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Ethics in Algerian Accounting

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Abstract:

General theories of ethics can be used to explain and understand the professional conduct that is expected of accountants. The main drive of accounting ethics is the upholding of professionalism and good practice. The importance of ethics in accounting has been recognised by the accounting profession.

In most countries, professional accountants are bound by a code of ethics based on that developed by the International Federation of Accountants (IFAC, 2009). The code sets out fundamental principles which guide members' behaviour. Ethical standards set by professional accounting body in Algeria, CNC, can act to supercharge the engine of morality and good conducts in the discharge of auditing functions.

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1. Introduction

A final reason for studying ethics is to identify the basic ethical principles that can be applied to action. These principles should enable to determine what should be done and understand why.

Accounting is both an essential practice and a vital profession. It is an essential practice because today's economically developed system could not exist without accounting.

In particular case of the accounting profession, we should mention the International Federation of Accountants' (IFAC) code of ethics which establishes the standards for accounting professionals behaviour and displays the fundamental principles that they should respect in order to carry out their common objectives (Akadakpo and Enofe, 2013). It is significant that the code is principles-based rather than rules-based, since this inherently requires a compliance with the spirit of the code and encourages 'responsibility and the exercise of professional judgement' (ICAEW, 2010).

On the other hand, ethics is an overarching concern in all areas of life; it is involved in all human activity. In this respect, accountants, as professionals have developed various codes of ethics that mandate the rules that accountants must follow in order to be accepted as members of the profession. In this study, we will examine the Algerian accounting ethical code and illustrate the ethics and ethical standards that the code embodies.Also, this study examines the need for good ethical values in the professional practice of accounting in Algeria. It explores the relationship between accounting ethics and the practice of accounting profession. The following research question is raised:

What are the ethical issues examined by the Algerian ethical code designed for professional accountants?

The remainder of this article is organized as follows:
- Ethics and Corporate social responsibility
- The interest of Corporateresponsibility
- Accounting ethics
- The International Federation of Accountants (IFAC)
- Algerian case
- The conclusion of the study.

2. Ethics and corporate social responsibility

Ethics and corporate social responsibility are two concepts that are so interrelated.

1.2 Ethics

Brinkmann (2002) defined ethics as a discipline in which matter of right and wrong, good and evil, virtue and vice are methodically examined. Ethics looks at human behaviour, moral principles and the attempt to distinguish good from bad.

When managers are accused of lying, cheating, or stealing, the blame is usuallyplaced on the individual or on the company situation. Most people believe that individuals make ethical choices because of individual integrity, which is true, but it is not the whole story. Ethical or unethical business practices usually reflect the values, attitudes, beliefs, and behaviour patterns of the organizational culture; thus, ethics is as much an organizational as a personal issue.

The definition of ethics is very broad and there is no universal consensus, but in a general sense ethics is defined as the systematic study of conduct based on moral principles, reflective choices, and standards of right and wrong conduct (Onyebuchi Vincent, 2011.)

Codes of ethics should mainly address the particularities of high risk activities and are built on the collective conscience of a profession as a proof for the group's acknowledgment of the moral dimension (Akadakpo and Enofe, 2013).Professional ethics as a science is the study of career professionals to join their obligations and rules (Mehran,2014).

2.2 Corporate social responsibility (CSR)

Corporate social responsibility may be defined as the actions of an organization that are targeted toward achieving a social benefit over and above maximizing profits for its shareholders and meeting all its legal obligations (Ghillyer, 2009).

In one sense, the concept of social responsibility, like ethics, is easy to understand: It means distinguishing right from wrong and doing right. It means being a good corporate citizen. The formal definition of corporate social responsibility is the management obligation to make choices and take actions that will contribute to the welfare and interests of society as well as the organization.

3.2 Responsability of managers for sustaining ethics conditions

As one expert on the topic of ethics said, "Management is responsible for creating and sustaining conditions in which people are likely to behave themselves." Managers can take active steps to ensure that the company stays on an ethical footing (Daft, 2012).

