

## Ethical Behavior and Assuring the Quality of Provided Services – the Case of Accounting Firms

*Violeta STATE*

*Valahia University of Târgoviște, Romania*

*viostate@yahoo.com*

### Abstract

*I started writing this paper from the premise that compliance with ethics and deontology in the accounting profession decisively contributes to assuring the quality of accounting services provided by professional accountants. For this purpose, we conducted a conjuncture survey, whose subjects, accounting firms, were asked about: their offering of accounting services, their compliance with fundamental ethical principles of the accounting profession, their compliance with deontological norms in promoting accounting services and issues related to the promotion of provided services.*

*Based on the feedback received, we concluded that, basically, ethics and quality must represent the professional accountant, they must be their defining characteristics, but at the same time, in order to excel through their services, it is also necessary that customers, economic entities, show interest and receptivity, and provide the required documents and information in a timely manner and of appropriate quality.*

**Keywords:** *accounting profession, accounting services, accounting professional, ethics, deontology, quality*

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### Introduction

Given the fact that the accounting profession is distinguished from other professions, inter alia, by assuming accountability to the public interest, to all parties interested in the activities carried out by the economic entity, we considered opportune to undertake a study on how compliance with ethical and deontological principles by accounting firms can represent a determining factor in increasing the performance and achieving the objectives of the economic entities, beneficiaries of their services.

### 1. The exercise of the accounting profession

Profession, in a broad sense, represents the occupation with permanent character, exercised by someone having the appropriate qualification. Regardless of its specific field,

a profession is defined and assessed by taking into account, on the one hand, the corpus of theoretical knowledge and practical skills that define the expertise of the individual that exercises that profession and, on the other hand, the attitude and ethics of all parties involved.

At specific level, the accounting profession encompasses all economic activities involving knowledge in the accounting field, the specialists that carry them out, as well as the professional bodies.

The accounting profession is legally regulated at European level by Directive 89/48/EEC, replaced by Directive 2005/36/EEC concerning the recognition of professional qualifications, and at national level by the Government Ordinance no. 65/1994 on the organization of the accounting expertise and licensed accountants' activity. The essential role in the management of the accounting profession in Romania and in the training of professional accountants is entrusted to the Body of Expert and Licensed Accountants of Romania (Corpul Experților Contabili și Contabililor Autorizați din România – CECCAR), which in 1994 acquired the status of autonomous legal entity of public interest and which, as a professional body, is continuously concerned with the development of the professional accountant's skills and abilities.

The professional accountant is defined as the person who has access to all the activities that comprise the accounting profession, in accordance with the accounting practices. According to their legal status, professional accountants may be dependent professional accountants (with the status of employee) or independent professional accountants (self-employed accountants), that can organize and operate in individual manner or in different forms of association, according to the law. In terms of compliance with the conditions stipulated by the current legislation, professional accountants can be expert accountants or licensed accountants. According to the Government Ordinance no. 65/1994 1994 on the organization of the accounting expertise and licensed accountants' activity, republished, the expert accountant has "the professional competence to organize and manage the accounting activity, to oversee the management of trading companies, to prepare the financial statements and to perform accounting expertise operations", while the licensed accountant has "the competence to provide the bookkeeping and do preliminary work prior to the preparation of the financial statements".

A distinctive feature of the accounting profession is taking responsibility to act in the public interest. In this context, we can affirm that the first and most important aspect which characterizes and through which the accounting profession manifests itself is the human factor, characterized by education, ethics and professional judgment, whose responsibility is not limited to exclusively satisfying the needs of a client or of an individual employer.

Therefore, by acting in the public interest, a professional accountant must have as main objective to provide services at a level of excellence, services of the highest quality, that meet market requirements, the purpose of the professional accountant consequently being to excel in their activities, to be preferred on the market precisely due to the quality of their services.

The ethical behavior and the quality of services provided to customers is key to sustainable business development, to preserve, to promote and to strengthen the image of the accounting professional as a reliable partner in the business environment. This way, they can achieve what is the most difficult thing to achieve in business, namely a good reputation, the renown of the professional accountant.

