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The construction of accountants' professional ethics from a global perspective

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Abstract

In the modern economic system, accounting professional ethics are of utmost importance. They serve as the foundation for the stable development of the accounting industry. This article delves into the issue of accounting professionals' ethics. It starts from the development history and analyzes contemporary accounting ethics issues through historical events, conducting in - depth analyses of the background, causes, and other aspects. Finally, it proposes new countermeasures in the global context and draws conclusions.

Keywords: Accounting; Ethics; Issue; Countermeasures

1. Introduction

1.1. The Development History of Standardizing Accounting Professional Ethics

As the "gatekeeper" of economic activities, the core responsibility of accountants lies in ensuring the transparency and reliability of economic information through accurate recording and strict supervision. Professional ethics are not only the soul of the accounting industry but also the cornerstone of maintaining market trust. Throughout its development, the evolution of accounting professional ethics has been closely linked to the changes in the global economic landscape. From the early manual book - keeping to the intelligent auditing in the digital age, each industry transformation has been accompanied by the upgrading and reflection of professional ethics norms. This historical context not only reveals the internal logic of the accounting industry but also provides profound insights into solving current global moral problems.

It is worth noting that the construction of professional ethics is not only the result of industry self - discipline but also a direct reflection of society's demand for economic order. For example, during the Industrial Revolution in the UK in the 19th century, frequent financial scandals of railway companies led to the emergence of the world's first "Companies Act" in 1844, which mandatorily required enterprises to disclose financial reports. This marked the transformation of accounting from a "commercial tool" to a "public responsibility" role.

1.2. Development Process

1.2.1. Early Germination

The origin of accounting professional ethics can be traced back to Renaissance Italy. In 1494, the mathematician Luca Pacioli systematically expounded on the double - entry book - keeping method in "Summa de Arithmetica, Geometria, Proportioni et Proportionalità" and emphasized that "honest recording" was the primary principle of accounting work. At that time, the prosperity of commercial city - states such as Venice and Florence gave rise to complex trade networks. Merchants needed to rely on accurate accounts to assess profits and risks. Pacioli's ideas such as "accounts must be

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clear and verifiable" and "transactions must not be concealed" laid the foundation for the embryonic form of accounting professional ethics. Although the professional ethics concepts of this period were not yet systematic, their core - integrity and transparency - became unshakable industry creeds in later generations.

It is important to note that the early ethical constraints mainly relied on the personal integrity of practitioners. For example, in the guild system of medieval Europe, if an accountant was found to have tampered with accounts, they would not only be expelled from the guild but also might face legal sanctions. This moral constraint mechanism centered on reputation and survival pressure laid the groundwork for the formation of professional norms.

1.2.2. Initial Establishment of Professional Organizations and Formulation of Norms

From the late 19th century to the early 20th century, the wave of the Industrial Revolution propelled the global economy into a stage of large - scale development, and the demand for accounting soared. The establishment of the American Association of Public Accountants (AAPA) in 1887 marked the professionalization of the accounting industry. In its early days, the main task of the association was to develop unified practice standards, but its ethical standards lacked enforceability due to the voluntary membership of its members. For example, the "Code of Professional Ethics" issued by the AAPA in 1905 only required members to "avoid conflicts of interest" but did not clearly define the consequences of violations, resulting in frequent scandals of auditors colluding with enterprises to inflate profits in practice.

This stage of exploration exposed the limitations of industry self - regulation. Scholars such as Henry Rand Hatfield began to advocate for the legalization of ethical norms. He pointed out in "Modern Accounting Theory" that "ethical standards without enforceability are like swords without blades and cannot deter greed." This view provided a theoretical basis for the subsequent establishment of the regulatory system.

1.2.3. Development and Perfection

Refinement of Standards

In 1936, the AAPA was reorganized into the American Institute of Certified Public Accountants (AICPA), and its professional ethics standards underwent significant innovation. Independence, objectivity, professional competence, confidentiality, and professional behavior were clearly defined as the five core principles, and specific implementation rules were formulated. For example, auditors were prohibited from holding stocks of client companies, and potential conflicts of interest were required to be disclosed regularly. The standards of this stage shifted from abstract principles to operational behavior norms, significantly enhancing the industry's credibility.

In the 1950s, the AICPA further introduced the "Ethics Rulings" mechanism, which regularly released typical cases to explain the application scenarios of the standards. For example, in the 1958 ruling on "an auditor's relative working for a client company," it was clearly required that the auditor must be excluded from the relevant business. This dynamic adjustment mechanism enabled professional ethics norms to adapt to the changing business environment.

