

AN URGENT NEED OF ETHICAL EDUCATION FOR ACCOUNTANTS AND AUDITORS IN INDIA



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Abstract

Globalization leads to Social, political and technological changes have challenged traditional idea of professional practice by accountants and auditors. Ethics is a code or moral system provides criteria for evaluating right and wrong.

The high standard of ethical behavior is expected from Professional like Accountants and Auditors. From two decades lot of Corporate scams noticed in India Bofors Scam, Enron scandal, World Com scam, Tyco scandal, Telgi Scam, The Hawala Scandal, Harshad Mehta & Ketan Parekh Stock Market Scam, Health south scandal, Freddie Mac scandal, American International Group scandal (AIG), Lehman brothers scandal, Bernie Madoff scandal, Satyam scandal, 2G Spectrum Scam, the UTI scam, C.R. Bhansali scam, Madhu Cora scam, Indian Coal Allocation Scam, Wakf Board Land Scam, Commonwealth Games Scam and The Fodder Scam appears that corporate accounting fraud is a major problem that is increasing both in its frequency and severity.

The Primary cause of all frauds started from Accountants and Auditors as failure of corporate governance. Initially start out small with the perpetrator thinking that small changes here and there would not make a big difference but eventually growing in two million white Elephant in the room. In this context a need has been long felt to Study an Urgent need of Ethical Education for

Auditors and Accountants in India to mitigate Corporate Scandals. For the purpose of study secondary data has been collected, processed and presented in the form of tables, figures and Interpreted accordingly..

Keywords— *Ethics, Auditors, Accountants, Corporate Scams, Ethical Education.*

I. INTRODUCTION

In competitive corporate world accounting and auditing profession is extremely important to be ethical in their practices due to the very nature of their profession. The Professionals should maintain confidence of clients and ethical conduct. Ensuring highest ethical standards is important to a public accountant as well as to an accountant in business. Both public accountants and accountants in business are in a fiduciary relationship, former with the client and latter with the employer. In such a relationship, they have the responsibility to ensure that their duties are performed in conformity with the ethical values of honesty, integrity, objectivity, due care, confidentiality, and the commitment to the public interest before one's own. The recent fall of the company SATYAM and the role played by its Auditor and auditing committee, has buzzed an alarm in the Indian capital market. It has resulted into

shaking the confidence of the public investing in the stock market. It has led to drastic declines in share prices and substantial financial losses to minor shareholders. Both public and experts have acknowledged primary cause of these scandals as failure of corporate governance. In recent years, fraud has emerged as one of the biggest areas of not just financial loss for companies and banks resulting in billions of dollars of loss worldwide, but also a loss of data and reputational brand image. Overall damage and loss due to fraud can be staggering. But in today's technology-enabled world of business, auditors are progressively relying on technology to assist them in with auditing functions and auditor skills, their effective use of dimensions of technology, professional skills with ethical standards, code of conduct in automated and novel methods of fraud mitigation or reduce or abuse the incidental situations of corporate scandals in present business world.

Professional Ethics is a comprehensive issue covering all aspects of business or profession. Accounting includes accounting services and is one of the jobs based on discipline in the world. This profession is associated with one of the issues of people in the society, property and assets of people. Ethical principles or ethics are defined in a set of spiritual values and principles. All of us have such set of values although we don't know anything about them. If accountants and auditors working in business environment are not dependent upon professional ethics, it has harmful effect for those trusting them. Thus, accounting professional ethics is of great importance for accountants and professional auditors and those involved in auditing and accounting. The professional ethics and its implications on role of accounting professionals and important issues in accounting and auditing. Ethics has become a most topical issue of concern in accounting and auditing at present owing to the series of corporate scandals that