From this context emerged the necessity of adopting a code of ethical conduct, in accordance with the European directives regarding services, that would include both the means for commercial communication in relation to the regulated profession and the rules concerning the conditions for exercising professional activities as deontological rules, aimed at ensuring, in particular, the independence, impartiality and professional confidentiality.

The National Code of Ethics for Professional Accountants, developed as a fundament of the ethics provisions for Romanian professional accountants, has a double role: firstly, it confers authority to the services provided by professional accountants, and the beneficiaries of accounting services are ensured that these services are performed by professionals who meet the standards and are responsible for the quality of the respective services; at the same time, the Code protects professional accountants when faced with negative phenomena in the economy, such as money laundering, corruption, fraud, terrorist financing, etc.

In accordance with the National Code of Ethics for Professional Accountants, a professional accountant shall comply with the following fundamental principles:

(a) *Integrity* – to be straightforward and honest in all professional and business relationships;

(b) *Objectivity* – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments;

(c) *Professional competence and due care* – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services and to act diligently and in accordance with applicable technical and professional standards;

(d) *Confidentiality* – to respect the confidentiality of information acquired as a result of professional and business relationships and to not use the information for the personal advantage of the professional accountant or third parties;

(e) *Professional behavior* – to comply with relevant laws and regulations and avoid any action that discredits the profession;

(f) *Technical and professional standards* – a professional accountant should carry out professional services in accordance with the relevant technical and professional standards.

Ethical behavior and quality are and must remain the business card of the accounting profession. Through the quality of services provided to customers, accounting professionals maintain and strengthen their market position. At the same time, they must be aware of their contribution to promoting the image and reputation of the accounting profession.

## 2. Ethical issues opposable to independent professional accountants

Ethical issues opposable to independent professional accountants are addressed in terms of circumstances of conflict of interest or incompatibility they may find themselves into in the exercise of their missions. An independent professional accountant is in a circumstance of conflict of interest when private or personal interest is strong enough to influence the objective exercise of their services. A conflict of interest also exists in the case where it does not directly result in a negative, improper or incorrect act, but it gives the appearance of impropriety and undermines the confidence in the person or entity in that position.

Regulations applicable to professional accountants expressly state the circumstances where they are forbidden to exercise accounting services. Thus, “expert accountants and licensed accountants are forbidden to undertake any work for the economic entities or for the institutions where they are employed and for any other parties with whom their employer has concluded agreements or with whom his/her employer competes. At the same time, expert and licensed accountants are forbidden to undertake any work for any entity with which he/she is related, including extended family members, up to the fourth degree, or spouses of the managers” [GO no. 65/1994]. Furthermore, professional accountants may not undertake any work for third parties “under circumstances certifying the existence of a conflict of interest or of an incompatibility” [GO no. 65/1994].

An independent professional accountant shall take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may create threats to compliance with the fundamental principles. For example, a threat to objectivity may be created when an independent professional accountant competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client. A threat to objectivity or confidentiality may also be created when an independent professional accountant in public practice performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question.

That independent professional accountant shall evaluate the significance of any threats. This evaluation may include, before accepting or continuing a client relationship or specific engagement, the appreciation if the independent professional accountant’s business interests or relationships with the client or a third party may create any threats. If there are other possible threats except the insignificant ones, the necessary safeguards must be taken into account and implemented, in order to eliminate the potential threats or to reduce them to an acceptable level.

Depending upon those circumstances giving rise to the conflict, the safeguards must also include the following actions by the independent professional accountant:

- The client must be notified of the firm’s business interest or activities that may represent a conflict of interest and obtaining their consent to act in such circumstances;
- All known relevant parties must be notified that the respective independent professional accountant is acting for two or more parties in respect of a matter where their respective interests are in conflict and obtaining their consent to so act;
- The client will be notified that the professional does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service); after the notification, it is necessary to obtain the client’s consent to so act;

Additional safeguards that can be undertaken by the professional accountant may consist of: the development and implementation of procedures to prevent access to information (e.g., a stricter physical separation of work teams, a better data filing, in compliance with the requirements for confidential and secure data); the existence of clear guidelines for members of the engagement team on all issues of security, as well as confidentiality; the use of separate engagement teams; the use of confidentiality agreements signed by both employees and partners of the accounting firm; regular review of the application of safeguards by an experienced individual, not involved with any relevant client engagements.