Promotion by International Organizations

The establishment of the International Federation of Accountants (IFAC) in 1977 marked the era of global cooperation in accounting professional ethics. The IFAC issued the first edition of the "International Code of Ethics for Professional Accountants" (IESBA Code) in 1996, emphasizing that "the public interest takes precedence over the interests of individuals or organizations." The 2006 revised version further refined the requirements for audit independence. For example, it restricted auditors from providing non - audit services to clients and strengthened the rotation system.

The IFAC also promoted the convergence of national standards with international standards through the "Convergence Program." Take Japan as an example. The Japanese Institute of Certified Public Accountants (JICPA) revised its ethical standards in 2010 and fully adopted the IESBA's "Cooling - off Period" requirement, stipulating that auditors are not allowed to join an audited enterprise within two years after leaving their positions. This trans - national cooperation effectively curbed the "revolving door" phenomenon, demonstrating the power of global governance.

Practice in Emerging Markets

India passed the "Companies Act Amendment" in 2013, mandatorily requiring the rotation of auditors of listed companies every five years and prohibiting the provision of both audit and consulting services for the same client. This made India the first developing country to implement the "audit separation" policy at the national level.

2. Events with a Significant Impact on History

2.1. The Andersen and Enron Scandal

2.1.1. Event Background

Enron Corporation was once a "myth" in the American energy industry. In 2000, its market value reached as high as $68 billion, ranking 7th on the Fortune 500 list. However, this giant collapsed rapidly due to financial fraud in 2001, ultimately setting a record for the largest bankruptcy in American history with a scale of $63.4 billion.

Analysis of Deep - seated Reasons

The collapse of Enron was not only the result of accounting fraud but also exposed the drawbacks of the "market value management" culture. The company used the "Mark - to - Market" accounting policy to include future expected earnings in current profits, inflating revenues by $11 billion. This aggressive accounting method was acquiesced by Andersen, reflecting the vulnerability of audit independence in the face of capital - chasing profits.

2.1.2. Unethical Behaviors

The dereliction of duty of Andersen LLP was at the core of the incident. As Enron's external auditor, Andersen also provided internal audit and management consulting services to it, with annual service fees as high as $52 million. This "dual role" led to the complete loss of audit independence. What was even worse was that during the SEC's investigation, Andersen's chief auditor, David Duncan, systematically destroyed thousands of key documents, including emails and audit working papers, in an attempt to cover up Enron's fraud of transferring liabilities through "Special Purpose Entities" (SPEs).

From the perspective of professional ethics, Andersen violated at least three core principles

- Lack of Independence: There was a direct economic interest relationship between the auditor and the client;
- Loss of Objectivity: To maintain high - value consulting revenues, Andersen acquiesced in Enron's use of aggressive accounting policies;
- Unethical Professional Behavior: Deliberately destroying evidence constituted a criminal offense.

2.1.3. Impact

The Enron incident triggered an earthquake in the capital market: the Dow Jones Industrial Average plummeted by 4.3% in a single day, and investors lost more than $70 billion. Andersen was sentenced to a "professional death penalty" for obstruction of justice and was forced to give up its audit license in 2002, bringing an end to the century - old firm.

A deeper - level impact was the reconstruction of the regulatory system. The U.S. Congress urgently passed the "Sarbanes - Oxley Act" (SOX Act). Section 404 of the act requires the CEO and CFO of a listed company to sign personal guarantees for the authenticity of financial reports, and Section 201 prohibits audit institutions from providing non - audit services to clients. Globally, the European Union issued the "Statutory Audit Directive," requiring the mandatory rotation of auditors every six years. These measures reshaped the rules of the audit industry, placing independence at the core of supervision.

2.1.4. Subsequent Chain Reactions

In 2003, WorldCom went bankrupt due to an $11 - billion financial fraud, further promoting the establishment of the Public Company Accounting Oversight Board (PCAOB) in the United States, which directly supervised the audit industry.

2.2. The EY Auditor Exam Cheating Scandal

2.2.1. Event Background

The American Certified Public Accountant (CPA) exam includes a special "Professional Ethics and Responsibilities" subject, aiming to screen practitioners with professional integrity. However, in 2022, an SEC investigation uncovered a collective cheating scandal at Ernst and Young (EY).

2.2.2. Unethical Behaviors

The investigation revealed that 49 EY auditors shared answers to the AICPA ethics exam through an internal chat group, and hundreds of others cheated in continuing education courses. What was even more shocking was that when questioned by the SEC, EY management refused to provide key evidence and submitted false statements claiming that "no systematic cheating was found." This behavior not only trampled on the fairness of the exam but also exposed the organization's cultural disregard for professional ethics.

