

ETHICS OR CREATIVE IN PROFESSIONAL ACCOUNTANTS WORK?

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Abstract:

Although, apparently, financial and accounting activity can be seen as a rigid activity which does not leave any room to creativity, however quite often this state of facts was countered through deviations from the principle of fair view achieved through knowingly distortions of the financial statements of the management at the financial and accounting level.

The concept of creativity in the accounting domain is addressed in the specialized literature from two perspectives: one positive in which creativity has a innovative role bringing added value to accounting science, and the other, negative which uses "unorthodox" practices to present in a favorable position something that does not exist. We believe that this study fits to the economic circumstances in which we find, because in the conditions of the current economic crisis the temptation to resort to creative accounting, in the negative way is very high.

Key words: *ethics, creative accounting, professional accountants, fraud.*

JEL classification: *M41*

Introduction

Knowledge of general ethical standards, the ability to identify unethical actions and avoid compromising situations acts as a base for all those planning to step into the business world to have the expected success and, especially, to earn the respect of all partners and collaborators.

Ethics is a rational theory of good and evil, a "upstream" reflection on the values intelligent and moral ordained. Ethics can be defined as a systematic reflection on the moral consequences of decisions. Moral consequences can be drawn in terms of potential damage for each beneficiary of the decision. Ethics is a code of conduct that applies each day and which is dealing with the correctness or incorrectness of certain actions as a result of individual decisions.

Research methodology

The study seeks to place in the forefront the notions of ethics and creativity, and the situations that put the two terms in antithesis, in the work of professional accountants, and also the negative consequences that derive from the adoption of an unethical behavior and the creativity in the negative sense.

In this sense, we proceeded at performing a deductive research, and also inductive to determine the reasons which lead to appealing to creativity by the accountants.

The issue of ethics in financial-accounting activity appears in the conditions in which it is destined for making a view of the reality in order to inform the various beneficiaries, which depend on the judgment of those involved. Their ethic has an important role in pursuing the truth, because they are those who notice the economic

reality, interprets and formalizes it and, eventually, build the financial statements that should reflect fairly the reality.

It is estimated that an ethical decision has the following characteristics, considered cumulatively¹:

- is a competent decision, that is based on accumulated knowledge and experience;
- is a decision taken in the context of clearly identifying, in a particular situation, the interested persons, the obligations of each party involved and the specific problems;
- is a balanced decision, meaning that it allows to identify and prioritize the ethical principles relevant in a particular situation;
- is a relevant decision, that is based on the determination and estimation of all relevant options for decision and action;
- is a pragmatic decision, meaning that allows to operate based on partial objectives, clear, achievable in an objective manner and responsible at all times, until at drawing the conclusions.

Financial-accounting professionals don't live isolated, but occurs in a market where face the supply and demand for financial and accounting information. "The modelers" of financial statements want to sell their "goods" and in these conditions they will give an image of performance for countries in which investors manifest a strong pressure, an image of stability for the countries in which bankers dominate and a fiscal image for countries in which the state plays a significant role in the financial-accounting domain. To speak in these terms, about ethics or morality in financial-accounting activity suspicion arises², the more so since the subject that you first page in the media is financial crisis.

The phrase "financial-accounting creative activity", is typically used to describe the process by which the accountants use their knowledge to manipulate the numbers.

We believe that financial-accounting creative activity may be defined as being: the process of manipulating the accounting numbers and, taking advantage of flexibility, to choose those practices that allow the transformation of financial statements from what they should be to what managers want.

Bertolus defined creative accounting as "the art of baking accounts" and Griffith stated that "each set of financial statements is based on accounts that have been boiled and roasted at low heat ... this being the biggest trick since the Trojan Horse till now... "

The concept of creativity in the financial-accounting domain is approached in the specialized literature from two perspectives: one positive in which creativity has a innovative role bringing added value to the accounting science, and other, negative that uses "unorthodox" practices to present in a favorable position something that does not exist.

