Chapter 8
Ethics in Accounting and Finance: Actual Issues and Controversies

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ABSTRACT

Accounting and taxation are two key functions for optimal performance of an entity’s economic activity. Accounting, on the one hand, helps to provide the information needed for decision-making, and taxation, on the other hand, helps to find resources and use them efficiently. These two systems cannot function properly without trust, without ethics. This chapter aims to study the issue of applying ethical conduct in the fiscal and accounting field as well as to analyze the causes and consequences of ethical and unethical conduct specific to the topic addressed. Also, this chapter aims to present some proposals and recommendations for solving the identified problems.

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INTRODUCTION

Since ancient times, each culture has relied on certain financial reporting systems so that trade can be facilitated, but also so that taxation can be carried out. Significant frauds have been recorded over the past two decades in the accounting and tax system, which has had global economic effects. Thus, large companies that have proven fraudulent accounting and taxing conduct (Enron, Worldcom, Lehman Brothers, etc.) have experienced colossal losses, both financially and public credibility. These unfavorable cases have led to the deterioration of social welfare, and even to the determination of one of the world’s largest economic crises. Therefore, the existence of an effective financial reporting system, so that such cases can be prevented, becomes a necessity in the global economy. Therefore, the legislation emerged after the events mentioned aims to limit fraudulent conduct, so that similar situations can be prevented, and professional ethics is also being discussed.

Taking responsibility for the purpose of acting in the public interest is a distinct feature in the financial and accounting field. For this reason, the responsibility of a professional accountant is not solely to meet the needs of a client or an individual employer. By acting in the public interest, a professional accountant must comply with and apply an accounting code of conduct.

Taking into account the rapid globalization that has taken place lately, national legislation is no longer sufficient to deal with possible cases of tax evasion and fraud. Thus, the International Federation of Accountants (IFAC), together with the International Ethics Standards Board for Accountants (IESBA), has developed an Accounting Code of Conduct applicable to all professional accountants.

This chapter, consisting of 6 parts, aims to present issues and controversies related to professional ethics in accounting and part of the finance, taxation. The main objective is to highlight the current problems on this issue, to raise awareness of the need for professional accountants and tax advisors to maintain their virtues and ethics, so that professional ethics is not affected by potential incentives obtained by acquiring an unfair, unethical or fraudulent conduct.

BACKGROUND

Accessibility to information, the high degree of freedom of movement of people and entities, the elimination of borders between states in the European Union, as well as the significant increase in international transactions and foreign investment gave rise to a mutual need for collaboration in the financial and accounting field at Member State level.
County Funds, Delays in Procurement Process, and Budget Absorption in County Governments in Kenya