In a study of ethics policy and practice in successful ethical companies, no point emerged more clearly than the crucial role of leadership. If people don't hear about ethical values from top leaders, they get the idea that ethics is not important in the organization.Ethics and social responsibility are hot topics for today's managers. The ethicaldomain of behaviour pertains to values of right and wrong. Ethical decisions andbehaviour are typically guided by a value system. Four value-based approaches that serve as criteria for ethical decision making are utilitarian, individualism, moralrights, and justice.

In addition, ethical organizations are supported by three pillars: ethical individuals, ethicalleadership, and organizational structures and systems, including codes of ethics,ethics committees, chief ethics officers, training programs, and mechanisms to protect whistle-blowers. In this regard, companies that are ethical and socially responsible perform as well as—and often better than—those that are not socially responsible (Daft,2012).

Smart managers are finding ways to target their social responsibility efforts in ways that benefit the business. After years of scandal, many managers are recognizing that managing ethics and social responsibility is just as important as paying attention to costs, profits, and growth.

4.2 Approches to Corporate Social Responsability

Many take an instrumental approach to CSR and argue that the only obligation of a corporation is to make profits for its shareholders in providing goods and services that meet the needs of its customers. However, a classical approach has opposed the instrumental one. The most famous advocate of the "classical" model is the Nobel Prize–winning economist Milton Friedman, who argued that: "The view has been gaining widespread acceptance that corporate officials have a social responsibility that goes beyond serving the interests of their stockholders (Scherer, et al (2007).This view shows a fundamental misconception of the character and nature of a free economy.

This very simplistic model focuses on the internal world of the corporation itself and assumes that there are no external consequences to the actions of the corporation and its managers. Once we acknowledge that there is a world outside that is affected by the actions of the corporation, we can consider the social contract approachto corporate management. The modern social contract approach argues that since the corporation depends on society for its existence and sustainable growth, there is an obligation for the corporation to meet the demands of that society rather than just the demands of the targeted group of customers. By recognizing all their stakeholders (customers, employees, shareholders,vendor partners, and their community partners) rather than just their shareholders, the corporation must maintain a longer-term perspective than just the delivery of quarterly earningsnumbers.As far back as 1969, Henry Ford II recognized this fact:the contract terms between industry and society have been changing "now we are being asked to serve a wider range of human values and to accept an obligation to members of the public with whom we have no commercial transactions"(Geoffreyand Lantos, 2001).

3. The interest of corporate responsibility

Corporate responsibility or CSR is about the way businesses take account of their economic, social and environmental impacts in the way they operate – maximizing the benefits and minimizing the downsides (Geoffry and lantos, 2011).CSR embraces a wide range of important but often complex and sometimes controversial issues including health and safety, labour rights, climate change, supply chain management and so on.

Many companies now back and organize specific schemes often in conjunctionwith the not-for-profit sector, with the belief that this will contribute to both themedium- and long-term success of their business.

The current climate is positive for CSR. A global CEO survey undertaken by PricewaterhouseCoopers/World Economic Forum found that 70 per cent of chiefexecutives globally agree that CSR is vital to profitability (fifth global CEO survey).A company needs to be in tune with the societies and communities in which it makes its living. This means developing a range of relationships with shareholders, employees, consumers, governments, public health authorities, community and interest groups.

In this respect, it is vital for any business to prove itself as a good corporate citizen if it sires to look trading successfully.It has to make sure that it respects social norms and advertising codes, and that it is prepared to invest in the local communities.

CSR has grown rapidly, and relatively smoothly, over the last 20 years as increasing numbers of companies take up the banner of CSR in attempts to make their operations more ethical.For instance, all multinationals have to make sure that their behaviour is consistent in every market, and not just in the home country. On the other hand, there are many other measures, some local, and others international. Some countries have introduced legislation forcing companies to fulfil certain criteria whereas others are taking the more laissez-faire approach. Consequently, many companies issue CSR reports regularly in which they detail their ethical tasks.

