

## EFAA Invited to Present Results of Ethics Survey at the European Parliament

On 9 February 2017, the European Federation of Accountants and Auditors for SMEs (EFAA) held a presentation and panel discussion at the European Parliament in Brussels on the topic of 'Accounting and Ethics Pressure Experienced by the Professional Accountant' on invitation of MEP Manuel dos Santos (S&D, Portugal).



MEP Manuel dos Santos (l.) hosted the event, together with EFAA President Bodo Richardt (m.) and moderator of the panel discussion IESBA Deputy Chair Richard Fleck (r.).



EFAA Special Advisor Marie Lang and Prof. Anna Karmańska presented the results of the study, which they co-authored with EFAA Special Advisor Prof. Robin Jarvis.

Professional ethics has become an increasingly pressing issue in recent years in the wake of the Enron, WorldCom and the Lehman Brothers scandals, the latter contributed to the global financial crisis in 2008. The chronic and blatant breaches of professional principles demonstrated that to be financially stable and sustainable economies need to have reliable and sound financial reporting. Since 2008 there has been much attention on business ethics, prompting many professional bodies to place increased emphasis on education and ethical training. However, little was known and understood about the ethical challenges, and pressure that accountants, auditors and tax advisors face in their day to day work. EFAA sought to change this.

EFAA and the Accountants Association in Poland (SKWP) decided to cooperate on a survey among finance professionals in business and practice. The aim was to gain a better understanding of the source and nature of pressure that these professionals find themselves, how they responded and what help they needed. The report '[Accounting and Ethics: Pressure Experienced by the Professional Accountant](#)' was penned by Marie Lang, EFAA Special Advisor; Anna Karmańska, Professor at the Warsaw School of Economics and SKWP Expert; and Robin Jarvis, Professor at Brunel University and EFAA Special Advisor.



The event assembled an audience of industry and business experts, standard setters and EC and EP representatives.



Glenn Collins, Head of Technical Advisory at ACCA (centre), weighing in on the panel discussion.

On 9 February 2017, the results of this research were presented on invitation of MEP Manuel dos Santos (S&D, Portugal) at the European Parliament in Brussels. After an opening address by MEP dos Santos and EFAA President Bodo Richardt, Marie Lang and Anna Karmańska highlighted the key findings of the paper. Following the presentation, Richard Fleck, Deputy Chair of the International Ethics Standards Board for Accountants (IESBA) moderated a panel discussion of renowned business ethics expert Paul Dembinski from the University of Fribourg; Glenn Collins, Head of Technical Advisory, ACCA, the presenters of the study and the EFAA President.

In his opening address, EFAA President Richardt underlined the importance of ethics in addition to existing rules and regulations: *"Without ethical rules, how can business put any trust in financial statements?"* Manuel dos Santos MEP underlined why ensuring good practices in accounting was essential for legislators: *"Without healthy economies, there are no happy societies."*

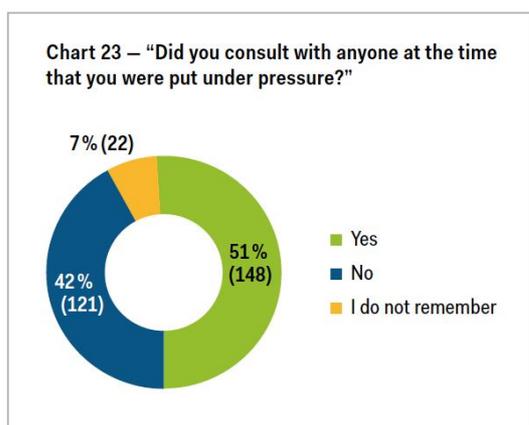
The pressure survey was conducted in English, German, Spanish, Portuguese and Hungarian. The clear majority of the 664 respondents had over ten years of professional experience, indicating that pressure to act unethically was not an issue confined to young professionals. 64% of respondents were put under pressure to act unethically or against regulations at least once in their careers, of which more than 50% were put under pressure 5 times or more. This latter finding highlights that many finance professionals operate in workplace environments where they are regularly exposed to pressure.

EFAA Special Advisor Marie Lang highlighted that *"respondents were most often asked to understate costs and expenses, manipulate the value of inventories, or categorize personal expenses as company expenses."* Anna Karmanska explained the risks of unethical behavior: *"Manipulating financial performance affects the way authorities, customers and markets interact. Finance professionals play a pivotal role in corporate decision-making, because they provide a detailed snap-shot of a company's economic performance."*

Table 16 – What were respondents asked to do?

