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The Accountancy Profession and its Professional and Social Responsibility: A Systems Theoretical Approach to Social and Ethical Accounting

By

Denson Muvandi

216074955

(Bsc Hons. Public Finance & Accounting; MCom. Strategic Management and Corporate Governance; HND Accountancy)

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Dr Munyaradzi Felix Murove

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DECLARATION

I, Denson Muvandi declare that,

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ii. The thesis has not been submitted for any degree or examination at any other university.

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Candidate: D Muvandi

Signed:.........................   Date:..............................

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DEDICATION

This thesis is dedicated to my loving wife for her undying love and my family for their unwavering support and for coping with the undue paternal deprivation during the course of this study. I love you all.

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ABSTRACT

The accounting profession all over the world has found itself entangled in many scandals. Businesses, organizations and society at large rely on the financial information that is provided by the accounting profession. The financial information which accountants give remains critical to the overall economic wellbeing of society. In this regard, financial misinformation has led to serious economic crises in the world and sometimes to the collapse of powerful companies. Whilst the traditional understanding of the accounting profession was based on acquiring techniques and abiding by the codes of ethics that govern this profession, the experience of accountants is that their work place is characterized by chaos and complexity instead of orderliness which is implied in the codes and the popular technical practices of the profession that are mostly required in the office.

Scholars have argued that the current type of education which is given to accounting students which is mainly based on technique acquisition does not prepare the student with professional competency when it comes to issues of ethical maturity which cannot be attained through the acquiring of professional qualification. The accountancy profession has a responsibility not only to shareholders or to the organizations which employed them but responsibility to stakeholders as well. The financial information which accountants provide is thus for the good of the whole of society and sometimes for the world as a whole. For this reason, some scholars have argued that accountants should be seen as guardians of the public interest.

In the contemporary global neo-liberal capitalism, the question of whether accountants have any social responsibility when performing their professional responsibilities has been influenced by the debate on whether a business person has responsibilities towards society. The current global deregulation of financial markets has brought about the profession of accounting in a way that alienates the majority of the global citizens from benefiting from the financial information which is provided by this profession. The standardization of the global financial reporting is intended to facilitate the smooth flow of global capital in a way that serves the interests of investors, lenders and creditors who are in most cases the providers of capital on the global market. Accurate accounting and accountability are superficially undertaken with the aim of giving legitimacy to the shareholders of global capitalism.

In light of the above observation, this study argues against the shareholder theory by insisting that shareholders are not the sole owners of business as there are others in society who are affected directly or indirectly by the activities of the business or organization. The

implication of this argument is that the accounting profession must provide information that takes into consideration the expectations of all stakeholders. By adopting the stakeholder model of accounting,I have shown that monetary value requires reporting that takes into consideration social and environmental issues, whichin most cases are not necessarily and solely determined by monetary value.

The stakeholder perspective that has been adopted in this study finds its complementarity in general systems theory. Thus the accounting information as a sub-system should be seen as contributing to the suprasystem. Since systems theory is based on a holistic view of reality, it is argued that accounting education should be integrative whereby it incorporates information from other disciplines. From the perspective of general systems theory, any information that is provided should be seen as an abstraction from the suprasystem. Each system taken in isolation can only be seen as extending a partial view of reality. The study also argues that ethical and social accounting requires an inclusive approach in one's professional outlook, especially when one takes into consideration the reality of complexity inherent in human society and social organization.

KEY TERMS

Accountants, Professional ethics, Social Responsibility, Systems theory, Stakeholder Theory, Shareholder Theory, Sustainability, Neo-Liberal Capitalism, postmodernism, deconstructive postmodernism, constructive postmodernism.

LIST OF ABBREVIATIONS

ACCA	Association of Certified Chartered Accountant
AICPA	American Institute of Certified Public Accountants
CSR	Corporate Social Responsibility
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Initiative Sustainability Reporting Guidelines
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
KPMG	Klynveld Peat Marwick Goerdeler
OECD	Organisation for Economic Co-operation and Development
SARS	South African Revenue Services
USA	United States of America
ZIMA	Zimbabwe Medical Association

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CHAPTER ONE: INTRODUCTION

1.1 Brief Motivation/Background

In recent years the accounting profession has been engulfed by numerous issues of unprofessionalism all over the world (Rob Gray, Jan Bebbington and Ken McPhail: 1994; Rand: 1964; Emil Horomnea and Ana-Maria Paşcu: 2012). There has been a lot of stories in the media about systematic misconduct within the accounting profession which sometimes led to the bankruptcy and ultimate collapse of companies, organisations, institutions and government departments. The etiological meaning of the word accountancy is closely related to virtue ethics(Domenec Mele: 2005; Joel A. Schickel: 2012). For example, when one hears that such and such a person is accountable what comes to mind is the assumption that such a person is endowed with virtues such as sincerity, honesty, responsibility and so forth. These are the virtues that society at large expects to find from the accountancy profession. Society at large expects the accountancy profession to abide by these virtues – thus implying that the accountancy profession is entangled within a web of relations in which accounting decisions have to be made(Christopher Humphrey and Bill HK Lee, 2004; see also Arfah Salleh and Aziuddin Ahmad, 2010; International Federation of Accountants - Code Of Ethics For Professional Accountants, 2006) . The reality of the global vast webs of interconnections that are being ushered into our contemporary existence by the information technology and neoliberal capitalistic global processes are imposing a lot of pressure on the accountancy profession.

In our contemporary times, accounting scandals have been a common feature that has dominated the media in the last two decades. The following are some of the scandals that have been a cause for concern in the profession. The Waste Management in 1998 reported fake earnings amounting to US$1,7 billion despite the financial statements having been audited (Paul Thorp, 2002; Ellrich, Neal, Smith and Stohlman, P.A (ENSSCPA), 2017). The company settled a shareholder class suit for US$457 million and the auditor was fined US$7 million (Thorp, 2002; ENSSCPA, 2017). In 2001 shareholders of Enron lost US$74 billion and thousands of employees and investors lost their retirement accounts, and employees lost their jobs (The economist, January 17, 2002). WorldCom in 2002 inflated assets by as much as US$11 billion leading to more than thirty thousand jobs being lost (Columbia Broadcasting System News, 26 June 2002; The Guardian, 09 August 2002). In 2003, Healthsouth the largest publicly traded health care company then in the USA allegedly inflated earnings by US$1,4 billion to meet stakeholder expectations (Christian Lupica, 24 November 2014; Milt Freudenheim, 21 January 2004). American International Group, a multinational insurance corporation was involved in an accounting fraud to the tune of US$3,9 billion through bid rigging and stock price manipulation (The Nation - William Greider, 06 August 2010). The Big four accounting firms in 2017 were castigated for failing to spot dubious practice at Wells Fargo. Price Water House, which is auditing Rolls Royce, is under investigation in the UK after the engineering company admitted bribery and corruption offences going back twenty years ago (The Financial Times, 04 May 2017;). In 2017 Klynveld Peat Marwick Goerdeler (KPMG) has been slapped with a fine of more than US$6.2 billion by the US Securities and Exchange Commission after it signed off the audit of an oil and gas company that had overvalued certain assets more than hundred times (Tsvetana Paraskova, 16 August 2017). These scandals highlight the decay that has dominated the accounting profession. This decay within the accounting profession affects everybody in society.

Developments in new sciences have demonstrated that ours is a world of interconnections and that anything that is real has to be understood in terms of its relatedness and interrelatedness with other constituencies within the generality of existence. The traditional understanding of the accounting profession is that of a solution when dealing with ethical problems that are practiced by applying codes of ethics. In this regard, one finds that accountants are expected by the profession and society to uphold virtues of integrity, objectivity, professional competence and due care and confidentiality. The teaching of accounts within the profession is mainly based on enabling accountants to acquire the techniques of the profession. On the other hand, it has been the experience of accountants that their work place is usually characterised by chaos instead of orderliness which is implied in the codes of ethics and the popular techniques of the profession which are required in the work environment. The idea that the accounting profession is responsible to the local and international society at large requires a new ethical paradigm for the profession that accommodates the reality of holism as entrenched in general systems theory.

1.2Review of Literature

The idea of accounting ethics as a branch of applied ethics has recently come into the consciousness of scholars in the accounting profession. Previously, the university's accounting education was pursued on the basis of conflicting objectives. In this regard, the critics of accounting education such as Rob Gray, Jan Bebbington and Ken McMhail (1994: 52 – 57) argue that the traditional approach to accounting education has been "dominated by techniques acquisition" which has greatly affected the professional competency of accountants with regards to the issue of ethical maturity. These scholars go on to argue that, "many operational ethical issues within the organisational setting – for example, treatment of expenses claims, overtime hours claimed, secrecy and so on – are receiving considerable attention" (Gray et al 1994: 53),more than ethical issues that have greater ethical social and organisational ramifications. This critic is that this type of education does not equip students to deal with "more sophisticated ethical response to dilemmas", because the accounting education "is largely guilty of a failure to develop the student's intellectual and moral abilities and may actually encourage its atrophy and reverse" (Richard Wilson 2015: 41). In the same vein, Martin Prozesky (2003) observes that some of the reasons why greater emphasis must be placed on formal ethics education programmes for students are, "the erosion of traditional methods of moral formation; Society's need for greater ethical alertness in the profession... the importance to the profession itself of greater attention to ethical matters..." (Prozesky 2003: 2). The gist of Prozesky's argument in this regard is that the success of society cannot be separated from ethical alertness in professional practice. For Prozesky, the study of ethics should not be restricted to requirements for professional qualification, rather it should embrace the study of ethics in general as well as ongoing ethics training for the profession.

Another approach by scholars in discussing ethics in the accountancy profession is usually based on the presumption that accountants should behave ethically as a means of protecting the business interests of the shareholders. Accountants and auditors are usually critiqued when they fail to protect the business profits of the shareholders (Duska and Duska 2003: 173 – 174; Briloff 1981: 149). The above school of thought is mainly advocated by proponents of neoliberal capitalism. Neoliberal capitalists maintain that business does not have any responsibility towards society in general, but the responsibility to maximise the profits of the shareholders. This way of thinking denies the existence of society or collectivities as custodians of the common good for the whole of society. Business was mainly about the pursuit of interests. For example, Ayn Rand argued that, "Since there is no such entity as 'society', society is only a number of individual men..." (Rand 1964: 92; Kermis and Kermis: 2014). In the same vein with Rand, other liberal philosophers such as Robert Nozick have argued against taxation on the grounds that distributive taxation can only violate the rights of those whose income is taken for the benefit of others (Nozick 1974: 33 – 34; see Bird 1999: 142). This way of thinking was echoed by Samuel Brittan when he said that society was just an abstract and not something that is concretely real. He argues, “a conception of society as an organism can be a recipe for ultimate political intervention and for interminable strife” (Brittan 1988: 109). Within this mode of thinking, it can be deduced that if accountants and auditors can present false reports that can lead to the increase of profits for the shareholders,then such actionsshould not be subjected to any ethical scrutiny. Milton Friedman does put it more pragmatically when he saidthat the social responsibility of a business is to increase profits. Those who are employed within a particular business or corporation have a sole responsibility of increasing profits for the shareholders (Friedman 1970: 32 – 33; also see Hyne 1983: 283 – 284; Field 1999: 46 – 47). This school of thought is critiqued by those scholars who argue that accounting is integral to business ethics and as such, have a professional responsibility towards society in general.

The idea that accounting is integral to business ethics also implies that the accounting profession has a social responsibility or that it is expected to contribute positively towards flourishing of the common good within society. In this regard, it is thus maintained that doing business ethically will be to the advantage of business than otherwise. In the same vein, it is also argued that accountants should see “their job as guardians of the public interest” such that the focus should be on public interest instead of “parochial business concern” (Clulow 2002: 3 – 5; see Duska and Duska 2003: 174 – 183). In this study I am arguing that in our today’s world we need to conceptualise ethical accounting and its social responsibility from a holistic perspective as espoused in general systems theory.

1.3 Problem and Research Questions

In the neoliberal capitalistic business setup, the profit motive is the thing that motivates owners of capital to invest. Profit is the driving motive of entering into business. The neoliberal capitalism became the dominant economic system in the 90s. This type of capitalism has four distinct features which are, “a high degree of global economic integration including trade, production, and finance, deregulation and privatisation of large transnational corporations and banks, strengthened enforcement of rights of large transnational corporations and banks, such in the era of so called intellectual property right and reduction in, or elimination of, state social programs that benefit the working class and other popular groups.”(David M Kotzy 2003: 4). A set international institutions such as the World Bank and the International Monetary fund administer the neoliberal order in quest to globalise and universalise the system. They are committed to spread this system’s policies all over the world. This system has become denominate and more acceptable than other economic systems. This means doing business is doing what the neoliberisation expects.

The accounting function and profession have been engulfed in this system like all other business functionaries. The profession has its own problems but are accelerated by the neoliberal capitalism as it has set the pace and parameters of business activities and behaviour. Today the accounting profession cannot be looked at in isolation of the economic system that it operates in. The profession has adopted the profit motive as prescribed by the economic system guiding business. Accountants have come to be known as selfish individuals who blindly pursue profits without giving regard to the damage to anyone that might arise in the process. The profit motive has put the work of accountants to moral test on many occasions. Many companies have gone down the cliff and society had been made to pay the price through the selfish pursuit of profits. The accounting profession is component of a huge whole and must be seen interacting and living in harmony with other components of the universe. If reality at base is related and interrelated why has the accountancy profession failed to reflect this reality in theory and practice? What would be the contribution of General Systems Theory to social and Ethical Accounting?

As a result of the main challenges presented above the thesis will further seek to address the following sub-research questions:

i. What is the social responsibility of the accountancy profession?
ii. Why has the accountancy profession failed to promote social and Ethical Accounting in theory and practice?
iii. How is the teaching of accountants accounts at the universities effective in dealing with the reality of complexity in our contemporary society?
iv. What insights can the accountancy profession learn from General systems theory with regards to social and ethical accounting?

1.4 Objective

The objectives of this study are:

i. To investigate the social responsibility of the accountancy profession.
ii. To find the reasons behind the failure of the accountancy profession to take into cognisance the reality of the interrelatedness in theory and practice.
iii. To determine the effectiveness of the teaching of accounts in the light of complexity in our contemporary society.
iv. To come up with insights which the accountancy profession can learn from systems theory with regards to social and ethical accounting.

1.5 Theoretical framework upon which the research project will be constructed

Accounting as a discipline has been based on a mechanistic approach to business monetary analysis. In this regard, as we have seen previously, the consequences of the actions of the accountants are divorced to the reality of the web of relationships which the accountancy profession interacts with. In the light of the problems and scandals that have engulfed the accounting profession, there is a strong worldwide realization that the accountancy profession has to put into consideration the impact of their actions to society, stakeholders and the natural environment. For this reason the first theoretical framework upon which this study will be based is systems theory. Put in simple terms, systems theory asserts that nature is endowed with an open system which is characterized by continuous flow of life. Living organisms are characterized by complexity as a result of their interconnectedness and the inherent reality of dependence and interdependence.

A business or an organisation should be understood as incorporating the natural environment and society simultaneously. From a systems theoretical perspective "organisations are 'living purposeful' or 'adaptively rational' systems whose survival depends on their ability to interact successfully on a continuous basis with the surrounding environment" (Alrawi and Thomas 2007: 35; see Weckowicz 2000). It is mainly on the basis the systems theoretical premise that all reality should be understood holistically that social and ethical accounting is that type of accounting that is sensitized to ethics in all the realms of the business, social and natural environment. Systems theorists maintain that "the state of a whole must be known in order to understand the coordination of the collective behaviour of its parts" (Weiss 1971: 13). For the accountancy professionals, the implication of this way of thinking is that the accountant must be aware of the socio-economic and political realities that influence his or her profession. From a systems theoretical perspective, the popular business concept of stakeholders takes a different notion whereby the concept stakeholder cannot be used to exclusively refer to shareholder, rather it would be used in a way that implies the convergence of all the realms of society that are directly and indirectly affected by the accountancy profession.

Related to systems theory is the stakeholder theory which comes as a contradiction to shareholder theory. According to shareholder theory, the responsibility of the accountancy profession is exclusively to their shareholders and not to society (Edward Freeman, Andrew C. Wicks and Bidhan Parmar, 2004).Shareholder theorists see society as an abstract (Freeman et al, 2004). Stakeholder theory maintains that businesses are citizens within a particular society and their activities have a positive or negative impact on society. It is mainly for this reason that stakeholder theory asserts that businesses have a social responsibility to society(Freeman et al, 2004). From a stakeholder theoretical perspective an accountant or an auditor should execute his or her professional responsibilities in a way that takes into account all the interests of the stakeholders. From a theoretical framework of stakeholder theory, some scholars have argued that there is a need to introduce social auditing within the accounting profession. Simon Zadek should be understood as claiming that stakeholder theory was “a means of assessing the social impact and ethical behaviour of an organisation or set of activities in relation to its stakeholders, where stakeholders are defined as those individuals and groups who are affected by, or can affect, the activities under review”(1994: 632-633). In this regard, stakeholder theory requires that the accountancy profession is required to understand their responsibilities as encompassing all those who are affected by business activities within society at large.

1.6 Research Method

This study is mainly about applied ethics with specific reference to the social responsibility of the accountancy and auditors profession. The main presumption of this study is that trustworthy professionals are indispensable to the flourishing of society. Professionalism carries with it some form of exceptional skill which renders the practitioners such as accountants and auditors some of the most powerful professionals in society. To a great extent the study is based on the presumption that accountants and auditors "must always be governed by the highest ethical standards so that it does not lead to exploitation and abuse" (Kretzschmar, Prinsloo, Prozesky, Rossouw, Sanders, Siebrits and Woermann 2006: xiv). It is mainly on the basis of this presumption that this study is basically about applied social ethics with reference to professional ethics.

The study is systematic in its discussion of some of the critical issues that are related to the accountancy profession and ethical responsibility in our contemporary times. The systematic dimension of this study will be accomplished through the provision of the various aspects that are indispensable to ethics from various ethical traditions – religious, philosophical and cultural. A special focus will be given to practical issues in the form of case studies that are faced by the accountancy and auditors professionals in their work context. These case studies will be derived from newspapers and magazines that are mostly available to the public in society at large, thus exposing the reader to the real world of work. On the other hand, the study recognizes that the application of case studies in professional ethics is indispensable to the study of applied ethics.

Since the study is mainly based on a critical investigation on social and ethical accounting, , the study will achieve the aims stated above by finding out the contribution of systems theory to social and ethical accounting. Through the application of systems theory to social and ethical accounting the aim is to demonstrate that (i) vexing issues such as shareholder and stakeholder theories that have generated a lot of controversies in business (ii) accounting will be discussed from a holistic theoretical cast which in a way is intended to demonstrate that systems theory offers a more superior account for social and (iii) ethical accounting for the accountancy profession.

As it shall be demonstrated in this study, the application of General systems thinking to social and ethical accounting will contribute towards an approach to accounting and auditing that is more holistic in the conceptualization of the profession of accounting and auditing from the university teaching up to its application at the work place. The application of General systems theory to social and ethical accounting will provide be the point of departure from conventional accounting which is mostly based on economic transactions measured in financial terms. In social and ethical accounting under the paradigm of General systems thinking, the accounting profession is required to take into consideration all possible social and environmental factors when making ethical decisions. The research investigation that is adopted in this study is based on books, journals, newspaper articles, periodicals and internet sources.

1.7 Limitations of the Study

The topic of this study is too wide for a comprehensive investigation within the scope of a PhD thesis. Whilst this study is an investigation of the accountancy profession and its social responsibility in the light of General systems theory, the thrust of the study is exclusively on ethical issues rather than issues of accounts as a discipline. The other limitation is that the study does not cover all issues of professional social responsibility for accountancy professionals unless they are directly related to General systems theory. As a professional accountant, and a student of applied ethics, my investigation will not be that of a neutral observer, rather the investigation is deliberately based on my own professional assumption that General systems theory has a contribution to make to social and ethical accounting.

1.8 Outline of Chapters

Chapter One: Introduction

This chapter will start by giving a condensed background to the study. It will also outline the problem and the research questions, the objectives, the theoretical framework, method of investigation and limitation of the study.

Chapter Two: Neo-liberal capitalism and the accounting profession

Whilst this chapter is not an extensive analysis of the philosophy of economic neo-liberalism, its main purpose is to succinctly demonstrate how the philosophy of economic liberalism has influenced the functioning of the accountants' profession. With this objective in mind, this chapter is divided into three sections. The first section will provide the reader with a brief discussion of economic liberalism, whilst the second section focusses on the impact of neo-liberal capitalism and the mainstream rationale behind the practice of the accounting profession. In the third section it shall be demonstrated how the rationale of economic liberalism has contributed to the severance of ethics from the accounting profession. Finally, a conclusion will be made on the basis of the main ideas that have been raised in these three sections.

Chapter Three: Ethics and the world of the accounting profession

In this chapter I am going to give an introductory discussion on ethics and the world of the accounting profession in a way that will serve as a foundation to my discussion of ethics and the accounting profession in our contemporary times which will serve as a foundation for further discussion in the following chapters.

Chapter Four: Accounting ethics education and the origins of ethics in the accounting profession

This chapter will be divided into five sections. The first section will focus on a brief history of accounting and will discuss the concept of double booking in passing. The second section will discuss the professional code of ethics of the accounting profession as the leading vehicle in the instruction of ethics to accounting students. The teaching of ethics and values to accounting students will follow in the third section and will lead to the discussion of virtue ethics in section four. The fifth section will explore the challenges that are being faced in the teaching of accounting ethics. This will lead to the conclusion of the chapter and the observations drawn from the chapter will be summarised.

Chapter Five: The accounting professional responsibility in the light of shareholder and stakeholder theories

In this chapter, it will be demonstrated that the shareholder theory has seen its days as the business is now drifting away from the capitalism to a business framework that is all embracive. I will argue that shareholders are not the only ones who rely on the information that is provided by the accountants. Accountants have an equal responsibility to other stakeholders as they have towards the shareholders. This in turn will mean that accountants are accountable to stakeholders and shareholders. I will end by advocating for a more tolerant accounting approach that recognises the existence of other stakeholder other than the shareholders.

Chapter Six: The accountants' fraudulent professional practices against the public

This chapter will discuss various fraudulent activities that are committed by accountants, in their professional practice and against the public. It will discuss fraudulent activities that ranges from tax avoidance and creative accounting right through clandestine activities such as tax evasion and misrepresentation of figures. The chapter contains four sections. The first argues that accountants work in collaboration with neo-liberal capitalists to come up with tax avoidance schemes for self-interested purposes and have cause untold suffering to the public. The second section discusses how accountants engage in creative accounting for the same purpose of enriching the shareholders who have an unquenchable appetite for huge profits at the expense of the common good. The third section will investigate into the conceptual framework which is the first pillar and constitution of the accounting discipline with a view of establishing its contribution to the unethical behaviour that has dominated the accounting profession. The fourth section will point out the deficiencies inherent in the way the accounting discipline and profession is regulated. The regulatory framework will be critically discussed with reference to its contribution to the tax avoidance. Another issue that will be discussed in this section is earnings smoothing and its failure on the ethical scale.

Chapter Seven:A Brief Analysis of General Systems Theory

This chapter will provide a condensed historical background to systems theory with specific reference to its implications when applied to social sciences. The argument which is proffered in this chapter is that a holistic framework which is provided by systems theory requires some radical rethinking of ethics and its relationship to the accountancy profession in a way that differs from mechanistic scientific theory. This chapter will be constructed around four sections. The first section is concerned with providing the reader with the basic tenets of systems theory. The second section is based on a discussion of systems theory in relationship to social sciences, especially those social sciences that have adopted the systems theoretical thinking within their disciplines. In the third section the focus will be on how system theory can bring about a situation of convergence of accountancy profession and societal wellbeing. In the light of the observations that are made in this section, in the fourth section I argue that systems theory implies that we need a new model of thinking on the role of the accountancy profession with reference to their professional social responsibility.

Chapter Eight: The implications of general systems theory to social and ethical accounting

The main scope of this chapter draws from the major elements of systems theory that I think are critical to social and ethical accounting. In pursuit of this scope, the chapter will be structured in three sections. The first section will draw from the basic elements of systems theory with the aim of coming up with the implications to social and ethical accounting. This section will be followed with a second section that will show how social and ethical accounting can also be learnt from social sciences from a systems theoretical paradigm. The third section will justify the application of systems theory to social and ethical accounting by drawing from the insights on the convergence of social and natural sciences.

Chapter Nine: General Conclusions

This chapter aims to provide a general conclusion of the study in a way that is succinct for the entire study. The problem that was investigated in this study is the professional and social responsibility of the accounting profession in the light of the idea that accountants are mainly presumed to be solely accountable to their employers when executing their professional responsibilities. To overcome this problem, this study subjected the issue of professional and social responsibility of the accounting profession in the light of the General Systems Theory. Thus, the main aim of this chapter is to give the overall conclusion of the study from the conclusions that have been given in the preceding chapters.

CHAPTER TWO: NEO-LIBERAL CAPITALISM AND THE ACCOUNTING PROFESSION

2. 1 Introduction

The accounting profession operates under a specific economic ideological paradigm which in this case is neo-liberal capitalism. Most of the professional values that regulate the accountants are derived from liberal and neo-liberal capitalistic economic value systems (Ying Zhang, 2011). The question of whether accountants have a social responsibility in the execution of their professional responsibilities has been mainly influenced by the debate on whether a business person has responsibilities towards society. Some scholars have argued that within a purely capitalistic economic system, actions that are based on ethical considerations can hardly be considered to be economic. In this regard, economics is understood as working in a way that is closely related to natural sciences. It is maintained by the proponents of neo-liberal capitalism that the capitalistic free market system works more efficiently when there is minimum government interference in terms of how individuals pursue their economic relations or activities.

Neo-liberal capitalism provides us with an image of a person who is wholly divorced from social concerns as the ideal *homo economicus*(Daniel Fridman, 2010: 271). This image of *homo economicus* reduces a human being to having no any other motives besides the pursuit of self-interest and the subsequent maximization of utilities (Daniel Fridman, 2010: 271). It is also presumed in the neo-liberal economic system that value judgements should not be integral to a genuine economic relation because an authentic economic relation should discount any value judgements that might arise from one's socio-economic, political and religious background (Jacek Tittenbrun, 2013: 15). The economic sphere of existence is deemed to be a private sphere which is not accountable to the generality of social existence.

Thus, the significance of society as an institution that promotes the common good has remained the most debated issue among neo-liberal economists. In this binary debate, one finds that there are those who deny the role of society in the nurturing of the common good and on the other spectrum of the debate there are other neo-liberal economists who value society on the basis of what it can contribute towards the realization of capitalistic economic objectives.

The main philosophy of neo-liberal capitalistic thinking is usually summed up as the promotion of individual freedom to pursue his or her economic interests without external interference from government (Murove, 2005). The free market is deemed to regulate itself without any directives from without. A collectivist approach to economic relations is regarded as an impediment to the capitalistic economic system (James Midgley and Kwong-leung Tang, 2005). The collectivist approach to economic relations is usually regarded as a threat to individual freedom of choice to dispose of their economic fortunes in a way that the individual chooses (Alexander V. Chayanov, 1966: 6). Related to this emphasis on individual freedom to pursue their economic interests without external interference is the belief that the liberal economy will do well than when interfered with by government.

Whilst this chapter is not an extensive analysis of the philosophy of economic neo-liberalism, its main purpose is to succinctly demonstrate how the philosophy of economic liberalism has influenced the functioning of the accountants' profession. With this objective in mind, this chapter is divided into three sections. In the first section, I will provide a brief discussion of economic liberalism. This section is followed by a second section which focusses on the impact of neo-liberal capitalism and the mainstream rationale behind the practice of the accounting profession. In the third section, I shall demonstrate how the rationale of economic liberalism has contributed to the severance of ethics from the accounting profession. Finally, a conclusion will be made on the basis of the main ideas that have been raised in these three sections.

2.2 The Philosophy of Economic Liberalism

The economic philosophy of neo-liberal capitalism is usually traced to the economic writings of Adam Smith as propounded in *TheTheory of Moral Sentiments* and more nuanced in his *Wealth of Nations*. Whilst I will not go into a detailed discussion of Adam Smith's philosophy of economic liberalism in the scope of this chapter, I shall, however, provide the reader with those ideas which I deem to have been pivotal to the rise of economic liberalism. In *The Theory of Moral Sentiments* Smith (1872: 304-305) advanced the idea that within the economic sphere people have a tendency of promoting social prosperity when they are left to pursue their self-interests. Their selfish desires were not bad at all because they usually ensue in the promotion of noble economic ends that were not their original intentions. In the process of pursuing their self-interests, Smith maintained that these selfish or greedy individuals unintentionally “divide with the poor the produces of all their improvements”(Smith 1872: 304-305). Smith went on to explain how the poor actually benefit from the economic selfish pursuits of the rich through the working of the invisible hand. As he puts it, “They [the rich] are led by an invisible hand to make nearly the same distribution of the necessaries of life which would have been made had the earth been divided into equal portions among all its inhabitants; and thus, without intending it, without making it, advance the interest of society”(Smith 1872: 304-305). The concept of the invisible hand implies that human economic activities which are in most cases motivated by selfish motives do mysteriously lead to the promotion of social benefits that were not originally intended by the economic actors. Whilst it remains not explicitly clear what Smith implies by the term ‘invisible hand’, some scholars have interpreted the metaphor of ‘the invisible hand’ to imply that individuals who actively participate in the economy such as business people are, on the final analysis benefactors of society. They are benefactors of society "by providing job opportunities to those in need as well as giving considerable taxes to government which will in turn promote the common good through welfare" (Murove 2005: 58).

Economic liberalism became a philosophy that was based on the belief that government should not interfere in the functioning of the economy. In his economic magnum opus work, *Wealth of Nations*, spelt out his philosophy of economic liberalism as implied in the metaphor of 'the invisible hand' more pragmatically when he said, "without any intervention of law, therefore, the private interests and passions of men naturally lead them to divide and distribute the stock of every society, among all the different employments carried on in it, as nearly as possible in the proportion which is most agreeable to the interest of the whole society" (Smith 1976: 630). For Smith, the determining factor in the distribution of wealth in any society was the result of self-interest or the prior existence of individual greed. Smith's philosophy of economic liberalism became the source of inspiration in the writings of classical economists. For example, some classical economists such as Philip Wicksteed (1946: 166-183) went as far as claiming that the liberal economy did not operate on the basis of individual moral dictates because in the liberal capitalistic economy, "our relations with others enter into a system of mutual adjustment by which we further each other's purposes simply as an indirect way of furthering our own" (Wicksteed 1946: 166). What is implied by Wicksteed is that those who work within the economic context of economic liberalism do not have a sense of concern for the wellbeing of others. A sense of care for each other is only done as an indirect way of furthering one's economic interest. In this way of thinking, the idea that is being advocated is that economic relations are devoid of ethical evaluations because, as he puts it, "the economic relation has no inherently moralizing power"(Wicksteed 1946: 166). In other words, it is not an economic concern whether someone is dishonest or cheating in his or her economic dealings with others. All actions that further the economic goals of an economic agent are permissible on the condition that they lead to the realization of an economic gain.

However, neo-liberal capitalistic economic thinking comes across as a systematic rational affirmation of classical liberal economic thinking in the aftermath of Adam Smith. Neo-liberal economists argue that the only acceptable rationality in economics is that type of rationality which is originally instrumental. It is regarded as instrumental reason because, as Shaun Hargreaves Heap and Yanis Varoufakis state, “it does not matter what ends a person pursues: they can be selfish, weird, altruistic or whatever; so long as they consistently motivate then people can still act as to satisfy them best” (Heap and Varoukafis 1995: 5). What is mostly the expected outcome from the economic agent in neo-liberal capitalistic reasoning is utility maximization. The question of how the individual maximizes this utility falls outside the scope of economic analysis. Thus one finds Gordon Tullock and Richard McKenzie reiterating this neo-liberal capitalistic economic reasoning as follows, “we treat each topic as something that is to be analyzed and understood, and in order to do that, we must avoid the temptation to judge a given form of behavior as contemptuous, immoral, good, or bad. Therefore, in the context of our analysis, the services of a prostitute are treated no differently than the services of the butcher; they are neither good nor bad – they exist and are subject to analysis" (Tullock and Mckenzie 1985: 7). What is implied in this neo-liberal economic thinking is that our understanding of economic matters should be seen as value-neutral, that is, they have nothing to do with our moral evaluations or that they should not be subjected to moral evaluations. In this regard, ethical considerations on issues of economic affairs will be wholly misplaced because human economic behavior has nothing to do with ethical inclinations and commitments. An impression that is created in this neo-liberal economic reasoning is that economics is a natural science discipline which similar to physics and chemistry. No wonder one finds that the mathematisation of economics is usually aimed at driving home the fact that economics was a natural science. The resultant prevalence of instrumental reason or ends rationality in economics logically eliminates value judgements. With this ontological exclusion of value judgements in the economic discipline, the door is left open for all sorts of unethical or unprofessional behaviors because what matters is utility maximization. This utility maximization is regarded as the only justifiable outcome of any economic action or transaction.

Some scholars have characterized neo-liberal capitalism as based on the French principle of laissez-*nous faire (*let us alone). This is a metaphor that denotes the idea that government should not interfere with the working of the economy. One finds Ayn Rand, an ardent proponent of neo-liberal capitalism pragmaticallystating that capitalism fares well when government does not interfere by trying to regulate the economy or redistribute wealth through taxation. As she puts it, “the only way a government can be of service to national prosperity is by keeping its hands off” (Rand 1964: 141). In this way of thinking government does not have any role to play in the running of the economy, and neither is there any justification for the promotion of welfare. In an economic state which has attained capitalism in its purity, there is no room for the justification for the promotion of welfare through progressive taxation. Her critique of welfare programs was partly based on her belief that selfishness was a virtue and that society was just an association of individuals who are endowed with their own rights that were ontologically inviolable. Thus she avers, “if one wishes to advocate a free society – that is, capitalism – one must realise that its indispensable foundation is the principle of individual rights. Since there is no such entity as ‘society', society is only a number of individual men…" (Rand 1964: 92). In this way of thinking, one cannot act in a way that is aimed at promoting the wellbeing of society because society as a collectivity is just an abstract entity and what is concrete is the individual person with his or her rights. In her earlier essay, her refutation against the existence of society as a concrete entity is further authenticated as follows, "…a right is the property of an individual, society as such has no rights…the only purpose of government is the protection of individual rights" (Rand 1964: 93). It is evidently presumed that government has no other meaningful role besides the protection of individual rights which are logically derivative from individual ownership of private property. As owners of private property, individuals do not have responsibilities towards the welfare of others besides the protection of their own individual properties. The philosophical idea of prioritizing the protection of individual property is based on the presumption that society was not a concrete entity, but only an abstract which did not enjoy any rights. For neo-liberal capitalistic philosophers, it was inconceivable that individuals should be called upon to make sacrifices for the common good. Some of these philosophers such as Robert Nozick argued from the philosophy of Emmanuel Kant which said that people should not use others as means, rather people should be understood as ends in themselves. According to Nozick, this Kantian moral dictum provides the existence of side constraints which logically support "the inviolability of other persons" (Nozick 1974: 32). Whilst as individuals we are accustomed to making sacrifices for the greater good in their own individual lives, Nozick argued that the same analogy was not inapplicable with reference to society. According to Nozick,

> Why not, *similarly*, hold that some persons have to bear some costs that benefit other persons, for the sake of the overall social good? But there is no *social entity* with a good that undergoes some sacrifice for its own good. There are only individual people, different individual people, with their own individual lives. Using one of these people for the benefit of others sues him and benefits the others. Nothing more. What happens is that something is done to him for the sake of others. Talk of an overall social good covers this up. …To use a person in this way does not sufficiently respect and take account of the fact that he is a separate person, that his is the only life he has. *He* does not get some overbalancing good from his sacrifice, and no one is entitled to force this upon him – least of all a state or government that claims his allegiance (as other individuals do not) and that therefore scrupulously must be *neutral* between its citizens [his italics] (Nozick 1974: 32-33).