Research on Psychological Motivations

A 2023 study by Harvard Business School showed that there is a positive correlation between high - intensity performance appraisals and cheating behavior. EY auditors faced an annual 20% promotion elimination rate, and some resorted to cheating to keep their jobs.

2.2.3. Impact

EY ultimately paid a $100 - million fine and promised to reform its internal ethics training system. This incident severely damaged the industry's reputation: a 2023 Gallup survey showed that public trust in audit reports dropped from 62% to 41%. In addition, the AICPA urgently revised the exam rules, introducing facial recognition and remote proctoring technology to prevent similar incidents from happening again.

Industry Chain Reactions

Deloitte and PwC subsequently announced the abolition of the "forced ranking" promotion system, replacing it with a comprehensive - ability - based evaluation system to reduce employees' inappropriate competitive pressure.

3. Insights and Countermeasures from the Cases

The Enron and EY incidents revealed two persistent problems in the accounting industry: the institutionalization of conflicts of interest and the formalization of moral education.

The institutionalization of conflicts of interest stems from the commercialization of audit services. For example, the proportion of consulting business revenue in the four major accounting firms (Deloitte, PwC, EY, and KPMG) has been continuously increasing. According to a 2023 Financial Times statistic, Deloitte's consulting revenue accounted for 54% of its total revenue, far exceeding its audit business revenue of 21%. This model of "supporting audit with consulting" makes it difficult for auditors to avoid relying on high - profit consulting businesses when reviewing clients' financial statements, rendering their independence in name only.

3.1. Countermeasures

- Mandatory Business Separation: The EU's "Audit Reform Act" in 2016 requires listed companies to change audit institutions every 10 years and prohibits audit institutions from providing non - audit services such as tax consulting and internal control design to the same client.
- Enhanced Transparency: The PCAOB in the United States requires audit institutions to publicly disclose the revenue ratios of audit and non - audit services for investors to assess independence risks.

The formalization of moral education is reflected in the disconnection between training content and actual behavior. In the EY incident, the cheaters passed the company's internal ethics exam but chose to cheat in a high - pressure environment. Research shows that traditional "cram - style" ethics courses cannot effectively shape professional values.

3.2. Examples of Educational Innovation

- Scenario - based Simulation Teaching: Stanford University's Business School has developed a "Moral Dilemma Simulator." Students need to handle scenarios such as "clients pressuring to adjust financial statements" in a virtual reality environment, and the system generates a consequence analysis report based on their choices.
- Industry Mentorship System: CPA Australia has launched the "Ethics Mentorship Program," where senior practitioners guide new employees in dealing with ethical challenges in real - world workplaces.

4. Analysis of Global Issues Regarding Contemporary Accounting Professional Ethics

4.1. Accountants Acting Unethically under Pressure

4.1.1. Unfavorable Enterprise Environment

A 2024 ACCA report shows that 40% of accountants have been forced to adjust financial data due to "pressure from senior management." For example, a multinational company required its subsidiaries to "beautify financial statements" to meet performance - based gambling agreements. Accountants were faced with the ethical dilemma of "losing their jobs for compliance" or "faking to keep their positions."

Case Expansion

- The Luckin Coffee Financial Fraud Case (2020): The company's management required the accounting team to fabricate sales of 2.2 billion yuan. Some accountants cooperated with the fraud out of fear of losing their jobs, ultimately leading to a trust crisis in Chinese - listed companies in the United States.
- Corporate Culture Diagnosis Tools: The Institute of Internal Auditors (IIA) has launched the "Ethical Climate Assessment Model" to help enterprises identify internal pressure - risk points, such as a "profit - first" assessment orientation.

4.1.2. Unfavorable Industry Atmosphere

The "unwritten rules" culture is deeply rooted in some regions. For example, an auditor of an Asian listed company admitted, "If you refuse a client's request to 'adjust accounts,' you may be blacklisted in the industry." This systemic coercion forces new entrants to compromise, creating a "bad - money - drives - out - good - money" vicious cycle.

Regional Comparisons

- The Nordic Model: Sweden has increased the conviction rate of enterprises bribing accountants to 89% through the "Anti - Bribery Act" and an anonymous reporting mechanism, significantly purifying the industry environment.
- Challenges in Emerging Markets: Due to lax supervision in Brazil, follow - up cases of the "Car Wash Operation" were exposed in 2022. Thirty accountants were sentenced for assisting politicians in money laundering, highlighting the urgency of legal construction.

