge or skillsets, none of them mentioned ethics and public interest.

According to the Australian Council of Professions, a profession is defined as “a disciplined group of individuals who adhere to ethical standards and who hold themselves out as, and are accepted by the public as possessing special knowledge and skills in a widely recognized body of learning derived from research, education and training at a high level, and who are prepared to apply this knowledge and exercise these skills in the interest of others. It is inherent in the definition of a profession that a code of ethics governs the activities of each profession. Such codes require behaviour and practice beyond the personal moral obligations of an individual…”

Accounting is one such profession, which exists for a meaningful social purpose. Accountants play a vital role in the market economy by gathering and presenting financial information in a true and fair manner to facilitate informed internal and external business and investment decisions. Capital markets would cease to function otherwise.

Public trust is the foundation of a profession. For centuries, the accounting professionals commanded a very high degree of public trust and was rarely challenged on how we conducted our business. Our opinions were taken at their face value.

A series of events since the turn of the century however has significantly undermined the level of public trust and has caused lasting consequences to the global accounting profession.

The Enron and Waste Management cases in the United States have damaged the credibility of the auditing profession with society bearing higher overall costs as a result. The Public Company Accounting Oversight Board, set up in the wake of such scandals, costs taxpayers millions every year for it to monitor and regulate the work done by auditors in public companies. Additional ethics rules are introduced to limit non-audit services that auditors can provide, forcing audit clients to turn to other service providers for significant consulting engagements thus increasing costs. What happened in the U.S. caused a reassessment of the audit relationship around the world resulting in the introduction of mandatory auditor rotation in some jurisdictions.

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The collapses of companies and financial institutions shortly after they had received clean audit opinions during the global financial crisis have caused investors and regulators to question the adequacy of a simple audit opinion. As a result, a new auditing standard requiring detailed disclosure of how auditors address significant audit issues in arriving at their audit opinion has been introduced.

While auditors are the ones being most closely watched, I believe accountants working in business are more vulnerable. Business accountants are subject to all the threats mentioned in our ethics code: self-interest, self-review, advocacy, familiarity and intimation. Unlike auditors who stand to lose a client, they stand to lose everything if they do not give in to unethical demands. Accountants in business work in a world where making money is a priority and are sometimes judged on their ability to “disguise” rather than “disclose” the truth. Financial reports are sometimes “presented” not in a fair manner in order to deliver a certain message about the company’s performance to investors, the market and the tax bureau.

The 14th EY Global Fraud Survey results released this year showed that 1 in 10 of respondents would make a cash payment to win or retain business in an economic downturn. This number rises to 1 in 4 in the Far East. Notwithstanding whistleblower hotlines being introduced in 55 percent of companies surveyed, 18 to 19 percent of respondents cited loyalty to their companies and colleagues as the reasons why they don’t report fraud, bribery and corruption.

This reluctance to report goes against the public expectation that accountants should not turn a blind eye to suspected illegal acts committed by their clients or employers because of the unique position accountants occupy in serving their clients and employers. The International Ethics Standards Board for...
Accountants has reacted by issuing the “Responding to Non-Compliance with Laws and Regulations” standard, requiring accountants and auditors to disclose confidential client or employer information if there is non-compliance or suspected non-compliance in certain situations.

History has shown how isolated local acts by a small group of accountants have led to negative public perception and intensification of public scrutiny of the profession worldwide.

For our part, the Institute has taken its statutory licensing and regulatory roles very seriously. In addition to maintaining full convergence with international auditing and ethics standards, the Institute has constantly sought to improve audit and financial reporting quality through its practice review and professional standards monitoring programmes and through its education activities. The Institute has strengthened ethics content in all our relevant training, such as specialist programmes, financial controllership programme, and the revamped CPA qualification programme, so that our current and future members are better equipped to meet the ethical challenges. We have also teamed up with leading Global Accounting Alliance member bodies to promote greater awareness of ethics. The Institute will spare no effort in helping our members maintain high ethical standards in the workplace in order to re-earn the public trust that was once implicit in the accounting professionals.