In the light of the above quotation, it can be deduced that Nozick is refuting the existence of society as a collectivity for the common good. The support of social welfare programmes is thus refuted mainly on the premise that it violates the right of the individuals to dispose of their material possessions in a way they deem fit according to their own desires. Another implication that can be deduced from Nozick's philosophy of liberalism as stated above is that individuals should not be forced into paying taxes by the government because payment of taxes amounts to a practice in systematic using of people as means to certain social objectives of those people who are being used as means for the attainment of government social objectives. For Nozick, the state's participation in the lives of people should be minimal because "[t]here is no justified sacrifice of some of us for others" (Nozick 1974: 33). This assertion can only be justified on the premise that individuals are self-sufficient to such an extent that they do not need the assistance from others. Forcing individuals to pay taxes for the promotion of public services amounts to abusing of power. He argues that,

> Monopolising the use of force then, on this view, is itself immoral, as is redistribution through the compulsory tax apparatus of the state. Peaceful individuals minding their own business are not violating the rights of others. …Hence, so the argument continues, when the state threatens someone with punishment if he does not contribute to the protection of another, it violates (and its officials violate) his rights (Nozick 1974: 52).

The state, from the liberal philosophical view of Nozick, has no right to charge taxes on individuals on the pretext of promoting the common good because in so doing the state is forcing individuals to contribute to something which individuals would not contribute to without the use of coercing power. This is deemed immoral in the sense that it violates the individual's right to dispose of his or her own income inways they so choose. The assertion that individuals are at liberty to dispose of their income in the way they deem necessary without being coerced into doing so shows that Nozick is an ardent advocate of rugged individualism that ultimately glorifies individual selfishness. His detest towards taxation thus pragmatically enunciated as follows,

> Taxation of earnings from labor is on a par with forced labor. Some persons find this claim obviously true: taking the earnings of *n* hours labor is like taking *n* hours from the person; it is like forcing the person to work *n* hours for another's purpose. Others find the claim absurd. But even these, *if* they object to forced labor would oppose forcing unemployed hippies to work for the benefit of the needy. And they would also object to forcing each person to work five extra hours each week for the benefit of the needy. But a system that takes five hours' wages in taxes does not seem to them like one that forces someone to work five hours since it offers the person forced a wider range of choice in activities than does taxation in kind with the particular labor specified (Nozick 1974: 169).

In the light of the above quotation, Nozick is arguing that government does not have a right to tax individual earnings with a particular percentage because it does not own the hours of labor which it is taxing the individual. Taxation is thus analogous to forced labour on those whose income is taxed. The individuals who are taxed are the rightful owners, not the state. Taxation violates individuals' rights to rightfully own that which they have worked for. The analogy of tax and forced labour comes out more clearly when he avers that,

> The man who chooses to work longer to gain an income more than sufficient for his basic needs prefers some extra goods or services to the leisure and activities he could perform during the possible working hours; whereas the man who chooses not to work the extra time prefers the leisure activities to the extra goods or services he could acquire by working more. Given this, if it would be illegitimate for a tax system to seize some of a man's leisure (forced labor) for the purpose of serving the needy, how can it be legitimate for a tax system to seize some of a man's goods for that purpose? (Nozick 1974: 170).

What is implied here is that the taxation system remains indefensible because it does not take into account the fact that the individual who is taxed had earned what he earned as a result of his labour. For Nozick taxation remains a blatant violation of individual rights and there is no justification for this practice whatsoever, and taxation remains a traverse of natural justice. In the taxation system, someone's fruits of his or her labour are expropriated from him or her without the individual own concern. As he puts it, "this process whereby they take this decision from you makes them a *part-owner* of you; it gives them a property right in you. Just as having such partial control and power of decision, by right, over an animal or inanimate object would be to have a property right in it" (Nozick 1974: 172). What is subtly implied here is that individuals are owners of their selves and as owners of their selves, anything that is done to individuals without their concern is a violation of the self of the individual. Nozick's theory of self-ownership is an echo of John Locke's theory of property whereby individuals achieve ownership of property through labour. What has been acquired by the individual through labour becomes part of the labourer in a way that excludes others from claiming the same property which the individual has acquired. According to this Lockean theory of property ownership, it is the prerogative of the individual to dispose of his or her property in a way that one deems suitable. According to neo-liberal economic philosophers, the free market was the only institution which protects the theory of self-ownership. According to Colin Bird,

> The central claim of late-twentieth-century libertarianism is that the market is the only procedure... compatible with the idea of self-ownership, in that a free market will permit individuals to dispose of themselves and their own as they see fit, as long as the similar property rights of others are respected. On the other, it is easy to portray it as a system in which rightness consists in the procedural observance of side-constraints (i.e. others' property rights), and not in the value of any particular distributive outcome. The coercive redistribution of wealth, on this view, necessarily preempts citizens' personal decisions about how they and their own ought to be disposed of and so violates side constraints (i.e. others' property rights), and not in the value of any particular distributive outcome. The coercive redistribution of wealth, on this view, necessarily preempts citizens' personal decisions about how they and their own ought to be disposed of and so violates side-constraints against infringements of self-ownership. The role of the state must then be restricted to policing the market (Bird 1999: 183).

It can be deduced from Bird's summation of philosophical liberalism thinking that it is a type of thinking that is mainly derived from economic liberalism and is also the bedrock of neo-liberal economic thinking. It is a type of philosophical thinking that puts emphasis on property rights in a way that makes property rights inseparable from self-ownership. People can only share with others in society when they so wish, and they should not be coerced into sharing their wealth with others. Thus redistribution of wealth is regarded as an outright infringement of self-ownership. The role of the state is thus restricted to enforcing law and order in the marketplace. Bird characterized this type of philosophical thinking that prioritises the individual over the community as the philosophy of liberal individualism. The practice of the redistribution of wealth is interpreted in terms of individual right to dispose of their wealth in a way that they so choose without being coerced by the state. As the epistemic handmaid of neo-liberal capitalism, the philosophy of liberalism prioritises the individual above the community. This prioritization of the individual above the community which is inherent economic liberalism was well put by a neo-liberal economist Samuel Brittan as follows, “A liberal is someone who attaches special value to personal freedom. He desires to reduce the number of man-made obstacles to the exercise of actual or potential choice” (Brittan 1988: 35). For Brittan, the liberal favours himself first before anyone else and will do anything in his or her power to make sure that s/he is not deterred from realizing what his or her heart desires. Brittan went on to observe that “[a] commitment to freedom and personal choice also involves freedom to spend one's money in the way one chooses and to select one's own occupation; and this in turn has implications for the organization of production, pay, prices and all other staple items of economic controversy" (Brittan 1988: 37). In this regard, freedom is in spending one's income in a way that one chooses without any external constrains. For the sake of greater freedom, government should not interfere with the choices individuals make about their material possessions and income.

Government policy, according to Brittan, should help to foster unfettered individual freedom to pursue their interests. In formulating economic policy government should prioritize the idea that individuals “are the best judges of their own interests”, hence “[i]t is safer to rely on the people’s private interests rather than their professed public goals” (Brittan 1988: 109).

Here the implication is that by nature people have no commitment to the common good but to their private interests. Among neo-liberal economists and liberal philosophers, there is a commonly shared vein of thought which is based on the presumption that the community is not real, and that it is only individuals with their own individual interests who are real. Brittan expressed this neo-liberal economic thinking as follows, “where the community does in some sense own resources such as the national road space, it inflicts harm by not behaving like an owner and instead allowing ‘free’, and therefore wasteful, use of scarce assets. It is not property rights but their absence that is anti-social. None of this implies, however, that the existing distribution of property right is justified” (Brittan 1988: 230). The argument here is that when a property is owned in common there is a tendency of people not caring for that property. Another salient presumption that is being proffered by Brittan is that what is known as the free rider problem – a concept that implies that when people are not owners of a particular thing there is a tendency of people using that which is owned in common without contributing anything. The existence of property rights is a free market mechanism that is aimed at counteracting the problem of free riders. Paul Heyne observes that, "those who can expect to benefit from use of the resource are in actuality the owners of the resource” (Heyne 1983: 227). This observation is considered as an empirical evidence that supports the futility of promoting the common good through welfare programs. Heyne went on to say that people who own property or an income are always thriving at avoiding making contribution to the common good or collectivities. He writes, “people who fear confiscation of their investments will opt for investments that are difficult to confiscate, even though they promise a lower return than more vulnerable investment projects” (Heyne 1983: 229). In other words, people are prepared to incur some poor returns on their investment instead of having their wealth being taken from them for the promotion of the common good. Thus people are regarded as hostile towards policies that are usually aimed at promoting the common good. Neo-liberal economists such as Heyne do go as far as to allege that reduce government to purely an interaction of egoistic individuals. As he puts it,

> The coercive actions taken by government to compensate for the limitations inherent in purely voluntary cooperation are themselves subject to the same limitations. The reason for this is that is that coercion itself depends on voluntary cooperation. Persuasion always precedes coercion, because government will not act until particular people have been persuaded to act. …Government is people interacting, paying attention to the expected costs and benefits of the alternatives that they perceive (Heyne 1983: 282).

Heyne went on to allege that, “economic theory assumes that people act in their own interest, not that they act in the public interest, Sometimes it will be in a legislator’s interest to pursue the public interest”(Heyne 1983: 284). In this way of thinking, self-interest is the causal reason for all human actions. Even those government officials who are presumed to be there for the common good should be understood as promoting public interest as a way of promoting their own self-interests. Since the above is a brief description of the rationale of the philosophy of neo-liberal capitalism, in the following section I should like to demonstrate how this neo-liberal economic rationale has influenced the contemporary accounting profession in theory and practice.

2.3 The Impact of Neo-Liberal Capitalism on the Accounting Profession

The demise of socialism in the early 90s in Eastern Europe has given impetus to the rise of neo-liberal capitalism to world dominance. Neo-liberal capitalism became the only economic system for all countries of the world to follow (David M. Kotz, 2000). Multilateral financial institutions such as the International Monetary Fund and the World Bank became wholly committed to the spread of neo-liberal capitalistic economic policies all over the globe. In this regard, the world came to be understood as economically converging into a totality wholly committed to implementing and practicing policies of global neo-liberal capitalism. In this regard, globalization or the convergence of the world into a totality rallied around the policies of neo-liberal capitalism. According to Ying Zhang (2010: 4), these global economic policies of neo-liberal capitalism were: “privatization, marketization and deregulation”. As such, these policies ensued in the “lifting of trade restrictions in doing business” and “changing the nature of the public and private sector”. In other words, the goal of neo-liberalism was to transform the world into a single free market economic system. Of great significance, as Zhang puts it, “was the rising financialisation in global economies due to the deregulation of the global financial sector” which implied “the increasing dominance of financial markets, financial motives, and financial institutions in the operation of domestic and international economies”. This dominance of financialisation on the global market exerted a lot of pressure on the accountants profession as finance dominated hard material goods into financial value. In this vein, Zhang is very succinct when he said,

> It is believed that what behinds this massive financialisation is a systematic attempt to convert all value (tangible or intangible, present or future) into exchangeable financial instruments, such as the securitization of government debts, off-balance sheet financing, tradable corporate bonds, the packaging of mortgages, consumer credit into securities, options and many other derivatives. Those financial innovations, together with creative accounting, have been able to transform any type of fixed asset into a liquidated financial instrument which is immediately exchangeable, as well as turn liabilities into assets/equities by expanding the scope of projection further into the future, and so forth. All these newly ‘advanced’ techniques have been extremely sophisticated and thus incomprehensible to most people, which propose great fundamental risks to the world economy (Zhang 2010: 5).

This type of accounting which is a consequent result of the global financialisation deviates from the traditional accounting practice which separated tangible wealth from intangible wealth. Most of these neo-liberal modes of accounting do alienate the majority of the citizens because of the element of sophistication which goes hand in glove with the global financialisation. The contemporary neo-liberal capitalistic financial system has been fueled by speculation whereby liabilities are easily turned into assets and those who have suffered the consequences of this neo-liberal capitalistic financialisation are the most vulnerable members of societies. When an economy is built on speculation one cannot guarantee the authenticity of what is being projected by the speculators. Thus one finds that the contemporary neo-liberal capitalistic system has divided the global economy into two camps – an economy of fixed assets that deals with goods and the other economy which is currently known as the global money market. The financial market is usually regarded as quicker in realizing returns because traders are usually persuaded to focus on immediate returns. According to Zhang, such a practice has inevitably resulted in a global "macroeconomic instability" which "is evidenced by the massive speculation that banks and other financial institutions are undertaking". He writes, "Fitch Ratings (2007) reported that 58 percent of banks that buy and sell credit derivatives acknowledged that 'trading' or gambling is their 'dominant' motivation for operating in financial markets" (Zhang 2010: 5). In trading and gambling, the dominant rationale is to make as much profit or output as possible whilst injecting as much little money as possible in the business venture. Through financial speculation for greater returns, deception and cheating become integral to the whole neo-liberal capitalistic global financial system. The standardization of the global financial reporting is intended to facilitate the smooth flow of "global capital" (Zhang 2010: 7). This standardization of financial reporting is usually aimed at the interests of investors, lenders and creditors who are usually the main providers of capital on the global market. Within this context of globalized neo-liberal capitalism, international accounting bodies have been reduced to mere facilitators for the flow of capital all over the globe. The accounting process is done in a way that favours what the global financiers, creditors and traders would enable them to reap maximum profits.

James Rickards observes that trading in currency has posed the new global war in the global neo-liberal capitalism whereby the manipulation of currencies among the dominant global economies with the aim of attaining global economic dominance. As he puts it,

> In an economy where individuals and businesses will not expand and where government spending is constrained, the only remaining way to grow the economy is to increase net exports (X-M) and the fastest, easiest, way to do that is to cheapen one's currency. …Assume a

> Germany car is priced in euros at €30, 000. Further, assume that €1=$1.40. This means that the dollar price of the Germany car is $42,000 (i.e. €30, 000 x $1.40/ €1=$42,000). Lets assume the euro declines to $1.10. Now the same €30, 000 car when priced in dollars will cost only $33,000 (i.e., €30, 000x$1.10/€1=€33, 000). This drop in the dollar price from $42,000 to $33, 000 means that the car will be much more attractive to U.S. buyers and will sell correspondingly more units. …Through the devaluation of the euro, the Germany auto company can sell more cars in the United States with no drop in the euro per car. This will increase the Germany GDP and create jobs in Germany to keep up with the demand for new cars in the United States (Rickards 2012: 39).

The devaluation of the euro that is aimed at boosting sales in the U.S. markets does not take into account the implications of such a devaluation of the euro to the workers of the Germany automobile industry. Devaluation of the currency also implies dumping of goods on foreign markets in a way that is economically detrimental to the foreign economy where those goods are being dumped. When a particular currency is devalued on the foreign market it logically follows that the real cost of manufacturing of particular goods that are being sold on the foreign market is falsified. As we have seen in the preceding section, such a practice augurs very well with the rationale of global neo-liberal capitalism which puts emphasis on profit maximization before anything else.

Other scholars have argued that the ideal of standardized accounting in the context of global neo-liberal capitalistic practices is rather utopian. Trevor Hopper, Philippe Lassou and Teerooven Soobaroyen (2017) observe that in most of the developing countries where the World Bank and the International Monetary Fund are playing a critical role in the spread of global neo-liberal capitalism accounting has been dominated by the production of “audited financial accounts to ascertain the accuracy of accountability and regulation” (Hooper et al, 2017: 8-14). These scholars went on to say that, “a recurring research finding is that whilst basically sound accounting and accountability systems were often adopted and maintained [in developed countries], in actuality they played a ceremonial role to gain legitimacy from the populace and external funders, and played little part in ministerial and parliamentary scrutiny or decisions”(Hooper et al, 2017: 8-14).. Here the implication is that accounting standards are not usually adhered to in developed countries. These authors went on to allege that accounting standards are usually dictated by northern hemisphere accounting organisations. As they put it, “critics argue that this financialises the world economy in the image of Anglo-American, Finance-led capitalism, and that such policies are inappropriate” (Hooper et al, 2017: 8-14), when imposed on developing countries’ accounting practices. The international accounting regulatory bodies are used by the multilateral financial organisations such as the World Bank and the International Monetary Fund to foster the global neo-liberal economic agenda which in most cases has been responsible for the rapid deterioration of economic standards in the developing countries. An ethical problem that confronts the accounting profession in the context of global neo-liberal capitalism is that neo-liberal capitalism is an economic system that is corrupt by nature. An excerpt from the Dutch physician’s parody in which he satirized the working of the liberal capitalistic economy as follows,

> Fraud, Luxury and Pride must live
> While we the Benefits receive
> Do we not owe the Growth of Wine
> To the dry shabby crooked Vine? (Bernard de Mandeville1924: 36-37).

In the light of the above excerpt from Mandeville’s parody, one can deduce that all those vices which we frown upon are the main cause for economic prosperity. As it will be shown in the following chapters, the issue of corruption has remained endemic to the accounting profession in our contemporary context of globalized neo-liberal capitalism. Currently in South Africa a branch of the multinational auditing company, KPMG has been embroiled in corruption and because of its behavior, most of their clients have deserted it. In a local newspaper, *The Independent*, William Saunderson-Meyer observes that,

> The world's mega-business entities have considerable advantages when compared with their smaller counterparts. Their wealth, their cross-border operations, their ability to collude against market entrants, to influence politicians, to intimidate critics, and – when all else fails – to

> suborn law enforcement and judicial officials, make them pretty much immune to control. Some have more real power than many national states. It makes for arrogance, an imperviousness to criticism, and an indifference to ethical conventions. So when, once in a blue moon, one of these giants is brought to its knees, there is a certain schadenfreude. Everyone enjoys seeing the bully taking a well-deserved, long-delayed thumping. That is why the plight of KPMG SA, as clients desert it and legal sanctions loom, has been watched with such widespread public enjoyment (Saunderson-Meyer 2017: 7).

What is currently stirring speculation on the South African socio-economic and political scene is whether all the auditing work which has been done by KPMG should be taken as a true and authentic auditorial work. However, since KPMG has a global reach, in auditing, the South African scandal has ripple global effects that will tarnish the professional integrity of this multinational auditing company. What has made the KPMG scandal an ethical disaster is the fact that it was the auditing firm that was mostly hired by South African government departments and banks for its auditing services and some of its auditing findings in these institutions have been adopted by South African courts of law as indisputable evidence. It is partly for this reason that I shall demonstrate in the following section that ethics within the accounting profession should be taken seriously as indispensable to good business practice. But in the light of what has been discussed about accounting within the context of neo-liberal global capitalism remains beset with insurmountable challenges.

2.4 The Severance of Ethics in the Accounting Profession

Most scholars epistemically converge on the idea that the severing or divorce of ethics in the accounting profession has remained a perennial problem in neo-liberal capitalism. As we have seen previously, the economic discipline itself is based on the presumption that economic relations are only economic when ethical values are discounted in favour of a capitalistic free market economic system that is ruled purely on the basis of individuals' pursuit of their self-interests. As we shall see in chapter 4, the severing of ethics in the accounting profession can be discerned from the scholarly debate on whether accountants are accountable to shareholders or to stakeholders. While I shall not go into a detailed discussion of this debate here, the point I am driving home is that the case for the inclusion of ethics in the accounting profession remains problematic in theory and practice.

With the globalization of neo-liberal capitalism, the accounting profession has been embroiled in lots of scandals all over the world. The scandals brought to the fore the importance of ethics to the fore for this profession. It seems that there has been a scholarly awareness to the effect that accounting was not solely about keeping clean financial records of the transactions that have been made in business or organization, there was also a need to inculcate an ethical awareness on the need for accountability in the accounting profession. The classical liberal view of business relations that we have seen previously which enunciated the idea that economic relations were value-free or value-neutral have become increasingly questioned. On the face of increasingly distorted auditing reports on the financial performances of companies and corporations from world reputable auditing companies such as the Enron/Andersen scandal, scholars and the public at large concluded that, "financial statements should be accurate and usable and in a market system that relies on accurate information to make rational decisions" (Duska and Duska 2005: 9). The reason why financial information was falsified is because accountants' profession has always understood its professional responsibility as that of being solely accountable to the shareholders, thus inevitably discounting the fact that as a profession they are also accountable to stakeholders or society at large, an issue I will discuss in detail in chapter 4. What makes ethics an indispensable dimension of the accounting profession is further exacerbated by the fact that the contemporary global neo-liberal capitalistic economic system is chiefly characterized as an age of information. Duska and Duska highlighted the importance of ethics for accountants in this age of information as follows,

> Accounting is developing information that is going to be used. If the use of the information is benign and the information is truthful, no ethical problems arise. But if the information persuades people to act in one way or other, and their action either benefits or harms the persons giving or getting the information, such information-giving takes on ethical importance. …In the ideal market transaction, two people decide to exchange goods because they hope the exchange will make both better off. In a market exchange, nothing new has been produced, but both people are better off because of the trade. Ideally, there is perfect information about the worth of what is being given and gotten in return. Such a trade freely entered into with full information, should maximize satisfaction on both sides. …However, if one of the parties is misled into believing a product is not what it is because it is misrepresented, the effect of both sides being better off is undermined. Deception usually leads to the deceiving party getting something different and less valuable than they expected. The deceived party most likely would not have *freely* entered into the exchange had that party known the full truth about the product [their italics] (Duska and Duska 2003: 13-14).

In the light of the above quotation, the information that is provided by accountants must be such type of information that is beyond reproach. When the information that is provided is misleading or deceptive, all parties that are involved in the business transaction will be affected – the information provider and the buyer of that information. Deceptive information usually leads to a general loss of trust to the provider of that deceptive information. In a globalized world, the loss of professional integrity can bring about ultimate ruin to one's business career. The current scandal KPMG scandal which was briefly discussed in the preceding section demonstrated that the professional integrity of the auditing company KPMG has been ruined as a result of the distorted auditing information which it gave to the public. In the globalized world of information, the violation of integrity which was committed by the KPMG South African branch is already known worldwide and this negative global impact will most likely affect other KPMG branches in other parts of the world. Partick Dixon observes that upholding or unwavering commitment to ethical values are indispensable to positive image creation of who we are and what we stand for in what we do. As he puts it,

> Without common values, social interaction, community life, communication and commercial activity become all but impossible. Values define us, they provide the framework by which society operates. Personal and community values often differ from corporate or globalized

> values, driven often by a far narrower agenda such as return on capital or corporate survival. And values are often forged through defining moments (Dixon 1998: 229-230).

What is implied in this observation is that ethical values provide social and communal orderliness in society and in our commercial activities. Values provide us with an identity and what we stand for. Auditing companies that have been embroiled in scandals have made it difficult and if not impossible for the general social and global citizenship to know exactly what they stand for and the authenticity of the information which they disseminate to the general public.

Another issue of critical ethical significance that has been raised by other scholars has to do with the accounting profession and what is usually known as fair value accounting. Fair value accounting is popularly defined as a practice whereby the price of a commodity is estimated in the context of a particular market. What has brought the issue of fair value accounting to fore is the issue of the modern developments in information communication technologies which have resulted in the development of global corporations whose headquarters are in developed countries. Milorad Stojilkovic (2010: 165-166) observes that "it is generally known that fair value in many cases is not market price but a hypothetical market price established by various assessment methods and techniques". If fair value is not a market value price but rather based on a hypothetical market price, this leaves the door open for all sorts of manipulation of the market price with the aim of arriving at the ideal market price for the shareholders. Such a practice does inevitably discount ethics in the practice of fair value accounting. Sometimes shrewd corporate managers "found in the concept of fair value accounting one of the instruments to deceive shareholders, insurers, fiskus, employees and the public in believing they successfully managed corporations" (Stojilkovic 2010: 166). Fair value accounting in the context of global neo-liberal capitalism is based on profit maximization through speculation with the aim of maximizing profits and performance bonuses for managers. The issue of fair value accounting is problematized by the contemporary practices of global neo-liberal capitalism violates traverse the question of the means how wealth is accumulated. As Stojilkovic puts it,

> The very greed for creating huge profits at any price and as fast as possible, an important characteristic of a neo-liberal concept of capitalism, represents a fruitful foundation for the creation and development of fair value accounting. When it comes to financial instruments, it enabled the forming and distribution of huge unrealized gain. …Inclusion of unrealized gain in a profit and loss statement and consequently their distribution can be justified by the need of securities owners to react quickly to market oscillations. Under contemporary conditions, the information is available to them at any moment, thus timely reaction to change in the price of derivates, hybrids and other securities is secured. The primary aim of the fair value concept is de facto expression and disposition of unrealized gain (Stojilkovic 2010: 166).

In the light of the above observation, one can easily deduce that fair value accounting is a deliberate manipulation of data with the specific aim of creating a favourable economic scenario. This practice is bereft of ethical values in the accounting process. But within the context of a globalized neo-liberal capitalistic system, fair value accounting has created consequences that have created some financial crises because of the reality of the complexity that exists in a globalised capitalistic economic system.

The contemporary neo-liberal economic system has thrived on financial speculation where unrealized gain is presented as realized gain. Edward Chancellor said that,

> Speculation is conventionally defined as an attempt to profit from changes in market price. Thus, forgoing current income for a prospective capital gain is deemed speculative. Speculation is active while investment is generally passive. …The line separating speculation from investment is so thin that it has been said both that speculation is the name given to a failed investment and that investment is the name given to a successful speculation (Chancellor 1999: xi).

Speculation involves the art of foretelling the future and the main aim in speculation is to make greater profits in the future. Chancellor went on to say that speculation and gambling are practices that are difficult to differentiate in the sense that both practices tend to emanate from the same psychological impulse. He writes,

> The psychologies of speculation and gambling are almost indistinguishable: both are dangerously addictive habits which involve an appeal to fortune, are often accompanied by delusional behavior and are dependent for success on the control of emotions. Speculation has come to mean different things to different people, yet it retains something of its original philosophical meaning; namely, to reflect or theorise without a firm factual basis (Chancellor 1999: xi-xii).

In speculation as in gambling, the speculator does not have empirical facts of what they are vouchsafing as the financial reality of the situation. In other words, what might be presented as a matter of fact might be entirely false. In the antiquity of the Romans, the word speculator meant *speculare*, a word which meant looking out for trouble. One finds that in the Roman antiquity, “the financial speculator in ancient Rome, however, was called *quaestor*, which means seeker” [his italics] (Chancellor 1999: 4). The ancient Roman literalist, Plautus identified two groups of speculators, the first group he described as “mere puffers” and the second as “impudent, talkative, and malevolent fellows, who boldly without reason, utter calumnies about one another” (Cited in Chancellor 1999: 4). It can be deduced that speculation had some negative connotations in the sense that it was an economic practice that was irrational.

In their book, *The Sovereign Individual*, James Davidson and William Rees-Mogg observe that "the transformation of the year 2000 will not only revolutionize the character of the world economy, it will do so more rapidly than any previous phase of change” (Davidson and Rees-Mogg 1997: 14). For these authors, information technology was ushering the world into an era of ‘the sovereign individual’. As they put it,

> At the highest plateau of productivity, these Sovereign Individuals will compete and interact on terms that echo the relations among the gods in Greek myth. The elusive Mount Olympus of the next millennium will be in cyberspace – a realm without physical existence that will nonetheless develop what promises to be the world's largest economy by the second decade of the new millennium. By 2025, the cybereconomy will have many millions of participants. Some of them will be as rich as Bill Gates, worth over $10 billion each. The cyberpoor may be those with an income of less than $200,000 a year. There will be no cyberwelfare. No cybertaxes and no cybergovernment (Davidson and Rees-Mogg 1997: 15)

The above quotation is an example of the irrationality behind speculation because there is no evidence that is provided for making such speculations about the future. Speculation augurs very well with the rationale of capitalism in the sense that its information is mostly based on forecasting the future on the basis of a single factor that is observed in a particular society. For the above two authors, their motif for speculation is based on individualism and greed. For example, they are against the idea of taxation. Thus they write, "microprocessing and rapidly improving communications already make it possible for the individual to choose where to work. Transactions on the Internet or the World Wide Web can be encrypted and will soon be almost impossible for tax collectors to capture. Tax-free money already compounds far faster offshore than onshore funds still subject to the high tax burden…" (Davidson and Rees-Mogg 1997: 19). It is clear that this type of speculation is not based on concrete empirical evidence. What is mostly desired by these two authors in their speculation is tax evasion – they are against the idea of paying taxes to the government. It is common knowledge that without taxes governments cannot fulfil their main ethical obligation which is mainly that of promoting the general welfare of society or the common good. The practice of speculation has greatly influenced the accounting profession as we shall see in chapter 7 when we discuss creative accounting and income soothing. In both instances, accountants have developed a habit of speculating about what they wish to see happening by presenting false accounting information as a way of promoting the interests of shareholders. In this regard, accounting is reduced to an economic technique that is aimed at promoting the narrow economic interests of the owner of the company or organization. In such a practice what is discounted is the wellbeing of society in general. The question that arises in such a scenario is that of the social responsibility of the accounting profession which according to this study can only be realized through ethical accounting.

2.5 Conclusion

In this chapter, I have argued that the contemporary accounting profession operates within an economic paradigm of neo-liberal capitalism which is an economic system which provides us with an image of a person who is wholly divorced from social concerns as the ideal person. This economic system is also based on the idea that a human being is primarily a utility maximizer. On the other hand, under liberal capitalism, the economic sphere is deemed to be a private sphere which is not accountable to the generality of social existence. The main philosophy of neo-liberal capitalism is based on the philosophy that individuals should be left to pursue their economic interests without interference from government. I argued that in the philosophy of economic liberalism, the presumption is that the liberal economy will do well without interference from government.

My main aim in this chapter was not to provide an extensive discussion of the philosophy of economic liberalism, rather I wanted to demonstrate how economic liberalism has influenced the functioning of the accounting profession. Through the works of liberal economic thinkers such as Adam Smith and Philip Wicksteed, the main presumption of these classical liberal capitalistic thinkers was that the economy will do well without any interference from government because of selfish passions of individuals will ultimately promote the common good. For Adam Smith, the determining factor in the distribution of wealth in society was premised on the individual pursuit of self-interest. Philip Wicksteed went as far as asserting that economic relations were actually devoid of ethical evaluations. This implied that it was not an economic concern whether someone was dishonest or cheating in his or her economic dealings with others. What was important was in making sure that the action that was taken ultimately led to an economic gain.

I have demonstrated that neo-liberal economic thinking is a systematic rational affirmation of classical liberal economic thinking in the aftermath of Adam Smith. Individual economic actions are deemed rational when they lead to utility maximization. The belief in utility maximization has given credence to the belief that economics was on par with natural sciences. The similarity between economics and natural sciences has been achieved through instrumental reasoning, a type of reasoning that ultimately discounts value judgements in the economic discipline. Without any value judgements, utility maximization becomes the only justifiable outcome of any economic action or transaction. It was part of the argument that was proffered in this chapter that economic reasoning is individualistic. Through the works of liberal thinkers such as Ayn Rand, Robert Nozick, Brittan and Heyne, just to mention a few, the idea of taxation was refuted on the grounds that it violated individuals' freedom to use their incomes in a way they choose as individual qua individual. In this type of neo-liberal economic thinking, government is understood as there to protect individual properties.

Finally, in this chapter, I have argued that neo-liberal economic thinking has been adopted as the rationale behind the accounting profession. The accounting profession understands its main role as that of facilitating the expansion of neo-liberal capitalism within the financial sector. In this regard, the neo-liberal economic system has been divided into two camps – an economy of fixed assets that deals with goods and secondly the other economy which is contemporarily known as the global money market. In the global money market economy I have argued that through financial speculation, deception and cheating have become integral to the whole neo-liberal global financial system. In this regard, it was argued that the global financial reporting is turned into an instrument of facilitating the movement of global capital. Thus other scholars have argued that the ideal of standardized accounting in the context of global neo-liberal capitalism has remained utopian. International monetary institutions such as the IMF and the World Bank are there to promote the economic interests of the developed countries at the expense of the underdeveloped countries. An ethical problem that was observed in this chapter is that the accounting profession in the context of global neo-liberal capitalism arises from the fact that such an economic system is corrupt by nature. Some of the multinational auditing companies such as the KPMG in South Africa have been embroiled in corruption in such a way that the many institutions such as banks and companies who relied on KPMG auditing services have come to question the reliability of KPMG's auditing work.

Finally, the chapter discussed the issue of the ethics in the accounting profession, especially taking into account the fact that with the current globalization of neo-liberal capitalism the accounting profession has been embroiled in endless scandals all over the world. In this regard some scholars are arguing that accounting is not simply about keeping clean financial records of the company or organization, on the contrary, there is a need to inculcate a sense of ethical accountability among the accounting profession. False information leads to a general loss of professional integrity and the ultimate ruin of the accountant's professional career. Ethical values do provide social and communal orderliness in society and in all commercial undertakings. Auditing companies that have been embroiled in scandals have made it difficult to convince the general public and the global citizenship with regards to what they stand for and the reliability of their accounting information. One of the challenges that have been identified in this chapter is that of speculation. In this regard, I argued that speculation which is integral to neo-liberal capitalism is also a contributory factor to the erosion of ethics in the accounting profession. It is for this reason that the following chapter will discuss ethics in the accounting profession.

CHAPTER THREE: ETHICS AND THE WORLD OF THE ACCOUNTING PROFESSION

3.1 Introduction

It is the general presumption that accountants are professional people and that as professional people they are expected to abide by ethical values that are deemed indispensable to the functioning of their profession. Ethics is popularly defined as a discipline that is mainly concerned with principles that help us as human beings to make a distinction between right and wrong in our relationship with each other within the generality of our human existence. In this regard, it is clear that ethics are found in all aspects of human life in the sense that they provide some direction with regards to what is approved and disapproved by society or organisations as ethical or unethical behaviour. Professional ethics are a type of ethics that are usually seen as exclusive to the functioning of a particular profession. This implies that their main focus is on what is acceptable behaviour within a particular profession instead of society or all professions in general.

Since accounting is a profession, it logically functions under particular ethical values that are exclusive to the accounting profession and in relationship to societal expectations as to the type of behaviour which is condoned or not condoned within this profession. It is because of an ethic of exclusiveness that accounting profession like any other profession has its own professional code of ethics that is usually constructed around the ideal of the underlying values and obligations that are integral to the modus operandi of the accounting profession. These codes of ethics do usually set the accounting profession apart from other professions. For someone to be considered as an accountant, it is not entirely about the acquisition of the knowledge that is required for effective and efficient execution of one's duties within the accounting profession. Obviously, this understanding of professional ethics has some sociological underpinnings in as far as society understands the role of the accounting profession on the basis of its own social expectations. These social expectations are usually derived from what society presumes to be the underlying values that are integral to the accounting profession which usually finds its social legitimation from the acquiring of technical or abstract knowledge of the accounting profession. Professional ethics in accounting is based on those virtues that are expected from an accountant within his or her profession.