Moreover, CSR is one of the newest business disciplines, it is still developing.Lasinsky (2003) suggests three different reasons that accountants engage in

Volume: 02 N°: 02 (2019), pp: 56-66

fraud: a perceived need for money, the opportunity to defraud and rationalization schemes used in self-defense for one's knowingly illegal or immoral accounting practice

4. Accounting ethics

Accounting is not generally considered to be a profession wrought with ethical dilemmas (Payne and Corey, 2012). However, it is the invention of human beings and, consequently, the result of human conventions. As the economy became more complex and regulated, the number of those who needed the information – the number of users of economic statements – increased. The extent of the importance of the information to the user increases the ethical factors governing the development and disbursement of that information.

Ethical scandals in the accounting profession abound. In March 2009, David Friehling, Bernard Madoff ' s auditor, was arrested by federal prosecutors on charges of fraud, allegedly for signing off on fraudulent financial statements.

Also, there is this well - known Enron/Andersen scandal. In October of 2001 Enron took a $1.1 billion charge related to write downs of investments, some of which was attributed to partnerships run by Andrew Fastow the chief fi nancialofficer. In December Enron fi led for bankruptcy in the biggest bankruptcy case in history in a New York bankruptcy court (Peter C. Fusaro, Ross M. Miller, 2002).

In accounting, we must learn the accounting principles that we canapply them to specific situations. The purpose of accounting is fairly simple – to make sure that the portrait the company's accountants paint in the financial statements is as accurate as possible. There are general ethical responsibilities that accrue to professionals and specific responsibilities that arise from being a professional accountant.

Also, in ethics, we must learn the principles of ethics, which govern human behaviour, so that we can apply them to difficult ethical situations we face. Thereby, we can ensure that we have examined the issue adequately, using all the ethical codes available.Ethical issues are today involved in three major today's functions of accountants: auditing, management accounting, and tax accounting.The changing world of financial services and increased competition have altered the nature of the accounting profession.

Current ethical theories can be applied to accounting today, focusing on both the purpose ethics and the relationshipsethics. So, this invests accounting with an ethical dimension. Accounting and the skills of the accountant can be utilized to do great harm to society if the purposes for which the information is used are harmful or illegal.To preserve the integrity of his reports, accountants must insist upon absolute independence of judgment and action.

Accounting as an instrumental activity can also be judged on the basis of the purpose for which it is used. Providing accurate financial pictures of business activities – the primary activity of an accountant – is an instrumental activity, because it offers an indispensable service to those who need that information to engage in financial decision making.

There are several reasons for accountants to cope withethics:

• **First**, some moral beliefs may not suffice because theyare simple beliefs about complex issues. In this case, the study of ethics can help the individual sort out these complex issues by seeing what principles operate in those cases.

• **Second**, in some situations, because of conflicting ethical principles, it may be difficult to determine what to do. In these cases, ethical reasoning can provide insights into how to adjudicate between conflicting principles and can show why certain courses of action are more desirable than others. The study of ethics can help develop ethical reasoning skills.
• **Third,** individuals may hold some inadequate beliefs or cling to inadequate values (Duska et al., 2011).

Subjecting the beliefs or values to critical ethical analysis may show inadequacy. Let us look at a few examples (Duska et al., 2011):
a- At one time, we probably thought certain things were wrong that we now think are okay, and we thought certain things were okay that now seem wrong. In short, we changed our mind about some of our ethical beliefs. Some time ago, for example, many managers believed that it was acceptable to fire someone for little or no justifiable reason. After ethical reflection and examination – which encourages us to become more knowledgeable and conscientious in moral matters – that practice now seems questionable. Although managers have an obligation to stockholders not to retain unneeded employees, don't the managers have some obligation to those who are fired?
b- In the past, the principle caveat emptor – " Let the buyer beware " – was an acceptable practice. Now, it is generally believed, in many cases that the manufacturer has the obligation to inform the buyer of potentially harmful defects. Caveat emptor has become caveat vendor – " Let the seller beware."
c- Years ago, accountants thought it was unacceptable to advertise. Today, it is a justifiable practice. It also used to be an accepted belief that an accounting firm fulfils the letter of the law simply by following generally accepted accounting principles (GAAP).

