



## Accounting scandals, ethical dilemmas and educational challenges

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### Abstract

Publicity over the role of accountants often accompanies major corporate collapses. It is argued that recent corporate scandals have set a new low for the accounting profession. It is, after all, the accountants who have assisted in financial management, prepared financial statements and audited these statements. As a corollary to this, it can be argued that accountants play a significant role in good corporate governance and ethical sustainable business practices. Increasingly there are calls for greater transparency and corporate governance as well as increased adoption of professional and ethical practices by businesses. Is this possible given our inherently materialistic nature of accumulating wealth? The question must therefore be asked, if new or additional legislation would not work, what will? It has also been argued that poor quality professional education is one of the problems contributing to these scandals. This paper identifies and explores five factors that seemingly influences and contributes to the perpetuation of accounting and corporate scandals because of their impact on ethical behaviour. Also discussed in this paper is the debate related to the inadequacy of university curricula particularly with regard to the influence of ethics education on accounting graduates. To investigate further these issues, we surveyed students to ascertain whether they believe education can influence ethical behaviour. The findings from the surveys could not conclusively indicate that students perceived ethics education to have a significant influence on their ethical behaviour but nonetheless they believed that it was still important to have ethics education in their programme of study. This finding, in itself, suggests that it is still possible to influence the ‘thinking’ of accounting graduates before they entered the complex world of business.

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“To educate a person in mind and not in morals is to educate a menace to society”  
(President Theodore Roosevelt)

## 1. Introduction

It is fitting that we start our paper with a quotation from Theodore Roosevelt, the 26th President of the United States of America (1901–1909). Roosevelt was prescient in warning us a century ago, “To educate a person in mind but not in morals is to educate a menace to society” (Platt, 1989, website source, not paginated). Society continues to suffer from corporate and accounting scandals, despite the fact that people are now better educated. Why? Roosevelt may have been right in his warning. Contentiously, behind each scandal and crisis is a possible lack of morals in “educated people”.

Crises in accounting are not new. Accounting scandals of firms (should not we really be saying “people”?) manipulating results continue to make news headlines. Where are things going wrong? Can blame be placed on *perceived* weaknesses of legislation and accounting standards? Or is it that education is not producing the type of accounting and business graduates needed to prevent such scandals? Applying Roosevelt’s warning, one could regard lack of morals in “educated professionals” as the “accounting menace” to society. Year 2002 has been reported as a watershed period for the accounting profession because of significant American corporate collapses such as Enron, WorldCom and Tyco, to name a few. With the collapse of Arthur Andersen, the “Big Four” accounting firms of PriceWaterhouseCoopers, Deloitte & Touche, Ernst & Young and KPMG remain.

Referring to the proposals to reform accounting, auditing, and corporate governance in the aftermath of the 2001 and 2002 collapses of large companies, Amernic and Craig (2004) assert:

These have included strong calls from diverse quarters for the business community to commit determinedly to new ethical and moral values, to develop better mechanisms for corporate governance, and to exercise better corporate responsibility. (pp. 342–343)

In America, there have been calls for tighter and tougher reforms in accounting standards and government regulations. Elsewhere in the world, discussion continues on the need for each country to take its own measures to avoid an “Enrongate” type crisis. The recent American cases of Enron and WorldCom have triggered legislation in America such as the Public Company Accounting Reform & Investor Protection Act of 2002 and the Sarbanes-Oxley Act 2002 that impose tougher sentences on corporate fraud. Professional bodies worldwide have also responded by issuing documents on corporate governance and transparency. For instance, the Institute of Chartered Accountants of New Zealand (now known as the New Zealand Institute of Chartered Accountants (NZICA)) has issued a document titled “Corporate Transparency—Making Markets Work Better.” The Institute of Chartered Accountants of Australia, which is an inaugural member of ASX (Australian Stock Exchange), contributed to the development and release of the “ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.” The United Kingdom responded with the “Turnbull Report on Internal Control: Guidance

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