Whilst professional ethics in the world of the accounting profession is sometimes presumed to be a discourse that is universalisable, regardless of context, in this chapter I do intend to demonstrate that issues of unprofessionalism among the accountants have brought to the fore the need to put into consideration the role that is played by socio-economic, cultural and political contexts in the conceptualisation and practice of the accounting profession in different parts of the world. To a greater degree, the issue of ethics within the accounting profession has remained problematic despite the fact that the acquiring of technical and abstract knowledge within the accounting profession is usually standardised. In this chapter, I am going to give an introductory discussion on ethics and the world of the accounting profession in a way that will serve as a foundation to my discussion of ethics and the accounting profession in our contemporary times which will serve as a foundation for further discussion in the following chapters.

Thus in the light of the orientation of this chapter as briefly stated above, the chapter has been divided into four sections. In the first section, I shall give a general discussion of the objectives of professional ethics and its relationship to the accounting profession. The second section will focus on the accountancy profession and its relevance to the economy and the role that is played by accountants and auditors in their professional responsibility. This section will be given a further extension in the third section in which it discusses the accounting profession with specific reference to society in the light of the concept of public interest which the accounting profession is expected to serve. The discussion of the concept of public interest and the accounting profession will be further echoed in section four where I provide a critical analysis of the codes of professional ethics and the role they serve in various professions whilst giving special attention to codes of ethics and the accounting profession.

3.2 Professional Ethics and their Objectives

A profession can be defined by a code of ethics which Diane Roberts (2010: 95) explained as a unique, dynamic record of the movement of an occupational group towards professional status. A profession can be explained as having five attributes which can be used in distinguishing a profession from non-professional occupation see Rossouw et al (2007: 167). A profession must have a systematic body of knowledge, professional authority and credibility, regulation and control of members, a professional code of ethics and a culture of values, norms and symbols. A profession can be identified with its characteristics. Rossouw explained five characteristics that can be used in identifying a profession. Extensive period of training and education is required for one to enter a profession. This is intellectual training and education which must be backed by an extensive practical experience. A profession can be identified with the level of professional knowledge and skill possessed by its members. Professions have a monopoly on the provision of professional services. For example, it is only those in the medical profession who are allowed to provide health care services to the public. The monopoly goes to the extent of controlling academic institutions that offer particular tertiary education that leads to the admission to the profession.

A professional can, therefore, be defined as a person who has a high level of expertise and uses such expertise to give valued services to other persons. The high level of expertise possessed by professionals gives them an advantage over others (Gewirth 1986: 282, also see Rossouw et al 2007: 167 - 168). Professionalism has a distinctive element that professionals have undergone through advanced, specialised training and have control over their jobs and services they give. Professionals are autonomous to a certain degree in their places of work. For example, lawyers are flexible in choosing their clients and are at liberty to decide on the most appropriate defence arguments without necessarily asking for authority from their client. The Association of Certified Chartered Accountant (ACCA) defined a profession as based on theory and skill(ACCA Professional Ethics Study Pack: 2014). It emphasised the need for the profession to adhere to a common code of values and conduct. The final aspect that ACCA highlighted is that a profession must accept a duty to society. Professionals have the knowledge and skill to offer the best service to the client. This scenario gives professionals special duties and obligations over and above what they would have as ordinary citizens. There are moral relationships between professionals and the persons they provide services to. These relationships demand special types of trust and loyalty. It is claimed that professionals are regulated by ethical standards. Professionals identify themselves as members of a recognised order so that they can get trusted by the society. The ethical standards are used as regulatory measures to curb the professionals not to abuse their professional power and status. Most professions if not all have professional codes of ethics and conduct which are a moral campus for the profession (ACCA Professional Ethics Study Pack: 2014: 349)

Professional ethics is the personal and corporate standards of behaviour expected of the members of a particular profession. Timo Airaksinen (2006: 150) defined professional ethics thus, “Professional ethics is a field of applied ethics whose purpose is to define, clarify, and criticise professional work and its typical values”. Professional ethics can be divided into two, namely micro professional ethics and macro professional ethics. Macro professional ethics deals with collective or social problems that are encountered by members of a profession as a group as they interact with the society. This type of professional ethics deals with problems and controversies in the professional world. It tries to identify the social responsibilities of professionals as a group and what should the professionals collectively do to influence social development. This signifies professional power. Micro professional ethics deals with personal relationships between individuals. They involve the application of issues like honesty, decency, human respect, responsibility and considerateness. They are concerned with moral aspects of individual relationships between colleagues and the general public to whom they offer services, (Ladd 1991: 132)

Professions have underlying objectives. The main objective of a profession is to serve the public. Members enter into a profession for various reasons. Some go in a profession to become rich while others enter a profession to serve their societies or to do justice. Self-enrichment and making a living are primary objectives of entering into business (Hooker 1996:1). This is supported by neo-liberal capitalistic thinkers as explained by the shareholder approach to business which puts emphasis on creating wealth for the owners of the business. This motive is not acceptable in the professional world. Professional ethics are a guiding tool that keeps the professionals focused on serving the public. They stand as a reminder to members that they are not in business but are professionals. Professional ethics of a particular profession are embodied in the professional code of ethics and conduct. Professional codes of ethics are the ethical benchmarks for members in a particular profession. Accountancy as a profession has its code of ethics that regulates the accountants in the execution of their professional responsibilities.

In this regard, accounting has a leading purpose throughout business processes. Accounting like any other profession is guided by a standard code of professional ethics and conduct. They are a moral campus for any practising accountant. As Rossouw et al (2006: 169) argue "an accounting professional operating in a professional and/or business environment has to adhere to business ethics and professional ethics in addition to ethical behaviour that is based on his or her personal sense of morality”. Professionals are therefore guided by three sets of ethics, which are business ethics, professional ethics and personal ethics. There are situations in which the professional ethics may be at variant with one’s individual ethics. In such a situation a professional is bound by the ethics of his calling or his/her professional ethics.

Ranti and Ebikaboere (2011: 25) noted that "the principles and application of ethics in the accounting profession is a concept that deals with the expected behaviour and accountability of the accounting profession". The accounting profession has its professional codes of ethics to guide the behaviour of the accountants when carrying on with their duties. The standard code of professional ethics and conduct in the accounting profession has five fundamental principles. These are integrity, objectivity, professional competency and due care, confidentiality and professional due care. The profession suggested that their members must be and seen to be independent of these five principles to be effectively implemented, (ACCA Approved study texts (F8) 2015: 53-55). Independence if not attained in full might impair the judgement of an accountant. ACCA (F8, 2015: 55) states that "the fundamental principles require that members behave with integrity in all professional and business relationships and thrives for objectivity in all their professional and business judgement".

3.3 The Accountancy Profession and its Relevancy to the Economy

The backbone of any commercial system is reliable accounting. High-quality accounting systems are required for an economy to move forward. Without which, capital cannot be easily allocated to its best and effective use in building and sustaining the economy. The goodness of the accounting profession sustains the integrity of the national economic system and in turn, the commercial system underwrites the national prosperity. This sets the accounting profession in an important position in the economic system. Independence of mind is a desirable psychological behaviour trait in accountants. This gives the accountant a mindset that is objective and free of bias making it a good platform for ethical reasoning. The accountant must be willing to challenge clients and maintain a good degree of scepticism aided with an inquisitive mindset. An accountant needs to be knowledgeable, that is competent as highlighted in the fundamental principles of professional ethics, to increase their ability to challenge management on their reporting basis. Accountants especially those performing audits must be impartial and independent of management of the business they are auditing. This will serve them from unconscious bias. The issue of unconscious bias will be discussed later in this chapter. It is important for an accountant to be independent and objective because the audit they carry out should be able to give an objective reasonable assurance on the truthfulness and fairness of the financial statements they are reviewing. This assurance cannot be guaranteed by the directors of the company because of the conflict of interests they have with the owners of the company. Managers can create a false impression of a good financial performance with the aim of rewarding themselves with higher bonuses. Such a practice can lead to a waste of resources and ultimately a collapse in the whole business system as a result of misallocation and misdirection of resources. Only the accountants acting independently and objectively can provide that assurance. It should, however, be noted that the accounting professionals are faced with situations that compromise or threaten their independence. This may arise in the form of self-interest, advocacy, self-review, familiarity, and intimidation and threats (Moore et al 2004: 13 – 22).

The self-review threat happens when the accountant or accounting firm that prepared the financial statements takes the responsibility for auditing them. This will affect the objectivity of the reviewal process. One cannot be sceptical and rigorously enquire on financial statements that they prepared themselves. Another threat to independence is self-interest. The ACCA codes of ethics and conduct have highlighted a number of areas in which the threat of self-interest might arise. A self-interest threat is a threat that a financial interest or other interest will inappropriately influence the professional accountant's judgement or behaviour. There are many factors that contribute to the threat of self-interest but only relational issues shall be discussed in this study. It is suggested that the fall of Enron in early 2001 was a result of greed and unethical behaviour by the accountant(Nguyen Huu Cuong, 2011: Bazerman et al 2002:1). It will be shown that the accountant willingly misled everyone and had a criminal intent. The adequacy of professional ethics in the accounting profession has been questioned following this scandal and many others that followed. There is another view that suggests that the Enron scandal was not solely on greed or lack of proper ethics but due to unconscious bias (Nguyen Huu Cuong, 2011: Bazerman et al 2002:1). Given the scale and effects of accounting scandals that have been happening throughout the world, it is not surprising to put the blame on unethical accountants falsifying books of accounts protecting equally unethical clients. If this deduction is taken as correct then it will follow that the accounting profession is full of crooks. It is true that some scandals are offshoots of fraud, corruption among the accountants and some are a result of unconscious bias. Bazerman et al notes that,

> Because of the often subjective nature of accounting and the tight relationships between accounting firms and their clients, even the most honest and meticulous of auditors can unintentionally distort the numbers in ways that mask a company's true financial status, thereby misleading investors, regulators, and sometimes management (Bazerman et al 2002:1).

Unconscious bias refers to a bias that we are unaware of, and which happens outside of our control. It is influenced by background, cultural environment, and personal experiences and relationships. It cannot be controlled by punishment or sanctions like conscious corruption but require more fundamental changes in the ways the accounting profession interacts with clients and other stakeholders. Skewed information processing brings about erroneous conclusions that our judgements are free from bias and error. There are aspects that create fertile ground for bias to influence judgement in the accountants' field of work. Accountants are always faced with ambiguous situations.

There is always the possibility of interpreting information in different ways. Whenever there is ambiguity in a piece of evidence, it is a common phenomenon for taking an interpretation that has a self-serving end. Another aspect that contributes to unconscious bias is attachment. A long time with a client will make that accountant have an attachment to the client and as a result, an accountant will have a strong business reason to remain in the client's good graces and thus motivated to approve their client's books of accounts. Auditing procedures will endorse or reject accounts of a company prepared by another accountant. It might be therefore difficult for one accountant to reject the fairness and truthfulness of accounts already approved by a fellow accountant. Another cause of bias is familiarity. It is human nature that one is willing to harm strangers than someone they know, especially if they are a paying client. Bazerman et al (2002: 2) “an auditor who suspects questionable accounting must choose, unconsciously perhaps, between potentially harming his client (and himself) by challenging a company’s accounts or harming faceless investors by failing to object to the possibly skewed numbers”. In such a case one might unconsciously abide with their client and approves the dubious figures.

Unconscious bias might look like something divorced from professional ethics. The source of such bias is however deeply rooted in lack of professional ethics. The professional codes of ethics and conduct in the accounting profession do not allow attachment to a client or over dependency in a client. An ethical accountant will avoid a situation that will cause him or her to have an over-dependence on a client. This is where the issue of being and seen to independent comes into play. Accountants must embrace all the stakeholders and understand the effects of giving a wrong opinion consciously or unconsciously. This brings in the issue that the accounting profession must open up from being a closed system and interact as stated by the systems theory. It must understand that it is operating as an element of an open system that depends on open interaction with other elements or subsystems within the global vast. The accounting profession must leave up to its promise of working for the public interest.

3.4 The Accounting Profession and the notion of Public Interest

International Federation of Accountants (IFAC) 2012 defined public interest thus, “the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy". In this same paper, the public was suggested to be composed of investors in their broad sense, customers and suppliers, and the general public. On the other hand, interests were summarised as everything of value to individuals and society. These definitions give a notion that the accounting profession is taking all aspects of business and society in carrying out their work but this need to be examined to see if this is being put to practice. Before going into detail with the issue of the public interest, it is necessary to look into the responsibilities of accountants and the accountancy profession acting in public interest.

The responsibility of the accounting profession were stated by IFAC (2012: 3-4) as, "to provide sound financial, non-financial and government reporting to stakeholders, investors, taxpayers, and all parties in the marketplace directly and indirectly impacted by financial and non-financial reporting from all organisations, across all sectors and spanning all sizes, including public sector institutions"; and "to provide truthful, effective communication with parties (e.g. boards, stakeholders, management, and others) directly and indirectly related to corporate governance processes for which they are accountable".

There are a number of issues that are incorporated in these two broad responsibilities that have no evidence that the profession is implementing them. The thrust of the accounting function in any organisation has been providing accurate numbers for the purpose of making investment decisions. Investment decisions are made by shareholders, investment institutions and management of the entity. These three have always been the primary addressees of financial statements. All other stakeholders which the accounting profession claims to serve are not addressed in the financial statements. IFAC in its statement of responsibilities above made a claim that the profession is all embracing but other stakeholders like the general public are not partakers in the accounting processes, be it public or private. Another shortfall of the accounting reports is that they are prepared in a language that can only be understood by the initiated. This, therefore, throws away the claim that the accountancy profession has a mission of serving the public interest. It must also be noted that the profession is assuming homogenous interests across societies and communities by having uniform reporting standards. If the profession is there to serve all stakeholders, it must conceptualise the reporting standards to conform to the unique interests of various stakeholders.

Gaffikin states that, “while there are many pronouncements about public service or public interest, determining any sensible meaning of these terms is fraught with uncertainty and ambiguity” (Gaffikin 2007: 12). He suggested that public interest can only be defined in context of some preconditions. ACCA concurred with him when it highlighted the fundamental problem with the public interest debate being the lack in most jurisdiction of a conclusive definition of what public interest is and the lack of an enforcement mechanism. What is of interest to the public differs from community to community or society to society. The public interest will always be defined by the form a society takes. The composition of a society has a great say to the interest of the same society (Kaidonis 2008: 4, also see Fullop 2013: 34). For example, some societies are dominated by a particular religion some dominated by a specific political set up that advocates a certain economic system, and society are governed by military interests. These variables make it difficult to have a standard list of what can be referred to as public interest. It is therefore questionable for the accounting profession to claim that it works for the public interest when they have one standard professional code of ethics and conduct which they assume it takes care of all the varied interests of different society set-ups.

Mitchel and Sikka (2011: 3) lamented on the advent of the neo-liberalisation that shifted power to the private sector. The contemporary economic order has taken away economic power from the central government and the general public to the private sector. The government has been ordered hands off from directing the activities of the economy. It has been assigned a new role of being an observer from its original of being an active player. The power lost by the state and the general public is now in the hands of the private sector which has no place for the public interest. They went on to name the big accounting firms as some of the chief beneficiaries of the power lost by government. These firms have taken control of all economic activities for their own benefit and that of the providers' capital, the shareholders.

As Austin Mitchel and Prem Sikka put it,

> The new masters of the universe are all multinationals, accountable to no particular jurisdiction. They dominate accountancy and audit. They're setting the standards to suit themselves hyping corporate profits by selling creative accounting practices, working in collusion with company executives to boost their rewards by hyping shareholder value at the expense of investment, social interests and long-term survival. They provide consultancy services to local and central government departments. They permeate the public sector with their people and they do much of the advice, enquiry and policy work, which the public sector used to do for the good of the nation, for private profit, for themselves, and their partners (Mitchel and Sikka 2011: 3).

The firms that are being referred to as the masters of the universe are the top for accounting firms. These are the firms that give direction in the accounting profession. They are big enough even to influence and control the activities of IFAC. Sikka pointed out that they operate in a way that furthers their interests and those of shareholders. This, therefore, gives the notion of the accounting profession working for the public to be something that cannot be achieved. If this is to be achieved the powerful firms have to adopt it in practice first and be an example to everyone else. The critics of the accounting profession working for the public interest have questioned the closeness of the accountants' definition of public and the profession's own self-interest. The self-regulation aspect of the profession has also suggested that their priorities are inclined to self-interests. It can, therefore, be suspected that the accounting profession pursues self-interests in the name of working for the public interest. This is further sustained by the dominance of the profession in all economic activities. The power they have amassed makes the profession easily further its self-interests.Austin Mitchel and Prem Sikka are some of the major critics of the notion of the accounting profession working for the public interest. They argue that,

> The power of the big accountancy firms has increased, is increasing, and must be diminished because they are using it to undermine democracy, law and welfare of the people. Its result is that over the world millions of people are facing erosion of living standards and hard-won social rights. People are either paying more in taxes for diminishing social rights, pensions, education and healthcare, or foregoing them altogether. A key reason is that major corporations and wealthy elites are avoiding and even evading taxes. A popular myth is that accountancy firms are in the frontline of the war against white-collar crime, but too many have become key players in white-collar crime (Mitchel and Sikka 2011:3),

Their values are summed-up by a partner who declared,

> No matter what legislation is in place, the accountants and lawyers will find a way around it. Rules are rules, but rules are meant to be broken. Just imagine the dire consequences if doctors, nurses and manufacturers of medicine and food adopted the values of accountancy firms. Evidently, for accountancy firms undermining societies is considered to be a badge of pride rather than shame." (The Guardian, 2004).

IFAC is of the view that demonstrating that the public interest has been served requires that any action, decision, or policy is assessed against public interest criteria, being conscious of the dimensions of both outcome and process. It must also, however, be recognised that the two assessments may not always be met to the same degree, in which case determining what is in the public interest involves a balance, or trade-off, between the two assessments. The need for such a trade-off may imply that the benefit to society as a whole could be further enhanced and that the process applied in undertaking an action, decision, or policy may need to be further developed.

3.5 Codes of Professional Ethics and Conduct

Codes of professional ethics are statements that state a standard of behaviour expected of professionals in a particular profession. They are enforced by professional bodies that regulate the operations of professions. For example, in Zimbabwe, the medical profession is governed by the Zimbabwe Medical Association (ZIMA). Codes of professional ethics are primarily addressed to members of a professional by the same body. They are also addressed to the public, clients and other agents dealing with professionals since the codes spell out what these secondary addressees must expect from the profession. The codes have various objectives. They are inspirational. They are used to inspire professionals to be more ethical in their conduct. The assumption is professionals are sometimes amoral and hence a need to have a code of ethics and conduct to inspire them to always be ethical. Another objective of the codes is to alert members of a profession of the aspects of their work. They sensitise members to raise their consciousness. A code of ethics might be put in place as a way of enforcing certain rules of the profession. This is often referred to as self-policing. Members, in this regard, are expected to abide by the codes or face some sanctions. That is comply or else. This objective has, however, some problems. Since enforcement of rules drives this objective, it ceases to be an ethical issue. Ethical issues are not the same as regulatory issues. They are issues of self-control by knowing what is right or wrong and behaving likewise.

Codes of ethics might be used as an advisory tool on matters of morality to members of a profession. Another objective of professional codes of ethics is to enhance the image of the profession to the public. In this regard, the codes are expected to communicate to the general public that members of the concerned profession are service oriented and they put the public interest first over their own interests. This claim by professionals that they work for the public interest is questionable. If that was true rampant moral hazards that are seen in the professional world could have been less. Another point to note is that just because they have a code is not sufficient that members of the profession are now trustworthy. The final objective of professional codes of ethics is that having a code serves as a status symbol. A profession is identified by its code of professional ethics. This brings the notion that if you want to make your occupation a profession just prepare some codes of professional ethics. Luegenbiehl (1983: 41) states, “the adoption of a code is significant for the professionalization of an occupational group, because it is one of the external hallmarks testifying to the claim that the group recognises an obligation to society that transcends mere economic self-interest”.

There are some mischievous side effects of adopting codes of ethics. Having a code of ethics will give a sense of complacency to professionals about their conduct. It does not motivate members to perform exceptionally since the codes prescribe only minimum standards. Members will be satisfied by meeting the minimum ethical requirements. Codes of ethics tend to concentrate on micro professional ethics. They do not give consideration to micro professional ethical problems of the profession. The codes must embrace issues of professions as collective bodies explaining their role in society and their effects on public interest. Issues like what role do the professional play in determining the future of the general public and conservation of the environment must be taking a centre stage in the professional codes of ethics. The significance of professionalism from the moral point of view is not emphasised. Professionalism must enhance democracy, social equality, liberty and justice.

Ladd (1991: 137) viewed professional ethics as simply principles that are established as a result of deliberation and argumentation. He went on to explain that professional ethics cannot be settled by fiat, by agreement, or by authority. In short, they cannot be confused with lawmaking, rulemaking, policy making and decision making. Ethical principles cannot be established by associations, organisations, or by consensus. Ladd believes that codes of ethics create moral problems rather than helping to solve them. In most cases, practising professionals rarely turn to their codes of ethics for guidance, and sometimes the codes seem to be inconsistent. Lastly, implementation of a code of ethics may be in conflict with the moral autonomy we expect of individuals.

3.6 Conclusion and Observations

The objective of this chapter was to discuss ethics with specific reference to the world of the accounting profession. I have argued that professional ethics is a branch of ethics which is mainly concerned with the expected behaviour of the individual within a particular profession in accordance with the acquired technical knowledge that makes the individual to be socially considered as a professional within that specific field through specialised training. Accountants are professionals by virtue of their technical knowledge in the provision of accounts services to their clients. In this regard, I argued that there are moral relationships between professionals and their clients, hence this presupposes the prior existence of ethical standards that are used as regulatory measures against the abuse of professional power.

I went on to argue that the foundation of any commercial system is indispensable from reliable accounting whereby the thoroughness of the accounting profession promotes the integrity and reliability or sustainability of the economic system of a particular country. The values that are espoused by the accounting profession such as integrity, objectivity, competency, due care and confidentiality do contribute to the general wellbeing of the national economic system. I went on to give a detailed discussion that shows how all these values contribute to professionalism in the accounting profession and the resultant public trust. It is partly for this reason that I have argued that an effective accounting profession has to understand its responsibility as inextricably conjoined with the rest of society. This observation led me to discuss the accounting profession with reference to the concept of public interest.

I argued that the idea of seeing the accounting profession in terms of serving or promoting public interest implies that in the exercise of its professional duties the accounting profession has an indispensable role to play in the promotion of the general wellbeing of society rather than the use of the profession for the pursuit of self-interests. I went on to authenticate the argument that the idea of seeing the accounting profession on the basis of promoting public interest finds its echo in codes of conduct in professional ethics. These codes are usually aimed at raising or promoting common or shared consciousness within a particular profession with reference to its anticipated professional contribution to the general public. In the light of the issues discussed in this chapter with regards to ethics and the world of accounting, chapter three will provide a critical investigation on whether education of the accounting profession has contributed to the realisation of these ideals. Challenges that are faced by accountants as discussed above need to be included in the conclusion.

CHAPTER FOUR: ACCOUNTING ETHICS EDUCATION AND THE ORIGINS OF ETHICS IN THE ACCOUNTING PROFESSION

4.1 Introduction

Our ethical principles and values are guides to ethical decision making because they provide the direction in which to reason the decision we will make regarding a particular dilemma. If a person truly values people and believes in the principles that all people should be treated equally, they would most likely engage in activities or make decisions that do not infringe on other persons. Individuals are encouraged to create their own principles and value systems. It must be noted that when joining a specific group or profession, you are also required to learn and accept the principles and values of that profession. This means when one joins the accounting profession, he or she must accept the principles and values of the profession as enshrined in the standard codes of professional ethics and conduct. Every accountant is required to abide by such values and principles of the profession and their fitness for the profession is evaluated against those values and principles. Since these values and principles are central to the profession, it is necessary for the accounting students to be taught such values and principles in the course of their training. The ethical education must orient the would-be accountants to good ethical conduct when they finally join the profession because the integrity of the accounting profession is measured by the ethical standing of its members.

There is a growing concern from different constituencies of society that ethics are not given the attention they deserve in the accounting curricula. This chapter will explore the extent to which ethics have been taught to accounting students. It will start by looking at the general history of accounting as a discipline and profession with a view to establishing how morality was lost along the way. The issue of incorporating ethics into the teaching of accounting students has been received with mixed reactions. Some sectors of society have been adamant that ethics cannot be taught as was evidenced in the last chapter, while on the other hand, some are insisting that if the profession is serious about controlling the rampant unethical behaviour shaking the economic environment, it is necessary to reinforce ethical behaviour among accounting students before they join the profession. The discussion will unfold and explore the challenges that are faced in the teaching of ethics to accounting students.

This chapter will be divided into five sections. The first section will focus on a brief history of accounting and will discuss the concept of double booking in passing. It will also establish the origins of ethics in the accounting profession. The second section will discuss the professional code of ethics of the accounting profession as the leading vehicle in the instruction of ethics to accounting students. The teaching of ethics and values to accounting students will follow in the third section and will lead to the discussion of virtue ethics in section four. Two schools of thought will be discussed in the section teaching of ethics to accounting students, thus one advocating that ethics must be taught to accounting students and the other refuting the position and suggesting that cannot be taught and are same across all professions. The fifth section will explore the challenges that are being faced in the teaching of accounting ethics. This will lead to the conclusion of the chapter and the observations drawn from the chapter will be summarised.

4.2 A Brief History of the Accounting Profession and Ethics

The accounting discipline has been in existence since the Ancient Babylonian Empire, that is 2000BC but despite having such a long time in existence, there are still many controversies and challenges in the profession regarding accounting policies, principles, concepts and conventions, (Akinyemi et al 2015: 14 also see Ambashe and Alrawi, 2013: 95). These challenges have affected the positive development of the profession. They have also affected how the society views the profession as part of an information system.

Over five thousand years before the inception of the double entry system, the Assyrian, Babylonian and Sumerian civilisations were flourishing in the Mesopotamian valley, producing some of the oldest known commercial records. This valley was rich in agriculture. This accelerated the civilisation of the valley leading to the development of businesses and small industries in and around the valley. The cities of Babylon and Nineveh became the commercial centres in the valley and the language of business and politics of the same valley became Babylonian. There was more than one banking organisation in Mesopotamia, employing standard measures of gold and silver, and extending credit in some transactions. During this era rulers of Samaria owned most land and animals in trust for their gods, giving impetus to their record keeping efforts. The legal codes that were in place penalised the failure to keep accurate records and memorise transactions. The code of Hammurabi, handed down during the first dynasty of Babylon required that transactions be recorded and subscribed by the transacting parties.

Accounting in Egypt developed in the same manner to the Mesopotamians. Egyptian bookkeepers kept meticulous records, which were checked by an elaborate internal verification process. This internal checking system is today called the internal audit. Ajao et al (2016: 33) define auditing as, "... a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users." Auditing is a branch of accounting and its origins can, therefore, be traced and linked to that of accounting. This is evidenced in the Egyptian civilisation as stated earlier on that the early bookkeeping records were verified internally and externally through the royal audits. Auditing has been and still is a way of giving reasonable assurance that the accounting records present fairly in all material respects.

It has been an integral part of the accounting systems from the early accounting records to date.

These early accountants had good reason to be honest and accurate because irregularities disclosed by royal audits were punishable by fine, mutilation or death. The accuracy of the records was guaranteed by the rapid and severe sanctions imposed on instances where mistakes were ever discovered by the audits. The records of inventory kept by the bookkeepers of Mesopotamia and Babylon marked the origin of the accounting system that eventually developed to the modern day sophisticated accounting methods. The most important event in the accounting history is generally the inception of double entry bookkeeping by Luca Pacioli in the 14^{th} century in Italy. He was referred to as the father of accounting. This has marked the beginning of the systematic bookkeeping which has developed to the current sophisticated accounting systems. The modern accounting profession started in Scotland when Queen Victoria granted a royal charter to the Institute of accountants in Glasgow. This was the creation of the profession of chartered accountants making the Scottish the longest standing chartered accountants in the world. Since then the profession has spread throughout the whole world, (McClain 2016: 6). This means the profession has been in existence for many centuries. The profession has been respected since its inception because it was grounded in strict principles and it had no room for making any error.

The modern financial accounting systems are generally thought to have been developed from Pacioli's invention of the double entry bookkeeping. Luca Pacioli was a mathematician, and university teacher, who served as tutor to the sons of a rich merchant. Double entry bookkeeping is an accounting system that ensures the integrity of the financial values recorded in a financial accounting system. It does this by ensuring that each individual transaction is recorded in at least two different accounts of the financial accounting system and so implementing a double-checking system for every transaction, (Kimizuka and Murai 2007: 168, also see Edwards 1989). The technique provided a rational way of figuring accounts through careful calculation of assets and liabilities and determination of profits and losses. Double differed from single entry techniques which recorded the flow of goods but did not measure profits and losses. Andrea Barbarigo was another writer who had a passion for this style of accounting. His writings pointed to a highly evolved system, using several books, carefully cross-indexed and coordinated to form a coherent whole.

McClain also suggested that Luca Pacioli was the first one to introduce accounting ethics. This is however disputed by some who argued that accounting ethics stated way back in Mesopotamia where they were enforced by the code of Hammurabi, (Horomnea and Pascau (2012: 2). Pacioli was given the credit for the introduction of ethics in accounting and business in general. He believed that businesspersons must put God first before pursuing their business interests. McClain (2016: 6) states that, "... successful businesspersons should see the secular and spiritual aspects of their lives as inextricably intertwined, and further that in the conduct of their business affairs they should above all keep God before their eyes." This kind of business practice that was being put forward suggested a social business approach. It is believed if someone puts God first, they will, in turn, respect other human beings and pursue their business in a manner that does not violate the interest of other persons, that is, the public. This means such business persons have values and morals and hence are ethical. Pacioli suggested such a business approach but he did not believe in it. Instead, he believed in the capitalistic accounting. He strongly believed in the idea of maximising profits although he advocated that businesspersons must seek their profits in honest ways and constantly checking the appropriateness of their conduct. It can, therefore, be clearly pointed out that capitalistic accounting approaches and accounting ethics here born from the same womb. But however, the capitalistic approach was quickly adopted and spread ahead of the social and ethical accounting practice. As such talking about ethics in accounting is not a new phenomenon, but rather reminding each other to go back to the roots and embrace a twin brother which we had separated from the other brother.

The integrity of the profession was underwritten by the harsh punitive sanctions imposed on those who made mistakes and the moral standing of the individual accountant. There were no hard and fast codes of professional ethics in the early stages of the profession. The integrity of the accounting systems was underpinned by the punishment imposed on those who behaved in unacceptable ways. The advent of numerous scandals identified above which rocked the profession in the past two decades made the custodians of the profession think of taking professional ethics seriously if the profession was to survive. The professional codes of ethics are today the guiding principles of the professional accountants both in practice and in employment. Backof and Martin (1991: 99) suggested that the codes of ethics are not static. They went on to describe that they are always evolving being influenced by the forces affecting the environment that the profession is trading in. The business environment is not static. It is always revolving responding to the continuous changes on the underlying variables that control the environment. New pieces of legislation are created daily, new technologies are discovered, and the climate is also changing at an increasing rate. This makes it a necessity for the accounting professionals to be taught ethics continuously as to keep the professionals abreast with the ever-changing environment.

Horomnea and Pascau (2012: 2) write that, “from Luca Pociolo until the beginning of the 20th century, the progress of accounting is the result of assiduous work performed by theoreticians and practitioners in the field of accounting. For this reason, the new problems imposed by accounting require meeting the ethical and moral principles”. This suggested that from the inception of the double entry by Pocioli, little was done in enhancing ethics and morals in the accounting profession. The oldest reference to accounting ethics was the Code of Hammurabi of Babylon which includes the oldest text law referring to justice, morality, and accounting. These were general and were not specific to the accounting discipline. At the same time, Horomnea and Pascau also pointed out that traces of ethical accent also appeared in Egypt. These principles in Egypt were established by the gods and guaranteed by the pharaohs. These ethical norms were taught in schools by scribes and bookmen. The teaching of ethics to accounting students and professionals has become a topical issue given the background that the profession has been called to account on the unethical behaviour of its members on various platforms.

4.3 Codes of Ethics for the Accounting Profession in Teaching Accounting Students

Accounting was generally defined as a system of recording and summarising business and financial transactions and analysing, verifying and reporting the results. The purpose of accounting is the provision of financial information to the stakeholders of a business so that they can make informed decisions concerning the business. The accounting profession must, therefore, be ethical enough to serve all the parties who rely on their financial information. They must have ethical principles and must make be willing to make full and respectful use of them but must be treated as maxims but not as laws (The Journal of Accountancy, 2007). The accounting profession must adhere to an ethical system that facilitates trust among its adherents and creates the necessary foundation for a cooperative endeavour. On the other hand, society has imposed a set of moral obligations that includes responsibilities, aims, values and commitments on the profession, (see Els, 2009: 46 – 47)

The accounting profession has come up with a professional code of ethics and conduct which is a systematised approach to mediating the conflicts that can occur when one person, acting in their professional capacity, acts in different capacities. These codes are also a reflection of the relationship between the profession and society. In general, the designation professional is highly desired and people are even taking courses of action that seem on the surface to be against their self-interest because they want to protect the privilege of being known as professionals. It is desirable to be a professional because of the economic rewards available to successful professionals and the certain privileges that are granted by society to the profession. Because of the high expectations that society places on professionals, the accounting profession has adopted codes of ethics, also known as codes for professional conduct. These codes call upon their members to maintain a level of self-discipline that goes beyond the requirements of the laws and regulations. The first major that the accounting profession took into consideration when they came up with the codes is the ‘public' to which the profession should be ‘liable' to. The accounting profession's public must consist of all the stakeholders who rely on the objectivity and integrity of the professionals to maintain the orderly functioning of commerce, (AICPA Code of Professional Conduct). The second issue considered was the fundamental principles or qualities of accountants. The IFAC Code of Ethics for Professional Accountants and interpretations apply to all accounting professionals regardless of where they are practising.

4.3.1 IFAC Code of Ethics

The IFAC code of ethics requires from its members five fundamental principles. These principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Shiri and Shahrestani (2013) observe that, "Society has great expectations from the members of the profession. People need to trust the quality of services provided by the accounting profession. To gain trust in these services, we should trust the providers' services, and for this, they must be committed to integrity and ethics" (Shiri and Shahrestani 2013: 172). This expectation will, therefore, call for the accountants' intellectual and practical commitment to standards of conduct. This requires a thorough and strong ethics education for accounting students. It is important to give attention to ethics in the accounting profession and ethics must be taught more in accounting education. The code of professional conduct must play a pivotal role in improving the commitment and quality of accounting services. However, the codes of ethics that guide the accounting profession are more of prescriptive statements and have done little effect in addressing the ethical gap in the accounting profession. The accounting profession is still lamenting the ethical challenges that dominated the last two decades (Els, 2009: 47). On the other hand, society demanding a more flexible and responsible profession that is abreast with the continuous changes to the socio-economic being spearheaded by technological and environmental changes. The professional codes of ethics in the accounting profession seem to be static and unresponsive to the changes described above.