5. The International Federation of Accountants (IFAC)

A well-run profession or business must have high and consistent standards of ethics in order to stand fast the time test (Smith and Smith, 2003).The International Federation of Accountants (IFAC) has established the Ethics Standards Board for Accountants to develop and issue high quality ethical standards and other pronouncements for professional accountants to be used around the world. This code of ethics for Professional Accountants establishes ethical requirements for professional accountants. A member body of IFAC or firms may not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this code by law or regulation, they should comply with all other parts of this code.

Some jurisdictions may have requirements and guidance that differ from this Code. Professional accountants should be aware of those differences and comply with the more stringent requirements and guidance unless they are prohibited by law or regulation.
A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, the professional accountant responsibility is not exclusively to satisfy the needs of an individual client or employer.

This code is divided into three parts. Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. The conceptual framework provides guidance on fundamental ethical principles. Professional accountants are required to apply this conceptual framework to identify threats to compliance with the fundamental principles and to evaluate their significance.

Volume: 02 N°: 02 (2019), pp: 56-66

Parts B and C illustrate how the conceptual framework is to be applied in specific situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provide examples of situations where safeguards are not available to address the threats and consequently the activity or relationship creating the threats should be avoided. Part B applies to professional accountants in public practice whereas part C applies to professional accountants in business. Professional accountants in public practice may also find the guidance in part C relevant to their particular circumstances.

Accounting ethics more or less are the consensus of all the professional associations of accounting who comply with the professional objectives (Mehran,2014), for instance:

1.5 Accounting integrity

The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness. The professional accountant should not be associated with reports, returns, communications or other information where they believe that the information:

(a) Contains a materially false or misleading statement;

(b) Contains statements or information furnished recklessly;

or (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

2.5 Accounting objectivity

Any professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Theprofessional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgment of the professional accountant should be avoided.

3.5 Professional Competence and Due Care

A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. The professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

The principle of professional competence and due care imposes the following obligations on professional accountants:

To maintain professional knowledge and skills at the level required to ensure that clients or employers receive competent professional services;

and to act diligently in accordance with applicable technical and professional standards when providing professional services.

Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases: attainment of professional competence; and maintenance of professional competence.

4.5 Confidentiality

Any professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties. The principle of confidentiality imposes an obligation on professional accountants to refrain from:

a- Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose;

b- Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties. Also, professional accountant should maintain confidentiality even in social environment and be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with business associates or close family members.

5.5 Professional Behaviour

The principle of professional behaviourrequires an obligation on professional accountants to comply with current laws and regulations and avoid any action that may bring discredit to the profession. This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would negatively affects the good reputation of the profession. In marketing and promoting themselves and their profession, professional accountants should not bring the profession into disrepute. accountantsmust be honest and truthful and should not:

a- Make exaggerated claims for the services they are able to offer; the qualifications they possess, or experience they have gained;

b- Make disparaging references or unsubstantiated comparisons to the work of others

6. Algerian case

The code of ethics is a partial solution to the perceived problem of ethical behaviour. The code can guide one’s behaviour; ethical decisions ultimately rest with individuals’ choices.

The Order member must exercise the most possible discretion in the exercise of his duties and shall endeavour, in his private and professional life, to avoid any act likely to alter dignity and honour of the profession. He must, in particular, fulfil his mission with rigor and serenity.

The reports of Order members with clients are based on loyalty, independence and the obligation to fulfil their missions with honour and conscience. They are required to observe professional secrecy in the exercise of their profession. They shall, be relieved of professional secrecy in the cases provided by laws and regulations. AnyOrder member has the duty and the responsibility, according to the nature of the mission entrusted to him, to study and propose in accordance with law the most appropriate solutions.

Technical obligations vary according to the nature of assignment. In the case of contractual missions, the nature and volume of the work must be specified, either in the engagement or the convention letter.

