Ethical Obligations and Responsibilities of CPAs

Name

Institutional Affiliation

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Ethical obligations of public accountants date back to as early as the 15th century. In 1494, an Italian Franciscan friar named Fra Luca Pacioli published the first-ever description of the double-entry accounting system (Zadek, Evans & Pruzan, 2013). In the same publication, he also described accounting ethics as the study of moral ethics and judgments and claimed that they are premised on human and business ethics (Zadek et al., 2013). Despite the ethical obligations of public accountants having existed for more than five centuries, not all public accountants act ethically. In recent times, cases of financial scandals involving public accountants have risen.

The rise in financial scandals involving public figures is causing the public to cast doubt over the reliability and effectiveness of financial reporting and the financial standards that underlie the practice. On the flip side, the rising financial scandals have also increased the public's focus on ethics and good corporate governance. With this renewed focus on corporate ethics and governance, accountants' role as the models and guardians of financial ethics have been amplified. Upon becoming a CPA, one performs accounting, auditing, and tax services, all of which are critical for corporates' survival and success. The outcomes of the works they perform act as a critical guide for stakeholders in making key decisions. Owing to the criticality of their duties, CPAs must be highly ethical. In the course of their duties, CPAs are bound by the ethical obligations to act with integrity, objectivity, confidentiality, competence, and due care. CPAs owe these ethical obligations to the public, clients, shareholders, and regulatory authority.

Ethical Obligations of CPAs

Unlike other general job positions within an organization, accountants serve special roles. They are, thus, bound by both the company's rules they work for and the accounting industry's professional standards. The fundamental ethical obligations of all CPAs are discussed below.

Integrity Principle

In the course of their duty, CPAs are expected to at all times act with integrity. Integrity goes beyond the simple act of following established rules. It requires one to act in ways that are consistent with the intent of the established rules they are following (Shafer, 2015). It means honestly and openly aligning one's conduct with the foundations of their profession's internal code of ethics. It also implies the willingness to admit failure whenever things do not work instead of trying to cover up. CPAs must be candid and come out clean whenever they make a mistake (Shafer, 2015). While opportunities for dishonest personal gains may arise, the integrity principle puts an ethical obligation on CPAs to desist from any intentional deceit and manipulation of financial information.

Objectivity and Independence

Objectivity and independence is another set of ethical obligations for accounting professionals. CPAs are under the ethical obligation to be free from conflict of interest or any other form of questionable business relationships in the course of their duty (Shafer, 2015). Failure to observe this set of ethical principles may significantly hamper the CPA's ability to offer an honest opinion regarding a company's financial status, mainly if the CPA has vested interests in the company about which he is expected to offer an honest opinion. In the accounting industry, CPAs have a limit on the number of services they can offer. This limit is aimed at preventing the CPAs from compromising their objectivity and independence. For example, when a CPA handles general accounting functions for a client and then proceeds to audit this same information, he will essentially be reviewing his work. This situation takes away the CPA's independence and ability to act objectively.

Due Care and Competence

One of the accounting professionals' ethical obligations is the requirement that they exercise due care throughout their work. Due care principle requires all CPAs to observe all the ethical and technical standards applicable in their field. CPAs must review the generally accepted accounting principles (GAAP) and apply them to all situations they are handling (Shafer, 2015). Closely related to the due care principle is the competence principle. Competence is based on the CPA's education and experience (Shafer, 2015). Thus, together, the principles of due care and competence require CPAs to act diligently and exhibit an excellent understanding of financial information.

Confidentiality Principle

Confidentiality is among the fundamental ethical principles that all accounting professionals must observe. CPAs often gain access to sensitive information whose leakage would be potentially detrimental to the client to facilitate their work. A CPA working for an organization has access to information on remuneration packages of the organization's various employees. Leakage of this information could disrupt the organization's harmonious operations as some employees may get jealous and even resign. The accountant may also have the trade secrets of their clients. Leaking that information would potentially expose the client's source of competitive advantage and cause it to be outcompeted. The confidentiality principle puts the CPAs an ethical obligation to keep their clients' financial information confidential and desist from any intentional leak.

Accountant Responsibility

As explained in the previous sections, accountants must meet their ethical obligations in the course of their work. They are obliged to serve the public interest and thus uphold public trust in the accounting profession. These obligations are owed to the people who rely on the accountant's work. An accountant owes his ethical obligations to their clients, investors and creditors, and regulatory authority.

Accountant Responsibility to the Client

The nature of an accountants' job puts them in advantaged positions of being privy to most of their clients' sensitive information. In most cases, the disclosure of such sensitive information to other parties would result in significant competitive disadvantages to their clients. Thus, CPAs have an ethical responsibility to their clients to treat sensitive information at their disposal as confidential and desist from disclosing it to unauthorized persons (Taylor & Curtis, 2010). However, this ethical responsibility is limited. Unlike in the relationship between an attorney and his client, in which an attorney-client privilege exists, an order of a subpoena is sufficient to cause the accountant to disclose information about their client (Taylor & Curtis, 2010). Nonetheless, in the absence of a subpoena order, an accountant owes his clients the ethical responsibility of protecting all their sensitive information in his possession from unauthorized disclosure by applying the ethical principle of confidentiality.

Accountant Responsibility to Investors and Creditors

An accountant who works in public practice has an ethical responsibility to investors and creditors of the company he is auditing to render his objective opinion on its financial position. This ethical responsibility to investors and creditors requires independence from the company; the accountant is auditing in both fact and appearance. Independence, in fact, implies that the accountant should not have any financial interests in the company he is auditing and can perform his duty devoid of bias (Taylor & Curtis, 2010). Independence in appearance implies that a third-party observer of the accountant's work will be convinced that independence was not impaired (Taylor & Curtis, 2010). Thus, to the investors and creditors of a company, an accountant auditing that company owes the ethical responsibility of offering an objective and honest opinion about its financial status by exercising the ethical principles of objectivity and independence.

Accountant Responsibility to Regulatory Authorities

Regulatory authorities work to guarantee public interest and restore the public's trust and confidence in the accounting profession. To achieve this goal, the various regulatory authorities set up codes of conduct and appropriate practice standards for accounting professionals (Taylor & Curtis, 2010). To the regulatory bodies, accountants owe the ethical responsibility of complying with the principles and standards put in place to guide their practice. Accountants honor their ethical obligation to the regulatory authorities by applying the ethical principles of competence and due care in the course of their work.

Accountant Responsibility to the General Public

To the general public, an accountant owes the ethical responsibility of acting in the public's best interest. Public interest is not about matters that the public is interested in. Instead, it is an abstract concept associated with the benefits that accrue to the public due to a particular action (Taylor & Curtis, 2010). Thus, accountants have an ethical responsibility to ensure that their actions in the course of discharging their duties are potentially beneficial to the public. CPAs meet this obligation by applying the ethical principle of integrity in their work. When CPA's act transparently and honestly, the public stands to benefit from their accounting practices.

References

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