Students of accounting are a part of future decision makers and such decisions in the future will affect organizations and society. Shiri and Shahrestani, (2013: 174) mentioned that moral values shape the current behaviours of future attitudes and have a strong impact on a person's professional choice and job behaviour. Moral values are paramount and they must be improved and must be considered in all fields of life. Ethical education is one aspect that can easily affect a student's moral orientation. It is necessary that relevant authorities put in place a system that emphasises accounting ethics such as professional of code conduct education in lessons of accounting discipline.

4.4 Teaching of Ethics and Values to Accountancy Students

Accounting education has been criticised for failing to develop students' in the ethical dimension. The content of the accounting curriculum has been labelled to be characterised by superficial learning strategies (Grey et al 1994: 51). Rob Gray, Jan Bebbington and Ken McPhail write that, "although there is much to admire about current accounting practices there is also considerable evidence of ethical and intellectual failure among accounting practitioners." They also lament the current accounting education framework is mainly preoccupied with techniques acquisition, (also see Sikka 1987 and Uyar and Gungormus 2013: 62). If this is so, the price is ethical immaturity for accounting professionals as evidenced by numerous ethical failures in the profession that continues to occur around the globe. Some of the responsibility if not most of the ethical failures can be directly interpreted as a failure in the accounting education system. Grey et al (1994: 52) state that, “if there are ethical failures in accounting practice it is therefore probable that at least some of the responsibility must be laid on the doorstep of the educators." This is sustained by immature ethical reasoning exhibited by most accounting students and young professionals. Education is a key factor in ethical development of students and practitioners. It helps in building ethical maturity and confidence in making ethical decision making. Education also helps in highlighting the ethical expectation of the society and profession before one joins the profession. It helps in giving the correct mindset to students and reinforces and reminds students the need to be ethical and the hazards associated with unethical behaviour.

It has been noted earlier that ethical behaviour is paramount in the accounting profession. Accounting educators have been cited as occupying a leading role in the development of ethical thinking in accounting students, (Brands 2016: 34). She identified the late 1980s as the time when significant consideration of taking ethics into the teaching of accounts started to develop. Business and society started to believe that education can be a deterrent to fraud and unethical behaviour. Ethics in accounting education took the centre stage in the development of accountants following the serious accounting scandals involving big companies such as Sunbeam and Worldcom in 2002, (Ahmad, 2015: 87, also see Mele, 2005: 97 and Miller et al 2014:78). Ethics in accounting education-related discussions increased among scholars in the accounting profession. However, there is no agreement among scholars on the need for ethics to be taught to accounting students as shall be noted later on.

Miller et al (2014:79) state that, “interest in accountants' ethics education comes from many parts of society, and this interest is heightened each time there is a new discovery of financial fraud." School seems to be the best place to address the issue of ethics because all the practitioners who are involved in the frauds and other unethical conducts passed through the schooling system in one way or the other. Another issue that is relevant is that one goes through learning before they become a professional. This means this will be the right timing of reinforcing good ethical behaviour before one becomes a professional and before engaging in unethical activities resulting in financial scandals that seriously affect economic systems. It is generally believed that if accountants were better educated in ethics, the business environment was going to be faced with less fraud but no one can measure the extent to which the frauds will decrease because some of the ethical behaviours are not documented, (Miller et al 2014: 79). Another issue that comes to mind is that the teaching of ethics to accounting students is reactive to discovered frauds. It is common practice that when a certain type of unethical conduct is committed and the offenders brought to book, the next another ethical violation done, it is usually done in a more advanced and sophisticated manner. So the teaching of ethics to accounting students must be proactive. Case studies must be used not only to prepare students to avoid same ethical challenges that are known but to deal with even more complicated scenarios that have no precedence.

Ethics education in the learning of accounts must have an aim of bringing together or harmonising the ethical orientation of the students and the professionals in practice. It must instill a sense of moral commitment among the students to society, (Anzeh, 2015: 122).

Students of accounting must be taught to appreciate and understand the connections between fraud, corporate failure and ethical behaviour. The teaching of ethics to accounting students must be done in such a way to motivate the students to behave ethically when they join the profession. The student must be aware of the impact of unethical behave to the public how it damages the image of the profession. The accounting failure brought about condemnation on the accounting profession. Ahmed argues, "consequently, this scandal brings a negative impact on the world of accounting and affects the perception of the public towards the credibility of the accounting profession." The ethical and moral dilemma issues of the accounting scandals are showing an increased concern to integrate and merge ethics into the accounting curriculum. This debate has been going on for a long time but has not produced any uniform results, (Miller et al 2015: 77). The intention is to build up an integrated accountant who can cover various aspects of the profession and of personality.

Frauds and other unethical behaviours that spun for many years have put the profession in jeopardy. Public confidence in the profession is on the decrease as a result of ethical failure of the accountants. This gives the academic society pressure to increase the ethical education on accounting students. Anzeh (2015: 123) states that, "Accounting Ethics Education equals the opportunity cost of the billion dollars losses, occurred when impossible unethical acts were perpetrated through the global financial crisis, of the biggest business leaders corporations around the world." Character building must, therefore, be a deep and heavy agenda in the accounting education curriculum. The integrity of the profession is measured by the ethical standing of its members. Anzeh went on to highlight the need for universities to devote themselves to centres of knowledge acquisition and engage in a drive of regaining the public trust of the accounting profession through production of accounting graduates whose behaviours are grounded in solid ethical foundation. This is a big responsibility being placed on the shoulders of learning institutions.

It is necessary for the accounting students to have an understanding of the three ethical dimensions, which are personal ethics, professional ethics and business. The interrelatedness of these three must be understood in relation to financial reporting regulations, (Kermis and Kermis, 2014: 1). They further explained that ethics starts with one being accountable to investors, the profession and society in general. They state that, "accountability, taking responsibility for one's action, begins in the individual and transfers over to integrity in the workplace". If accountability begins in the individual this follows that being ethical to the profession, investors and the general public starts with one's personal ethics. Personal ethics are informal and these are the values and virtues that we want our children to have. They are learnt in most cases in family set ups. These make up the identity of a particular family.

4.5 Virtue Ethics and the Teaching of Ethics to Accounting Students

Virtue ethics or theory is an approach to ethics that emphasises an individual's character as the key element of ethical thinking, rather than rules about the acts themselves or their consequences. It is classified within normativeethics that attempts to discover and classify what might be deemed of moral character, and to apply the moral character as a base for one's choices and actions. In general, it focuses on what the individual should choose for their own personal inward behaviour (character) rather than the individual relying solely on the external laws and customs of the person's culture. It is assumed that if a person's character is good then so ought the person's choices and actions be good. Aristotle discussed the conditions under which moral responsibility may be ascribed to individual agents, the nature of the virtues and vices involved in moral evaluation, and the methods of achieving happiness in human life (Anthony Kenny, 1978). The central issue for Aristotle is the question of character or personality, that is, what does it take for an individual to be a good person.

Mintz (2006:97) defined virtue ethics thus, “virtue ethics is an agent-based approach to ethics. …, an agent based approach concerns the fundamental character and motivations of an individual agent.” Virtue ethics do not concentrate on reasons for actions. Their aim is to instil characteristics and traits in an individual. These traits and characteristics will lead that individual to taking the correct action. Virtues are of value to professional accountants. This is reflected in the standard code of ethics and conduct of the accounting profession which lists and describes virtues that are necessary for an accountant as a professional to abide with. Accountants are always faced with competing ethical situations, for example, the management can put pressure on the accountant to manipulate books for some selfish cause. The virtue ethics can enable the accountant to take the right decision, (Mintz, 2006:98). It is, therefore, necessary to teach accounting students virtue ethics in preparing them to taking up accounting as a profession.

Such values and virtues grow and develop over time and they become a part of one’s character. They are influenced by a number of variables such as the behaviour of one’s parents or guardians, religious beliefs, culture, experience and many more. This gives an idea that personal ethics are not taught in a formal education system but are transferred or copied from the environment that one grew up in. If personal ethics are the basis of professional ethics it can be suggested that they can only be taught to someone who has personal ethics. Someone who already has personal ethics is already ethical and no need to be taught professional ethics since these are virtues that one acquires over time. This thinking is in line with Ladd (1991:131) who argued that there is no need for professional ethics because ethics are the same be it one is a professional or not and they are acquired in the process of growing up.

Kermis and Kermis (2014: 2) state that, “the choice one makes reflects the personal code of ethics that the individual has created and transfer to the workplace". This is an emphasis of the position that personal ethics always eventually transforms into profession ethics. One who is ethical as an individual in most cases becomes an ethical professional. Accountability is a process that starts with an individual and ultimately ends with the same individual's understanding of what is wrong or right in a particular situation. Gaffikin, (2007: 1) explained that ethical behaviour is believed to be shaped by moral principles. This is in support of the school that ethics are learnt not only from formal education and training but through exposure that one goes through in life. This school of thinking suggests that the accounting profession is for these with correct personal ethics which will transform into correct professional ethics. Such kind of thinking can be interpreted as meaning that the accounting scandals that have been recurring in the past are a result of individuals who are not supposed to be in the accounting profession. It can also be suggested that the accounting profession is meant for specific individuals who grew up in the right families with correct ethical values and leaving in an environment that facilitate or encourage good ethical behaviour.

Per Aristotle, virtues of character are dispositions to act in certain ways in response to similar situations, the habit to act in a certain way (Anthony Kenny, 1978). Thus, good conduct arises from habits that in turn can only be acquired by repeated action and correction, making ethics an intensely practical discipline. Responsible action must be undertaken voluntarily and human actions are voluntary under two distinct conditions as put forward by Aristotle. The first condition is that one's actions must not be a result of some external force that the individual has no control over and secondly, the action must not be performed out of ignorance.

4.6 The Need for Incorporating Ethics in the Accounting Education Curricula

Another school of thinking contrary to the above is of the suggestion that the accounting scandals that have been occurring can be curbed if ethics are merged with the accounting curriculum. Both this school and the one discussed above are of the same opinion that the lack of ethical fitness in the accounting professionals has a large contribution to vices that have been affecting the profession. Their point of departure is on how the professionals can acquire ethical credibility. The advocates of infusing ethics in the accounting curriculum believe that ethics can be taught and reinforced and contribute to an individual's behaviour, (Christensen et al 2006: 1).

The traditional approach in accounting education has been centred on technique acquisition. This phenomenon also applies in the training of professional accountants. Little has been done in enhancing ethics in the accounting profession through teaching. Most education systems have continued to upgrade knowledge bases and model their curriculum to accommodate more and more technical techniques (Gaa and Thorne, 2004). The curriculum has not given much impetus to the teaching of ethics to accounting students beginning from schools right through to the training of professional accountants, (Uyar and Gungormus, 2013: 1). Ranti and Ebikaboere lamented on the quality and adequacy of teaching of ethics in the education of accounting professionals. They raised a growing concern in the lack of ethics and professional responsibility in accounting curricula. Today accounts cannot live on technical skill alone. They need to have a high ethical standing which will sustain their reputation in the face of the public which the accounting profession has pledged to work for. Kannaiah and Kummar emphasised that the accounting profession is benchmarked by the profession’s ethics, values and principles. This gives the need for ethics to occupy a greater part in teaching and training of accounting professionals.

Ethics are introduced at a later stage and are being taught as a distinct extension of the accounting discipline. More emphasis is being placed on compliance to ethical guidelines in the profession than on teaching. The lack of a comprehensive curriculum of ethics in the accounting education system is a contributory factor to the scandals that have caused havoc in the business environment, see Kannaiah and Kummar, (2009: 91).Teaching of accounts need to embrace ethics not only as a standalone module, but must be fused within the discipline throughout the training. This will enhance accountability of accountants in the long run. Mintz (1995) states, “the primary focus of integrating ethics in accounting education has been to expose students to standard ethical theories with a view of resolving ethical dilemmas that arise at workplaces". The goal of the teaching of ethics to accounting students should be to help them acquire skills not only to deal with ethical challenges in the workplace but also in their day to day living. If ethics become a part of their day to day living, then ethical behaviour in the work environment will not be a challenge. Supportive ethical teaching structures must be put in place starting from early education stages as a way of reinforcing good morals in future professionals.

4.7 Challenges Experienced in Teaching Ethics to Accounting Students

There are challenges however in teaching ethics. Ryan and Bisson (2011: 46) lamented on the complexity of teaching ethics. They state that, “being able to teach ethics within a program requires instructors to be able to grasp the process of moral reasoning to a point where this can be taught as a necessary route to arrive at ethically sound outcomes. Instructors, therefore, need to have an understanding of the moral relationships with ethics, something that may take a great deal of experience…" This means an instructor gets more knowledge and experienced as they repeatedly teach ethics. The implication is that all the students that are taught by an instructor in their early stage of teaching might be victims of incompetent teaching and will be offloaded to the profession without the required knowledge in ethics. Only the students who are instructed with someone who has been in the field for long enough will benefit. Another issue highlighted by Ryan and Bisson is the issue that ethics can be difficult to understand. This is propounded by the trained philosophers who have vast experience in logical analysis and argumentation. In most cases accounting students who register for an ethics course, are at introductory stages of learning philosophy will in most cases have difficulties in applying abstract philosophies, which are always contradicting business situations. There is no prescribed method for applying theory, and of dealing with competing theories brings more confusion to introductory ethics students. This is compounded by the professor teaching the ethics course who sometimes does not give due regard to students who are fairly new to philosophy. It is not fair to expect students who are majoring in accounting and have only one ethics course to understand all the theoretical frameworks in the field of ethics.

This brings us to another challenge in the teaching of ethics to accounting students. The business ethics module is usually offered as a single stand-alone course. This is a small proportion of time devoted to ethics education in comparison to the total time for one to graduate with an accounting degree. Said and Al-Tarawneh (2013: 66) explained that accounting students have a higher awareness of moral duties than non-accounting students. They went to say that there is, however, no significant difference between the two groups on their ethical sensitivity. It can, therefore, be deduced that the teaching of ethics to accounting students has insignificant or no impact to their ethical behaviour. They will continue to behave the same way as non-accounting students although they have a better moral awareness. Said and Al-Tarawneh attributed this behaviour to the inadequacy of ethical training in the accounting education system. They lamented on the limited teaching time of ethics and called for serious intervention and rethink and re-engineer the accounting education system and the time given to the instruction of ethics. Some authorities have called on accounting education system to fuse ethics in the curriculum and do away with ethics as a stand-alone course. If ethics are infused in the curriculum, they will receive a fair share of time. It is believed the accounting students will eventually appreciate the importance of ethics as they are continuously reminded of them throughout their training.

It is important to continuously encourage students to develop a good understanding of the many challenges and pitfalls that are surrounding the accountant's workplace. A good understanding of their ethical requirements will help them execute their duties and responsibilities to various stakeholders who rely on their work. The accounting profession has duties and responsibilities towards the shareholders and the profession. These duties and responsibilities are laid down in the professional standards codes of ethics and conduct as they are put forward by IFAC. The professional standard codes of ethics and conduct is the framework upon which the behaviour of professional accountants is anchored. This, in turn, must form the basis of the accounting students' ethical education apart from being taught personal ethics which influence the professional ethical behaviour. If the student grasps the need to be ethical and become ethical, this will increase the chances of the same student to be responsible and accountable to various stakeholders especially to the public as the profession claims.

Today’s business environment is always changing as a result of emerging technologies, global economic pressures and demographic shifts. Society is also putting more pressure on the profession by demanding that businesses must be accountable for their conduct. The accounting profession must therefore report and account to the public on social responsibility activities and adopt more sustainable business practices. This clearly shows that today's business practices are much different from the business practices of yesterday, (Anzeh, 2015: 123). These same factors that are affecting business are also affecting the education environment. This, therefore, requires the accounting academic departments to quickly respond to the ever-changing trends in the environment.

Society is generally concerned with the current ethics education to accounting students. It is worried about why the education framework is failing to address the ethical maturity of students, (Ferguson et al, 2011: 12). They further lament the current accounting education framework which has failed to embrace the ethical and moral assumption that are pivotal to it, and the other frameworks that are a result of alternative sets of moral and ethical assumptions. The accounting education has been hitched on the capitalistic approach where students are taught that the purpose of existence of a business is to maximise shareholder's wealth. Students are taught that society's welfare is optimised when individuals act in a way to nourish their economic self-interests. They are made to think that the only participants in the wealth creation matrix are the shareholders whose interests must be maximised. Ferguson et al state that, "… accounting and business students are not encouraged to consider alternative ways in which society may be organised, or to speculate upon the power asymmetries that under-pin the prevalent worldview that they encounter." (2011: 6). Educators who might want to give a different view or set of beliefs tend to get marginalised.

In terms of shutting out other frameworks, other schools of thinking have put it clear that if learning is restricted this way, it adds up to indoctrination, and encourages moral atrophy in students. It can be argued that students must be exposed to other economic frameworks and do away which the neo-capitalism orientation that is associated with numerous social vices. Neo-capitalism is characterised by income disparity, and can be a source of violent crimes that arise from psychological factors such as depression, anxiety, drug use, and gun crimes. This framework is one of the major contributors to the previous financial crisis.

4.8 Conclusion and Observations

This chapter had an objective of discussing the need and adequacy of teaching ethics to accounting students. It was clearly argued that there is a need to teach ethics to accounting students though there are mixed opinions to this thinking. The accounting profession needs ethical practitioners who will uphold the values and ethical expectations of the public. In this regard, I argued that the only place that is conducive to initiating professional ethics to the professional is during their learning process. All the accounting professionals go through this process before they are admitted into the profession making it the right time to teach them what they are expected of when they finally join the profession. It was established that accountants have an ethical obligation to both society and owners of the business. It was also noted that the professional code of ethics must be the key point in the teaching of the ethics but however, the codes have limitations that need to be addressed if they are to be a useful tool in the ethical development of accountants. They need to be contextual adaptive to the economic environment which is ever changing.

In my endeavour to meet the objective of this chapter, I started by briefly looking into the history of accounting and ethics in the accounting profession. This was done in order to establish the events that lead to the condemnation of the accounting profession as a result of various ethical failures. It was established that ethics in the accounting profession originated almost at the same time as the accounting profession. The only challenge was that the accounting discipline was originated from a capitalistic perspective and it was ethical enough to apply accounting systems that were robust in accounting for the profits of the owners of capital. This did not give due regard for the profession to be accountable to anyone other than the owners of the businesses. Thus, there were no meaningful advances in the development of ethics. As explained in the chapter, only accuracy and transparency to owners were emphasised and violations carried severely punished.

It was noted that as development continued society become more aware that the accounting profession has an ethical duty to deal with financial scandals that were mostly a result of ethical failure of its members. This called for the teaching of ethics to accounting students as a way of preparing them to tackle ethical challenges they will meet in the profession. It, however, noted that there is more that needs to be done in the teaching of ethics to accounting students. Ethics education is not being allocated enough time as much time is being devoted to technique acquisition. I also argued that it was necessary to teach ethics not only as a stand-alone module, but they must be infused in all modules as a way of reinforcing their importance to the accounting students. I am of the idea that if the accounting professionals are more ethical in their conduct, the frauds that have been a common sight in the economic environment can be minimised and accountability enhanced. One of the most debated issues among scholars is about whether the accounting profession was accountable to the shareholders or to the stakeholders. The following chapter will focus on this debate.

CHAPTER FIVE: THE ACCOUNTING PROFESSIONAL RESPONSIBILITY IN THE LIGHT OF SHAREHOLDER AND STAKEHOLDER THEORIES

5.1 Introduction

The last chapter was on how ethics came about in the field of accounting and the contemporary teaching of ethics to accounts students. It established that ethics is important in the accounting profession and must be incorporated in the accounting curriculum as a way of preparing the students for their career in the accounting profession. The accounting profession has been on the spotlight for some time now due to unethical failure in the profession that resulted in financial scandals that left some economies on the verge of collapsing. The accounting profession provides valuable services to the economy and as such it must give reliable and impartial information. Reliable accounting systems are a cornerstone for sound economic activities. High-quality accounting standards facilitate efficient allocation of resources. The efficient resource allocation is a prerequisite for building a sustainable economy. The integrity of an economy is measured by the reliability of accounts information that is provided to the economic institutions. The solid economic systems that are sustained by well-functioning accounting systems offer a good base of revenue to the central government in forms of taxes. A good and reliable revenue base for the central government means better facilities and lifestyles for the public. A reliable accounts system is that which is responsible directly to the needs of the diverse parties that are affected directly and indirectly by the existence of an organisation.

There are many parties that rely on the accounting information that is disseminated by accountants. Accounts must be in a position to understand the various needs of the recipients of the financial information and as such, all the needs of the recipients need to be addressed. The accounting information must be acceptable and useful to the addressees. This chapter is going to discuss the shareholder and the stakeholder theory as they relate to the accounting profession. These theories are antagonistic and the shareholder theory has enjoyed dominance for a long time at the expense of the stakeholder theory. This can be noticed even from the previous chapter that the accounting curriculum has been crafted skewed towards the shareholder supremacy. This, in turn, has even affected the morality and ethical standards of the accountants. These theories are important in the day to day operations of business as they give a general direction of the business orientation. They also have an effect on the responsibilities of the accountants and they influence the way the profession is accountable.

In this chapter, it will be demonstrated that the shareholder theory has seen its days as the business is now drifting away from the capitalism to a business framework that is all-embracive. I will argue that shareholders are not the only ones who rely on the information that is provided by the accountants. Accountants have an equal responsibility to other stakeholders as they have towards the shareholders. This, in turn, will mean that accountants are accountable to stakeholders and shareholders. I will end by advocating for a more tolerant accounting approach that recognises the existence of other stakeholders other than the shareholders.This chapter is divided into six sections. The first section will discuss the shareholder theory and how it relates to the accounting profession. The second section is going to examine the concept of corporate social responsibility which is closely related to the profit maximisation notion which was advocated by Milton Friedman against the generally accepted meaning of CSR. The next section will discuss the agency theory which is an extension of the shareholder model. It has its own problems that are integral to the accounting profession. These problems will be discussed with reference to the stakeholder theory and its implications to the accounting profession. The stakeholder theory will be discussed also in its relationship to the issue of sustainability reporting. The section on the need for the accounting profession to be responsible and accountable will lead to the conclusion of the chapter.

5.2 The Shareholder Theory and the Accounting Profession

The ideas of the shareholder theory are assumed to have been in existence for over two hundred years. Pfarrer (2010:86) pointed out that this model is rooted in Adam Smith's *The Wealth of Nations*. Shareholder theorists, like neo-liberals, call for limited government and regulatory intervention in business, believing markets are best regulated through the mechanism of the invisible hand. The invisible hand theory assumes that, if all businesses work in their own self-interest and seek profit maximisation, society will also benefit in the process. In the same vein, neo-liberal capitalist maintain that shareholder theorists business should be concerned with increasing the welfare of its shareholders. The managers have therefore a duty to manage the affairs of a business in a way that maximises the profits of their employers who are the owners of the business (Peavler 2016: 1). The shareholder model was sustained by Milton Freidman when he stated that "the only responsibility of business is to increase its profits". This model has been seen as a theory of responsibilities of the business to the society in which it is operating. Friedman's thinking has been supported by many among scholars of business management, (Ferrero et al, 2014: 37, also see Stout, 2004: 1190 - 1192). This theory has played a big role in the organisation of businesses for a long time. The accounting profession as briefly stated in the last chapter has been greatly influenced by the stakeholder theory. This theory has underpinned the fundamentals of the accounting discipline and profession at large and has largely contributed to the self-interested behaviour among the accounting professionals, which they disguise as professionalism.

Shareholders in some cases can be called stockholders and are those individuals who own a business, or a part of a business. Owners of a business or shareholders enter into business with only one goal that is to increase their wealth through making profits. Therefore, since the purpose of a business is to make profit, Friedman concludes that employees of any business are obligated to do one and one thing only that is to maximise the profits of the business. Accountants like any other employees are expected by this theory to do their work exclusively in the interest of the owners of the business. This theory is however questionable given the position that there are other parties who are interested and are directly and indirectly affected by the operations of a business. Shareholders are presumed to be the owners of a business because of the equity they have in the business. It must however, be observed that it is not only equity owners who have an interest and claim in the business. Debt holders also have a legitimate claim and interest in the business that arises from the investment they have in the business that is the debt (Stout 2004: 1192).

Managers view business as an entity owned by the shareholders who are resistant to change. The shareholder theory as put forward by Freeman (2007: 57) “puts shareholders’ interests over and above the interests of customers, suppliers, employees, and others, as if these interests must conflict with each other”, (also see Branco and Rodrigues, 2007: 5). Business is understood as hierarchical organisations bound together with authority to act in the interest of shareholders. Freeman views shareholders as the boss and everyone in the organisation is expected to meet the expectations of the boss. Therefore, the accountants are part of everyone and they must do what the shareholders want, that is profit maximisation. On the basis of this interpretation, change will only occur when the shareholders call for change that is when they are not happy with prevailing conditions, and if the managers are producing incrementally better financial results there is no problem. The only change that occurs is determined by the shareholders and is geared towards increasing shareholder value. According to this view, if accounting rules are compromised for the benefit of the shareholders, then such an eventuality is acceptable. The shareholders’ value is measured by the price of the counter daily, (Freeman, 2007: 58). Accountants are at liberty to window dress the financial statements to drive the price of the counter up, disregarding the negative effects it has on other individuals and groups.

The unfortunate part is in today’s business world there is too much uncertainty and complexity to rely on such a simple criterion. It is, therefore, my argument that it is not correct to single out shareholders as the sole owners of a business without taking note of other creditors who in some circumstances might have a contribution much higher than that of shareholders. Accountants must, therefore, embrace the interests of such parties because of their investments in the business. Stout argued that this position holds water from both a legal and economic perspective and he states that, “the time has come to lead the shareholder ownership argument for shareholder primacy to the back of the barn, and to put it out of its misery”.

The accounting professionals are privy to knowledge that most employees and consultants do not have access to. They have knowledge of the financial information of a business they provide services. The financial reports provide enough information to refute the stakeholder theory. It is necessary to establish if the shareholders are the real owners of a business as the shareholder theory claims. Lynn Stout, (2004: 1190 – 1192) refuted this reasoning both legally and economically. He argued that legally the shareholders do not own a listed company and they have insignificant control over the operations and assets of the company. His assertions are that shareholders own a corporate security called stock, put in simple terms shares. The board of directors are the ones who run the business and they do it not for shareholders. Any influence the shareholders have on the business is indirect. They do not have access to the business's earnings except when the directors decide to declare a dividend which they do without the influence of anyone including the shareholders. Stout writes that, “any influence they (shareholders) may have on the firm is indirect, through their influence on the board of directors.” This influence is often diluted to make any meaningful impact. This notion of shareholders owning the business is questionable again from the economical perspective especially after the firm has issued debt. Stout writes that, “option theory teaches us that once a firm has issued debt (as almost as all firms do), it makes just as much sense to that the debtholders own the right to the corporation’s cashflows…” My argument is that the shareholders do not own the business alone, but together with all other individuals and groups who have a direct or indirect claim to the business. Accountants are therefore making a mistake when they give exclusive attention to shareholders as owners of the business in the preparation of their financial statements or when they perform their audits.

5.2.1 ***The Balance Sheet and Their Shareholder Theory***

The balance sheet of a business provides information about other stakeholders that have a direct interest in the operations and affairs of a business. Flood, (2014: 43) defined the balance sheet (now known as a statement of financial position) as an account that "present information about assets, liabilities, and owners' equity and their relationship to each other." The balance sheet gives information on the entity's resources and how they were financed. The assets of a business are not usually wholly financed by the owners of the business who are the shareholders. There are many different mixes and structures of financing the resources of a business ranging from the owners' equity, short-term debt through to long-term debt. In between, we have other financing parties like creditors, overdrafts, short-term loans and many more. These balance sheets are produced by the accountants which makes them enlightened of the existence of other parties with significant claims in the business. This knowledge must be a tool for the profession of refuting the shareholder approach and engage in ethical accounting that embraces all the stakeholders.

5.2.2 ***The Problem of Falsified Information***

Peavler, (2016: 9) suggested that the fall of Wall Street and the near collapse of the United States of America's economy in 2008 was mainly attributed to lack of ethics in finance. This was the worst recession since the Great Depression. Many financial institutions went bankrupt and failed. The US deregulated the banking sector starting in the 1980s through to the 1990s. Banks in the US financial system traded freely without controlling of factors such as corporate greed and fraud. Greed and fraud may make short-term profits for a business but, if the companies are to stay alive, short-term profit isn't very important. Long-term viability is the issue. They began to engage in risky activities in the name of perusing profits. The banks gave out risky loans. All this took place in the eyes of the accounting professionals and they never made any reservations. The result was disastrous and it was noted that, "when companies serve themselves rather than their stakeholders, they are doomed to fail. This is true whether they are a large business or a small business", (www.thebalance.com/shareholder-wealth-maximisation-392844). The near collapse of the US economic system began two and halve decades back with the series of financial scandals that rocked the world. The most known one being the Enron scandal that took place in 2001. The Enron Corporation was a big energy company that collapsed due to an accounting scandal, or 'cooking books' by its own auditing firm, Arthur Anderson. This firm was one of the premium accounting firms in the US and it also went yonder with Enron. This scandal is one of the greatest examples of ethical failure in the accounting profession. They failed to give due regard to the existence of other stakeholders who fell prey to the scandal. This was followed by other numerous financial failures and their effects are still being felt throughout the world, (Tse, 2011: 51). Smith (2003: 6) states that, "many of the more strident critics of shareholder theory seem to claim that as executives are charged with maximising shareholder value and are given large incentives to do so through stock options or other schema, they will respond by embracing whatever manipulations are necessary to achieve that goal".

These malpractices or manipulations may include illegal partnerships, creative accounting, window dressing of accounting records and cooking books in the waste case scenario as was in the Enron Scandal. All this can be done in pursuit of maximising the shareholders' wealth through pushing up the value of the counter. This will, in turn, justify the remuneration of the executives as explained by the agency theory which shall be discussed later in this chapter.

All these unethical misdoings took place under the eyes of the external audit. External audit as defined in an earlier chapter is explained by Sikka, (2009: 868) as "a trust engendering technology to persuade the public that the capitalist corporations and management are not corrupt and their directors are made accountable." External audits are expected to give reasonable assurance to all the stakeholders that the financial statements presented are prepared in accordance to laid down rules and procedures and present truthfully and fairly in all material respects. They are a part of checks and balances, (Sikka, 2009: 868). Accountants as auditors have rooted their status and privileges on the basis of the claims that their unique knowledge gives them the right to interpret the uncertainty and produce independent accounts of a business that are objective, true and fair. Sikka points out that it is further claimed that the expertise of the accountants as auditors enables markets, investors, employees, citizens and the state to limit and manage risk. He, however, refuted these claims as being malicious because estimates and assumptions are used to measure a business's revenues, costs, assets, liabilities, and profits and these measures are contested technically, as well as politically and because capitalist economies are inherently prone to crises. As such the assurance given by the auditor are far from being accurate as evidenced by the collapse of businesses whose accounts where certified clean by the auditors. This scenario reflects on the case of Enron and others referred to in the above paragraph. Such events cast doubt and increase the suspicion that accountants lack the requisite expertise, independence and a supportive framework to produce the promised quality of a business's financial statements that are true and fair in all material respects. This has given a new drive to revolutionise the accounting profession to meet the requirements of the contemporary society.

The shareholder theory puts forward no other objective except seeking profits for the benefit of shareholders. This position is presumed correct by the proponents of this model because the managers of a business have been hired by the shareholders who are the owners for only one purpose to manage the affairs of the business in a manner that maximises the profits. It can, therefore, be concluded that a business that does not make profits has no purpose of existence. A going concern is a business that makes enough profits for the owners and for expansion, (Gibson 2000: 245). This means the more profits made, the brighter the chances of expansion. This drives the need to maximise profits. Maximising profits means that there is potential to maximise growth and attract more capital from other capitalists with the same appetite of creating more wealth.

5.2.3 ***The Problem of Greed and Fraud***

Horvat and Korosec (2015: 34) described the accounting function as a political practice because its foundation is from a political struggle in a society and the outcomes of the accounting policies are political because they operate for the benefit of some groups in society and to the detriment of others. This thinking sustains the shareholder theory as it points out that the accounting practice is meant for the benefit of a group not everyone in society. The group that is meant to benefit is the shareholders. It is my suggestion that this school of thinking is not in sync with the contemporary economic environment which is characterised by an informed group of stakeholders who demand to be included in the financial report addressees. They demand transparency in the reporting of activities that a business has put in place to mitigate the environmental degradation that are being perpetrated by its existence. This gives the accounting profession a duty to be responsible not only to the shareholders but to all stakeholders. The objective of maximising profits results in internalising profits and externalising costs.

The traditional accounting practice is of the opinion that accountants must produce accounting information that help the capitalists make decisions to safeguard their empires, (Horvat and Korosec, 2015: 33). In the traditional accounting education approach, accounting students are taught that they would work for shareholders and their duty is to be accountable to the shareholders who are their employers. Evidence suggests that even up to today accountants still hold this notion. Final accounts are presented to only the shareholders and they are the only group that can question their accuracy and fairness. One can argue that since final accounting statements are published in the public media, therefore, they are made for public consumption. It is true that the public will see the statement but even if they are published in the public media, there is no content that addresses their needs. They are also presented in a format and language that can be read and understood by a few elite. Even some of the shareholders have the capability to comprehend the financial statements.

This brings the discussion back to the issue of the claim by the profession that it works for the public interest. The public that the profession is referring, I doubt if it is the general public. It is the public that has shares (ordinary shareholders) or that might want to acquire shares in the public company whose financial statements are published. The accounting profession, in short, is a tool by the capitalist to maximise their wealth. Other stakeholders, only primary stakeholders are accommodated because the business needs them to further their interest of profit maximisation. Another point that sustains that the accounting profession does not work for the public interest is that the financial statements are prepared in a language that cannot be understood by an average reasonable person. They are prepared in such a way that only a few initiated can read and understand.

The proponents of the shareholder theory believe that selfish businesses actually promote the overall well-being of everyone. Their school of thought suggest that business have self-interested reason not to harm others, since a business which mistreats its employees, or is rude to its customers, or sell them harmful defective products is a business that is unlikely to do very well. Business might have further reason to benefit others with a view of attracting more customers hence becoming even more profitable. This means a business that is shareholder oriented might be seen as engaging in social activities but it does so in pursuing its self-interests. In short, Friedman's claim is that most business, if left completely unrestricted and allowed only to pursue profit, would end up making the societies they operate in and around them better. They would serve the interest of the public for the benefit of themselves. Another thought that is put forward by the advocates of the shareholder theory is that it is not a business's job to curtail its own actions. If there is something that a business is expected of apart from making profits, then the government must put in place some laws and regulations to enforce the other objectives. The business cannot itself enforce laws and regulations, which do not exist anywhere, upon itself. It is also suggested that business people are not moral authorities and can therefore not engage in social responsibilities which are moral issues. If businesses are forced to start enforcing morality, this is making them moral authorities who can inevitably abuse that power and bring in selfish moral values upon society in pursuit of maximising profits.