Postponing the recognition of costs and expenses (understating costs and expenses)	125
Manipulating the value of inventories	122
Categorizing personal expenses incurred by employees, directors, or shareholders as company expenses	119
Overstating expenses (accounting for fictional expenses or accounting for expenses early)	91
Accounting for items in a way that deliberately changed the manner in which the item was treated for tax purposes	70
Non recognition of income or sales (understatement of income)	69
Creating excessive provisions in order to be able to release them to profit in subsequent periods	67
Accelerating the recognition of income (overstating income)	66
Accounting for repairs as capital expenditure	52
Manipulation of depreciation and amortization	51
Amortizing costs that should have been immediately expensed	41
Enabling the payment of cash wages to persons who were not correctly registered as employees	36
Manipulation of long term contract measurement	23

Pressure most commonly emanated from clients in the wider business community and business owners, less often from directors, line managers, or colleagues. Pressure from outside the organisation came most often from limited liability entities, and in 72% of cases pressure came from a person not responsible for finance or accounting. In the end, 68% of respondents said they withstood the pressure. But that means that almost one third of Accounting professionals who were put under pressure did ultimately succumb. These colleagues often cited obvious threats aimed at ensuring their compliance (*"The client threatened to terminate the engagement."*; *"If I had not agreed, I would have lost my job."* ).



The situations described, sometimes in graphic detail, convey an acute sense of the isolation and loneliness that some professionals feel when they are put under pressure.

The survey therefore sought to determine how often finance professionals turned to consultation with a colleague or with their professional body. While a majority of 51 % sought out help, the results show that there is significant room for improvement in offering consultation opportunities – both within practices and business, as well as through professional bodies.

"Most accountants would probably meet ethical problems once in a blue moon" noted IESBA Deputy Chair Richard Fleck, "and will be unprepared. People make better judgements when they speak to other people." There was wide agreement among the panellists that a support system to help professionals deal with difficult ethical situations was an important ingredient in ensuring the quality of financial reports.

The greatest challenge, however, remains cultural change in individual businesses and in society at large. "Strengthening personal skills, providing access to education and information and working with actors along the value chain to establish a strong ethical corporate culture are important pillars for our profession" said Bodo Richarddt, President of EFAA. The panellists shared their ideas: promoting the IESBA Code of Ethics for Professional Accountants was essential, but had to be complemented with continuous professional development, and initiatives to promote cultural change through awareness raising on the client side. To prepare accountants for the realities of pressure, "we need real-life examples from practice and business. We need to enhance capacity and collect real case examples for teaching and roleplay exercises" stated Paul Dembinski.



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Prof. Paul Dembinski, University of Fribourg: "We need to enhance capacity and collect real case examples for teaching and roleplay exercises."

Insight also came from the audience, several of whom reported working with trainees and young accountants, who now had compulsory training in ethics and would prove more familiar with the issue than past generations. Participants also suggested that young SME entrepreneurs were also more open to socially responsible and ethical thinking and behaviour.

In concluding the discussions, EFAA President Bodo Richarddt emphasized the need for helpful education and guidance in the field of business and professional ethics. In a message to legislators, Mr Richarddt cautioned that action should not be limited to professional bodies and business: "properly written laws and codes make it easier for professionals to comply".

"The personal aspect of ethics is becoming more and more important, not only in business. We need to encourage every professional to stand up and change the culture around him - unethical behaviour is not just happening in that organisation or in that country" he added.

#### Additional Resources on this Topic

1) EFAA Website: "[Accounting and Ethics – Pressure Experienced by the Professional Accountant](#)"

*The full report on the EFAA-SKwP findings.*

2) IFAC Global Knowledge Gateway: "[Under Pressure](#)"

*A summary of the findings and short biographies of the authors of the study on the Global Knowledge Gateway of the International Federation of Accountants (IFAC).*

3) ACCA Accounting and Business Magazine: "[Research among accountants across Europe has revealed the extent to which they come under pressure to act unethically – and how likely they are to succumb](#)"

*A summary of the findings and subsumption of the implications by AB Magazine contributor Sarah Perrin.*

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