In this regard, the chartered accountant defines by convention or mission letter, with their clients, the reciprocal obligations, without departing from the regulations, professional

standards, and internal regulations.The agreement or mission letter, duly signed by the parties, must specify in particular:
- The nature and volume of the work to be performed;
- The periodicity or duration of the mission;
- The total amount of fees
- The amount of advances on fees payable at the commencement and during the completion of the work;
- The general conditions for collaboration between the parties.

An expert accountant or a chartered accountant who finds himself unable to carry out the assignment he has accepted must notify his client and return the documents to him within one month.

In the event of the appointment of more than one statutory auditor, everyone shall carry out his duties and assume his full responsibility. When an auditor is in the course of his or her term of office, a colleague is not permitted to agree to be his co-commissioner until the completion of the mandate. According to the provisions of the article 18of the Algerian accountant code of ethics, the member of the Order requested by a client for the replacement of a colleague must accept the assignment proposed to him only on the condition of:
- Making sure that the request is not motivated by a desire to avoid the exact application of the law or regulation in force;
- Informing his colleague by registered letter with acknowledgment of receipt of the solicitation of which he is the subject. A copy of this letter is sent to the Order council.

On the other hand, article 19 states that the public accountant or chartered accountant who has sold his client to a colleague cannot compete with him, by diverting the client ceded.

Actually, the confreres' behaviourmust reflect a spirit of brotherhood and solidarity. The Order members have the right to mutual assistance and courtesy. They must refrain from any malicious remarks and, in general, from any action possibly harm a colleague or the profession.When a professional disagreement arises between them, the members of the order must attempt to resolve the dispute among themselves, and submit it to the president of the Order Council, or refer the matter to the conciliation board discipline and arbitration. Any unwarranted denunciation likely to prejudice a colleague would constitute a fault.

The Order members are required to take charge of the accounting experts, auditors and trainee accountants appointed by the order, to ensure their professional coaching and training and to award them compensation in respect of the tasks and the missions entrusted to them.

Moreover article 24 indicates that the Order member must not, during the year following his entry on the Order roll, accept a mission proposed by a client of one of his former supervisors, unless the latter has given his written agreement.It is one of the responsibilities of the Order the member to demand from his client or principal the necessary cooperation to accomplish his mission.

A professional who perceives a lack of obligation knowledge about cooperation or deficiencies facing his mission, must inform the company by a letter asking to remedy the situation. This case may expose the company to passive complicity.

The order members receive a fee for the mission performance. These fees cannot be paid in the form of discounts, commissions or participations, either directly or indirectly. The insufficiency of the fees in relation to the accepted mission cannot in any way justify non-compliance with professional standards.

In the case of a dispute on the amount or payment modalities of the fees owed to the Order members, the parties may, by mutual agreement, request the arbitration of the council of national accounting, or to the courts for lack of conciliatory agreement.

In addition, chartered accountant may, under his personal responsibility, subcontract work with accountants registered with the Order of Chartered Accountants.In case of non-payment of the fees legitimately due to accountants, they may exercise a right of retention on the documents and books drawn up by them during their missions. In order that the retention may not seriously harm third parties, such documents and books may be deposited at the court registry on which the client's head office is situated, with a view to being consulted by interested third parties.

6. Conclusion

General theories of ethics can be used to explain and understand the professional conduct that is expected of accountants. The main drive of accounting ethics is the upholding of professionalism and good practice. The importance of ethics in accounting has been recognised by the accounting profession.

The most countries, professional accountants are bound by a code of ethics based on that developed by the International Federation of Accountants (IFAC, 2009). The code sets out fundamental principles which guide members' behaviour. Ethical standards set by professional accounting body in Algeria, CNC, can act to supercharge the engine of morality and good conducts in the discharge of auditing functions.

This article focuses on the accounting profession and and ethical responsibilities.The globalisation of accounting and financial reporting and the resultant competitive environment in which financial services are offered, has had a number of implications for the accounting profession and its perceived ethical standards.

Ethical standards set by professional accounting body in Algeria, CNC, can act to supercharge the engine of morality and good conducts in the discharge of auditing functions.

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