Smith, (2003: 2) points out that, "the Shareholder theory asserts that shareholders advance capital to a company's managers, who are supposed to use the corporate funds only in ways that have been authorised by the shareholders". This is in line with Friedman's thinking which was captured earlier on which asserted that, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase profits so as long as it… engages in open and free competition, without deception or fraud." Such thinking brings out an idea that it is only necessary and sufficient for a business to pursue profits legally without taking in cognisance of the ethical implications of its operations. It is, therefore, necessary to closely look at the concept of corporate social responsibility and see if it is in harmony with Friedman's thinking on the same aspect. The shareholder theory is incompatible with the theory of Corporate Social Responsibility.

5.3 Corporate Social Responsibility and the Shareholder Approach

Accounting is often said to be the language of business and as such, it is used to account for and report business performance to users of financial information particularly the shareholders as advocated by the shareholder theory. In practice, there are more recipients of accounting information other than the shareholders. This gives the accounting profession an important duty and responsibility to be accountable to all stakeholders as espoused in the stakeholder theory which shall be discussed later. Carol A. Tilt, (2000: 11) writes, "Accountants have an important contribution to make to the debate surrounding Corporate Social Responsibility." In this regard, the accounting profession has the ability to create a particular conception of organisational society by determining what kinds of corporate responsibilities are important and necessary. Furthermore, accounting must influence the relationship between business and society. The link between business and society is that they involve issues of corporate social responsibility, CSR. Ismail, (2009: 199) defined corporate social responsibility as "a concept whereby business organisations consider the interest of society by taking responsibility of the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders as well as their environment", (also see Russo and Perrini, 2009: 208, and Branco and Rodrigues, 2007: 5). It is the strategy that business put in place so that it operates ethically and friendly to society. It is concerned with some sort of social contract between business and society. The business is recommended to follow those lines of actions that are in sync with the objectives and values of a society. Social responsibility requires a responsibility towards the future and future members of society. This concept is at variant with the ideas of Friedman of corporate social responsibility as maximisation of profits. CSR embraces all constituencies that are involved directly and indirectly in the operation of a business. CSR revolves around ethical and moral issues surrounding business decision making and behaviour. The central question is knowing and communicating if a business is or should undertake certain activities or refrain from doing so because they are beneficial or harmful to society. It is the responsibility of accountants to include such issues in their annual financial statements without bias. Social issues must be accorded moral consideration of their own and should lead the accountants to consider the social impacts of business activities in the financial reports, (Branco and Rodrigues, 2007: 5). Actions which lead to things such as the conservation of the earth's natural resources or betterment of the general public are praiseworthy regardless of any pressure from the stakeholders.

Traditionally the success of a business is measured by its profitability. A business with increasing profits is more favourable and this is in line with Friedman's ideas. However, in the modern world, there is more to the success of a business than reported profits, (Russo and Perrini, 2008: 209). The contemporary business evaluation incorporates other variables like respect of society and the environment. Business must and seen to be participating in an economic ecology of shared risks and benefits that is at the heart of the stakeholder model, (Ferrero, 2014: 38). This new order is a result of society which now expects the business environment to be accountable. The accounting profession is also pressured to produce accounting information that reflects and address issues of corporate social responsibility that the business is undertaking. Askers (2014: 38) supported this notion when he pointed out that financial reporting is no longer solely on quantitative issues. CSR is not focused on maximisation of the shareholders' value but it is revolving around the stakeholder model, "which has become widely accepted among contemporary business organisations." (Russo and Perrini, 2008: 209). The challenge with this perspective is that the stakeholders change as the business progresses and their tastes also change with time. Business is therefore required to continuously access and engage its stakeholders and form relationships which involve a complex web of relations rather than just a series of dynamic connections between stakeholders. The stakeholder perspective shall be discussed in detail in this same chapter later.

The financial reporting frameworks must, therefore, be capable of reporting both internally and externally. Most of the external users of the accounting information seek qualitative information that explains on issues that affect their day to day lives, for example, society is keen to know how the business community shall compensate them on the land that the business is occupying and on the environmental degradation being caused by their operations. Accountants are therefore ethically responsible to report upon the impact of the operations of a business to society. The accounting profession is however faced with an ethical dilemma in reporting on CSR issues. The managers and shareholders of the business might require the accountant to report in a way that best suits their objective of maximising profits which might not correctly reflect on the actual efforts that are in place in addressing the concerns of society.

It has become a common phenomenon that businesses in their financial reports comment on issues of CSR that never took place, for the sack of pleasing the readers of the reports. Accountants must be ethical enough to report accurately on the business' corporate social responsibility initiatives. Robertson and Nicholson commented on this issue thus, "a certain amount of rhetoric may be inevitable in the area of social responsibility. Managers may even believe that making statements about social responsibility insulate the firm from the necessity of taking social responsible action." Accountants have more responsibilities that go beyond than just number crunching. They give credibility to financial information and reasonable assurance to the public on the accuracy and fairness of the accounts. When auditors issue an unqualified report on a set of financial statements, they are telling the general public that they are agreeing with management's assertions about the business's financial position. Accountants, therefore, bear a huge responsibility to shareholders, management of the business and society.

The accountant must produce unbiased financial reports which look at both the positive and negative impacts on society as echoed by Makela, (2012: 167, also see Abreu, 2015: 934) thus, “Presenting corporations and their impacts in a certain light creates a certain perception on the general role of business in society. If corporate reports cover mainly positive impacts on society, there is a danger that the negative impacts will be silenced or paid less attention, preventing us from seeing a comprehensive picture of corporate performance.” The accounting practice is at many times found guilty of failing to produce a true and fair view of a business’s social performance. Accountants have therefore a bias of producing information aligned to the shareholders leaving out some important facts that may reflect badly on the business and affect the value of the firm, (Abreu, 2015: 934). Accounting information is still being used in decision making with all the omissions and manipulations it has, as it were neutral and objective (Makela, 2012: 167). The important point is that the accounting information is prepared by the business and its interest is mainly evaluating its performance. Other partakers of the financial information are presented with a risk of being left out with insufficient means of analysing the business impact on the society. Nadia Albu et al, (2011: 224) empathised the same facts as they write, “… the accounting profession may misfit the business of nowadays, which may be seen as a danger leading to a marginal role of accountants in society.”

Business must realise that the maximisation of shareholders' wealth cannot be attained through maximising short-term profits but can be achieved through adopting a responsible behaviour and respecting the society that it operates from. The business community must contribute to society by taking part in the maintenance of the rights of citizens both internally and externally, (Askers, 2014: 38). The internal citizens are the employees of the business who have their rights and expectations from the business. Employees expect good working conditions and respect in general. The external citizens are the general public who also have expectations from the business. The business must, therefore, put in place programs and strategies that seek to address the expectations of the citizens as a way of fulfilling its role of being a good citizen. Accountants assume a responsibility of accurately communicating the programs and strategies in the financial reports whose addressees must include the general public. Askers writes that, "to accommodate changing societal expectations and adapt to regulatory environment changes, CSR-related issues should be incorporated into corporate strategy." The time has come therefore to question if the accounting systems are measuring and reporting on the right issues and communicating them correctly to the correct audience. There is a danger that the profession is claiming that it has adopted systems that are all inclusive but might be feeding information that is inappropriate and poorly communicating it to the target audience. It is, therefore, my submission that the profession must be truly accommodating and put up accounting structures that support the cause of all parties involved and affected by the operation of a business not only the shareholders. It is necessary to increase the interdependence of systems that provide balanced information in financial reporting as put forward by the general systems theory which will be discussed in coming chapters. The financial systems must collaborate with non-financial systems to fill in the gaps of today’s shortfalls that are consistent with the traditional financial reporting.

5.4 The Shareholder Theory and the Agency Theory’s Relationship with the Accounting Profession

The shareholder wealth maximisation imperative has frequently motivated agent problems. These problems are, “hazards arising from the separation of risk bearing and decision making (also known as ownership and control, respectively)”, (Philips et al, 2007: 122). The concern is that without this moral imperative, managers would enrich themselves at the expense of the business and the shareholders. The agency theory is another perspective that has increased the dilemma or affected the decision-making process of accountants. This theory suggests that managers of a business, who are the agents, are hired by the owners or shareholders, who are the principals, to manage the affairs of the business in the best interest of the principals, (Wiseman et al, 2012: 203, also see Cuevas-Rodriguez 2012: 526). In hope of controlling the opportunistic behaviour of managers, a moral and legal obligation on the managers, who are agents, must be put in place for them to solely work in the interest of the owners of the business.

This concept came about due to the separation of ownership and control and it results in costs which are referred to as agency costs, (Cuevas-Rodriguez 2012: 526). Agency costs are those costs that are a result of agents acting in self-interest. Wiseman et al write, "Presuming shareholders to be the principals and managers the agents, corporate governance research has produced consistent support for the central prediction of agency theory that agents often pursue interests which depart in material ways from those of the principals." It is normal for agents to act or behave in a manner that benefits themselves at the expense of the principals. If unchecked they can award themselves unrealistic compensation or abuse company assets for self-interested objectives. The accounting profession is always found in a situation where they are confronted with an ethical dilemma. Accountants in employment are practically employed by the managers who are the agents but as the shareholder theory suggest, they work for the owners of the business who are the principals. Such a situation presents an ethical threat to the objectivity of the accountant.

As a way of easing ethical challenges faced by the accountant, there is a need for goal congruency between the principals and the agents. There are mechanisms that can be used to align the interests of the two parties. Cuevas-Rodriguez et al write that, "because the use of incentives to create alignment of interests between principal and agency is a primary mechanism proposed by the theory to reduce agency costs, the theory is without doubt one of the main (if not the main) theoretical framework in the area of compensation management." This theory presents an opportunistic quest as it suggests that all agents will pursue objectives that are self-interested. This means there is always suspicions by the principals that the agents they contract to manage the affairs of businesses are not trustworthy. Such thinking alone can cause the agents to be untrustworthy and pursue the interests at the expense of the principals because there is no incentive for being trustworthy. This gives pressure to accountants who might be victims of the agents. They may be asked to cover up self-interest tendencies of agents and by so doing the accountants can end up compromising their integrity and producing financial statements that are window dressed. This is called creative accounting, where the accounts are presented in a way that portray a predetermined image that will not be the true and fair view.

Ghoshal and Moran (1996: 14) criticised that theory of agency on its assumptions of opportunism. They noted that the theory can influence a self-fulfilling prophecy tendency. This will, in turn, promote and increase the opportunistic behaviour of the agents. This behaviour tends to increase with sanctions and incentives put in place to control it. This scenario will push the agency costs up because of the need to put in place, even more, stronger and restrictive sanctions and incentives. Other critics of the agency theory have argued that by putting in place contracts of employment between the agents and the principals will limit the flexibility and performance of the agency, (Wiseman et al 2012: 202). They will not only execute their mandated in a narrow way as explained by their contract of employment. Opportunities that are within reach but outside the contract might not be taken up because there is no benefit for the agents. This might defeat the objective of a business which is to maximise profits as suggested by the shareholder theory. The accountants are also required to report within the thin scope of the performance of the agents hence prejudicing the principals in lost opportunities. Cohen and Webb (2016: 14) pointed out that it will be difficult to inculcate the accounting students the value of the accounting profession of acting in the public interest because of the dominance of the theory in the accounting field. Its emphasis on the rational being as exhibiting self-interest tendencies is not in sync with the notion of working in the public interest, hence accountant as rational beings will be tempted to pursue self-interesting goals in discharging their professional mandate.

5.5 The Stakeholder Theory and the Accounting Profession

The stakeholder theory was put forward by Edward Freeman. It is a contrast to the shareholder theory and asserts that business needs to consider the total interest of everyone who is affected directly or indirectly by the operations of the business. It defines the purpose of the business and the responsibilities of the managers in a holistic manner, (Freeman et al, 2004: 364, also see Gibson, 2000: 245). The theory posits a model of business to all stakeholders with legitimate interests participating in a business. It assumes no priority of one set of interests and benefits over others, (Donaldson and Preston, 1995: 68). While Philips et al, (2007:124) criticised the stakeholder theory on the basis that it does not provide a clear objective of the business, Donaldson and Preston explain that the model rejects the idea that the business exists to serve the interest of its owners, be that maximisation of their wealth or some other reason for being in business. The model is based on the idea that the business exists to serve the many persons or groups who have an interest in it or who in some way may be harmed or benefitted by it. It clearly defines the responsibility that the managers of a business have towards the stakeholders.

Carroll (1993: 60) defined stakeholders as, "… those groups or individuals with whom the organisation interacts or has interdependencies and any individual or group who can affect or is affected by the actions, decisions, policies, practices or goals of the organisation" (also see Paul Andon et al, 2015: 986, and Gibson 2000: 245). Stakeholders can be divided into primary and secondary stakeholders. Primary stakeholders are those that have an official or contractual relationship with a business. They are those parties that a business cannot do without in its day to day operations. They have a direct impact on the business. Examples are suppliers, investors, employees and service providers. On the other hand, secondary stakeholders are all other parties that affect or are affected by the operations of a business from a distance. Examples are pressure groups and the general public, (Carroll 1993: 62). Stakeholders have the potential to help a business grow or harm it.

The accounting profession has an ethical obligation to producing useful accounting information in relation to the changing stakeholder expectations, (Andon et al 2015: 986). This means the accounting profession must embrace all stakeholders regardless of their varied tastes since the stakeholders have a potential of assisting a business to achieve its goals or harm it. Robert Phillips et al (2007: 126) pointed out that, “Debates regarding stakeholder theory frequently focus on how much each group gets (typically monetarily) from the organisation.” This presents a challenge to accounting profession which has an advisory role on financial matters of a business. The profession faces a challenge of sharing the benefits that arise from the operation of the business. Who gets how much of the business outcomes pie is an import question, but so is who has an input in how the pie is baked. Unlike the shareholder theory whose objective function is only profits, the stakeholder theory is concerned with who has input in decision making as well as with who benefits from the outcomes of such decisions, (Phillips et al, 2007: 126). The accounting profession has, therefore, a duty to reflect on these aspects in their financial statements. Another challenge that the accounting profession must deal with in the sharing of the benefits is the portion each person or group must get. The stakeholder theory suggests that all stakeholders must be treated equally irrespective of the fact that they do not contribute equally to the business. If the accountants assume this position that will mean prejudicing those that have more contribution to the business and this might result in investors withdrawing their investments from a business. Accountants must then come up with a distribution mechanism that reflects the contribution that each individual or group has made to the business.

All stakeholders may compete for a share of the value created, whether they have contributed to creating it or not. The workers, for example, can put pressure through the worker's union in an attempt to have a share from supper profits posted by the business which is their employer, (Argandora, 2011: 4). Other stakeholders like the government through its taxation arm also have a legitimate interest in the profits of the business. In this regard, the management of the business have a tendency to collaborate with the accounting function of the same and use other means to undercast the profits for the sack of reducing the pressure from stakeholders claiming a share of the profits. These technics of under casting profits can be legal but I doubt if they are ethical. Accountants use tax avoidance and eversion to reduce a business's tax liability. Tax avoidance is legal but not ethical because it negatively affects the social welfare function while tax eversion is totally illegal. These issues shall be discussed in detail in the coming chapter.

Andon et al state that, “facing mounting stakeholder-related pressures, convectional accounting information is seen as problematic because it addresses managers and shareholders in the interest of short-term gains". It is, therefore, necessary for the profession to open up and include everyone as explained in the systems theory. The stakeholder theory facilitates that managers open up and create a sense of shared value of the business with all stakeholders. This allows the business to grow in profitability and purpose. Value of the firm is assumed to be maximised by all the parties that can affect or are affected by the operation of the business if they come together and cooperate voluntarily to improve everyone's circumstances, (Freeman et al, 2004: 364). This concept requires that managers work on relationships with their stakeholders and communities that willingly give in their effort for the business to give out the value that it promised. The accounting profession has an important role to play in making this concept a success. It produces financial information taking into consideration the interest of the stakeholders and by doing so they will be moving towards achieving their claim of working for the public interest. Every stakeholder group must not be treated as means to an end. They must, therefore, be given the chance to participate in deciding the future of the business which they have a stake in.

The accounting profession is currently under the spotlight since the financial scandals that left the world shaking at the beginning of this century. Andon et al (2015: 986) outlined that the usefulness of the accounting function in this ever-changing environment is at stake. The convectional accounting framework that is more inclined to capitalistic practices is increasingly becoming problematic and can no longer handle the pressure being mounted by the stakeholders. The stakeholders are increasing questioning the serenity of the capitalistic accounting and it is now time answers are given back to the society. This situation requires that the accounting profession develop a different and better framework that provides answers to the worrying stakeholders. Although there are new interventions that have been put in place like the triple bottom line reporting and the integrated reporting, this as Andon et al state, "cannot claim greater relevance for managers and stakeholders in terms of any inherent capacity to better present reality and improve choice processes."

The stakeholder theory can be problematic as an ethical theory since they give an impression that businesses are servants of the larger society. Advocates for the shareholder theory try to pin their argument of the goodness of the theory on the principle of respect for persons as put forward by the deontological ethics. Kant's principles point out that every human being must not be taken as a means to an end but also as an end, which is they must be taken as autonomous moral agents. This implies respecting their natural rights to pursue their goals freely, associating with whomever they want. It also follows that respecting the autonomy of stakeholders does not imply that they must have an influence on the future of a business or that the business must operate in the interest of the stakeholders. It only means that the business must carry on with its operations legally and freely interacting with the stakeholders without forcing them to associate with it. This theory put the managers of a business in an impossible position of trying to balance the heterogeneous interests of the various stakeholder groups. It is, however, necessary to consider the issues of corporate social responsibility and sustainable accounting to the stakeholder theory more clearly.

5.6 Sustainability Reporting and the Stakeholder Debate

It has been highlighted earlier on it this chapter that, as Fontaine, (2013: 111) writes, "sustainable business success and shareholder value cannot be achieved solely through maximising short-term profits but instead through market-oriented yet responsible behaviour." Business can contribute to sustainable development by managing their operations in a way that enhance economic growth at the same time protecting the environment and promoting social responsibility and public interests. Businesses must exercise corporate conscience, citizenship, social performance, or sustainable business through self-regulation incorporated in their business models and in turn be accountable to their stakeholders through sustainability reporting, (Fontaine 2013: 111). A business must develop a built-in, self-regulating mechanism to monitor itself and ensure compliance with the spirit of the law and ethical standards. This makes CSR and sustainability key issues in today's business environment. The accounting profession has, therefore, a key role to play as highlighted by Albu et al, (2011: 221) that, “Accountants play a crucial role in organisations in areas related to CSR such as reporting, transparency, ethics, legal compliance, communication with stakeholders, and resource consumption.” Accountants measure and control the financial activities of a business and communicate inside and outside the entity.

Sustainability reporting is slowly gaining popularity across the globe. There is no single definition of sustainability reporting but the Global Reporting Initiative Sustainability Reporting Guidelines (GRI guidelines) define it as, "the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development." This definition creates room to define a sustainable report as a report published by a business or entity about economic, environmental and social impacts caused by its everyday activities. The report also presents the organisation's values and governance model and demonstrates the link between its strategy and its commitment to sustainable global economy. Sustainability reporting can help businesses to measure, understand and communicate their economic, environmental, societal and governance performance, and then sets goals, manage change more effectively, (Dacalu et al, 2008: 20). It presents a key platform for communicating sustainability performance and impacts, whether positive and negative. Stakeholders are becoming more and more interested in knowing what a business has put in place in managing the sustainability of its activities. They are also interested in understanding what the business is doing in keeping itself as a going concern, that is, the potential for value creation. Sustainability reporting is not static. It evolves with the factors or variables that influence it. It is influenced by many factors such as technology, general economic trends, politics, and the regulatory framework.

Sustainability reporting must be supported by a sustainability accounting framework. Sustainability accounting was defined by Obe et al (2003) as, "the generation, analysis and use of monetarised environmental and socially related information in order to improve corporate environmental, social and economic performance." There are three key dimensions of sustainability accounting namely, the economic, the social and the environmental. Thus, sustainable development can be measured in terms of these three dimensions. Accounting for the financial aspects of a business or a counter is a statutory requirement and as such all counters are required at law to have their annual financial reports published. This is however different when it comes to accounting for sustainability. Businesses are not required by law to produce sustainability accounting reports. Businesses produce these reports voluntarily as a way of enhancing their corporate image to the public. The image enhancement factor has however made businesses to increasingly but on a slow pace, embrace social and environmental performance in their financial reporting.

Cornelia Dascalu et al (2008: 20) state that, “evaluation models for sustainability are based on an interdisciplinary approach that recognises the necessity of a new accountability to lead towards advanced forms of decision making and responsibility." The business is encouraged to be responsible towards several stakeholders. Its goal should be of integrating economic, social, and environmental concerns into its strategies, its management tools, and its activities, going beyond simple compliance. It has been the norm that businesses engage in environmentally responsible behaviour through regulatory cohesion but in today's world, it is more of social pressure, (Guse et al, 2009: 979). They explained that society demands an environmentally responsible behaviour on the part of business to contain the danger that society is exposed to by “natural disasters and progressive ecosystems’ degradation ….” New reporting models are emerging for complying with the informational needs that are coming about as a result of the newly acquired awareness of stakeholder accountability. These new models are incorporating both qualitative and quantitative issues as a way of enhancing financial reporting. The accounting profession is taking a new direction, suggesting the beginning of an accounting revolution aimed at stressing its social significance.

The main objective of a business might remain generation of profits but this must be done with a human factor in mind, (Russo and Perrini, 2009: 208). Today's world is different and business cannot pursue profit only as Russo and Perrini write that, "what is different today is that profits can no longer be a corporation's sole objective, in that their success is based also on their stakeholder relationships, which encompass many interests, chief among them social and environmental issues." Accountants must cover the information gap between the business and stakeholder, and include in their financial reports issues of sustainability that are central to their stakeholder. These are qualitative reports that must go hand in hand and in sync with the traditional quantitative accounting reports. This means the comprehensive final accounts must incorporate economic issues, social issues and environmental issues. The accounting profession must act in a responsible way not to avoid stakeholder pressure, but to achieve a better society through the provision of truthful and fair financial information that is relevant to all the stakeholders of the reporting business. This will facilitate for continuous measurement and evaluation of social activities that a business is doing as pointed out when Russo and Perrini say, "in addition to moral values and ethical codes, nonfinancial codes are means through which corporations become accountable for their strategy towards relevant stakeholders."

Sustainability accounting is, therefore, a useful tool that business can use for their personal sustenance. At the moment, convectional financial accounting and convectional economic measurements do not capture all the consequences of economic activities. Hidden costs incurred and benefits that accrue to society as a result of the operation of a business in the community are not incorporated in the accounts. Other costs that are not reflected in the accounts are those costs that are externalised. "External costs are cost imposed by a third party when goods and services are produced and consumed", (http://www.econation.co.nz/external-costs/). Externalisation of costs is usually used by management as a strategy of exhibiting a healthy financial position and is perpetuated by accountants to window dress the accounts. This practice has been ongoing for a long time and accountants being accomplices of the practice. Crowther and Aras, (2008: 24) note that, “if we take externalities into account that the decision made and actions taken by firms may be very different.” Accountants have therefore an ethical duty to account for all costs incurred and imposed by the operations of a business.

Sustainability accounting seeks to bring together the traditional accounting aspects with the social; and environmental aspects. Adopting the concept of stakeholder value implies looking beyond monetary values and requires reporting on a new dimension of social and environmental issues not necessarily having a monetary form. Through social and environmental reporting, business offer future-oriented information regarding the potential impact of their activities, (Guse et al, 2009: 983). This will bring about an integrated approach to financial statements and by so doing stakeholder inclusion in the preparation of financial accounting reports will be enhanced. This reporting model will comprise theoretical and practical solutions for integrated reporting dimensions in a conceptual framework for sustainable accounting. This brings the discussion to another debate of the responsibility of the accounting profession to society.

5.7 Accounts as Responsible and Accountable Professionals

The primary responsibility of the accounting profession is to prepare and examine financial records and to give management advice on how best to run the organisation efficiently and profitably. The accountant has an ethical responsibility to those who rely on his/her work. This responsibility is owed to the clients, the management of the company which he or she works for, investors and creditors, as well as to outside regulatory bodies such as the various arms of government, (see Lusher 2012: 13 and Tout et al 2014: 310). Accountants are responsible for the validity of the financial statements they work on, and they must perform their duties in accordance with all applicable principles, standards and laws. Responsibility was defined by Berry (1979) as, "a sphere of duty or obligation assigned to a person by nature of that person's position, function or work." This definition is more inclined to the business world. Accountants by simply discharging their primary obligations, that is the functions associated with their roles, may be sufficient. However, responsibility can also include moral obligations that are in addition and usually related to the functional obligations of the roles. These moral responsibilities are therefore an extension of the primary responsibilities of the accountant. This means accountants are moral agents who must be accountable for their actions.

The responsibility of the accounting profession is driven from the profession's claim of working for the public interest. The public interest claim was discussed in one of the last chapters and it was concluded that there is no consensus on what exactly is it, (Fulop, 2013: 27). The accounting profession has an important role to play in society. There are many stakeholders who have vested interests and rely on the quality of the work of the accountants in their day to day business decisions, Fulop, (2013: 34), "this trust the profession public accountability for its action. The behaviour and attitude of professional accountants in providing these serves has an important impact on economic welfare of the entities in which they work, but also of the community and the country." A true professional accountant is someone who is not only interested in the accuracy of his or her numbers but someone who can influence the management decision-making capabilities. It can, therefore, be acceptable to say that every accountant has a responsibility of operating in their line expertise and at the same time contributes towards increasing confidence in the profession. The confidence in the profession has been seriously constrained since a series of accounting scandals at the beginning of this century.

Accountability is a concept that is difficult to define in precise terms. It exists when there is a relationship where an individual or body, and the performance of tasks or function by that individual or body, are subject to another's oversight, direction or request that they provide information or justification for their actions or non-action. Accountability was defined by Hunt as, "the readiness or preparedness to give explanation or justification to relevant others for one's judgements, intentions, acts and omissions when appropriately called upon to do so." This means the accounting authorities or persons must be ready to have their actions reviewed and judged by others and be prepared to carry the responsibility for errors, misjudgements and negligence and recognition for competence, excellence and wisdom. It entails boldness to face the consequences that result from one's actions or non-action. This is not an easy concept because the way it is supposed to work and what it means is surrounded by theoretical and practical controversy. There is no general consensus in what accountability means and how it works. This makes the effective application of accountability relative and hence daunting. As complex as it might be, it is necessary for accountants to abide by this concept because it legitimises the existence of the profession and the organisations whose accounts they prepare and audit. Accountability entails transparency and participation in decision making and in delivering duties and obligations. It must also allow for the evaluations of the decision made and the action taken by those to whom accountability is due. There must also be a deliberate willingness with those who have a duty or obligation to account honestly and fairly. In this regard, accountability is definitely an aspect and prerequisite, not a substitute for being ethical. Being accountable is a step towards being ethical.

There is no doubt that accountants are accountable to the shareholders of business who hire them. The same accountability applies to the accounting profession that they belong to. They are mandated to providing financial information that is useful to the shareholders and investors of capital for them to base their investment decisions and to the profitability of their investments. This information is prepared guided by the ethical requirements of the accountancy profession. In this regard, accountants and the profession are accountable to the stockholders of the business entity. Stockholders are those individuals who have a direct interest in the business' operations and the business cannot continue in existence without their willing contribution. This is the traditional view but the contemporary scenario gives the accounting profession a more comprehensive role of being accountable to all stakeholders regardless of the diverseness of their requirements. This is, however, more in line with the claim of the profession, that is, "to work for the public interest" as highlighted earlier on in this same the chapter. This is in line with the stakeholder approach which emphasises on responsibility than profitability which is the only aspect advocated by the stockholder perspective. The stakeholder approach embraces everyone and organisations are viewed as coalitions with the purpose of serving their stakeholders. This emphasises the need of the accounting profession to be accountable to the stakeholders.

5.8 Conclusions and Observations

This chapter had the objective of discussing the shareholder theory and the stakeholder theory and establish how much they affect the accounting profession as they relate to fulfilment of stakeholder information requirements. It was my argument that the shareholder theory is limited in scope as it focuses only on shareholders as sole owners of a business because of its foundations that are deeply rooted in capitalism. This model had significant influence in shaping today's economic environment which is more skewed to owners of capital. As a result, accountants have for a long time been guided by this framework starting from their training through to the practice. It was seen that this model has been dominating the business platform for a long time resulting in the accounting profession producing information that further the interests of capitalists. It was also noted that the shareholder perspective has sustained the perpetration of unethical activities in the accounting profession some of which have left giant economies trampling. The shareholder perspective is slowly losing its fame due to the hazards that are associated with it as evidenced by numerous accounting scandals that have been taking place since the beginning of this decade. This is so mainly because of the issue of the invisible hand the capitalist economy trust to bring optimal distribution of resources. The economy is left to regulate its self through the market mechanisms. This market mechanism, as I noted seems to work for the benefits of the shareholders to the detriment of most other stakeholders.

I also argued in this chapter that Freidman’s notion on CSR of a business, as to maximise the returns for the shareholders, is not in line with the general context of CSR which is all-embracing. The stakeholder model's view is that business has a responsibility to embrace all the stakeholders and treat them equally. For this reason, the accounting profession is challenged to adopt a position that reflects and address the concerns of other stakeholders of a business. As it stands accountants are found guilty of not including other stakeholders as addressees of the financial information. I went on to argue that the notion of taking shareholders as the owners of a business was not correct both economically and at law. Legally shareholders do not have the mandate of superintending over the affairs of a business. Their influence is only limited to the appointment of directors who have a full mandate of running the affairs of the business. Economically shareholders have been found not to have any significant influence over the finances of a business. It was established that the directors are the ones who have the mandate of deciding upon the distribution of the earnings of a business without consulting the shareholders. In this regard, I therefore concluded that the shareholders are less owners of the business than other primary stakeholders like debtholders who have the power of even seizing the business if their interests are violated. The accounting profession must consider changing their orientation and take into account the interests of all stakeholders that are affected by the operations of a business. They must do so not to act from the pressure activated by the stakeholders but on ethical grounds. This orientation has given the accounting profession an ethical duty to be responsible and be accountable to the owners of capital, the environment and society.

It is also my argument that sustainability reporting is the way forward of embracing all stakeholders in financial reports. Sustainability reporting has been noted as slowly being taken on board by the accounting profession and much more is expected to be done to address the concerns of stakeholders. It was also noted that sustainability reporting is limited in scope due to the current reporting structures that are still inclined to traditional accounting methods that are more oriented to the quantitative aspects of financial reporting. There are still many restrictive concepts that do not support the inclusion of other stakeholders as partakers of the financial accounting information and there is much leeway that allow the accounting profession to behave unethically but legally. The next chapter will discuss concepts and legislation that are regularly used by accountants to perpetuate fraudulent practices in the execution of their professional responsibilities.

CHAPTER SIX: THE ACCOUNTANTS' FRAUDULENT PROFESSIONAL PRACTICES AGAINST THE PUBLIC

6.1 Introduction

In the last chapter, I advocated for the stakeholder approach and argued against the shareholder theory based on its capitalistic practice which disregards the existence of other stakeholders who must be considered in the day to day operations of a business. It came out clear in the previous chapter that the accounting profession is conceptually rooted in the shareholder theory. As a result, it has a significant bias towards the shareholders' theory. Accountants have committed crimes against the public for the benefit of the shareholders and themselves. Crimes like tax avoidance, tax evasion and creative accounting have prejudiced the public in accessing better public services and hence affecting their living standards.

Contrary to the claims of neo-liberal economists and liberal philosophers who argue against the government collection of taxes as we have seen in Chapter 3 taxes remains the lifeline for government provision for social welfare. Governments' main source of income is tax revenues. Without which a government cannot provide decent social infrastructure, education, healthcare, and other facilities necessary for sustaining a decent society. Loss of tax revenue has been a challenge to most governments for a long time and is among the major causes of poor living standards in developing countries. It is a major contributory factor to the current economic crisis being experienced by many economies and has caused misery to the public. The importance of tax revenue cannot be overemphasised to the socio-economic, technological and political well-being of a nation. Countries have set-up dedicated tax collection institutions for the sole purpose of collecting taxes and promulgated pieces of legislation and form frameworks of tax administration. This shows the importance of tax revenue for a nation. Another variable that is important in the betterment of the living standards of a nation is the individual beings' disposable income. The disposable income for an ordinary citizen is usually explained by labour rates in that economy which are sometimes affected by the profitability of the business community.

There are however, challenges that are imposed by the accounting profession in establishing the actual profits of a business. These challenges come from various dimensions in the technical field of accounting. Accountants use some concepts that under cast profits in the name of prudence. They massage figures or window dress the financial statements to achieve a predetermined position, which is unethical and sometimes criminal. This may leave everyone without a clue on the correct profitability of a business.

This chapter will discuss various fraudulent activities that are committed by accountants, in their professional practice and against the public. It will discuss fraudulent activities that range from tax avoidance and creative accounting rights through clandestine activities such as tax evasion and misrepresentation of figures.

The chapter contains five sections. The first argues that accountants work in collaboration with neo-liberal capitalists to come up with tax avoidance schemes for self-interested purposes and have caused untold suffering to the public. Accountants are pursuing high profits and earnings and have therefore diversified into selling tax avoidance schemes to owners of capital regardless of the conflict that it brings between the government and society. Such activities are guaranteed by neoliberal capitalists who are concerned about pushing up their profits at the expense of social obligations. The second section discusses how accountants engage in creative accounting for the same purpose of enriching the shareholders who have an unquenchable appetite for huge profits at the expense of the common good. The third section will investigate into the conceptual framework which is the first pillar and constitution of the accounting discipline with a view of establishing its contribution to the unethical behaviour that has dominated the accounting profession. It will discuss the qualitative characteristics of useful accounting information in detail. This section will also argue against the narrow scope of the framework's limitations on the intended users of the financial information. The fourth section will point out the deficiencies inherent in the way the accounting discipline and profession is regulated. The regulatory framework will be critically discussed with reference to its contribution to the tax avoidance. Another issue that will be discussed in this section is earnings smoothing and its failure on the ethical scale. Also, to be included under this section is a brief discussion of the social welfare function. It will be discussed against the unethical practices that the accountants are engaging in which result negatively to the welfare of the public.

6.2 The Role of Accountants in Tax Avoidance and Evasion

The accounting profession worldwide is dominated by four big firms now known as the "Big Four". The firms have amassed huge powers and are using it to undermine democracy, law and welfare of the public, (Mitchell and Sikka, 2011: 3). The general living standards of societies are being compromised and their social rights are violated by the accounting profession through tax avoidance and evasion. According to Mitchell and Sikka (2011: 3), "people are either paying more in taxes for diminishing social rights, pensions, education and health, or foregoing them altogether." This is because big corporations and wealthy individuals who are collaborating to dodge taxes that are used by government to alleviate poverty. It is sad to imagine that the accounting profession is at the forefront in fighting white-collar crime while on the other hand they have become big players in the same crime. It seems the accounting industry has adopted a position of taking pride in undermining society as Mitchell and Sikka did quote a partner in one of the accounting firms declaring that, "no matter what legislation is in place, the accountants and lawyers will find a way around it. Rules are rules, but rules are meant to be broken". This is evidence enough to confirm that accountants deliberately, as noted by Mitchell and Sikka, (2011: 4), “engage in tax avoidance/evasion, bribery, corruption and cartels to inflict enormous harm on society”. They labelled accountants as the new mafia that has assumed the role of terrorising the whole world in the name of working for the public interest.