had taken place in the world affecting the credibility of the accounting profession. These corporate scandals have placed in doubt the effectiveness of contemporary accounting, auditing and corporate governance practices, for which accountants are responsible. Thus, the ethical code of conduct is closely linked with the accounting and auditing profession. Hence, we can say that the ethics has become an essential part for accountants and audit professionals. The ethics of a business is currently a most important issue owing to sensational corporate scandals that had taken place in many countries which are damaging to the economy and society. These corporate scandals question the morality of businessmen in general and accountants in particular. The accountants and auditors are the main contributors in ethical standards of a business. These scandals raised in the recent times were characteristics of deeper problems and identified that improvement of ethical standards, adequacy of financial management, reporting mechanisms, audit quality and strengthening of governance regimes as means to improve public confidence in financial reporting. The accounting profession has a responsibility towards these areas, whose deficiencies have led to corporate scandals and collapses. In this perspective a need has been long felt to Study Importance of Imparting Ethical Education to Auditors and Accountants is need of the hour in India to mitigate Corporate Scandals. .

II. REVIEW OF LITERATURE

Sarioğlu (2002) Enron case observed in America in 2001 and non-ethical operations of Arthur Andersen being one of the 5 biggest independent inspection companies in the world known to approve all non-ethical accounting transactions of this company and even suggest itself have shown that ethical problems about the accounting profession recently should be examined again.

Kırhoğlu and Akyel(200430) Xerox, Dynegy, WorldCom, Global Crossing, Tyco International, Qwest Communications and Adelphia Communications cases observed in America are among the examples to be given for ethical problems about the accounting profession.

Özkol et al (2005) Professional ethics notion, used in the meaning of acting as depending on ethical and professional principles in the profession and related activities, is a matter which should be paid attention in terms of that profession's gaining respect and trust from that society.

Özbirecikli (2009) Researched the progress which educational levels of members of accounting profession follow from 1992 to 2009 in these studies. Following the research, he predicted that the educational levels of members of profession will increase more due to the obligation for being a faculty graduate at least which has been brought today when it increases in periods with legal amendments generally.

Kısakürek and Alpan (2010) measured the reasons for obeying the occupational ethical rules, causes of non-ethical behaviours and opinions about the ethics of members of accounting profession. According to study results, the reasons why members of accounting profession in city of Sivas obey with the occupational ethical rules are determined as societal pressure, the level of education received, supervision level of trade association, penal sanctions and conscientious sanctions.

Objectives of the Study

1. To Study the various Corporate Scandals in India
2. To understand the need of Ethical Education for Accountants and Auditors in India.

Scope of the Study

The study has been confined only to need of Imparting Ethical Education to Accountants and Auditors for Mitigating Corporate Scandals in India. To give suitable Suggestions to overcome the loopholes in the Auditing Policies. The corporate scandals from 1990 to 2015 have been taken for detailed Investigation.

Significance of the Study

The New Government an urge of attracting more Foreign Direct Investments and encouraging Foreign Institutional Investors to come and invest in New Government Schemes like Smart city Projects, Make In India. It Increases Employment Opportunities, Improve Revenue Productivity, Increase Capital Formation, Contribution to GDP, Economic Growth and Economic Development. From two decades lot of corporate scams noticed in India like Bofors Scam, Enron scandal, World Com scam to 2G Spectrum Scam, the UTI scam, Commonwealth Games Scam and The Fodder Scam appears that corporate accounting fraud is a major problem that is increasing both in its frequency and severity. Therefore need has been long felt to Study an Urgent need of Ethical Education for Auditors and Accountants in India to mitigate Corporate Scandals in India.

Research Methodology

The research methodology used for the study is Descriptive and Analytical to be followed in research activity starting from investigation to presentation. It includes the research design, the Sources of data, the collection of data and the framework of analysis.

Major Corporate Scandals in India

1. Waste Management Scandal (1998)

- **Company** Houston-Based public company
- **What Happened** \$1.7 Billion in fake earnings

- **How they did it** Falsely increased depreciation time length for fixed assets on balance sheets
- **Main Players** CEO, Top Executives, and Arthur Andersen Company (Auditors)
- **Penalties** Fined Arthur Andersen Company (Auditors) \$ 7million.