Accounting innovation is needed to keep pace with economic, legal and social evolutions. "At its origin, creative accounting is virtuous: it provides to accounting the means that allows him to keep up with the increasing development of the markets and the proliferation of financial products."³ We must make the distinction between the imagination unleashed (explosive) and the controlled imagination. So, while creativity represents an unleashed imagination, the loyalty is guided by the concept of reasoning. The true image gives the possibility to put creativity at the service of a just cause, the one for financial-accounting information.

Most of the specialized literature, however, presents financial-accounting creative activity most often throw its negative side, being seen as a process of using new

¹ Dobroteanu, Laurentiu, Etica profesională în auditul financiar, suport de curs elaborat de Camera Auditorilor or Financian din Romania, Brasov, 23-24 octombrie 2004, pg. 1-2.

² Filip, Andrei, articolul Etica si/sau morola în actul de producere si difuzare a informatiei contabile, publicat în revista "Contabilitatea, expertiza si audit ul afacerilor" nr. 8/2003, pg. 56-57.

³ J.L. Malb, H. Giot, L'e'lasticite' du resultat selon Ies dimensions temps et espace, Congresul AFC 1995.

and clever ways to determine income, debts and claims leading to manipulative policies of the results.⁴

So the question outlined is: "Innovation and financial-accounting creativity constitutes a fraud?" We believe the answer is negative in part because the use of absolute creativity does not imply a violation of the law, but rather is a matter of interpretation, usefulness and, not least, ethics.

We do not deny that throw financial-accounting creative activity is beautified the image of financial position and the financial-economic performance of the company.

So arises the controversy under which accounting is or is not able to issue an objective truth. If we were to relate to the findings of Cibet french professor we would conclude that there are as many truths as how many recipients of information are, and in the extent that it excludes the quality, the reducing effect of each measurement is inevitable. Colasse admitted that the truth said by accounting "is just a filter that allows understanding of a reality and yet, because of its internal coherence which gives it strength and also weakness, accounting allows to arrive at a true form based on several postulates, conventions, rules and classification rules."

Therefore the truth restored by the accountants regarding the true image and financial position must be searched according to the interest of the accounting information recipients, which must be a compromise between expectations and demands.

In the financial-accounting activity arise issues that require to those involved to decide regarding the behavior that will adopt. So, demands to handle the taxes and fees due, demands on generating data to mislead shareholders, regarding hiding some information, demands regarding the manipulation of some projections of financial-accounting data that would lead to obtaining of additional sources of funding are daily problems faced by those involved in financial-accounting activities.

Creative accounting has always been a challenge, that requires an energy solution.

Bernard Christophe⁵ believes that the reconciliation between creativity and accounting would be possible by marriage between the principle of going concern with the principle of nonvolatile information. The first principle brings into question the commercial aspect of information and the second one insists on the civic character of the same information. Accounting will therefore play a dual role moderator: first, to calm the market by signaling business continuity and on the other hand, avoid sudden shocks to the market by producing a less volatile information.

Assuming that the creative accounting practices will disappear only together with the disappearance of the causes that generated them, Hoarau addresses the problem of behavior at external users. He proposed to reduce the importance given to the accounting result and assessing the quality of it through the cash flow. Financial imagination can reduce the exigible liabilities, to increase equity, or to transform assets in receivables. But it can't generate cash. Results that the orientation of external users to cash flows might discourage managers to use techniques for handling accounting information.

Conclusions

Creative accounting is undoubtedly a formidable challenge for accountants. The phenomenon of distortion and manipulation of accounting information occurred because the "instinctive perversity of business people" due to legal loopholes.

⁴ Cernusca Lucian, Politici contabile de intreprindere, Tribuna Economica, 2006, pg.32-36

⁵ Bernard Christophe, Politiques comptables et stabilisation economique, Economies et Societes, Sciences de Gestion, Serie S.G. nr. 22, 1996.

It is difficult to fight against this trend. Creativity can't be regulated or controlled. If by some miracle we would escape from this form of accounting with all its innovative variants, in time will be generated others. The authors of these practices are very clever people, intelligent, passionate about computers, experienced people who know how to exploit any weakness in the financial-accounting system and tax system.

Regarding measures to combat these practices, we observe that so far have failed. Authorities does not have the effective legal tools to penetrate and defuse these types of practices, often hitting obstacles like: confidentiality, loyalty to the company, professional judgment, etc.

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