6.2.1 **Tax Avoidance**

The practice of tax avoidance and evasion has been in existence for a long time that can be traced, “back to the seventh century to the extent that it is said that some Maltese males became clerics exclusively to benefit from tax exemption” (Xuereb, 2015: 217). These practices have been in existence for such a long time and this supports the fact that the accounting function have been capitalistic and furthering self-interested objectives of shareholders for a long time. Tax avoidance was defined by Filho, (2014: 8) when he writes that, “Tax avoidance can be understood as a lawful scheme managed by an individual or by a company to reduce its tax liability”. This is prudent because it is only normal for one to act in a way that reduces costs on their part. This implies that accountants are not committing any crime as long as they engage into their tax avoidance business without violating the law. But one can argue against tax avoidance by saying that being a responsible citizen implies a sense of care for others. Being a responsible citizen encompasses how much one cares for others. Tax avoidance means a reduction in the social welfare function and consequently such a scenario inflicts suffering to the majority of the members of the society who rely on welfare. This therefore means that tax avoidance, the individual /or the corporation is committing a social sin. It also follows that the accountants are committing such a sin when they sell their tax avoidance schemes to the rich elite and other businesses. What makes it even more worrisome is that, the accountants are defrauding the public when they assist shareholders to dodge their social responsibilities which is supposed to be fulfilled through payment of taxes.

Tax avoidance as Filho commented, "… is considered as a misemployment of the law, and abuse of the spirit of the legislation." (Filho, 2014: 9)

It is an exploitation of loopholes in the law which were not expected when that piece of law was put in place. It is normal for a piece of legislation to have loophole because sometimes a watertight law can attract more costs than benefits. Agnar Sandamo, notes that, "… one of the demands that we should make a good tax system is the cost of administration are low" (2005: 644). A watertight piece of legislation can be costly and defies the objective of the law but it is unethical for an individual or group to exploit such loopholes. The accountants are exploiting the loopholes in the tax legislation and this has undermined the public social welfare efforts. Despite tax avoidance being illegal, most governments have discouraged the manipulation of the law and have made efforts to eliminate or minimise the exploitation of the loopholes in the law. This has not stopped the practice. The accountants are always ready to subvert the efforts of eradicating tax avoidance (Mitchell and Sikka, 2014: 3, also see Sikka, 2012: 5). The big four accounting firms namely Ernst & Young (E&Y), Deloitte Touche Tohmatsu Limited (Deloitte & Touche), Klynveld Peat Marwick Goerdele (KPMG) and PricewaterhouseCoopers (PwC) have been pointed at as taking the leading role in engaging into and marketing tax avoidance schemes. They have done this in collaboration with lawyers and financial consultants and as a result they have amassed huge wealth from their clandestine activities (Sikka 2012: 6).

Accounting firms have taken the same attitude as any other business organisations in that they have commercialised the practice making profits their main objective (Sikka. 2012: 7). Their emphasis is rested on retaining clients, pleasing the customer and promoting business virtues that increase profits. Sikka and Hampton (2005: 7) observe that, "to sell tax avoidance and other services, firms need to develop culture and practices that increase emphasis upon the commercial acumen of their staff and it is this commercial acumen … that is increasingly promoted as the primary measure of their trustworthiness". As discussed in the last chapter, once a firm has taken profit maximisation as its primary objective, it ceases thinking ethically and has no regard for the plight of other individuals or organisations. The accounting professions have lost morality and it seems will not stop at anything other than the law in their endeavour of obtaining as much profits as they can. This fuels suspicion on their professional codes of ethics and conduct which gives a picture that the profession is socially oriented and is there to serve the public. Evidence has shown that the claim of the profession of serving the public interest does not exist. The profession is guided by the shareholder approach as discussed in chapter 5. The accounting profession has been commercialised as it is influenced by changes in contemporary capitalism, “where traditional values are being increasingly eclipsed by search for higher earnings and financial reward” (Sikka and Hampton 2005: 8).

The accounting professionals have joined the contemporary business band whose chorus is ‘bending the rules for personal gain is a sign of business acumen'. This is responsible for the ever-increasing income disparity across economies. Accountants, in my opinion, must the custodians and watchdogs of business ethics but instead, they have taken a leading role in inflicting pain to the public through crafting complicated tax avoidance schemes that are threatening revenue collection base of treasury. Sikka and Hampton (2005: 8) stated that, “… business acumen is increasingly accompanied by cynical disregard of laws and regulations”. The business of today is now obsessed with seeking profits and developing complex structures every day and are rewarding those advisers who can invent smart ways of beating the regulatory framework and increase earnings. Accountants have assumed that role of being advisers who work in cahoots with other professionals such as lawyers to exploit the weakness of the regulatory environment for self-interested objectives. Accountants are having sleepless nights creating efficient systems in cutting business operating costs (Mitchel and Sikka 2011). Their easy target is the tax system through reducing or avoiding the tax burden of their clients. They promote tax avoidance schemes as natural, inevitable and a desirable pursuit. The big four have established networks across the world to sell services, including tax avoidance schemes. This unethical phenomenon has sustained the existence and growth of the accounting firms (Mitchel and Sikka 2011). Vast networks that have been established by the profession have enabled them to meet demand for their unethical services and their clients are able to choose from a variety of tax avoidance and other related packages that may have been developed for other clients, (Sikka and Hampton, 2005: 9). The sale of tax avoidance is not a new thing. Of concern is the magnitude at which it is accelerating and the variety of schemes and the tactics that are being employed by the accounting firms such as the use of tax havens.

There is no precise definition of tax haven, (Gravelle, 2015: 3). Tax havens are defined by the Organisation for Economic Co-operation and Development (OECD) as to mean, "no or low taxes, lack of effective exchange of information, lack of transparency, and no requirement of substantial activity". Tax havens distort investment and generally undermine the trust in tax systems since they offer low tax rates or even no taxes at all for foreign investors. Big companies and the rich are escaping taxes through hiding billions of dollars offshore using a variety of tax avoidance and evasion schemes with the help and advice of the accounting professionals, (Farny, 2015: 2, also see Mitchell et al, 2002: 4). Accountants working in collaboration with lawyers have assisted the rich and multinational companies in the setting up and fronting of bank accounts, shell and nominee companies in tax havens. Tax havens are interested in registering wealth individuals and companies for a nominal fee so that they can dodge taxes from their countries or from countries where they are making wealth from.

Poor countries have for a long time been lamenting under limited revenue. They have failed to raise sufficient tax revenues. Their tax revenue bases have failed to grow. Instead, the tax bases are shrinking with time. This has been attributed to the presence and tolerance of tax havens among other vices. The accountants have helped in eroding the tax bases when they advise owners of capital to maximise their wealth by reducing their tax liability through the use of tax havens. As taxes on the profits of business, on the earnings of wealthy individuals and on trade have diminished, governments usually increase unavoidable taxes on goods and services in trying to cover the gap. This is regressive and shifts more of the burden of taxation onto the shoulders of poorer people. It is therefore not clear why tax havens have continued to exist given the burden it brings to the ordinary people. It is argued that the tax havens are a creation of the accountants who want to hide their loot from selling tax avoidance schemes at the expense of poor citizens (Sikka and Hampton 2005). Tax havens have allowed multinational companies, the rich elite, corrupt leaders, criminals and terrorists to keep their wealth away from the prying eyes of national tax authorities(Sikka and Hampton 2005). This is because accountants deliberately manipulate tax law. This leaves the ordinary people as major causalities of the presence of tax havens. It seems they will be in existence for a long time to come because accountants are taking a big role in advising government departments on tax legislative design and enforcement (Mitchell et al, 2002: 4). Because of that, the accountants will offer advice that will not threaten their new line business that is selling tax avoidance schemes through the use of tax havens. Governments are voted into power through persuasion of voters by promising them to invest public funds in education, healthcare and other services that benefit the public. This will not come to pass because the accounting profession will always exercise the final veto and shrinks the tax base and erode tax revenues through their tax avoidance industry.

Legally it has been understood that tax avoidance practices are legal, unlike tax evasion. Tax evasion was defined by Slemrod, (2007: 26) as a case in which a taxpayer unlawfully fails to honour a lawful tax liability through commission of fraud. It is, therefore, an illegal practice to escape from paying taxes. Tax evasion causes a reduction in a country's economic growth. The growth of an economy is depended on the level of income the government has as one of the variables. Therefore, the non-remittance of taxes will slow down the economic growth of the particular country. The citizens of that country are also denied a better social welfare resulting in deteriorated general living standards especially to those that are already poor and the underprivileged. This practice also results in the widening of the income disparity gap. It is common that when a tax authority fails to collect taxes from the rich elite and big companies it will increase taxes on basic consumption goods which is easy to collect with a view to cover up for the revenue that has been lost through tax evasion. This has the effect of increasing the prices of the affected goods and exerts more pressure on the poor who have a limited income and leaving them worse off. Tax evasion works on the same principles as tax avoidance. The only difference is that tax evasion is an outright violation of the statutes with a view of running away from honouring one's tax liability. Vincent Maposa et al, (2012: 284) referred to the two as tax, tax avoidance and tax evasion, as the twin devils. Another fraudulent practice that is committed by accountants' profession is called creative accounting.

6.3 Creative Accounting in Financial Reporting

Financial statements give information to the stakeholders to access the performance of the business and to take economic decisions. The production of financial statements is regulated by a set of rules and principles for them to be consistent and reliable. These statements are however in many instances deliberately distorted by the activities of accountants with the intent to alter the content of the message being transmitted.(Gowthorpe and Amat, 2004: 7). It is now a common feature for a business to fiddle its profits. Most financial statements are produced from books which were deliberately manipulated. The figures that are communicated to the stakeholders in most cases have all been carefully manipulated to hide the fraudulent activities of the accountants. This type of accounting is referred to as creative accounting and many times, is perceived as acceptable. Brijesh Yadav (2013: 181), defines creative accounting as a term that refers "to the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders." This suggests that creative accounting is legal since it does not go against any rule or regulation that direct the production of the financial statements. Instead, it describes how accountants take advantage of the weaknesses of the rules and regulation that govern the preparation of the accounting information. This practice is used to make the business appear stronger or weaker depending on the objectives and strategies that the management and accountants want to achieve (Kamau et al, 2013: 77).

The term creative accounting is widely used across the globe "in everyday language…. to denote unfair practices, becoming synonymous words such as manipulation, fraud, or scam" (Holda and Stazel, 2016: 207). This is the general understanding of creative accounting by the public and the media, but the accounting profession does not view it in the same way. It views it as a display of such imagination as is revealed by the owners of capital when they take wealth maximisation as the sole objective of conducting business, (Holda and Stazel, 2016: 207). It can, therefore, be concluded that creative accounting has its foundation rested on the shareholder theory and is solely driven by self-interested objectives. There is no regard of the consequences of the trusting public who uses the accounting information in good faith. The accountants' imagination does not always serve the pursuit of legitimate objectives; hence the term creative accounting is larded with many meanings. In engaging in creative accounting the accountants are cheating to pursue self-interests in an entirely legitimate way that is pursuing illegitimate objectives but using legitimate ways. Although creative accounting is a completely legitimate action remaining within the bounds of lawful accounting, it completely contravenes its spirit as, in the financial statements, it paints a picture of the business entity which is inconsistent with the facts and does so under the guise of good faith (Holda and Stazel, 2016: 207).

Although creative accounting is perceived by the accountants as not violating any statute, it is normally portrayed as a fraudulent practice (Rajastham, 2014: 193). When the term creative accounting is mentioned, the meaning that comes in one's mind is of deception and dishonest. This practice is not illegal on the basis that there is no violation of any law, rule or regulation but on many times, it does not abide in full by the dictates of the law. Accountants are using the weakness or omissions in the laws to manipulate the financial statements so as to communicate what they want the stakeholders to know and conceal what they are not willing to let them know. These practices make this whole practice unethical because it is meant to deceive more stakeholders. Fizza Tassadaq and Malik, (2015: 544) observe that creative accounting is a gimmick “used to moderate a company’s financial reports to encourage investors to buy the company’s stock to increase the firm’s market value.” They further highlighted that this practice is also referred to as “the art of faking the balance sheet, or “the art of saving money”. In engaging in this practice, the intention of the accountants is to hide the true financial picture from the investors and show them a wrong picture to secure investment.

In creative accounting, the accountants deliberately violate their general code of ethics for the purpose of pursuing short and temporary gains. All stakeholders including the shareholders are causalities of this practice in one way or the other. Creative accounting is usually perpetrated by the management working in cohorts with the accountants to present an image that suits the needs of the perpetrators. There is always a conflict of interest between management and the shareholders of a business as discussed in the last chapter. Management in a bid to justify their employment packages or meeting their targets set by the owners of capital by collaborating with accountants to distort books and present a favourable image on the performance of the business. The general stakeholders are victims of the financial statements that do not present the financial information accurately and fairly. In some cases, it can be the owners of the business collaborating with the management and the accountants to deceive other stakeholders. Accountants are however the key players in this whole creative accounting game. This practice has been used as a way of smoothening the revenues and profits for a business.

6.3.1 ***Income smoothing and creative accounting***

Accountants have cited among other reasons, profit smoothing as a reason for creative accounting. Profit smoothing is sometimes referred to as income smoothing and is defined as "an active manipulation of earnings towards a predetermined target. It is the purposeful intervention in the process of reporting income numbers with the objective of dampening the fluctuations of those numbers to create a certain trend. This is done with a view to reducing the volatility of a business' income" (Chong, 2006: 41). It is a practice whereby a reporting business "prefers to report a steady trend of growth in profit rather than to show volatile profits with a series of dramatic rises and falls", (Bora & Saha, 2016: 736). This is achieved using various loopholes in the accounting regulatory and statutory frameworks, as well as manipulating the accounting standards. These loopholes and manipulation stunts will be discussed in full in the following section. Profit smoothing might appear rational as it may give certainty in future declared profitability of a business but I doubt if it is ethically acceptable.

The reasons for income smoothing vary. Proponents of this practice argue that creative accounting avoids raising expectations so high in good years that the business is unable to deliver what is required in subsequent years (Bora & Saha, 2016: 737). They also argue that it is necessary to engage in such a practice to enable a business to avoid negative performance on the stock market that comes as a result of fluctuations of reported results, (Nejad et al, 2013: 49, also see Kolozsvari and Macedo, 2015: 1). Management prefer a smooth earnings trend. This reduces risk in the eyes of investors because the earnings are more predictable. This is the motivator to the accounting profession to smoothen the income trend and preserve the good perception of the business by the public. The management of the business are also comfortable with this act as it safeguards them since they are evaluated by the performance of the business. This is echoed by Etemadi and Sepasi, (2007: 26) when they argue that, "financial statements are the medium used by mangers to show the results of their stewardship towards resources entrusted to them." Management will, therefore, collaborate with accountants to create financial statements that look appealing to impress the owners of the capital. This again reminds us that the accounting profession is preoccupied with serving or impressing the shareholders as exposed in the shareholder's theory.

It is more likely that management will be oriented towards income shifting. The shifting of income or expenses is intended to smooth the business' long-run reported profits stream, (Nejad et al, 2013: 49, also see Almeida et al, 2012: 66). Another motivation of income smoothing is to create an impression of reduced risk in the eyes of financial markets. This a deliberate ploy by the accounting professionals working in collaboration with management to deceive unsuspecting members of the public on the performance of the business. It is unfortunate that the accounting profession engages in activities that expose the public when in fact they should work to protecting the same public. Accounting takes advantage of discretionary accounting procedures that permit shifting of revenues and costs from one financial period to another. A smooth trend of performance makes the shareholders have confidence in the management. If income smoothing is looked at from this angle it sounds noble and reasonable but I doubt if it will pass an ethical test.

The advocates of deontological ethics whereby moral rules apply to actual actions do not approve of this initiative of creative accounting and have condemned it on the grounds of being unethical. This view will, therefore, require rules and regulations that restrict chances of maneuvering and creativity in the accounting profession playfield. It also requires accounting professionals who are ethical and understand the impact and consequences of their actions. Accountants must always possess just and fair attitude when preparing financial statements, (Tassadaq and Malik, 2015: 544). The notion of profit smoothing is limited in thinking because it only focuses on giving certainty to investors at the same time without giving attention to other stakeholders. It is, therefore, capitalistic oriented and is driven by the capitalistic notion of profit maximisation as was discussed in the last chapter. It can, therefore, be noted that creative accounting is an unethical practice that gives misleading information on the financial position of a business with a view to cater for self-interest objectives of a small class of stakeholders of a business. Accountants need to be more ethical to reduce the practice of creative accounting, as Tassadaq and Malik, (2015: 544) noted that, “A person cannot eliminate creative accounting practices but can reduce the use of it”.

It is my argument that income smoothing is pure dishonesty which is perpetrated by accountants hiding behind a good cause. Accounting is based on rules and convections and if an accountant engages in income smoothing, it is most likely that some rules and principles have been bent to satisfy a particular income target. This sustains the condemnation of income smoothing on ethical grounds. If rules, regulations and principles are bent but there are no laws that govern or stop the smoothing exercise,then we are left with ethics to restrain the practice. Income smoothing is always unethical because it gives a false impression on the reliability of earnings. Stakeholders, more specifically investors are interested in the variability of earnings, not just the long-term averages. Accountants must follow consistently the same accounting approach and smoothing could mean sacrificing some of the accepted accounting principles. Joe Elias Feres de Almeida et al, (2012: 66) lament that incomes smoothing reduces “the ability of accounting to reflect on the economic reality of a business and by increasing informational asymmetry in the capital market.” They also cited that this can reduce the stock return to capture the economic losses that are within the reported profits. Income smoothing can also affect the measurement of the business’ exposure that can be seen in variance of reported profits over time.

Some proponents of creative accounting embrace it as long as it is not taken to the limit. Ijeoma and Aronu (2013: 2499) expressed that accountants must be conservative and objective when applying creative accounting but must not stretch the conservation to the limit by totally ignoring some rules and regulations. They aver that, “a firm is supposed to employ procedures that are objective and conservative…" Conservative procedures are those that ultimately understate the reported profitability of the business. This has a negative impact on some stakeholders whose decisions are based on the profitability of the business. For example, the workers' bonuses might be calculated on the posted profits. When the profits are undercast the workers' bonuses will also be under cast by the same magnitude and their welfare is left sub-optimal. The advocates of this practice will have no problems in this because they see no evil in this as Ijeoma and Aronu write that creative accounting “involves the pushing of accounting principles to the limits of their flexibility or even beyond as to improve … annual statements.”

Creative accounting is made possible by the accounting rules and standards that allow a business entity to choose different accounting methods, and sometimes by the absence of rules and standards to deal with a specific transaction. They give the accountants a latitude to be creative and come up with financial statements that are biased for a purpose (Bora and Saha, 2016: 736). For example, in many jurisdictions, a business is at liberty to choose between policies of pre-incorporation expenses as they incur or gradual amortisation over a specific period. The business can, therefore, choose an accounting policy that gives it the image it prefers. There are various loopholes within the accounting framework and in the legislation that can be taken advantage of to cook books. Some of the loopholes that make it possible for the accountants to defraud stakeholders are discussed below.

6.4 Creative accounting and the conceptual frameworks

A conceptual framework is generally like a constitution that serves as a structure of reference for a specific area of enquiry (Kopperschear et al, 2016: 8). It can be referred to as a system of ideas and objectives that lead to the creation of a consistent set of rules and standards. Conceptual frameworks apply to many disciplines, but when specifically related to the accounting discipline, it can be seen as a statement of generally accepted accounting principles (GAAP). The accounting conceptual framework was defined by ACCA Approved study text as, "a statement of generally accepted theoretical principles which form the frame of reference for financial reporting". The purpose of financial reporting is to provide useful information as the basis for economic decision making, a conceptual framework will form a theoretical basis for determining how transactions should be measured and reported, that is, how they are presented and communicated to users. The accounting conceptual framework can, therefore, be summarised as a series of statements of financial accounting concepts, taken as a whole, set of objectives, and other concepts that determine how financial information is measured and displayed in financial statements. This means that the conceptual framework is one of the three fundamentals that pin the existence of the accounting profession. The other pillar is the regulatory framework and the third being the standard code of ethics and conduct which were discussed in an earlier chapter. The conceptual framework has the purpose of setting out the concepts that underlie the preparation of financial statements for external users, (Kopperschear et al, 2016:9). It can, therefore, be said that this framework has shaped the general outlook of the accounting profession and the general thinking of the accounting professionals.

The conceptual framework is applicable to general purpose financial reports which have the objective of providing “financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity” (Kopperschear et al, 2016: 8). Special financial reports, unlike general purpose, are meant for specific use. For example, financial reports for tax purposes have other additional requirements that are imposed on them by the tax laws. Therefore, when we talk about financial reports the framework will be referring to the general purposes of financial statements. General purpose financial reports are not primarily intended for the use of management and regulators. These statements are specifically directed to three primary users namely investors, lenders and other creditors. Other stakeholders are not included in the consumption of the financial statements. This is the genesis of all problems and challenges that have been discussed in prior discussions.

The accounting framework or constitution as others might call it originates from a neo-liberal capitalistic orientation which gives recognition to only the owners of capital who are the investors, lenders and other creditors. These are referred to as the primary stakeholders or users of the financial statements. The accountants will, therefore, go all out to preparing financial statements that suit the requirements of this group or that impress or discourage the group depending on the objective of the reporting business. This practice often results in exploiting the weakness of rules and regulations of the game in the name of creative accounting to appease or frustrate the primary stakeholders at the expense of all other stakeholders not mentioned in the framework. Such a practice defeats the claim of the profession working for public interest. This group of three cannot be referred to as the public. The accounting profession must, therefore, embrace all stakeholders in the form of social and ethical accounting as shall be discussed in detail in the following chapters.

6.4.1 *Qualitative characteristics of useful financial information*

The quality of financial statements is based on the perception of the users and quality that the users place on them determines the value (Achim and Chis, 2014). They write that, “each category of users has its own expectations and perceptions regarding what information is useful and of good quality” (Achim and Chis, 2014: 94). This assumes that there is no general consensus of what consist of good financial statements as there are determined by the various tastes of the different users. In general, as discussed in the last chapter, the users of financial statements are many and are also divided into two categories namely primary and secondary. The financial statements are meant for the primary stakeholders as explained in the conceptual framework. They do not take secondary stakeholders on board although they are supposed to. The more important thing, however, is that the financial statements must have the characteristics of communicating what they purport to communicate (Achim and Chis, 2014: 94 also see Filipovic, 2012: 89). The quality of the financial statements is however measured, as stated by the conceptual framework, against the qualitative characteristics of useful financial information. It must, however, be noted that the financial accounting quality can be accessed using other means resulting in the definition varying, Achim and Chis, (2014: 95), “across individuals, projects, companies and organisations depending also on the purpose for which the financial information is to be used.” The quality of the statements is therefore subjective although the conceptual framework tried to find a common definition when it defined it by suggesting the qualitative characteristics of useful financial useful information. The accounting information must have certain qualitative characteristics that facilitate the process of interpretation and use of accounting information. The conceptual framework also highlights the qualitative characteristics of useful financial information. These are characteristics that are said to be necessary in achieving the objectives of financial reporting, (Koppeschaar et al, 2016: 11). The objectives of financial reporting were cited as providing useful financial information to primary stakeholders.

The framework distinguishes between two types of qualitative characteristics that are necessary to providing useful financial information namely fundamental qualitative characteristics and enhancing qualitative characteristics, (Breahna – Pravat, 2014: 68 – 69 also see Achim and Chis, 2014: 95). The accounting profession must respect these quality criteria regarding the accounting information generated by the financial accounting reports. Relevance and faithful representation are the two attributes that identify the fundamental characteristics. It is necessary for information to be relevant for it to be useful. Ionela – Cristina Breahna – Pravat, (2014: 680) identified relevant information as that information that "can make a difference in the decision-making process of the users, thus helping them evaluate past events, understand the present ones and anticipate the future ones, conforming or correcting their anterior measurements. The difference in the decision-making process can occur if the financial information has a predictive and/or confirmatory value." Therefore, according to the framework, relevant information should have predictive value or confirmatory value. Predictive value and confirmatory value are referred to as auxiliary characteristics. This can be summarised in the table below.

Auxiliary Characteristic	**Interpretation**
Predictive value	Information which can be used by the users to predict future results, but also other values related to future periods.
Confirmatory value	A piece of information which makes it possible to confirm previous evaluations which were made in the proceeding

	period and concern the current periods

Relevance of information is influenced by its nature and materiality. Materiality is one of the underlying accounting concepts, (Breahna – Pravat, 2014: 68). “According to the FASB’s conceptual framework for financial reporting, information is material if omitting it or misstating it could influence decisions made by the users on the basis of the financial information of a specific reporting entity”, (Achim and Chis, 2014: 95, also see Zoppeschaar et al, 2016: 11). Materiality provides guidance as to how a transaction or item of information should be classified in financial statements and whether it should be disclosed separately rather than being aggregated with other similar items. Whether or not a transaction or item is material or significant is generally taken to be a matter of professional judgement. This brings the idea that judgements are used in ascertaining the level of materiality. This use of personal judgement results in creative accounting. An accountant will always take a position that favours his/her cause.

The second variable of the fundamental characteristics as stated above is the faithful representation of information. The framework suggests that reliable information is information that represents faithfully the transactions and other events it either purports to present or could be reasonably be expected to present. It involves identifying all the rights and obligations arising from a transaction or event and accounting for the transaction or event in a way that reflects its economic substance. Information must be accounted for and presented with regards for economic substance of a transaction and not merely its legal form. The legal form of a transaction or event is not always consistent with the economic reality of a transaction. It is necessary to include complete, neutral and free from error information as Achim and Chis, (2014: 95) state that, “more precisely, it must include the descriptions and explanations which are necessary for the user to understand the depicted phenomenon.”

The framework cited completeness, neutrality and freedom from error as the pillars of faithful presentation. I doubt if the financial statements born from the creative accounting possess the requirements of faithful presentation. It has been earlier on established that creative accounting is a departure from the correct position of a business to window dressed position. This means there is no faithfulness in the preparation of the financial accounts that result from creative accounting because they will not be complete. The financial statements are complete, Zoppeschaar et al, (2016: 12), "when it includes all the necessary information that a user need to be able to understand the economic events or transactions being presented. …… omissions can render information false and misleading and therefore not faithfully presented". Faithful presentation is also guaranteed by neutral presentation. Faithfully presented information is said to neutral if it was not prepared to achieve a predetermined position. On the other hand, creative accounting is a tool for producing accounting information that reflects a preconceived position. This is in direct contrast with the requirement of the conceptual framework. It was earlier on established that the conceptual framework is one of the cornerstones of the accounting discipline and it is the basis all developments in the accounting discipline and profession and as such the profession must be guided by the framework in its day to day activities. It is sorrowful to note that the accounting profession has chosen to take hide of sections that assist it to achieve self-interest goals of individual members and businesses and forsake sections that restrict it from unethical manoeuvres.

The qualitative characteristics are not complete without mentioning the enhancing characteristics. There are four enhancing characteristics namely understandability, comparability, timeliness and verifiability. These enhance the usefulness of relevant and faithfully represented information, (Breahna – Pravat, 2014: 69). The issues of the financial statements being comparable and prepared on time have never been a problem in the accounting profession. Accounts are always produced annually and in a manner, facilitates comparability. Understandability and verifiability have always been problematic. The financial statements are prepared in a language and form that cannot be comprehended by an average man. It needs a certain level of knowledge to follow and make an understanding of the statements. Even the primary stakeholders whom the statements are meant to benefit encounter the same challenge. Some resort to hiring accounting professionals for interpretation. The information that is inputted in the preparation is surrounded by suspicion on the grounds that most of it is derived from individual judgement, estimation and assumptions. This makes the whole statements questionable. These issues of judgement are the get-away corridors for accountants when practising creative accounting. More details of these aspects are dealt with in the following section.

It should be noted that the qualitative characteristics as stated by the framework has given the accounting profession a great degree of discretion in the evaluation of financial information usefulness. Another thing that is worrisome is the highlighting of information needs and the necessity of satisfying them in a financial statement for one group of users, (those who have a financial claim to a business) questions the general purpose of the financial statement. Because of the targeted class of users, it gives the impression that the financial statements are special purpose statements that are targeted at mainly to reducing the risk exposure of the business and can be prepared anyhow within the confines of the principles, rules and regulations to meet their objective. That is why creative accounting and income smoothing are acceptable. They help in achieving the goal of insulating the business from risk.

6.4.2 ***The use of personal judgement in the preparation of financial statements***

The going concern assumption has contributed to the continued engagement of creative accounting. The conceptual framework puts forward the going concern concept as another underlying assumption underpinning the preparation of financial statements and is defined as, Seyham and Brickman, (2016: 1), “a fundamental financial statement assumption that assumes an entity will remain in business for the foreseeable future”. A business is said to be a going concern when it is able to continue operating for a period of time that is sufficient to carry out its commitments, obligations, and objectives. The business will not have to liquidate or be forced out of business in the foreseeable future. This principle looks prudent but the problem is on the assessment of the business being a going concern. There is no laid procedure or indicators that are pointers of a business being a going concern. It is subjective and based on personal judgement of the management, preparers of the financial statements as well as the auditors. As a result, businesses have been seen as going concerns in the eyes of auditors have been seen collapsing in the short run. The issue of Enron though it took place two decades away will remain a living example of the vagueness of the measurement of the going concern aspect. Accountants have used this principle to justify unethical behaviour and end up cooking books in the name of creative accounting. Activities like revenue smoothing are being used in the accounting profession to paint a picture of continuity for a business. Accountants have used the likelihood of future profits to justify a business as a going concern. To give a sense of the possibility of future profitability accountants use tactics of income smoothing. The concept of income smoothing was discussed in detail in the earlier part of this chapter.

The conceptual framework also suggests the recognition criteria of transactions and events. This is also a key factor used by the accountants when they engage in income smoothing and in creative accounting at large. Cathrynne Service, (2017: 48) suggested that transactions and events must meet certain recognition criteria and she writes, “… when deciding whether to recognise a transaction or event, we first identify the elements and check they meet the definitions and secondly we ensure they meet the recognition criteria.” Definitions are spelled out in the accounting standards that are prepared by the IASB guided by the conceptual framework. Transactions and events involve elements whose definitions and recognition criteria must be met before they are recognised in the accounting records. There are five elements as identified by Koppeschaar et al, (2016: 15 – 17), namely assets, liabilities, equity, income and expenses. The recognition of elements sometimes facilitates unethical activities like creative accounting. Where the recognition criteria is not clear, the accountant is at liberty to his personal judgement, which is acceptable, and this is a source of manipulation. The accountant will always choose a position that favours a predetermined end. They can do it with constructive intent or might be guided with unconscious bias. The issue of unconscious bias was discussed in full in one of the previous chapters. Koppeschaar et al, (2016: 17) also reiterated on the manner in which to recognise the elements of financial statements when pointed out on the need of the element meeting the definition and further went on to detail the conditions of meeting the recognition criteria and they write, "to be recognised as an element in the financial statements: an item must meet the definition of one of the elements of financial statements, it should be probable the future economic benefits associated with the item will flow to or from the entity; and the item must have a cost or value that can be measured reliably."

The recognition criteria bring in issues of personal judgement in the form of estimations and assumptions. These two variables have given the accounting profession a leeway to prey on the unsuspecting public. This has become a shelter to hide when the profession get attacked on the grounds of producing unfaithful financial statements and they use this loophole to justify their unethical behaviour when books are cooked. The assumptions and estimates come into play when establishing the probability of future economic value of the element and when trying to assign a cost or a value to the same element. The framework emphasised on the probability of future economic benefit. Probability is associated with uncertainty and assumptions must be used based on variables some of which are questionable. The ACCA approved study text, (2015: 13) explains that, “this must be judged on the basis of the characteristics of the entity’s environment and the evidence available when financial statements are prepared.” Judgement is subjective and can be affected by personal preferences and other factors that can impair or affect rational thinking. An accountant is a human who also has his or her self-interests and such situations where he or she is called to use personal judgement and assessment can be used for nourishing the self-interests disregarding the needs of the public and the dictates of the profession. Sometimes the personal judgement is affected by the ambiguity of the variables especially those that affect the operating environment. There is a lot of uncertainty in the operating environment that sometimes it is difficult to understand their trends and later alone making a judgement of another independent variable basing on the behaviour of that environment. The accountant is therefore at liberty to use personal creativity in making the judgements and produce financial statements that are window dressed.

After establishing the probability of future economic benefits with a lot of difficulty and subjectivity, the accountant has to make another estimate or judgement to ascertain the cost or value of the element. The framework emphasis on the reliability of measurement and, Koppeschaar et al, (2016: 17) states that, "the use of reasonable estimates is an essential part of financial statements and does not undermine their reliability". This is subject to debate because in my own opinion there is nothing like a reasonable estimate. An estimate is an estimate and subject to a lot of unclear factors. To make this worse the estimation of the value or cost is made on an element that has been decided to constitute an element in unclear and questionable circumstances. In cases where a reasonable estimate cannot be made, the framework requires that the element must not be recognised in the financial statements. Accountants can, therefore, fail to come up with a reasonable estimate and leave out the item from the financial reports if it is to their best interest. This scenario suggests that books can be gently cooked or even roasted with a minimum chance of contravening any principle. This is the way almost all financial statements are subjected to a certain degree of creativity in their preparation. Because the use of estimates and judgement it is almost certain that some published financial statements are not accurate and not presented faithfully because one estimate will lead to the estimation of many other elements. This was alluded by Koppeschaar et al, (2016: 17) when they write that, “because elements are interrelated, an element that is recognised, for example, as an asset, automatically requires the recognition of another element, for example, income or a liability.” There are other activities that accountants engage in a bid to make the financial statements present in a predetermined position.

The discussion in this section has been centred on the conceptual framework which is one of the pillars of the accounting discipline. The other pillar is the regulatory framework which consists of rules and regulations that were established to operationalise the conceptual framework. The next section will discuss the limitation of the rules and regulations in curbing the continuation of the creative accounting practice. This section shall also seek to establish how these rules and regulations are put in place and how they are administered.

6.5 The Regulatory Framework and the Creative Accounting Practice

The regulatory framework of financial reporting is aimed at ensuring that users of the financial statements receive the correct amount of information in the right presentation that will enable them to make decisions on a business regarding their interests. The ACCA study pack (2016: 20) defined the regulatory framework as "the most important element in ensuring relevant and faithfully presented financial information and thus meeting the needs of shareholders and other users." The conceptual frame is the foundation on which the regulatory framework is built. It provides the background of principles within which rules and regulations in form of standards can be developed. This will help in making standards produced are in sync and they complement each other to achieve their purpose. "Any departure from a standard can be judged on the basis of whether or not it is in keeping with the principles set out in the conceptual framework", ACCA study pack, (2016: 20). This is called a principle based system. If the standards are produced under the guidance of the theoretical framework, this means they also carry all the shortcomings of the conceptual framework which were cited in an earlier discussion. The main purpose of the standards is to give the users of the financial information the correct amount of information that is presented in a manner that they can easily understand. The intended users of the financial information are the only primary users as outlined in the conceptual framework. The regulatory framework is another piece of rules and regulations used by the accounting profession to further the interests of a specific small group of stakeholders at the expense of the general public. The stands are crafted by the accountants themselves which means they cannot in any way be made in favour of any other person apart from the accountant themselves and the owners of capital that they work for as was established in earlier discussions.

