

What is Ethics?

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Some years ago, sociologist Raymond Baumhart asked business people, "What does ethics mean to you?" Among their replies were the following:

- "Ethics has to do with what my feelings tell me is right or wrong."
- "Ethics has to do with my religious beliefs."
- "Being ethical is doing what the law requires."
- "Ethics consists of the standards of behavior our society accepts."
- "I don't know what the word means."

These replies might be typical of our own. The meaning of "ethics" is hard to pin down, and the views many people have about ethics are shaky.

Like Baumhart's first respondent, many people tend to equate ethics with their feelings. But being ethical is clearly not a matter of following one's feelings. A person following his or her feelings may recoil from doing what is right. In fact, feelings frequently deviate from what is ethical.

Nor should one identify ethics with religion. Most religions, of course, advocate high ethical standards. Yet if ethics were confined to religion, then ethics would apply only to religious people. But ethics applies as much to the behavior of the atheist as to that of the saint. Religion can set high ethical standards and can provide intense motivations for ethical behavior. Ethics, however, cannot be confined to religion nor is it the same as religion.

Being ethical is also not the same as following the law. The law often incorporates ethical standards to which most citizens subscribe. But laws, like feelings, can deviate from what is ethical. Our own pre-Civil War slavery laws and the old apartheid laws of present-day South Africa are grotesquely obvious examples of laws that deviate from what is ethical.

Finally, being ethical is not the same as doing "whatever society accepts." In any society, most people accept standards that are, in fact, ethical. But standards of behavior in society can deviate from what is ethical. An entire society can become ethically corrupt. Nazi Germany is a good example of a morally corrupt society.

Moreover, if being ethical were doing "whatever society accepts," then to find out what is ethical, one would have to find out what society accepts. To decide what I should think about abortion, for example, I would have to take a survey of American society and then conform my beliefs to whatever society accepts. But no one ever tries to decide an ethical issue by doing a survey. Further, the lack of social consensus on many issues makes it impossible to equate ethics with whatever society accepts. Some people accept abortion but many others do not. If being ethical were doing whatever society accepts, one would have to find an agreement on issues which does not, in fact, exist.

What, then, is ethics? Ethics is two things. First, ethics refers to 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, for example, refers to those standards that impose the reasonable obligations to refrain from rape, stealing, murder, assault, slander, and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion, and loyalty. And, ethical standards include standards relating to rights, such as the right to life, the right to freedom from injury, and the right to privacy. Such standards are adequate standards of ethics because they are supported by consistent and well-founded reasons.

Secondly, ethics refers to the study and development of one's ethical standards. As mentioned above, feelings, laws, and social norms can deviate from what is ethical. So it is necessary to constantly examine

one's standards to ensure that they are reasonable and well-founded. Ethics also means, then, the continuous effort of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based.

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Professional Ethics

As we all coexist and live as a society together, it is imperative that a code of conduct is established to live harmoniously. We are always confused about how to differentiate between what is right or wrong, both personally and professionally. Learn more about professional ethics.

Ethics forms a major classification of philosophy and is a study of values and customs of a person or a group. It deals with the analysis and application of concepts such as right or wrong, good and evil and clear distinction of responsibilities. Professional ethics refers to ethics specifically concerned with human character, acceptable behavior and conduct. Ethical behavior is something that goes beyond simply obeying a set of rules and regulations, it is about committing yourself to do and act according to what is right, cognizant of your own conscience. To put it simply, professional ethics concerns one's behavior, conduct and practice when carrying out professional work; it could be any profession such as consulting, research or writing. Most professional bodies set a code of conduct that is to be followed by its members such as doctors, accountants, lawyers to name a few. It is assumed that the members accept the adherence to these codes or rules, including restrictions that apply. At the same time, no two codes of ethics are identical. They vary on the basis of cultural group, profession or discipline.



Avoiding Conflict of Interest

Professional ethics need to be set, especially in a business or a large organization where a group of individuals may find themselves in situations where their values are in conflict with another, and they are in need of some reference as to what is considered ethical and not.

A conflict of interest may be described as a situation where your personal interests or activities could influence your judgment or decision-making and consequently, your ability to act in the best interests of the company or business.

Professional ethics or the code of ethics comprises a range of issues, including:

- Data privacy and protection of sensitive information
- Adherence to confidentially agreements
- No bias in analysis of data and professional consulting
- Resolution of conflict of interest
- Accountability towards business

A code of ethics enables the business to establish the ideals and responsibilities of the profession or business. It serves as a reference on acceptable conduct, increases awareness and maintains consistency and ensures improved quality. When professionals follow a set code of conduct, it also enables their customers to trust the business with their critical information and is a conscious effort to protect the interests of the clients and professionals.

Standards of Professional Conduct

Members of any professional body are expected to understand and comply with all applicable laws, rules and regulations of any government, regulatory organization, licensing agency or

professional committee governing their official or professional activities.

Professionalism

Professionals must exercise reasonable care and sound judgment to achieve and maintain independence and objectivity in their business related activities. They must not intentionally conceal or misrepresent information or facts relating to recommendations, actions and findings or in revealing any kind of information to deceive their customers, clients or partners, as the case may be. In short, professionalism is all about doing the right things in the interest of the organization, profession or business, as the case may be.

Avoid breach of conduct

Members, employees or businesses must refrain from indulging in any kind of dishonesty, fraud or deceit that adversely affects the business integrity, goodwill or competence. They must act for the benefit of their clients or customers and place their client's interests before their personal interests.

Protect sensitive and critical information

It is assumed that professionals maintain confidentiality and do not disclose sensitive and critical information about their clients/customers to third parties except or unless you are required to disclose by law or if the information concerns illegal activities on the part of the client or if the client expressly permits disclosure of information. When it comes to their employment, employees must act for the benefit of their employer and not deprive their employer of the advantage of their skills, expertise or cause harm to their employer or the organization.