2. Enron corp.(2001)

- **Company** Houston-Based Commodities, & Service Corporations.
- **What happened** Shareholders lost \$ 74 Billion, 1000 Employees lost their retirement accounts as well as jobs
- **How they did it** Keep huge debts off balance sheets
- **Main players** CEO Jeff Skilling and Former CEO Ken Lay, Arthur Andersen
- **Penalties** Lay died & skilling got 24 years prison, Arthur found guilty for fudging accounts.

3. WorldCom Scandal (2002)

- **Company** Telecommunications company, Now MCI. Inc
- **What happened** Inflated assets \$11 billion, lost 30,000 jobs & \$180 billion losses to investors?
- **How they did it** Underreported line costs by capitalizing rather than expenses & inflated revenues with accounting practices
- **Main Players** CEO Bernie Ebbers
- **Penalties** CFO was fired, controller resigned, CEO sentenced for 25 years for fraud, filing false documents.

4. Tyco scandal (2002)

- **Company** New jersey-based blue-chips Swiss security systems
- **What happened** CEO & CFO stole \$ 150 million & inflated company income by \$ 500 million

- **How they did it** Siphoned money through unapproved loans, fraudulent stock sales, Money smuggled out of company as benefits.

- **Main players** CEO Dennis Kozlowski & Former CFO Mark Swartz

- **Penalties** CEO, CFO were got 8-25 years in prison, & lawsuit forced Tyco to pay \$2.92billion to investors.

5. Health South Scandal (2003)

- **Company** U.S based largest public health care company
- **What happened** Earnings numbers were inflated \$1.4billion to meet stockholder expectations
- **How he did it** Allegedly told underlings to make up numbers & transactions from 1996-2003
- **Main players** CEO Richard Scrushy
- **Penalties** He was acquitted of all 36 counts of fraud & convicted of bribing to governor of Alabama leading to 7years prison.

6. Freddie Mac Scandal (2003)

- **Company** Federally backed mortgage financing giant
- **What happened** \$5 billion in earnings were misstated
- **How they did it** Intentionally misstated, understated earnings in books
- **Main players** President, CEO, Ex-CFO, Former senior VPs.
- **Penalties** \$125 million in fines & the firing of president, CEO, Ex-CFO.

7. American International Group Scandal (2005)

- **Company** Multinational insurance corporation
- **What happened** Massive accounting fraud \$3.9 billion, bid-rigging & stock price manipulation

- **How he did it** Allegedly booked loans as revenues, & told traders to inflate AIG stock price
- **Main players** CEO Hank Greenberg
- **Penalties** Settled with SEC \$10 million in 2003, \$1.64 billion in 2006 with PFs CEO was fired but faced no criminal charges.

8. Lehman Brothers Scandal (2008)

- **Company** Global financial services firm
- **What happened** Hid over \$50 billion in loans disguised as sales
- **How they did it** Created impression Lehman had \$ 50 billion more cash & \$ 50 billion less in toxic assets than it really did it.
- **Main players** Lehman executives, Company Auditors & Ernst & Young
- **Penalties** Forced into largest bankruptcy in US history & Did not prosecute due to lack of evidence.

9. Bernie Madoff Scandal (2008)

- **Company** Wall street investment firm
- **What happened** Tricked investors out of \$64.8 billion through the largest Ponzi scheme
- **How they did it** Investors were paid returns out of their own money & other investors rather than from profits
- **Main players** Bernie Madoff, His accountant, David friehling & frank dipascalli
- **Penalties** 150 years in prison for Madoff plus \$170 billion restitution. Friehling & frank got prison.

10. Satyam Scandal (2009)

- **Company** Indian IT Services Back-office Accounting Firm

- **What happened** Falsely boosted revenue by \$1.5 billion
- **How they did it** Falsified revenues, margins & cash balances to the tune of 50 billion rupees.
- **Main players** Founder RamalingaRaju, his brother & Price water House auditor
- **Penalties** Raju & his brother charged with breach of trust, conspiracy, cheating & falsification of records. Released after CBI failed to file charges on time.

