

ethics in finance and accounting



WHAT IS ETHICS ?

Ethics is based on well founded standards of right and wrong that prescribe what humans ought to do , usually in terms of rights , obligations , benefits to society , fairness , or specific virtues .



ETHICS IN FINANCE

Ethics in general is concerned with human behavior that is acceptable or “right” and that is not acceptable or “wrong” based on conventional morality. General ethical norms encompass truthfulness, honesty, integrity, respect for others, fairness, and justice. They relate to all aspects of life, including business and finance.



ETHICS IN ACCOUNTING

Accounting is a business field in which accuracy and interpretation are both very important . Small discrepancies can displace large sums of money , especially in large companies. Ethics is the practice of behavior that does not allow for intentionally inaccurate or false accounting practices. This pertains not only to following the law , but also to interpreting financial data or clearly and honestly as possible in all situations.



CODE OF ETHICS

In Finance

- Compliance with applicable law, rules and regulation
- Full, fair, accurate, timely and understandable disclosure in reports and documents that the company files with, or submits to , governmental agencies.
- Achieving responsible use of and control over all assets of the company .

In accounting

- By joining their professional organizations , people who work in the field of accounting agree to uphold the high ethical standards of their profession
- These codes are positively stated and provide general guidelines that professional accountant should strive to follow
- These ethical code call for their members to maintain a level of self – discipline that goes beyond the requirements of laws and regulations

ETHICAL PROBLEMS AREA IN ACCOUNTING AND FINANCE



Fraud

A fraud is a dishonest act by an employee that result in personal benefit to the employee at a cost to the employer
example = a bookkeeper in small company diverted \$ 750,000 of bill payments to a personal bank account over a three year period .

Misleading financial statement

Before investing money investor want to known the company's financial position and performance . They want to see the balance sheet and income statement. So financial companies sometimes intentionally prepare false financial statement to improve their chances of getting invested.

Insider Trading

A trading of corporation's stock or other securities by individual with access to non-public information about the company the company it is unfair would destroy the security markets by destroying investor confidence

SOME EXAMPLES OF UNETHICAL PRACTICES

- ◉ Holding up bills of vendors on silly reasons and ultimately buying from others to avoid payments to earlier vendors.
- ◉ Delay in paying wages, interest to financiers, incentives, bonus to employees
- ◉ Cheating employees of their dues towards medical expenses, leave travel assistance, children education fees etc...

TRAINING CHARGES

A two wheeler company employs graduate engineer trainees every year. It imports training in all department for one year. At the end of the year a written test and an interviews is taken for placement of engineers in different departments.

If a trainee engineer leaves a company for any reason within the first year he will have to refund company training expense of Rs.50,000

Question

Is the system ethical ?

DUTIES OF AN AUDITOR

- ◉ To give an accurate To the members about the state of affair of a company
- ◉ To meet the objectives of company act,1956 and the also article of association
- ◉ To be reasonably skillful and careful in identifying the true nature of accounts

ETHICAL ISSUE IN FINANCIAL MARKET

- ◉ Deception -- act of misrepresenting relevant information
- ◉ Churning -- excessive and inappropriate trading for clients account and broker who has control over the account with intent to generate commissions rather than to benefit client
- ◉ unsuitability
- ◉ unfairness in market

HARSHAD MEHTA SCAM

Harshad mehta was an Indian stock broker . On April 23, 1992, journalist Sucheta Dalal exposed Mehta's illegal methods in a column in The Times of India. Mehta was dipping illegally into the banking system to finance his buying.



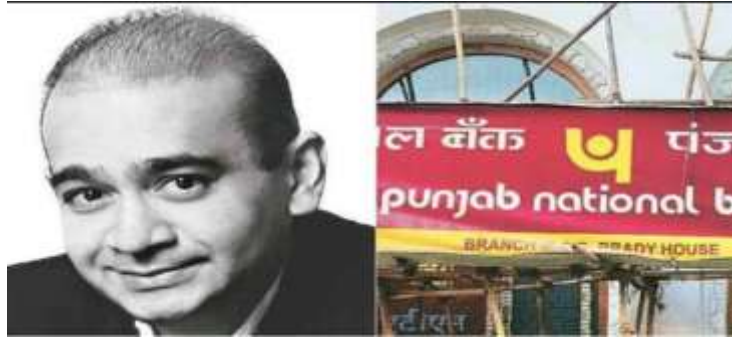
SATYAM COMPUTER SERVICES SCANDAL

- Satyam computer services was a corporate scandal that occurred in India in 2009 where Chairman Ramalinga Raju confessed that the company's accounts had been falsified. CID told in court that the actual number of employees is only 40,000 and not 53,000 as reported earlier and that Mr. Raju had been withdrawing 20 crore (US\$4 million) every month for paying these 13,000 non-existent employees.