The opposite of a principle based system is the rule based approach. This approach is used in the absence of a reporting framework. The rule-based approach results in a large mass of regulations as a way of covering each aspect of financial reporting. An example is the USA whose national accounting framework is largely rule based. The major advantage that comes with the rule based system is that the issue of judgement is significantly reduced and this will, in turn, minimise the likelihood of the use of creative accounting in financial reporting. However, many countries use a fusion of both systems in trying to achieve better financial reporting quality. Ivana Mamic Sacer, (2015: 395) statesthat, “an accounting system of a certain country is determined by it national accounting framework, professional associations, the application of IFRS and/or national accounting standards." The IFRS are the international financial reporting standards and these are widely used in almost all jurisdictions except for a few countries who put more emphasis on the rules based approach. This means a national accounting framework is influenced by both the principle based approach when they use the standards and the rule based approach as the legal system to aid in the regulation of the accounting framework. The rule based approach is the one that the accounting profession is using to commit social vices such as tax avoidance. They are using the weakness of the legal system to prejudice the ordinary man on the street by denying them the right to live when they help big companies and the rich elite abscond paying taxes which in turn will affect the social welfare function.

The social welfare function as defined by Champernowne and Cowell, (1998: 88) is

> The generic term for coherent and consistent ordering of social states in terms of desirability…. We use the term social because it normally refers to the whole community under consideration, but it does not imply that the ordering was somehow chosen by the whole community: there can be as may social welfare functions as there are options held.

The government as the mandate of the people, assuming it was democratically elected, to decide on the optimal social welfare function with many options that are available. Government put in place various policies, laws and regulations as a way of optimising the social welfare function. Tax laws are put in place to redistribute income as a way of bridging the gaps between the social classes. Whatever our views of the policy making process, it is always useful to think about policy in terms of its efficiency and on equality, and the welfare function should be thought of as a tool for organising out thoughts in a coherent way. Accountants like any other citizens have a duty to support in a positive the government efforts to attain equitable income redistribution. It is obviously unethical for the accounting profession to manipulate the weakness of the tax legislation for the benefit of the big corporations and the rich elite. This behaviour of income distribution whereby income is moved away from the poor to the few rich is called inequality aversion. Lorenzo Giovanni

Bellu and Liberati, (2006), argue that, “inequality aversion means that social welfare is more sensitive to a shift in the income of a poorer individual than to the same shift affecting a richer individual…” accountants are inflicting much pain by denying the general public to derive the benefits they should have had the taxes been paid to government without avoidance.

It must be noted that the purpose of an economic policy in a democracy must be to bring about neutrality among individuals as far as possible. This is a social point of view. Accountants as social agents who put forward their agenda as pursuing the public interest must be seen plying their trade in a way that enhances the social welfare function. It is sometimes surprising to see accountants talking passionately about abiding with the law but diving no regard to the welfare of the society. Optimal income distribution gives to each citizen an income which maximises social welfare under the constraint that total income is preserved. Accountants must thrive to be agents dedicated to the promotion of the social welfare function and their efforts and behaviour must be in sync with the calling of their profession, that is, to serve the public interest. In this regard, accountants must consider the requirements and the needs of all the stakeholders in their decision making. In cases where the needs of the stakeholders differ in a significant way, it is my argument that those of the public must be preferred because they are the ones which the accountants pledged to serve. It is professionally ethical to take a decision for the good of many.

The principle based approach allows the production of uniform financial information across businesses and boarders. This is made possible by the application of the International Financial Reporting Standards (IFRS). These standards are, “a single set of accounting standards, developed and maintained by the IASB with the intention of these standards being capable of being applied on a globally consistent basis …” (Ivana Mamic Sacer, 2015: 396). The principle based approach seems to be more reasonable if it is considered from the perspective of uniformity given that the profession is regulated centrally through IFAC. The major drawback of this approach is the reliance on judgement which the accountants are taking advantage of to further their interests and those of their employers. This approach will work in the event that the accounting profession is sensitized to ethics such that it will take the public good at heart. Ethical decisions are those that are taken for the greater good or because it is the right thing to take such a decision. The major problem with the principle based approach is the regulation of the profession. If the accountants themselves that are responsible for crafting the standards that they are expected to abide with in the preparation of the financial statements, then most of the unprofessional practices will be minimized.

On the other hand, the rule based approach can be very expensive to maintain. Coming up with pieces of legislation that will direct the whole accounting system and maintaining such a system to work optimally can be too costly to maintain. Due to the high costs associated with this system, there is a high chance that the resultant pieces of legislation will not be watertight and the accountants will manipulate it and engage in schemes such as tax avoidance. Another point to note is that the accounting profession also plays an important role in the production of such laws. It offers advisory services to the lawmakers who are in most cases not knowledgeable in understanding how the accounting discipline works. In short, the accounting profession is the one that drafts the laws that govern the operations of the profession. The profession will definitely suggest on and include clauses that will make it possible for the accountants to achieve their self-interested objectives without hindrance from the law. This leaves us with the application of appropriate ethical conduct on the part of the accountants being the only way of the profession will realise that and accept that they are a part of the universal system as explained by the general systems theory. Cynthia Schoeman (2014: 12) writes that, "… ethical behaviour is doing the right thing when no one else is watching – even when doing the wrong thing is legal." Accountants have therefore a duty to behave ethically under whatever circumstance. It is always necessary for the profession to be guided by ethics where the wrong thing seems legal.

In the light of the above discussion, it can be deduced that the mere presence of the conceptual and regulatory frameworks does not guarantee a responsible accounting profession that works for the public interest. The principles and laws are not always adequate in making the profession responsible to the public. In cases where there are no adequate laws and principles or satisfactory legal enforcement, the best solution is a commitment to the common good. The profession needs to harmonise individual values and norms to form a solid standard code of ethics and conduct that will stand as the third pillar that supports the conceptual framework and the regulatory framework. It calls for the individual accountants to be ethical before they are called to abide the ethics of the profession and must apply such ethical behaviour with consistency as expressed by Schoeman, (2014: 121) when she writes,

> Core moral values such as honesty, integrity or fairness do not lead themselves to a range of different behaviours when they are exercised in an ethical manner, which means they are applied equally to all stakeholders and without variation. When values are not exercised in an ethical manner, they can differ – but the crucial issue then is such action is not ethical.

This is giving an assurance that ethics can be harmonised if they are based on core values and being applied uniformly to all stakeholders. The accounting profession's code of ethics is based on the core values of the profession but there is a lot of evidence of unethical conduct within the profession, thus implying that there is a selective application of the values. This is coming from the profession's perspective as guided by the conceptual framework that the financial statements are meant for the primary stakeholders. It was discussed in the earlier chapter that a profession is identified by its code of ethics, meaning that ethics are the guiding phenomena of the profession. It should, however, be noted that the accounting professionals seem to be more inclined to the conceptual framework and the regulatory framework than it is to its ethical framework. Because of that, it is preoccupied with avoiding illegal activities and abiding by accounting principles without giving due regard to ethics. This has contributed to the accounting profession to survive on fraudulent practices such as the production and selling of tax avoidance schemes, tax evasion and other illicit activities such as creative accounting and cooking books at the expense of the common good.

6.6 Conclusions and Observations

The discussion in this chapter has pointed out that the accounting profession is behaving unethically and that such a behaviour has cost many governments a lot of revenue. The tax avoidance practice has denied tax authorities to collect revenue as they should have done if all taxpayers and advisers act ethically. This has caused a lot suffering to the public through poor service delivery as a result of lack of adequate revenues by the government in question. It has been established that the social welfare function is affected by the level of revenues, this means the accounting profession have immensely contributed in undermining the living conditions of the general public when they engage in tax avoidance and evasion. Accountants are deliberately putting in place and selling complicated tax avoidance schemes to multinational corporations and the rich elite for the purpose of enriching themselves and assisting the tax dodgers to attain their objective of maximising profit. The general stakeholders have been left in the dark with little or no information on the operations of the capitalistic enterprises despite the calling of the profession to serve the public interest. This has increasingly cast doubt on the integrity of the accounting profession as it is now known for its heartless unethical behaviour. It can do anything within the parameters of the law to achieve the objective of profit maximisation, regardless of the harm it has to other stakeholders. They only have respect for owners of capital are determined to manipulate the law to the limits for the benefit of shareholders and lenders of capital, and themselves. The challenges that come up with such a behaviour is that not all that is legal is ethical. It has been noted that an ethical person is one that always does good even if the wrong thing is legal. The accounting professionals have this defining character as human beings.

It was also observed that the profession has gone further and embrace cooking books or window dressing of financial statements through creative accounting as a normal way of doing business. Accountants are engaging in creative accounting to achieve predetermined positions that are in sync with their individual objectives and that of the shareholders who are the so-called owners of the business. Accountants have become so creative to the extent of roasting books or misrepresenting figures sometimes for the purpose of nourishing their needs and those of the owners of capital who are a minority group compared to other stakeholders who are being left as users of the financial statements. I have argued in this chapter that creative accounting unethical as figures are manipulated and sometimes completely misrepresented, omitted or overstated in the financial statements for an unholy cause in the disguise of creative accounting.

It has been established that the practices of creative accounting and tax avoidance are underpinned by the inadequacy of the accounting frameworks. The accounting framework is given the profession a big latitude to the accounting professionals to use personal judgement, assumptions and estimates in the preparation of the financial statements. This has been the hiding places to support the practices of creative accounting and income smoothing. The laws that guide in the calculation of taxes are also inadequate to cover all the loopholes that allow the accountants to avoid taxes. It was, therefore, my suggestion that the accounting profession rely more on the ethical pillar when the other pillars (the conceptual framework and the regulatory framework) become vulnerable to manipulation. An ethical accountant will not be seen riding on the weaknesses of the frameworks for personal gain or for furthering the interests of the minority, instead, he/she will use them in favour of the betterment of the social welfare function. To achieve this, the profession has been called to open up and embrace all that are affected by their work and accept that it is a component of the vast global system. It having a duty give out information to other components and also receiving information from the same as espoused by the general systems theory. The next will discuss the general systems theory from which the accounting profession must learn to live as a component of the universal vast.

CHAPTER SEVEN: A BRIEF ANALYSIS OF GENERAL SYSTEMS THEORY

7.1 Introduction

The concept of General systems theory has revolutionised both the natural sciences and the humanities in the sense that it questioned the authenticity of the received orthodox ways of thinking in all these knowledge systems. In the natural sciences, General systems theory led many scientists to take a very critical stance against mechanistic ways of thinking which had for so long dominated the classical scientific paradigm in the Western world. Previously, the Newtonian mechanistic approach to science had thrived on analysing reality in terms of different parts, thus discounting the idea of seeing reality from a holistic perspective.

Mechanistic thinking encouraged scholars to study the phenomenon in isolation from the rest of the generality of existence. Even in the humanities, disciplines such as philosophy, economics, psychology, sociology and management sciences, just to mention a few, scholars were encouraged to study their respective disciplines in isolation. Here the salient presumption was that these disciplines do not have any influence on each other and that their contribution to knowledge was distinct. To give an example, someone who was doing accounting was taught in a way that gave the impression that as a discipline accounts had nothing to do with economics or society in general.

In the previous chapters, one can easily deduce that mechanistic thinking has maintained a strong hold on accounting as a discipline and the role of the accountants to the generality of society. For example, the issue of the role of the accountants' profession and its ethical and social responsibility is not deeply rooted in this discipline. Some scholars have argued that accountants have an exclusive responsibility to shareholders, thus entrenching the rationale behind mechanistic thinking within this discipline. What has been identified in this study as a stumbling block to a more comprehensive understanding of the accountants' profession and its social ethical responsibility is the limitation that has been imposed on it as a discipline that is mainly concerned with the technique of balancing books of companies and organisations. Within such a rationale as a discipline, an impression is inevitably created that the accounting profession is not related to society as an organic whole. It is for this reason, that this chapter will argue that general systems theory with its holistic outlook towards reality, in general, provides the accounting profession with a worldview that can enable us to see this profession as inseparable from the well-being of society as a totality. I will be arguing in this chapter that a general systems approach to accounting can overcome a mechanistic approach.

This chapter is constructed around four sections. Whilst discounting the introduction, the first section is concerned with providing the basic presumptions of general systems theory. The second section is based on a discussion of general systems theory in relationship to social sciences, especially those social sciences that have adopted it in their disciplines. In the third section, my main focus will be on how general system theory can bring about a situation of convergence of accountancy as a profession and societal wellbeing. This will lead me to the fourth section where I argue that systems theory implies that we need a new model of thinking on the role of the accountancy profession with reference to their professional and social responsibility.

7.2 The Basic Presumptions of General Systems Theory

Systems theory arose from the scientific observation that reality is multifaceted or complex. From this observation, some scholars discovered there was "a need to provide some unifying general concepts for the massive quantities of information being generated in all fields of knowledge" (Bailey 1970: 8). Systems theory is accredited to the work of Austrian biologist, Ludwig von Bertalanffy who rejected "the mechanistic and the vitalistic explanations of life processes" (Weckowicz 2000: 12). The mechanistic and vitalistic explanation of life processes reduced the appearance of complexity in reality to elementary units that are determined and could be subjected to statistical quantification (Weckowicz 2000: 12). Within the schema of mechanistic science, as von Bertalanffy puts it, "The living organism was resolved into cells, its activities into physiological and ultimately physicochemical processes, behaviour into unconditioned and conditioned reflexes, the substratum of heredity into particulate genes, and so forth" (von Bertalanffy 1968: 31). Such an approach to the study of organisms thrived on disentangling of reality into small constituencies of isolated parts. Von Bertalanffy argues against this mechanistic thinking when he says, "in contradistinction, the organismic conception is basic for modern biology. It is necessary to study not only parts and processes in isolation, but also to solve the decisive problems found in the organisation and order unifying them, resulting from dynamic interaction of parts, and making the behaviour of parts different when studied in isolation or within the whole" (Ibid). In other words, our study of phenomena should focus on the whole instead of the studying or seeing the parts in isolation. Different parts and processes can only be intelligible when seen in relationship to the whole of the organism. Thus von Bertalanffy went on to assert that society was not "a sum of individuals as social atoms, e.g., the model of Economic Man", rather in systems theory this "was replaced by the tendency to consider society, economy, nation as a whole superordinated to its parts" (Ibid). In other words, a genuine understanding of phenomena should be holistic whereby a particular phenomenon is seen in terms of its contribution to the whole.

According to the general systems theory, all systems can be dichotomised into two categories namely open and closed systems. The open system is defined by Mele et al (2010: 127) where "there are exchanges of energy, matter, people, and information with the external environment." On the other hand, a closed system is that which there no exchange of information and matter is. There is an only exchange of energy. The boundaries of the system may be permeable or impermeable. This defines the difference between an open or closed system. Most systems show characteristics of both being open and closed so that a more useful way to think is by seeking to state the extent of openness or closeness. Thus the discussion shall be centred on open and closed systems. These systems concentrate on the relationships between the organisation and the environment in which they are involved. Conventional physics deals only with closed systems, that is, systems which are considered to be isolated from their environment, subject to the laws of entropy, and to think of biological systems as open to their environment and, possibly, becoming negentropic. (Ludwig von

Bertalanffy: 1968: 2). However, in reality, we find systems which are not closed systems due to their nature and definition.

All living organisms are open systems (Weckowicz, 2000: 1). They are made of continuous inflow and outflow, a building up and breaking down of components throughout their lives, in a state of chemical and thermodynamic equilibrium but maintained in a steady state which is distinct from the later. It must be, however, noted that in recent years there is an expansion of physics to include open systems. This expansion has helped to give light on many issues that have been obscure in physics(Ludwig von Bertalanffy: 1968: 2). However, it is important to realise that other writers consider most social organisations and their sub-systems as being partially open and partially closed (Fremont E. Kast and James E. Rosenzweig: 1972). Open and closed systems are a matter of degree. There seems to a widely-held view, often more implicit than explicit, that open system thinking is good and closed system thinking is bad, but it must be noted that both are appropriate under certain conditions (Fremont E. Kast and James E. Rosenzweig: 1972).

The behaviour of an element in a system is guided by the centre of the system. The centre of the system is the one that gives direction or coordinates the overall functioning and contribution of each element. This makes, "the behaviour of a single autonomous element is different from its behaviour when the element interacts with other elements" (Mele et al, 2010: 127), as a system. Robert Gregory (2013) argues that,

> The system functions through continuous interactions of subsystems or elements. The failure of one or more elements or breakdown of one or more interactions will cause the system to be vulnerable to disruptions. A system is in an exchange with or is related to an environment, that is, there may be mobility or varying types of linkage, including dependence. A system may be in harmony with an environment, such a system may be said to be balanced or homeostatic, (Gregory: 2013),

The system requires a continuous flow of the interlinkages to maintain optimum functionality (Allan G. Feldt: 1986; von Bertalanffy, Ludwig, 1962; Blalock, H.M. and Ann B. Blalock, 1959). These well organised and most complex systems devote part of their resources to protecting against such disruptions. The disruptions can be minimised or prevented through a number of ways. The most common defence against system breakdown is through devoting part of the resources of the system to administering and controlling the activities of other system components (von Bertalanffy, Ludwig, 1962). There is a need for supervision, regulation and careful planning to maintain a system (Allan G. Feldt: 1986). This makes the system attain better control over their own activities and are able to anticipate and prevent interaction problems among their components. As the system grows in complexity, ever larger resources must be dedicated for the system administration and maintenance activities rather than in actual production. It is not the increase in the physical size of the system with results in increased administration activities but the increase in complexity. Since greater size and complexity often have a positive correlation, it is common to attribute increases in administration costs to increased size rather than complexity (Allan G. Feldt: 1986; Ashby, W. Ross, 1956). While devoting more resources to the administration of the system may help the system to operate more smoothly with fewer disruptions and greater equity for all members, there are limits on how much effort can be spent solely on administrative activities (Aberle, David F. et. Al, 1950: 105). Thus, "attaining the proper balance between the core function and control functions in complex systems is an important though sometimes ideologically sensitive issue" (Allan G. Feldt: 1986).

There are requisite functions that are necessary for a system to function. Each of these functions are performed by one or more of its subsystems. Any system that fails to provide for the fulfilment or acquisition of all requisite functions must either change or die. Although all the requisite functions are necessary for the survival of the system, some may be more critical than others (Allan G. Feldt: 1986). The functions can be defined in terms of individual needs while in others they are formulated as organisational requirements.

Employing any set of reasonably well defined requisite functions, a system may be examined for the extent to which it meets its own requirements in each of these areas (Napier, Augustus and Carl Whitaker, 1980). Deficiencies suggest either dependence on other outside systems or an imbalance in current system operation which will lead to change. A surplus suggests either a functional activity in which the system specialises and trades with other components in its suprasystem or a system imbalance (Allan G. Feldt: 1986). Identification of subsystems is also aided by attempting to locate the components of systems which fulfil each of the critical functions. Additionally, interactions among system components and system and suprasystem may be categorised according to the requisite functions involved(Allan G. Feldt: 1986).

It is useful to refer to the components of a system as subsystems and to the larger system surrounding the system being the suprasystem(Allan G. Feldt: 1986). The components parts of a subsystem can also be referred to as sub-subsystems. These describe a simple system with the three general levels, that is, the suprasystem, the system and the subsystem. In the above scenario, the most important system on which attention is focussed is referred to as the system and the suprasystem and the subsystem being the immediately higher and lower level systems respectively (Allan G. Feldt: 1986). Despite this tri-level distinction, all systems are assumed to be similar in structure and functioning. More elegantly stated, all systems are assumed to be isomorphic.(Allan G. Feldt: 1986). If we take an industry in a particular economy as a system, the subsystems are the various firms that are in that industry and the economy being the suprasystem. As Mele et al put it, "the fundamental unit of analysis is a ‘system' made up of many parts or structures. From a systematic perspective, every system, at a certain level, is in relation with suprasystem and sub-systems. The former are hierarchically ordered as a function of their influence on the system; the later out to be directed and managed by the system in order to contribute to its finality"(2010: 129). This relationship of the three levels of the systems suggests non-existence of boundaries between and within the levels (Allan G. Feldt: 1986). It gives a sense of fluid boundaries which allows smooth flow of information that is exchanged between the systems and their components (Allan G. Feldt: 1986). This emphasizes the need for all components to interact with each other as they cannot survive without such a relationship. In this set-up, the smallest system is a single organism and the largest being the universe. According to Robert Bailey, "the thesis of general systems theory is that physical and social phenomena can be viewed within the framework of systems and that if generalisations can be viewed within the framework of systems and that if generalisations can be made about the nature of systems then these general concepts will lead to a better understanding of particular systems" (Bailey 1970: 10).

General systems theory was based on what Bertalanffy saw as two categories of systems – the mechanistic category and the organismic category. According to Bertalanfy, "the mechanistic trend is connected with technological, industrial, and social developments such as control techniques, automation, computerization, and their application for industrial, military, governmental, etc., purposes. The underlying theory is essentially that of cybernetics, automata, computers, and similar hardware" (Bertalanffy 1968: 39). This provided a scientific paradigm shift in the analysis of reality whereby an organismic approach "involves the search for generalisations about systems rather than specific applications" (Bailey 1970: 16). This generalised approach to the study of reality differed radically from the mechanistic approach which studied reality in terms of particulars or discrete particles. Thus the general systems paradigm shift was based on the realisation that reality presents itself in the form of complexity whereby everything is related and interrelated with everything else. In this regard, nothing could be understood meaningfully in isolation. The idea of wholeness was succinctly emphasised by Bertalanffy as the main characteristic of general systems theory when he said,

> General systems theory, therefore, is a general science of ‘wholeness' which up till now was considered a vague, hazy, and semimetaphysical concept. In elaborate form, it would be a logico-mathematical discipline, in itself purely formal but applicable to the various empirical sciences. For sciences concerned with ‘organised wholes', it would be of similar significance to that which probability theory has for sciences concerned with ‘chance events'; the latter, too, is a formal mathematical discipline which can be applied to most diverse fields, such as thermodynamics, biological and medical experimentation, genetics, life insurance statistics, etc (Bertalanffy 1968: 37).

To characterise general systems theory as ‘a general science of wholeness’ implies a radical shift from the traditional mechanistic science which was more concerned with the study of the functioning of different parts that were usually analysed in isolation from each other. From the perspective of prioritising wholeness, Bertalanffy goes onto deduce that instead of seeing the unification of all sciences into physics, we should rather be in the position of asserting that,

> A unitary conception of the world may be based, not upon the possibly futile and certainly farfetched hope finally to reduce all levels of reality to the level of physics, but rather on the isomorphy of laws in different fields. Speaking in what has been called the ‘forma’ mode, i.e., looking at the conceptual constructs of science, this means structural uniformities of the schemes we are applying (Bertalanffy 1968: 48-49).

In the light of the above quotation, it is important to take note that Bertalanffy is not saying that the unitary conception of the world implies reduction of reality to a single physical phenomenon, but rather it's a unitary conception of the world that is ultimately based on structural uniformities. As he puts it,

> The unifying principle is that we find organisation at all levels. The mechanistic world view, taking the play of physical particles as ultimate reality, founds its expression in a civilisation which glorifies physical technology that has led eventually to the catastrophes of our time. Possibly the mode of the world as a great organisation can help to reinforce the sense of reverence for the living which we have almost lost in the last sanguinary decades of human history (Bertalanffy 1968: 49).

What general systems theory is going against is the mechanistic view of reality which is based on the glorification of physical particles and the end result of such a technology led to catastrophes in the form of atomic bombs and rampant pollution of the natural environment. Most of these technologies are usually applied in a way that tends to imply that as human beings we exist external to other constituents of existence. For example, as we have seen in chapter 3, in economics acts of pollution are actually regarded as externalities – implying that they are external to the main focus of the economic discipline itself. In this regard, the economy is not seen as a system within the hierarchy of systems such as human society and the natural resources. In modern physics, one finds that the first law of thermodynamics says that energy cannot be destroyed or created. The second law states that energy dissipates. This is known as the Entropy Law. According to Nicholas Georgescu-Roegen, "the dissipation of energy, as the law proclaims, goes on automatically everywhere. …The Entropy Law does not help an economist to say what precisely will happen tomorrow, next year, or a few years hence. Like the aging of an organism, the working of the Entropy Law through the economic process is relatively slow but it never ceases" (Georgescu-Roegen 1971: 18-19). Since the economy depends on natural resources and the environment, its activities have to be seen in relationship to these systems.

However, because of the predominance of mechanistic thinking inherent in liberal capitalism as we have seen in chapter 2, issues of depletion and pollution that are related to Entropy Law are usually regarded as externalities to the working of the economic system. What is discounted in this mode of thought is that the improvement in human living conditions is inextricably tied to the depletion of natural resources by virtue of the fact that natural resources are a system that is endowed with a feedback mechanism within the suprasystem or the whole. Thus by failing to take into consideration the Entropy Law, the liberal capitalistic economic system has portrayed itself as a closed system that is endowed with its own immutable laws which make it autonomous from the natural environment. Contrary to closed systems as Bailey puts it, an open system is “characterised by interchange with their environment” and “must continually adapt to the needs of the environment” (1970: 139). Adaption to the environment is only feasible because open systems realise that their wellbeing is indispensable from the whole.

The systems theory paradigm requires a new approach to education because the influence of mechanistic science has led to an academic situation whereby disciplines are usually pursued in isolation from each other, thus giving the impression that these disciplines have no contribution to make towards each other. For example, the problem that is posed by Entropy Law as stated by Georgescu-Roegen implies that, if the economy can be seen as an open system then there is a need for economists to be knowledgeable with subjects such as environmental studies, population studies, sociology, physics, just to mention a few. The specialised approach to knowledge is wholly exclusive to the extent that a discipline becomes a closed system and in the process, we cannot deal with the reality of complexity. This is the observation which was made by Georgescu-Roegen when he said,

> By filing knowledge logically we do not increase it; we only carry the economic advantage of the logical algorithm to its utmost limits. Clearly, the *w*-propositions of any individual science contain, explicitly, the entire extant knowledge in a particular domain. Strictly speaking, therefore, to store all that is already known in a domain we need only to memorize (*w)*, i.e., what we currently call the logical foundation of the respective science (Georgescu-Roegen 1971: 27).

In this approach of filing knowledge logically, there is an understanding of one’s discipline as a closed system. This inevitably deprives the discipline from being adaptive to the environmental changes which can only be gained through a process of interaction with other disciplines. What is also required in an open system approach in the acquisition of knowledge is flexibility whereby various perspectives such as the natural environment and human society are integrated in the pursuit of truth. Since increasing complexity and differentiation are at the heart of reality, the unifying factor has to be the whole or the suprasystem. Each system or body of knowledge has to be seen as contributing to the suprasystem. For this reason, a particular system such as economics, accounting, sociology or history, just to mention a few, is regarded as a subsystem. Taken on its own, a particular system has the environment which are other systems in which it operates. For example, accounting's environment in which it operates is economics, politics, sociology, religion, history, government and the organisation or the firm etc. Whilst the organisation or the firm can be regarded as the primary focus of accounting, the impact of its activities have to be understood holistically with the natural environment. As we shall see later, general systems theory requires a new orientation in our approach to education.

As a theory that is mainly concerned with holism, general systems theory is seen as endowed with a great potential to contribute towards "integrative education" (Bertalanffy 1968: 49). In other words, integrative education is based on the realisation that when seen in isolation, each discipline remains deficient towards an authentic understanding of reality, hence it needs to be complemented by other disciplines instead of treating each discipline in isolation from each other. As Bertalanffy aptly puts it, "conventional education in physics, biology, psychology, or the social sciences treats them as separate domains, the general trend being that increasingly smaller subdomains become separate sciences, and this process is repeated to the point where each specialty becomes a triflingly small field, unconnected with the rest" (Bertalanffy 1968: 51). Education should aim to promote an interdisciplinary approach to the dissemination of knowledge. In this regard, general systems theory implies that each discipline should be seen in terms of its contribution to the generality of knowledge instead of being seen in isolation from other disciplines.

In accounting, the various definitions that have been proffered by scholars about the scope of this discipline have been too conservative in the conceptualisation of the discipline itself. For example, George Brett defined it as follows, "Accountancy is the science of classifying and recording business transactions and of analysing their effects upon a business concern so as to reveal the true condition of the business, and also to indicate any changes of policy of the management that would improve these results and benefit the status of the business" (Brett 1928: 3). Within such a definition, the understanding of accounting is that it was a science of classifying business transactions with a specific aim of informing the management of the business on the financial affairs of the business. In such a definition of accounting, it can be deduced that the primary purpose of accounting was the classification of transactions for the sake of informing the management of the business. Business and its operations are thus abstracted from society as a whole. One can even say that business is presumed as having its own autonomous existence from that of society. Such a presumption is rather fallacious because business is a subsystem within society and accounting information that is provided for its activities have an impact on society for better or for worse.

Bertalanffy seems to have been aware of the fallacy inherent in the compartmentalization of knowledge to the exclusion of other social realities when he said that what is studied in the pursuit of knowledge should also be seen in relationship to its contribution to the wellbeing of society. As he puts it, "…if we speak of education, we do not mean solely scientific values, i.e., communication and integration of facts. We also mean ethical values, contributing to the development of personality" (Bertalanffy 1968: 51). The question that arises and which I think Bertalanffy did not give enough attention to has to do with the ethical values that can be derived from science for the development of personality. Some scholars have observed that scientists are people who are committed to truth-telling and sharing of their knowledge with the wider community in the process of the dissemination of knowledge (Barbour 1992: 27-29). However, from what has been said so far, one can deduce that systems theory is based on a worldview of holism in its approach when dealing with the issue of complexity in the generality of existence.

7.2.1 ***Holism***

As we have seen in the preceding discussion, systems theory posits that scientific education should be integrative – no discipline should be seen in isolation from each other. Obviously, such an assertion implies a quest for a holistic view of reality. This holistic approach to the conceptualisation of reality is seen as integral to new sciences such as quantum physics. For example, Donah Zohar (1990: 9-10) observes that quantum theory is encapsulated in the "Principle of Complementarity". This principle says that, "…each way of describing being, as a wave or as a particle, complements the other and that a whole picture emerges only from the package deal". In other words, both wave and particle nature of being complement each other in a way that enables us to get an integrated picture of reality. As she puts it, "Quantum stuff is, essentially, *both* wave-like and particle-like, simultaneously". According to Newtonian mechanistic physics, a particle was considered to be what matter is made of (Shashi Prabha Sharma, 1992). This type of physics promoted a view of reality where things were understood as existing in isolation from each other(Shashi Prabha Sharma, 1992). Contrary to this mechanistic physics which presented a picture of matter as constituted by isolation and insularity, Zohar goes on to make the following observation on the implications of quantum physics to relationships in general:

> Perhaps more than anything else, quantum physics promises to transform our notions of relationships. Both the concept of being as an indeterminate wave/particle dualism and a concept of movement which rests on virtual transitions presage a revolution in our perception of how things relate. Things and events once conceived of as separate, parted in both space and time, are seen by the quantum theorist as so integrally linked that their bond mocks the reality of both space and time. They behave, instead, as multiple aspects of some larger whole, their individual existences deriving both their definition and their meaning from that whole. The new quantum mechanical notion of relationship follows as a direct consequence of the wave/particle

> dualism and the tendency of a matter wave (or probability wave) to behave as though it were smeared out all over space and time (Zohar 1990: 17-18).

The implication of the above quotation is that from the perspective of quantum physics, things in existence are intertwined with each other in such a way that they cannot be compartmentalised. It is by virtue of relatedness that they derive individual existence. When understood in isolation from each other they become unintelligible. Whatever is real must be understood holistically. The same observation was also made by the physicist, Fritjof Capra when he said that, "Quantum theory reveals a basic oneness of the universe. It shows that we cannot decompose the world into independently existing small units…nature appears as a complicated web of relations between the various parts of the whole" (Capra 1983: 78). From such a holistic scientific perspective it is clear that whatever is done or studied must be done with a holistic cast that takes into account all systems in relationship to the suprasystem. In this regard, one finds that David Bohm is more pragmatic when he said, "the whole organises the parts" and that "the world is one unbroken whole" (Bohm 1988: 64). If the world is 'one unbroken whole' it also implies that any study which is done about the world from one particular discipline has to be seen as an abstraction. This follows that one is required to see the implication and contribution of the particular discipline in relationship to the whole because there are other constituencies of existence or systems that contribute immensely to that which is abstracted from the whole or the superasystem.

However, apart from physics, the same holistic approach was also adopted by microbiologists when they observe that living organisms should be understood as open systems that are on the final analysis influenced by other living systems – thus implying the reality of interconnectedness within existence. James Lovelock stated that living organisms and their environment do form "a single evolutionary process" (Lovelock 1979: 99). In other words, as open systems, organisms co-evolve with their natural environment. It has also been observed by biologists that bacterium continuously trade genetic information to the extent on the final analysis “all the world’s bacteria essentially have access to a single gene pool and hence to the adaptive mechanisms of the entire bacterial kingdom” (Margus and Sagan 1986: 224). If the world’s bacteria existed as closed systems that are endowed with their own distinct genetic information they will not be able to survive any threat that might arise from the given environment. The ability of bacteria to exchange information implies that they are an open system that incorporates its immediate environment in its own existence. As an open system, bacteria receives information and sends information for its own survival.

However, a holistic outlook gives the impression that reality is generally well organised and oriented to some particular goal. The problem that arises from such an impression is that it easily overlooks the issue of complexity and chaos within the generality of existence. The idea of complexity and chaos presupposes the existence of predictability and unpredictability of phenomenon. However, this scientific holistic understanding of reality presupposes a philosophical outlook or metaphysics that gives primacy to relationality.

7.2.2 ***Systems Theory and Relationality***

The Newtonian scientific worldview was based on the idea that things existed as self-enclosed entities with their properties which made them to behave in a particular way that can be predicted. In this regard, objects were understood to move in well-defined paths such that their histories could be predicted. In our contemporary times, there are other cosmological physicists such as Stephen Hawking and Leonard Mlodinow who are questioning the classical Newtonian scientific worldview because of its failure to account for physical phenomena that presents itself in terms of complexity and chaos. In such situations, these physicists maintained that one is ultimately required to come up with a theory that should help us to account for everything. In this regard, the main presumption is that such a theory should help us to harness the reality of relationality.