In the case where a conflict of interest represents a threat to one or more of the fundamental ethical principles, and this threat cannot be eliminated or reduced to an

acceptable level through the application of safeguards, the independent professional accountant may conclude that it is not appropriate to accept such engagement or that it is absolutely necessary to resign from the conflicting engagements.

In the circumstance where an independent professional accountant has requested consent from a client to act for another party in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, the professional accountant shall not continue to act for one of the parties in the matter giving rise to the conflict of interest.

### 3. Case study on ethical behavior and assuring the quality of services provided by accounting firms

The objective of the case study is to highlight the extent to which compliance with ethics and deontology in exercising the accounting profession contributes to improve the quality of accounting services provided on the market by accounting firms. The topic of the conducted research is therefore represented by the need to apply the code of ethical conduct within economic entities, compliance with the ethical and deontological principles having the potential to constitute a determining factor in increasing the performance and achieving the objectives of accounting firms, in their capacity as economic entities providers of accounting services. The subjects of the case study, which has the character of a conjuncture survey, are basically eight accounting firms operating in Dâmbovița county, legal persons registered as CECCAR members.

Accounting firms engaged in accounting and financial auditing activities, as well as tax consultancy, under code 6920 of the National Classification of Economic Activities. They are organized in the form of limited liability companies with Romanian private capital. The table below shows elements of a general nature, corresponding to the data and information obtained during the empirical research.

Table 1.

General data regarding the subjects of the study

Indicator	Entity							
	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8
Number of employees	1	4	2	14	1	10	2	2
Of which CECCAR members	1	2	1	12	1	8	1	1
Do you provide financial and management accounting services?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Do you provide personnel, human resources, payroll services?	No	No	No	Yes	No	Yes	No	No
Do you provide financial audit services?	No	No	No	Yes	No	Yes	No	No
Do you provide tax consultancy services?	No	Yes	No	Yes	No	Yes	No	Yes
Do you provide fiscal expertise services?	No	No	No	Yes	No	Yes	No	Yes
Expert accountants	1	1	1	4	1	3	1	1
Financial auditors	-	1	-	2	-	1	-	1
Tax consultants	-	-	-	2	-	2	-	-
Junior accountants	-	2	1	4	-	2	1	-
Client portfolio	5	3	6	42	2	35	2	6

(Source: Popescu D. (2016)

Being questioned about specific situations in which, in presenting their considerations, in exercising their mission, in providing their accounting services, for reasons more or less objective, they did not comply to ethical and deontological norms of the accounting profession, 100% of subjects declared they were not faced with such situations, the fundamental ethical principles being complied with in absolutely all circumstances. Also, the employees of surveyed accounting firms comply with the professional behavior principle. A legal form of relationship between employed professional accountant and employing entities should have no effect on the ethical responsibilities incumbent on the employed accountants.

The professional accountant has the responsibility to carry forward the legitimate aims of their employing organization. An employed professional accountant has the professional obligation to comply with the fundamental principles; however, situations may arise where their responsibilities to an employing organization and their professional obligations to comply with the fundamental principles are in conflict. The employed professional accountant should support all the legitimate and ethical objectives the employer requires, should follow the established rules and procedures to achieve these objectives, hence having responsibilities to the employing entity.

When fundamental principles are threatened, an employed professional accountant should consider safeguards to be applied in order to eliminate or reduce to an acceptable level the explicit or implicit pressures to act or behave in a way that would directly or indirect threaten the compliance with the fundamental principles.

Table 2.