Scams and Frauds	Loss Suffered (Amount)	Scams and Frauds	Loss Suffered (Amount)
Stock Exchange Scam (Harshad Mehta) 1991	Rs. 5,000 Crore	Satyam Scam (2008)	Rs. 10000 Crore
Fodder Scam (Chara Ghotala) 1992	Rs. 950 Crore	2G Spectrum Scam (2008)	Rs. 1750 00 Crore
C. R. Bhansali Scam (1995)	Rs. 1,200 Crore	Madhu Cora Scam (2009)	Rs. 4,000 Crore
Stock Exchange Scam (Ketan Parekh) 2001	Rs. 1,250 Crore	Common Wealth Games Scam (2010)	Rs. 2,342 Crore
The UTI Scam (2001)	Rs. 4,800 Crore	Coal Black Allocation Scam (2012)	Rs. 1,856 Billion
UP food Grains Scam (2003)	Rs. 35,000 Crore	Karnataka Wakf Board Land Scam (2012)	Rs. 20,00 0 Crore

Source: Gini. A. (2005). Case studies in Business Ethics (5th Edition)

Anticipated causes for conceding ethics in accounting

Unethical Pressure from the Management

In the era of cut-throat competition and the burden upon public companies to succeed at high levels may place undue stress and pressure on accountants who then manipulate Balance Sheets and financial statements. The ethical issue for these accountants becomes maintaining true reporting of company assets, liabilities and profits without giving in to the pressure. Unethical accountants could easily alter company financial records and maneuver numbers to paint a false picture of company successes. This may lead to short-term prosperity, but altered

financial records will ultimately spell the downfall of companies when the investigation or other agencies discovers the fraud.

Accountant as whistleblower

An accounting may face the ethical dilemma of reporting discovered accounting violations to the financial accounting standards board. While it is an ethical accountant's duty to report such violations, the dilemma arises in the ramifications of the reporting. Government review of company financial records and bad press caused by an accounting scandal could cause the company's rapid decline and may lead to the layoff of thousands of employees. Executives and other corporate officers could also face criminal prosecution, leading to heavy fines and prison time.

The effects of Greed

Greed in the business and finance world leads to shaving ethical boundaries and stepping around safeguards in the name of making more money. An accountant can never let the desire to earn a better living and acquire more possessions get in the way of ensuring that he follows ethical guidelines for financial reporting. An accountant who keeps his eyes on his own bank account rather than on his company's balance sheet becomes a liability the company and may cause serious accounting violations.

Omission of Financial Records

A corporate officer or other executive may ask an accountant to omit or leave out certain financial figures from a balance sheet that may paint the business in a bad light to the public and its investors. Omission may not seem like a significant breach of accounting ethics to an accountant because it does not involve direct manipulation of numbers or records. This is precisely why an accountant must remain ethically vigilant to avoid falling into such a trap.

Ethically what is normally expected from an Accountant and also from an Auditor is desired all the times.

An accountant may face the ethical dilemma of reporting discovered accounting violations to the competent authorities. While it is an ethical accountant's duty to report violations the dilemma arises in the ramifications of the reporting. Government's investigation into the company's financial records and infamous media reports caused by an accounting scandal could cause the company's rapid decline and may lead to the layoff of thousands of employees. Executives and other corporate officers could also face criminal prosecution, leading to heavy fines and prison time.

The Role of Accountants and Auditors in Mitigating Corporate Scandals.

In light of the various corporate scandals mentioned the primary cause of all these frauds are happened with the notice of Accountants and Auditors. Therefore a need has been long felt to educate the Important of Ethic in Corporate for long life. The stakeholder has high trust, belief, confidence on Accountants and Auditors. In order to protect their Interest, trust and confidence in the minds of Stakeholders the following points should be inculcate to the Accountants and Auditors in India.