STANDARD OF ACCOUNTING IN INDIA

AS No.	Title	Corresponding IAS No.
AS-1	Disclosure of Accounting Policies	IAS-1
AS-2	Valuation of Inventories	IAS-2
AS-3	Cash Flow Statement	IAS-7
AS-4	Contingencies and Events occurring after the Balance Sheet Date	IAS -10 & IAS-37
AS-5	Net Profit or Loss for the Period, prior Period and Extraordinary Items and changes in Accounting Policies	IAS-8
AS-6	Depreciation Accounting	IAS -16
AS-7	Construction Contracts (Revised)	IAS-11
AS-8	Accounting for Research and Development (stands withdrawn)	
AS-9	Revenue Recognition	IAS-18
AS-10	Accounting for Fixed Assets	IAS-16
AS-11	Accounting for the Effects of changes in Foreign Exchange Rates	IAS -21
AS-12	Accounting for Government Grants	IAS -20
AS-13	Accounting for Investments	IAS -39 & 40 & 32
AS-14	Accounting for Amalgamations	IAS-22
AS-15	Accounting for Retirement Benefits in the Financial Statements of Employees	IAS-26 & IAS-19
AS-16	Borrowing Costs	IAS-23

PUNJAB NATIONAL BANK SCAM



YEAR-- 2011-2018

SCAMMERS- NIRAV MODI, AMI MODI, NEESHAL MODI,
MEHUL C CHOKSI

Punjab National Bank Fraud Case relates to alleged fraudulent Letter of Undertaking worth ₹11,600 crore. The fraudulent transactions are allegedly linked to designer and jeweler Nirav Modi of Firestar Diamonds, against whom a complaint has been filed with the Central Bureau of Investigation.

STANDARDS OF ETHICAL CONDUCT FOR MANAGEMENT ACCOUNTANTS

Integrity

Each member has a responsibility to :

1. mitigate actual conflict of interest.
2. Abstain from engaging in or supporting any activity that might discredit the profession.

Credibility

Each member has a responsibility to

1. Communicate information fairly and objectively
2. Disclose of relevant information that could be reasonably be expected to influence and intended user understanding of the reports, analysis, or recommendation.



REASONS FOR UNETHICAL BEHAVIOR



Emphasis on short term results

Accounting rules

Ignoring small unethical issues

Diagram illustrating factors contributing to unethical behavior:

- Emphasis on Short Term Results
- Accounting Rules
- Ignoring Small Unethical Issues

The diagram consists of three downward-pointing chevrons on the left, each containing a factor. To the right of each chevron is a rounded rectangular box containing a bullet point. The chevrons are connected by a vertical line, and the boxes are connected by a vertical line, suggesting a flow or relationship between the factors.

EMPHASIS ON SHORT TERM RESULTS

- Manipulating accounting entries to show better result (window dressing) to raise further capital from the market.

ACCOUNTING RULES

- In the era of globalization and massive flow of capital accounting rule changing faster than ever before. The rules become Complex. And complexity or difficulties become reason for unethical behavior

IGNORING SMALL UNETHICAL ISSUES

- Companies need to develop an environment where small ethical lapses are taken seriously so that they do not recur in the future

THREATS

Self-
interest
threat

Self
review
threat

Advocacy
threat

Familiarity
threat

RESOLUTION OF ETHICAL CONFLICT

When faced with ethical issues , accountants should follow their organization's established policies on the resolution of such conflict if these policies do not resolve the ethical conflict, accountant should consider the following course of action :



- ❖ Discuss the issue with his immediate supervisor expect when it appear that the supervisor is involved . In that case , he should present the issue to the next level
- ❖ Clarify relevant ethical issue by initiating a confidential discussion with an impartial advisor to obtain a better understanding of possible course of action.

THANK
YOU !