**Complying with fundamental ethical principles**

Fundamental ethical principles of the accounting profession	Entity							
	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8
In your activity, were you in a situation of breaking the integrity principle?	No	No	No	No	No	No	No	No
In your activity, were you in a situation of breaking the objectivity principle?	No	No	No	No	No	No	No	No
In your activity, were you in a situation of breaking the professional competence principle?	No	No	No	No	No	No	No	No
In your activity, were you in a situation of breaking the confidentiality principle?	No	No	No	No	No	No	No	No
Do your employees comply with the professional behavior principle?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

(Source: Popescu D. (2016))

The third objective of conjuncture survey consisted in an analysis on the marketing of accounting services. When asked if they comply with deontological norms in promoting the services they provide, the subjects indicated various forms of promotion, such as:



- Ads in the local media without using comparisons with other competitors – 2 responses;
- Advertising and offer, without harming the interests or image of other professional colleagues – 1 response;
- Presentation brochures – 3 responses;
- Own website focused on presenting the firm and the services provided – 3 responses.

The code of ethics that professional accountants must comply with creates the conditions for the marketing activity to be in accordance with the regulations of the professional body, to comply with the professional conduct, and the marketing techniques being utilized to not lead to damages to the reputation of the profession.

Respecting ethics in marketing leads to an honest and fair representation of a product or service provided in a certain context, characterized by a series of cultural, professional and social values. The development of a marketing plan must be in accordance with the procedures of the code of ethics. This involves enhancing the strengths of the firm on price, quality of services, reliability in relation to customer requirements. Any marketing plan should combine meaningful and accomplishable goals with the firm's capability of achieving them. In general terms, professional marketing should highlight key areas that facilitate the practice of the accounting profession in optimal conditions of quality and professionalism. On the one hand, it's about qualifications, education and experience and, on the other hand, about continuing professional development. The results of the study regarding the professional marketing activity of the eight accounting firms are presented below.

When asked "What do you think is the determining factor in the customer's decision?", the responses were:

- Price of services provided – 1 response;
- Quality of services provided – 2 responses;
- Price and quality of services provided – 2 responses;
- The value added to the customer's business through the services provided – 1 response;
- The value added to the customer's business through the services provided and adapting them to the customer's requirements and difficulties – 1 response
- The manner of providing the required services – 1 response.

Being asked to give "an example of a principle of promoting the accounting services", the accounting firms' representatives mentioned the principle which basically underlies the work of the firms and demonstrate that the ethics and deontology of the accounting profession are known, complied with and applied. The principles underlying the promotion of the accounting services mentioned are as follows:

- Do not sell more than you are able to produce, creating false expectations for the customer;
- An excellent execution of the professional service provided ensures both continued collaboration, as well as the accumulation of good references of utmost importance in forming the image of the professional accountant;
- Provide only those services the customer actually needs. Help them to identify them and show them that you care about their real problems by finding the best solutions;
- Professionalism should be maintained both at the stage of promoting the services, as well as in their execution and delivery;
- Realistic assessment of professional competence;

- Respect the customer as you respect yourself. Provide them quality services.

It is obvious that all the subjects of this study are aware that any potential customer, beneficiary of accounting services, is looking for a qualified, competent and professional service that fits their cost requirements. Precisely because of this reality of the market for accounting services, the marketing of professional accountants is a complex activity, involving a substantial number of decisions in accordance with the ethical code imposed by the professional body.

## Conclusions

The aim of the professional accountant should be to excel in its activities, to be preferred on the market precisely for the quality of its services.

Knowing the customer is a key issue that concerns the professional accountants, while knowing the expectations that the client has from the professional represents a key element in the conduct of the professionals in this field.

Basically, ethics and quality must represent the professional accountant, they must be their defining characteristics, but at the same time, in order to excel through their services, it is also necessary that customers show interest, receptivity, and provide the required documents and information in a timely manner and of appropriate quality.

Accounting and financial services no longer consist of a simple processing of accounting documents, they must be analyzed with maximum responsibility in order to provide the customer with the best solution to improve its performance.

Promoting accounting and financial services performed individually by each professional accountant has a significant impact on the image and reputation of the accounting profession in general, and therefore, it should be acknowledged that when promoting accounting services, the accounting profession is implicitly promoted.

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