4.2. Accountants' Pursuit of Personal Interests

The highly competitive environment has exacerbated moral risks. A 2023 McKinsey study pointed out that 62% of accountants under 35 believe that "advancement requires sacrificing some principles." For example, an investment bank analyst assisted in designing complex financial instruments to conceal a company's liabilities in order to obtain bonuses.

Analysis of Psychological Mechanisms

- The Moral Disengagement Theory (Bandura, 1999): Individuals rationalize unethical behaviors through "diffusion of responsibility" (such as "superior's orders") or "outcome glorification" (such as "maintaining the company's stock price").
- Intervention Measures: A Dutch bank has introduced a "moral bonus pool," linking part of the performance bonus to compliance behavior to reduce the motivation for short - term interest - driven violations.

5. The World's Response to Challenges and Future Outlook

5.1. Improvement of Global Accounting Professional Ethics Requirements

5.1.1. Update of International Standards

The 2023 IESBA Code strengthened the "technology - neutral" principle, requiring that the same ethical standards be followed regardless of whether traditional auditing or AI tools are used. For example, when using AI to generate audit reports, accountants need to verify the fairness of the algorithm logic and retain records of manual reviews.

5.1.2. Upgrading of Domestic Laws

In 2023, China's Ministry of Finance launched the "Three Persistences and Three Upholds" framework (persist in integrity, persist in standards, uphold the bottom line; fulfill responsibilities, abide by regulations, and maintain integrity), incorporating moral performance into the accounting professional title evaluation indicators. Specific measures include

- A Credit File System: Recording the unethical practices of accountants for employers to query;
- A One - Strike - and - Out Rule for Professional Ethics: In the evaluation of senior accountants, if major moral flaws are discovered, the candidate will be directly disqualified.

5.1.3. Reform of the Education System

Harvard Business School has incorporated "ethical decision - making simulation" into its compulsory courses. Students need to handle cases of conflicts of interest in virtual scenarios to systematically develop their moral judgment. For example, in a simulated merger and acquisition case, students need to weigh the conflict between "disclosing financial risks" and "facilitating the transaction."

5.1.4. Strengthened Supervision and Discipline

In 2024, the PCAOB launched a "real - time audit monitoring system" that uses blockchain technology to track the modification records of audit working papers, ensuring transparency. The system has identified 12 suspected tampering incidents, involving a total fine of over $230 million.

5.2. Future Development Forecasts

5.2.1. The Double - edged Sword of Digitalization

AI audit tools can improve efficiency but may also be used to generate false transaction records. For example, in 2024, an e - commerce platform used AI to forge tens of thousands of false orders, and auditors identified the fraud in a timely manner through an "abnormal traffic detection algorithm." In the future, it is necessary to establish an "algorithm ethics review" mechanism, including

- White - box Auditing: Requiring AI developers to disclose key algorithm logic;
- Ethical Impact Assessment: Evaluating the impact of technology on independence and data privacy before deployment.

5.2.2. Data Security Priority

Penalty cases under the EU's General Data Protection Regulation (GDPR) show that if accountants leak client data, they may face a fine of up to 4% of their global revenue. For example, in 2023, an accounting firm was fined 80 million euros due to a cloud server vulnerability that led to the leakage of client financial data.

5.2.3. The Rise of Intelligent Supervision

Big data analysis can identify "abnormal related - party transactions." For example, when the addresses of a company's suppliers and customers coincide, the system will automatically trigger an investigation. The International Monetary Fund (IMF) is developing a "Global Financial Integrity Platform" to integrate regulatory data from various countries and track abnormal cross - border capital flows in real - time.

6. Conclusion

The global governance of accounting professional ethics is an endless climb. Historical lessons warn us that any institutional loopholes can be the fuse of systemic risks; and technological innovation not only brings challenges but also breeds solutions. Only through the cooperation of all countries, strict supervision, and in - depth education can we hold the bottom line of integrity in the accounting industry in the wave of the digital age.

Future Action Proposals

- Establish a Global Ethics Alliance: Led by the International Federation of Accountants (IFAC), it coordinates with regulatory agencies of various countries to share violation cases and best practices;

- Standardize Technological Ethics: Develop ethical use guidelines for AI audit tools to prevent technology abuse;
- Public Participation in Supervision: Through an "open - audit" platform, allow investors to access some audit working papers to enhance transparency.

The road ahead may be rugged, but as Luca Pacioli's maxim five hundred years ago goes: "The ledger is the conscience of business" - as long as the conscience remains, the industry will surely thrive.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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