A code of conduct may be specified for all disciplines and adhered to. Finally, it is important to behave ethically on both personal and professional fronts with a clear conscience.

By Janani Rajagopal

Ethics in Accounting

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Ethics in accounting is of utmost importance to accounting professionals and those who rely on their services. Certified Public Accountants (CPAs) and other accounting professionals know that people who use their services, especially decision makers using financial statements, expect them to be highly competent, reliable, and objective. Those who work in the field of accounting must not only be well qualified but must also possess a high degree of professional integrity. A professional's good reputation is one of his or her most important possessions.

The general ethical standards of society apply to people in professions such as medicine and accounting just as much as to anyone else. However, society places even higher expectations on professionals. People need to have confidence in the quality of the complex services provided by professionals. Because of these high expectations, professions have adopted codes of ethics, also known as codes of professional conduct. These ethical codes call for their members to maintain a level of self-discipline that goes beyond the requirements of laws and regulations.

CODES OF ETHICS

By joining their professional organizations, people who work in the field of accounting agree to uphold the high ethical standards of their profession. Each of the major professional associations for accountants has a code of ethics. The Code of Professional Conduct of the American Institute of CPAs (AICPA), the national professional association for CPAs, sets forth ethical principles and rules of conduct for its members. The principles are positively stated and provide general guidelines that CPAs (or any professionals, for that matter) should strive to follow. The rules of conduct are much more explicit as to specific actions that should or should not be taken. The Institute of Management Accountants (IMA) Standards of Ethical Conduct applies to practitioners of management accounting and financial management, and the Institute of Internal Auditors (IIA) Code of Ethics applies to its members and to Certified Internal Auditors (CIAs).

ETHICAL RESPONSIBILITIES

A distinguishing mark of professions such as medicine and accounting is acceptance of their responsibilities to the public. The AICPA Code of Professional Conduct describes the accounting profession's public as consisting of "clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of CPAs to maintain the orderly functioning of commerce." Many, but not all, CPAs work in firms that provide accounting, auditing, and other services to the general public; these CPAs are said to be *in public practice*. Regardless of where CPAs work, the AICPA Code applies to their professional conduct, although there are some special provisions for those in public practice. Internal auditors, management accountants, and financial managers most commonly are employees of the organizations to which they provide these services; but, as professionals, they, too, must also be mindful of their obligations to the public.

The responsibilities placed on accounting professionals by the three ethics codes and the related professional standards have many similarities. All three require professional competence, confidentiality, integrity, and objectivity. Accounting professionals should only undertake tasks that they can complete with professional competence, and they must carry out their responsibilities with sufficient care and diligence, usually referred to as *due professional care* or *due care*. The codes of ethics of the AICPA, IMA, and IIA all require that confidential information known to accounting professionals not be disclosed to outsiders. The most significant

exception to the confidentiality rules is that accounting professionals' work papers are subject to subpoena by a court; nothing analogous to attorney-client privilege exists.

INDEPENDENCE

Maintaining integrity and objectivity calls for avoiding both actual and apparent conflicts of interest. This notion is termed *independence*. Being independent in fact and in appearance means that one not only is unbiased, impartial, and objective but also is *perceived* to be that way by others. While applicable to all accounting professionals, independence is especially important for CPAs in public practice. The AICPA's rules pertaining to independence for CPAs who perform audits are detailed and technical. For instance, a CPA lacks independence and thus may not audit a company if he or she (or the spouse or dependents) owns stock in that company and/or has certain other financial or employment relationships with the client.

ETHICS ENFORCEMENT

To a large extent, the accounting profession is self-regulated through various professional associations rather than being regulated by the government. The AICPA, the IMA, and the IIA have internal means to enforce the codes of ethics. Furthermore, the professional organizations for CPAs in each state, known as *state societies of CPAs*, have mechanisms for enforcing their codes of ethics, which are usually very similar to the AICPA Code. Violations of ethical standards can lead to a person's being publicly expelled from the professional organization. Because of the extreme importance of a professional accountant's reputation, expulsion is a strong disciplinary measure. However, ethical violations can lead to even more adverse consequences for CPAs because of state and federal laws.

The state government issues a CPA's license to practice, usually through an organization known as the *state board of accountancy*. Since state laws governing the practice of accountancy typically include important parts of the AICPA Code, the Code thus gains legal enforceability. Consequently, ethical violations can result in the state's revoking a CPA's license to practice on a temporary or even permanent basis. Because a licensed CPA is also likely to belong to the AICPA and the state society of CPAs, investigations of ethics violations may be carried out jointly by the AICPA, the state society, and the state board of accountancy.

CPAs in public practice who audit the financial statements of public corporations are subject to federal securities laws and regulations, including the Securities Exchange Act of 1934. The Securities and Exchange Commission (SEC), which administers these laws, has broad powers to regulate corporations that sell their stock to the public. One important SEC requirement is that these corporations' financial statements be audited by an independent CPA. The SEC has the authority to establish and enforce auditing standards and procedures, including what constitutes independence for a CPA. The SEC has largely delegated standard setting to the private sector but retains oversight and enforcement responsibilities. In 1998 the SEC and the AICPA jointly announced the creation of the Independence Standards Board (ISB), a private-sector body whose mission is to improve auditor independence standards. In announcing the formation of the ISB, the SEC reaffirmed the crucial importance of the CPA's independence: "[M]aintaining the independence of auditors of financial statements ... is crucial to the credibility of financial reporting and, in turn, to the capital formation process" (SEC Release FRR-50,1998).