- All the Accountants and Auditors should aware of their legal and ethical responsibilities, Auditors should train and motivate employees ensure quality and soundness of ethical programmers.

- Ensure fair treatment to those who act as whistle blowers, This is perhaps the most important and sensitive issue. When sherron had raised questions at Enron, she was demoted. Similar fate would have met all those had followed sherron fair treatment to whistle blowers is a basic necessity to check fraud. It isre-assuring that two of three persons of the year, selected by the popular Time magazine were accountants from Enron and World Com who had dared to blow the Whistle, however, needless to say that the appreciation is much more needed from within the company rather than outside.

- The Principle of Integrity should be possessed by Professionals to adhere to honesty and straight forwardness which discharging their duties. In additions to that avoid being involved in activities which would impair the goodwill of the organizations, communicate adverse as well as favorable information with those concerned, refuse any gift of favor which would could influence actions taken or to be taken, refuse to get involved in any activity which would adversely affect the achievement of an organizations objective, avoid conflicts and advise related parties on apparent conflicts which could arise in the future.

- The Auditor should have Principle of Objectivity to stick to their professional and financial judgment. They should not allow bias, conflicting interests or undue influence of others to override their business judgments. Communicate information fairly and objectively in such a way that the communication with end user is complete and transparent.

- The Professional should have Principle of Confidentiality in accounting and financial management to refrain from disclosing confidential information related to their work. Such information may be however being disclosed to their subordinates and cares should be taken that the latter maintains confidentiality.

- Ultimately most accountants must hold themselves to the ethical standards they agreed to uphold when they became accountants. An employer or client may put so much trust I the accountant that there is little to no system of checks and balances for the accountants' work. Or accountants may find themselves in a position where an employer or client who makes the final decision, but the accountants are under an ethical obligation to not perform tasks that they know to be illegal. Accountant has to set their own ethical and moral standards and hold themselves accountable for their actions.

- There are certain personal qualities that clients and employers expect accountants to have. An example of this is personal morals and values. Ethics, morals and values are closely related concepts, there are certain ethical rules that accountants are expected to abide by. If you become a CPA, violation of these ethical rules can result in the loss of your license and/or legal action. Values and morals are your personal beliefs—the things that you believe are right and wrong and what defines the personal and professional lines that you won't cross. Keep in mind that just because a situation that you encounter as an accountant violates your personal values or morals, it may not be an ethical violation.

- The Professionals have needed to update their professional skills and knowledge from time to time. This wills great influence on mitigating frauds by effectively doing in their job.

- The Auditors should have Professional behavior in accounting and Finance to comply with relevant laws and regulation and avoid such actions which will result into discrediting the profession.

III. CONCLUSION

Recent corporate frauds and the outcry for transparency and honesty in reporting have given rise to two outcomes. First, forensic accounting skills have become very crucial in untangling the complicated accounting makeovers that have obfuscated financial statements. Second, public demand for change and subsequent regulatory action has transformed CG scenario across the globe. As part of this research study, one of the key objectives was “to understand the need of ethical education to professional auditors in the field of accounting and auditing of wider corporate sectors in the economy, The above scandals brought to light, once again, the importance of ethics and its relevance to corporate culture. All kind of scandals/fraud have proven that lack of Ethics in Professional so there is a need for good conduct based on strong ethics, Corporate

Governance Needs to Be Stronger from Accountants and Auditors in order to mitigate Corporate Scam in India.

Professional accountants to the attention of the public interest and maintain the credibility of the accounting profession in charge, the personal interest should not be considered above the public interest. Ethics in accounting education helps the accountants identify the basic ethics principles that can be applied to action. General and specialized culture, achieved through a process of permanent training and education, essentially modifies the accounting profession. In carrying out the audit of financial statements, auditors should comply with ethical principle guidance issued by their relevant professional bodies. Ethics is more of a norm or a certain code of conduct expected of a group of individuals or professional body.

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