Alfred North Whitehead who is regarded as the father of process thought articulated a philosophy that puts emphasis on relationality whereby nothing that is real can be understood outside its relatedness and interrelatedness to other things within the generality of existence. On these grounds, Whitehead refuted the mechanistic scientific notion of things as existing with their self-enclosed natures that became the point of reference for autonomous existence. Whitehead debunked this mechanistic scientific outlook when he stated that, “there is no such mode of existence; every entity is only to be understood in terms of the way it is interwoven with the rest of the Universe” (Whitehead 1948: 64). In this regard, process philosophy gives primacy to relationality as the glue that cements everything in existence. One of the process thinkers such as Robert Mesle observes that from a process philosophical perspective, “what ‘never really is’ is the alleged ‘substance’ that ‘stands under’ all of the change, existing independently from it and enduring unchanged through all of the change. What *is* are events and relationships that constitute the process of becoming and perishing” (Mesle 2008: 50). In other words, all entities are constituted by an intricate web of relationships and can only have meaning within these relationships.

What makes process philosophy to be a philosophy of that is indispensable to general systems thinking are the concepts of process and relatedness. From a process philosophical perspective, the world is seen "as a web of interrelatedness processes of which we are integral parts, so that all of our choices and actions have consequences for the world around us" (Mesle 2008: 9). As human beings we are beings that are immersed in interrelated processes and what we do has consequences that go beyond our own conceptual horizons of a given existence. Because of relationality, there are characteristics which various systems share in common. Other scholars such as Stephen Mennell have aptly observed that, “one does not have to be an uncritical believer in ‘progress' to recognise that the very long-term trend-line in the development of human society has been towards larger and larger networks of interdependent people organised in more and more interlocking layers" (Mennell 1994: 177-178). Human existence which was previously understood as characterised by multiplicity is being understood in terms of interconnectedness whereby social existence is understood as a given existential reality that is shared in common. In general systems theory, the diversity of existence or the multiplicity of existence or systems are seen as converging into a suprasystem. In the light of the above succinct discussion of some of the main elements of systems theory, in the following section, I shall give attention to what I think to be the implications of systems theory to social sciences. In the light of the discussion in the previous chapters about accounting and the accounting profession, one could easily deduce that accounting is a social science. It is for this reason that I should like to investigate general systems theory and its contribution to social sciences.

7.3 General Systems Theory and the Problem of the Compartmentalization of Knowledge in the Social Sciences

The main contemporary problem which has beset the social sciences arises from specialisation whereby disciplines are studied in isolation from each other. This practice gives the learner the impression that these disciplines have nothing to share in common. This discrepancy in the acquiring and dissemination of knowledge is thus beset with disastrous consequences to social and natural environmental existence. Bertalanffy critiqued this modern compartmentalisation of knowledge as follows,

> The application of the modern methods of scientific agriculture, husbandry, etc., would well suffice to sustain a human population far surpassing the present one of our planet. What is

> lacking, however, is knowledge of the laws of human society, and consequently a sociological technology. So the achievements of physics are put to use forever more efficient destruction; we have famines in vast parts of the world while harvests rot or are destroyed in other parts; war and indiscrimination annihilation of human life, culture, and means of sustenance are the only way out of uncontrolled fertility and consequent overpopulation. They are the outcome of the fact that we know and control physical forces only too well, biological forces tolerably well, and social forces not at all. If, therefore, we would have a well-developed science of human society and a corresponding technology, it would be the way out of the chaos and impending destruction of our present world (Bertalanffy 1968: 51-52).

Whilst a lot of achievement has been made with regards to scientific developments, Bertalanffy is arguing in the above quotation that such scientific developments and discoveries have not been done in way that has resulted in a harmonious social and environmental existence. It can also be deduced from the above quotation that technology has been highly developed in terms of controlling or knowing the workings of natural phenomena but there has not been corresponding technology for human society. Because of this discrepancy, the world has been rendered vulnerable to destruction. In the field of economics, many scholars have been caught in a perennial argument of whether economics was a natural science like physics and chemistry or that it was just a social science. In those instances where it has aligned itself with the natural sciences, the tendency of economics has been that of using quantitative methods such as graphic representations and mathematical formulae in the analysis of human economic behaviour. Nicholas Georgescu-Roegen observes that,

> No science has been criticized by it its own servants as openly and constantly as economics. The motives of dissatisfaction are as many, but the most important pertains to the fiction of *homo oeconomicus*. The complaint is that this fiction strips man's behaviour of every cultural propensity, which is tantamount to saying that in his economic life man acts mechanically. This is why the shortcoming is ordinarily exposed as the mechanistic outlook of modern economics. The criticism is irrefutable (Georgescu-Roegen 1971: 1).

Georgescu-Roegen's main critique of economics as we can deduce from the above quotation is that by modelling human economic behaviour on mechanistic science, economics has falsified human nature. In other words, a human being that is usually presented as the ideal person in economics is different from what human nature is in reality. Whilst human economic behaviour is contributed to by many factors such as culture, religion, politics and value systems, just to mention a few, for the sake of mathematical convenience, economics has reduced human economic behaviour to utility maximisation to the exclusion of any other contributory factors to human economic behaviour. Through comparative study of human economic behaviour and anthropology, many scholars have come to the realisation that culture plays a critical role in human economic behaviour.

7.3.1 ***Deconstructive Postmodernity and the Social Sciences***

Deconstructive postmodernity is usually regarded as anti-traditionalism or any form of received knowledge and ways of doing things. Zygmunt Bauman characterised the postmodern era as mainly about "the tearing off of the mask of illusions; the recognition of certain pretences as false and certain objectives as neither attainable nor, for that matter, desirable" (Bauman 1993: 3). In other words, deconstructive postmodernity reminds us to be sceptical of traditional ways of doing things and of being in the world in general. In his later work, *Intimations of Postmodernity*, Bauman maintained that postmodernity implies "the breakdown of self-enclosed communities and the ensuring appearance of the 'masterless men' – vagabonds, vagrants, shifting population nowhere at home, belonging to no specific community or corporation, at no locality subject to continuous and all-embracing surveillance – that rendered the issue of social control, and of the production of social order, problematic" (Bauman 1992: 6). One can easily deduce from the above quotation that Bauman saw postmodernism as ushering human existence into an existential situation where there are no restrictions or boundaries in the movement of people, thus endangering the very existence of the traditional social order. It is evidently clear that such an interpretation of postmodernity is deconstructive.

However, prominent scholars in deconstructive postmodernism are Michael Foucault and Jacques Derrida. In his book, *The Order of Things*, Michael Foucault argued that it is human beings who impose the order on how things should be. He writes,

> Order is, at one and the same time, that which is given in things as their inner law, the hidden network that determines the way they confront one another, and also that which has no existence except in the grid created by a glance, an examination, a language; and it is only the blank spaces of this grid that order manifests itself in depth as though already there, waiting in silence for the moment of its expression. …At the other extremity of thought, there are the scientific theories or the philosophical interpretations which explain why order exists in general, what universal law it obeys, what principle can account for it, and why this particular order has been established and not some other. But between these two regions, so distant from one another, lies a domain which, even though its role is mainly an intermediary one, is nonetheless fundamental: it is more confused, more obscure, and probably less easy to analyse (Foucault 1965: xix).

The compartmentalisation of knowledge into disciplines is an artifice that is created by the human need to create order. The creation of order is aimed at giving orderliness to things in a way that ultimately determines how they should work according to our own human design. Some of those laws that are usually central to scientific theories are the consequent result of philosophical interpretations aimed at enforcing universal laws whose purpose is to serve as the source of justification for the established order or status quo. What Foucault is saying is that order is not something that arises from eternal laws, but an artifice of human creation aimed at creating intelligibility to the human mind. One can also deduce that Foucault was anti-foundationalism or structuralism. This comes out more lucidly when he said that order is characterised by discontinuities in the sense that what was previously accepted as the order in the previous epoch is usually superseded by what becomes the order in the contemporary era. He argues,

> Now, this archaeological inquiry has revealed two great discontinuities in the episteme of Western culture: the first inaugurate the Classical age (roughly half-way through the seventeenth century) and the second, at the beginning of the nineteenth century, marks the beginning of the modern age. The order on the basis of which we think today does not have the same mode of being as that of the Classical thinkers" (Foucault 1965: xx).

Here it is evidently clear that Foucault was refuting the idea of eternal truths in the ordering of things. Order was thus not something permanent, enjoying unchangeability. One can say that order can only have meaning within a particular epoch, and in the passage of that particular previous epoch it becomes irrelevant to the present or contemporary epoch. A refutation or deconstruction of order was also an advocacy of antistructuralism among deconstructive postmodernists. Jacques Derrida, who was heavily indebted to the writings of Foucault was more nuanced in his critique of structuralism. In his critique of structuralism, Derrida had this to say,

> It would be easy enough to show that the concept of structure and even the word 'structure' itself are as old as the *episteme* – that is to say, as old as Western science and Western philosophy – and that their roots thrust deep into the soil of ordinary language, into whose deepest recesses the *episteme* plunges in order to gather them up and to make them part of itself in a metaphorical displacement. Nevertheless, up to the event which I wish to make out and define, structure – or rather the structurality of structure – although it has always been at work, has always been neutralised or reduced, and this by a process of giving it a center or of referring it to a point of presence, a fixed origin. The function of this centre was not only to orient, balance, and organise the structure – one cannot, in fact, conceive of an unorganised structure – but above all to make sure that the organising principle of the structure would limit what we might call the play of structure. By orienting and organising the coherence of the system, the center of a structure permits the play of its elements inside the total form. And even today the notion of a structure lacking any centre represents the unthinkable itself (Derrida 1978: 278).

Derrida is critiquing the idea of a structure which is usually basic to our human thinking and our ordering of what constitutes reality around us. The existence of a structure is usually premised on the centre as a point of reference for that particular structure. It is the centre which enables us to conceive how the structure is organised to the extent that our human minds cannot conceive or imagine a structure which is disorganised. The idea of a structure presupposes the existence of a centre whose existence we cannot do without if the structure has to be intelligible. As he puts it, "thus it has always been thought that the centre, which is by definition unique, constituted that very thing within a structure which while governing the structure, escapes structurality. This is why classical thought concerning structure could say that the center is, paradoxically, within the structure and outside it" (Ibid). What Derrida is saying is that whilst the structure constitutes an existence that is relative to the center, the problem inherent in this way of thinking lies in the fact that the center has its own existence that is independent of the center. This way of thinking implies that if we succeed in undermining the existence of the center then the structure will cease to exist. Deconstructive postmodernity is also a trend of thought which is described by scholars as anti-foundationalism in the sense that it is critical towards 'the given' patterns of knowledge that cannot be disputed or knowledge that is usually taken for granted. All beliefs and theses are regarded as open to criticism and correction (Bernstein 1991: 326). In this regard, deconstructive post-modernists maintain that a craving for an absolute knowledge should be regarded as a misguided quest.

Finally, another version of deconstructive post-modernism presents itself as a refutation of a claim to universal knowledge. Bauman expressed the deconstructive postmodernism's attitude towards universalism as follows:

> The postulate of universality was always a demand with an address; or, somewhat more concretely, a sword with the edge aimed against a selected target. The *postulate* was a reflection on the modern *practice* of *universalization* – in a way similar to that of the related concepts of 'one human nature' or 'human essence', which reflected the *intention* to substitute the *citizen* (the person with only such attributes as have been assigned by the laws of the single and uncontested authority acting on behalf of the unified and sovereign state) for the motley collection of parishioners, kinsmen and other locals. The theoretical postulate squared well with the uniformizing ambitions and practices of the modern state, with the war it declared on *les pouvoirs intermediaires*, with its cultural crusades against local customs redefined as superstitions and condemned to death for the crime of resisting centralized management (Bauman 1993: 39).

In the light of the above quotation, it is clear that deconstructive postmodernity is against universalism which is regarded as oppressive to the idea of plurality. Instead of pursuing universality, the ideal for deconstructive postmodernists is to give special attention to the particularity of things. For example, instead of championing the existence of world culture, we should rather see the world as constituted by a multiplicity of cultures that differ yet one from another. Even in the realm of knowledge, there was nothing universalizable. As he puts it, "interpretation between systems of knowledge is recognised, therefore, as the task of experts armed with specialist knowledge, but also endowed, for one reason or another, with a unique capacity to lift themselves above the communication networks within which respective systems are located without losing touch with that 'inside' of systems where knowledge is had unproblematically and enjoys an 'evident' sense'' (Bauman 1992: 22). In this way of thinking it becomes evidently clear that the deconstructive postmodernist critique of universalism can be taken as a rational justification for the understanding of knowledge in terms of a multiplicity of disciplines that exist autonomously from each other.

Universalism is also critiqued by deconstructive postmodernists on the grounds that it can breed a totalitarian and oppressive outlook towards human social existence – thus overlooking the uniqueness of everything that exists. This is the argument that one finds being advanced by David Stackhouse when he said, "there is a 'thingness' about life that does not easily dissolve into its relationships; there is a reality about a self – a Socrates or Jesus…that is not easily accounted for by appealing to a synthesis of a multiplicity of relata" (Stackhouse 1981: 108). In other words, if we are to see reality in terms of its relatedness we are bound to end up losing a picture of the uniqueness of things. This way of thinking can be seen as an antithesis of systems theory in the sense that it does not advocate a holistic approach to the conceptualisation of reality as espoused in systems theory. Foucault was very explicit in his abhorrence of metanarratives. In his *The Archeology of Knowledge* he argues:

> We must question those ready-made syntheses, those groupings that we normally accept before any examination, those links whose validity is recognised from the outset; we must oust those forms and obscure forces by which we usually link the discourse of one man with that of another; they must be driven out from the darkness in which they reign. And instead of according them unqualified, spontaneous value we must accept, in the name of methodological

> rigour, that, in the first instance, they concern only a population of dispersed events (Foucault 1972: 22).

The above quotation demonstrates an abhorrence towards metanarrative approach to knowledge which is based on seeing links and continuities within its creation. In other words, there was nothing continuous in the way how knowledge is passed from one generation to the other because life events are just dispersed. When this type of thinking is taken to its logical conclusion one is led to conclude that traditions as implying experience that has been passed from one historical epoch to another does not exist. Knowledge and experience come in the form of discontinuities. The fallacy inherent in this way of thinking is that it deliberately trivialises the fact that the creation of knowledge is a mental activity that does not occur in the vacuum, rather it is a process that is based on building on the foundations which others have built. An inadequacy within a particular discipline can sometimes require the specialists within that discipline to rethink or rebuild the discipline in the light of some contemporary new insights from the contemporary historical epoch. In so doing, one is already forging some continuity between different historical epochs. But for deconstructive postmodernists, the very idea of continuity in the creation of knowledge is refuted as an epistemic impossibility. According to Foucault,

> We must renounce all those themes whose function is to ensure the infinite continuity of discourse and its secret presence to itself in the interplay of a constantly recurring absence. We must be ready to receive every moment of discourse in its sudden irruption; in that punctuality in which it appears, and in that temporal dispersion that enables it to be repeated, known, forgotten, transformed, utterly erased, and hidden, far from all view, in the dust of books. Discourse must not be referred to the distant presence of the origin, but treated as and when it occurs. These pre-existing forms of continuity, all these syntheses that are accepted without question, must remain in suspense (Foucault 1969: 25).

What is implied above is that there is no continuity in the dissemination of knowledge because what transpired in the past cannot be accounted for in the present. Any discourse about knowledge should be understood as happening instantaneously without any indebtedness to the past. Thus terms such as ‘sudden irruption', ‘punctuality' are aimed at emphasising the instantaneous occurrence of knowledge. That which occurs in the present has to be seen as without any history and there is simply no synthesis between knowledge of the past and that of the present because the past must be subjected to suspicion and suspense. As we shall see in the following chapter, systems theory is critical against an approach to knowledge that is based on fragmentation of knowledge in favour of a holistic view. In the previous chapter, we have seen that though systems theory was critical towards mechanistic science, it did not discard mechanistic science completely but it rather advocated a holistic approach instead of a mechanistic fragmented approach. However, another problem in deconstructive postmodernity lies in the fact that such an approach to knowledge cannot deal with the complexity that arises of linkages between entities that are previously seen as engendering disparities or diversity. In this regard, there are other scholars who have advanced another version of postmodernism which is known as reconstructive postmodernism in the social sciences. These scholars argue that deconstructive postmodernism is not sustainable when subjected to its implications to real life situation on how knowledge is created and disseminated in human society.

7.3.2 ***Reconstructive Postmodernism and the Social Sciences***

Reconstructive postmodernism arises from the realisation that deconstructive postmodernism was rather too nihilistic in its critique of the modern worldview. Whilst reconstructive postmodernism would agree with deconstructive postmodernism on the need to adopt a critical stance on some of the received traditional concepts and worldviews, it advocates for the reconstruction of a postmodern thought and worldview. David Ray Griffin observes that,

> A postmodern world will involve postmodern persons, with a postmodern spirituality, on the one hand, and a postmodern society, ultimately a postmodern global order, on the other. Going beyond the modern world will involve transcending its individualism and militarism. Reconstructive postmodern thought provides support for the ethnic, ecological, feminist, peace, and other emancipatory movements of our time, while stressing that the inclusive emancipation must be from the destructive features of modernity itself. …By virtue of its return to organicism and its acceptance of nonsensory perception [reconstructive postmodernism]…opens itself to the recovery of truths and values from various forms of premodern thought and practice that had been dogmatically rejected, or at least restricted to 'practice', by modern thought. This reconstructive postmodernism involves a creative synthesis of modern and premodern truths and values (Griffin 2000: xxii-xxiii).

Reconstructive postmodernism advocates that there should be a new way of doing things as well as a new way of being in the world which takes into account or deal with contemporary issues that constitute frontiers for intellectual and moral concerns. Reconstructive postmodernism does not despise the old order, rather it aims at creating a synthesis between the modern and the traditional. In reconstructive postmodernism, emphasis is put on being constructive or coming up with a new model as a result of a creative synthesis between the old and the new. In reconstructive postmodernism what is mostly aimed at is in coming up with a holistic perspective that is based on an inclusive conceptualisation of reality. The implication of constructive postmodernism to social sciences, in general, is that an authentic learning has to be as much inclusive as possible on the contributions of other disciplines to one's own discipline. It is mainly on these grounds that constructive postmodernism is closely related to systems thinking.

7.4 General Systems Theory and the Convergence of Social and Natural Sciences

Whilst there is a reality of the multiplicity of disciplines, a holistic paradigm can be achieved through the promotion of the general ideal. Here the presumption is that the general ideal will be "consistent with the organic conception of reality" which is only possible when we negotiate "the mean between simplicity and complexity on the one hand, and diversity and unity on the other" (Henning 2005: 151). In this regard, education should have the promotion of the good of society in general as its main aim. There are other scholars who are arguing for convergence or unity of all knowledge or a unified approach to the creation and dissemination of knowledge. Edward Wilson who adopted the term ‘consilience' from William Whewell who defined it as "the jump together of knowledge by the linking of facts and fact-based theory across disciplines to create a common groundwork of explanation" (see Wilson 1998: 6). In other words, the term consilience implies the unification of knowledge. Whilst such efforts have been deemed possible in the natural sciences, the idea has been found problematic in the social sciences. In this regard, Wilson made the following observation,

> The belief in the possibility of consilience beyond science and across the great branches of learning is not yet science. It is a metaphysical worldview, and a minority one at that, shared by only a few scientists and philosophers. It cannot be proved with logic from first principles or grounded in any definitive set of empirical tests, at least not by any yet conceived. Its best support is no more than an extrapolation of the consistent past success of the natural sciences. Its surest test will be its effectiveness in the social sciences and humanities. The strongest appeal of consilience is in the prospect of intellectual adventure and, given even modest success, the value of understanding the human condition with a higher degree of certainty (Wilson 1998: 7).

Consilience has been found to be possible when applied to natural sciences whilst in the social sciences, the problem arises from the fact that there are no commonly shared empirical principles, especially with the natural sciences. Even though human sciences deal with issues of human existence, the focus that is given to each human science is divergent from each human science. On the basis of this observation Wilson went on to ask, “given that human action comprises events of physical causation, why should the social sciences and humanities be impervious to consilience with the natural science" (Wilson 1998: 9). In other words, Wilson's main concern is on the consilience of natural sciences and the social sciences. Wilson went on to argue that, "it is not enough to say that human action is historical, and that history is an unfolding of unique events. Nothing fundamental separates the course of human history from the course of physical history, whether in the stars or in organic diversity. Astronomy, geology, and evolutionary biology are examples of primarily historical disciplines linked by consilience to the rest of the natural sciences" (Ibid). Here the point which is overlooked by Wilson is that what tends to problematize consilience between the natural sciences and social sciences is the inherent tendency within the natural sciences to reduce all reality to material causation. As we have seen previously, the natural sciences from a mechanistic paradigm have spectacularly failed to provide us with a holistic view of reality. In the preceding discussion, we have seen other scholars such a Zohar advocating that the new science such as quantum physics have some implications to human existence, especially the concept of relationality that is pervasive to all reality. My argument against Wilson's conceptualisation of consilience is that it is not a matter of the social sciences learning from the humanities, rather a genuine consilience should be based on how each discipline contributes to the generality of existence such that we can reiterate the systems theoretical premise that the parts and ultimately constituted in the whole. In the social sciences, the point of convergence of the disciplines is found in ethics as a discipline that can enable us to realise the systems theoretical paradigm in the social and natural sciences.

7.4.1 **Ethics and the Convergence of the Social and Natural Sciences**

Ethics is not a discipline that can be restricted solely to the social sciences. One finds that ethics goes across all the disciplines. Whatever is done in various disciplines is usually subjected to the question of whether such an action was ethical or not. In ethics, we are able to take account of our human actions in relationship to our human society and the natural world. From a systems perspective, we can postulate that as human beings we are originally systematic entities who are predisposed to work for the whole in a way that can either invigorate or weaken the whole. As Henning puts it, “in other words, the most beautiful whole may sometimes require the sacrifice of more complex and intensely beautiful individuals for the sake of a less complex system” (Henning 2005: 161). What this implies is that with systematic entities what is of great importance is the preservation of the whole which might require us to sacrifice our personal selfish inclinations.

Ethics cannot be reduced to a discipline because each discipline has some ethical assumptions in the training of its professionals. Universities are there to train professionals who at the end of their university training are expected to serve society as a whole. But each discipline's approach to ethics is related to some of the issues which it deals with in society. But related to his proposition is the idea of the entrenched worldview in which the discipline functions. Whilst ethical questions that arise from different professions can give the impression that ethics are mainly subjective, such a deduction is not true because all professional ethics are committed to abiding by what they regard as the ultimate truth within their profession. For example, the issue of human poverty raises ethical questions among economists, politicians and professionals in population geography. The pervasiveness of ethics across the disciplines was well observed by Henning when he demonstrated that our treatment of the natural world has some ethical questions which he posed as follows,

> What kind of relationship between human beings and plants and other nonhuman animals would assure the most inclusive, complex, and unified whole? When, if ever, are we justified in the robbing from others to sustain ourselves? Limiting our attention to the organic entities involved, there are courses of action possible: (1) human beings should eat neither plants nor other animals; (2) they should eat plants and animals; (3) they should eat only animals; or (4) they should eat plants. …Thus, the ethics of creativity finds that achieving the most beautiful whole would require a gradual decrease in the human population (Henning 2005: 166-167).

Whilst such questions and the propositions that are advanced in answering them arise from social sciences or within the domain of the humanities, they do overlap with issues of economics, geography and ecology. But asking such questions presupposes a holistic outlook towards life in general. Here the ethical concern is not only about the wellbeing of human society only, but rather on the wellbeing of everything that has life. Some scholars have gone as far deducing ethics from the natural world. Some scholars known as social Darwinists have advanced the idea that the ethical concept of altruism has its origins among wild animals. Peter Kropotkin observes that,

> As soon as we study animals – not in laboratories and museums only, but in the forest and the prairie, in the steppe and the mountains – we at once perceive that though there is an immense amount of warfare and extermination going on amidst various species, and especially amidst various classes of animals, there is at the same time, as much or perhaps even more, of mutual support, mutual aid, and mutual defence amidst animals belonging to the same species or, at least, to the same society (Kropotkin 1972: 30).

The point which is being made by Kropotkin in the above quotation is that ethics does even exist in the wild. In other words, ethics was not something exclusive to human societies. The existence of altruistic behaviour is something which we as humans can learn from the wild. In other words, ethics was not exclusive to human society, rather in the natural world, as Kropotkin put it, “sociability is as much a law of nature as mutual struggle" (Ibid). Kropotkin was arguing against Charles Darwin's theory of evolution, especially that part of the theory which asserted that the natural world was characterised by struggle for survival where the odds were always against the weak in favour of the fittest. In this vein, Kropotkin wrote, "Who are the fittest: those who are continually at war with each other, or those who support one another? We at once see that those animals which acquire habits of mutual aid are undoubtedly the fittest. They have more chances to survive, and they attain, in their respective classes, the highest development of intelligence and bodily organisation” (Ibid). Other social Darwinists have gone as far as to assert that a critical study of human societies and the classification concepts such as race, tribe, ethnic group, nation and community do have their origins in the natural world. It has been argued that we have a tendency of behaving ethically within the group to which we belong and unethical outside our own group (Maxwell 1990: 77).

Other microbiologists have gone as far as to claim that human beings were endowed with a selfish gene. Richard Dawkins argued that individuals that are ruthlessly selfish are most likely to prosper in life. As he puts it, “humans and baboons have evolved by natural selection. If you look at the way natural selection works, it seems to follow that anything that has evolved by natural selection should be selfish. Therefore we must expect that when we go and look at the behaviour of baboons, humans, and all other living creatures, we shall find it to be selfish" (Dawkins 2016: 5). In other words, selfishness is most likely to be favoured by natural selection as compared to altruism. Those who sacrifice themselves for the common good are most likely not to be favoured by natural selection. In economics, this way of thinking came to imply that those who enter into business and pursue their self-interests or selfishness are most likely to succeed as compared to those who enter into business for altruistic purposes. The question that arises in relationship to the scope of this study is whether this type of thinking is commensurate with systems theory? The answer should be an emphatic no because from a systems theoretical perspective the individual's wellbeing cannot be abstracted from the whole. A society that is wholly populated by egoists or selfish persons is unsustainable because selfishness can only lead to a situation of endless strife.

Some physicists have argued that life is enabled by the principle of generosity that arises from the fact that all entities within existence are open systems that influence and are influenced by other existing entities. There is no entity that is self-enclosed and self-sufficient. John Jungerman observes that, “it is an empirical fact that the microworld is nonlocal and that interconnections are basic. Again, self-organising systems at the human scale form connections among trillions of molecules…We humans are dependent on plants and animals for our survival and depend on each other through our cultures to provide not only the necessities of life, but also the means to expand our creativity" (Jungerman 2000: 192). As open systems, we are by nature bound to influence each other, and this reciprocal influence is the source of creativity. In this universe, everything is ultimately tied up with everything else. Thus Jungerman observes this universal interconnectedness as follows, “within the cosmos there are many interrelationships. Gravity forms galaxies from cosmic dust and with the passage of time, it creates stars. Supernovas spew out elements into space from which new generations of stars, such as our Sun, are born. The gravity of our Sun makes it possible for the Earth to be at just the right distance to be hospitable to life” (Ibid). It is in such scientific observations that put primacy to interconnectedness that have strongly demonstrated the idea that have blurred the existence of a line of demarcation between the natural sciences and the social sciences.

From the perspective of general systems theory, as Hans-Ulrich Dallmann observes, the compartmentalisation of knowledge into disciplines is a superficial one that, on closer scrutiny can be said to serve the purpose of intelligibility which came about as a result *“of social evolution* into functional orientated and specialised *subsystems*, e.g. economy, law, religion or arts” [his italics] (Dallmann 1998: 87). All these distinctions are subsystems that facilitate the desired type of communication in society. According to Dallmann,

> Programmes have emerged evolutionary after the codes and under the condition of the differentiation of the society into functionally orientated subsystems. The unity of good and truth was secured previously by religion, particularly concerning law and politics. Even in the age of enlightenment, this security survived secularised in the concept of nature. The demoralisation of the codes started with the emancipation of system-structure and code of economy from the religious and moral control. So a process started, which resulted in a greater independence of the special codes and their specific programmes as well as in the limitation of their range of validity (Dallmann 1998: 88).

In the above quotation, it can be deduced that Dallmann is providing us with the evolution of different disciplines in social evolution which had to deal with complexity. The issue of complexity led to the creation of ‘functionally orientated subsystems' instead of relying on religion on issues of good and truth. The formation of codes that parted ways with ‘system-structure' eventually gave rise to independence of disciplines with specified limitations in terms of specialisation. This process is regarded as the origins of the severance of ethics or morality from the disciplines. What has remained is a situation whereby each discipline or subsystem has its own code of ethics that are integral to the ordering of the discipline. Scholars who have written about the need to have an ethics curriculum across the disciplines have restricted their ethics discourse to professional ethics. In this regard, the disciplinolatry approach to the inclusion of ethics across the disciplines is maintained. Thus one finds Michael Davis stating that,

> Professional ethics are – as I have said – special (morally permissible) standards of conduct governing members of a particular profession because they are members of that profession. Engineering ethics applies to engineers, legal ethics to lawyers, and so on. Institutional ethics, though similar, are still distinct. Institutional ethics are special standards of conduct governing all those connected in a certain way with a particular institution because they are so connected. Business ethics applies to all those in business (whatever their profession), research ethics to all those doing research, and so on. …Because they are special standards, professional ethics are more than mere ordinary morality or common sense. Like other special standards (for example, law), they cannot be learned in most families, religious institutions, or primary or second schools (Davis 1999: 111-112).

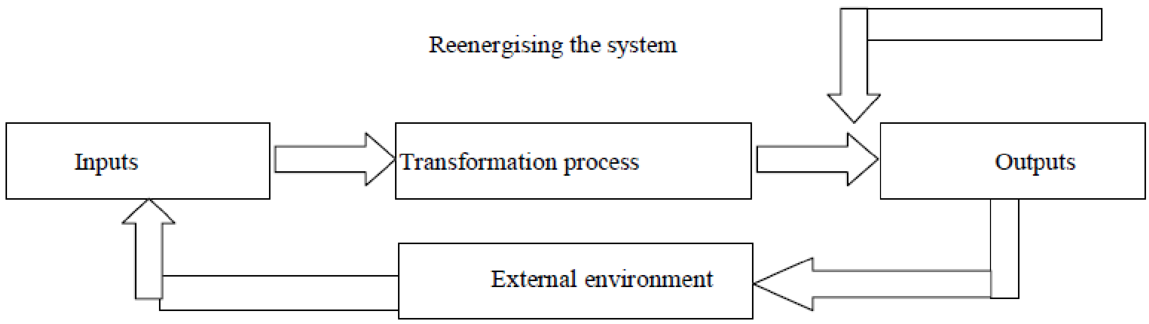
Whilst Davis is advocating the study of ethics across the various disciplines through professional ethics, it is evidently clear that his approach to the study of ethics in all curriculum is premised on the compartmentalisation of knowledge whereby ethical issues that are pertinent to particular discipline are discussed to the exclusion of those that affect other disciplines. The weakness of this approach lies in overlooking the fact that when someone specialises in the study of a particular discipline, let’s say accounts or engineering, ethical issues that arise within that profession sometimes can arise from other socio-economic, religious or political issues. Such issues tend to create chaos in the moral ordering of one’s particular professional ethics. From a systems theoretical perspective a study of ethics that is wholly restricted to one’s profession might fail to deal with the issue of chaos as a result of the reality of diversity that is engendered in our social existence. Dallmann realised this problem when he observes that, “at the level of society as a whole, the different subsystems limit each other mutually. On the one hand, because the subsystems are offering only limited services to each other. On the other hand because subsystem-specific interests can clash"

(Dallmann 1998: 96-97). Among other people, religious beliefs and cultural values do determine one's professional ethical outlook. For example, some accountants do value the virtue of honesty in accounting reporting and auditing because their religion has taught them that a true believer must always be honest in whatever they do. To give another example, the South African law allows abortion and yet there are some medical professionals who have refused to abide by such a law on the basis of their religious and cultural moral teachings about the evil of terminating human life. In recent times governments, religious institutions and universities have come under criticism for failing to recognise the reality of diversity that is engendered in our human existence.

7.4.2 **The Implications of the General Systems Theory to organisations**

In the field of organisation and management theory, the systems view is not new. Organisations are viewed, Ivanko, (2013: 25), "as a system whole consisting of the mutually connected parts. The systems approach means dealing with these parts as a part of the whole." By looking at an organisation from this perspective, the organisation is viewed through the multidirectional connections and the causes and effects of such connections. This approach consists of feed forward and feedback information. The various parts of the organisation collaborate and relate for the purpose of the whole system to achieve its objectives. Every organised enterprise does not exist in a vacuum. It is rather known to depend on its external environment which consists of many other systems, all making all these systems subsystems of the suprasystem, (Weihrich et al, 2008). They explained an organisation as receiving inputs from other organisations and stakeholders, transforms them and exports the outputs to the external environment as shown below.

Input-output model



Source: Weihrich, et al (2008).

Inputs consist of everything that is brought into the system and used in the transformation process. These inputs come from the external environment and may include economic resources, people, and skill. Also included as inputs are groups of people making demands on the organisation, for example, the employees, shareholders, suppliers, the government and the society in which the business is trading. This group constitutes the stakeholders of the business. The organisation has to bring more inputs from the environment than it exports outputs back to the environment, (Ivanko, 2013: 26). The environment that surrounds the organisation is both the source of the inputs and the recipient of the outputs from the same organisation. This defines the relationship that exists between the system and other systems that it interacts with. Stefan Ivanko, (2013: 26) writes that, "… organisational survival depends on sensing that environment and adjusting to its demands." This suggests a continuous interaction between the organisation and its environment depicting that it a component or subsystem of the global vast. The external environment plays a big role in the determination of the outputs of the organisation. It is the consumer of the output, making indispensable for the survival of the organisation. Inputs are secured and utilised by transformation through the managerial functions, with due consideration for external variables into outputs. Outputs of different kinds vary with the organisation and the expectations of the receiving systems. It has been noted that the outputs of one system are inputs to the systems in the same suprasytem. This interconnectedness of organisational systems increases the dependence on one another. The efficiency of a system is measured by its ability to adapt to the environment in which it operates in. the environment is always changing so the system must continuously change and remain in sync with the environment. No organisation or component or a subsystem can survive in isolation. It has to feed into other components of the system whose survival depends on the inputs from that system and in-turn receive inputs from other subsystems which will affect its general operation.

The theory of formal organisation framed a philosophy which accepts the premise that the only meaningful way to study organisations is to study them as systems. Systems analysis involves treating, Scott, (1963), “organisation as a system of mutually dependent variables …. modern organisational theory leads inevitably into a discussion of the general systems theory.” The GST has been proposed as a basis for the unification of science. The open system model stimulated many new conceptualisations in the organisation theory and management practice. However, experience in utilising these concepts suggests many unresolved dilemmas. Contingency views represent a step towards less abstraction, more explicit patterns of relationships, and more applicable theory. Sophistication will come when we have a more complete understanding of organisations as total systems (configurations of subsystems) so that we can prescribe more appropriate designs and managerial systems.

GST seems to provide a relief from the limitations of more mechanistic approaches and rationale for rejecting principles based on relatively closed system thinking. This theory provides the paradigm for organisations and management theorists crank into their systems model all the diverse knowledge from relevant underlying disciplines. Systems as a concept has pervaded all fields of science and penetrated into popular thinking, jargon and mass media. Systems thinking play a dominant role in a wide range of fields from industrial enterprise and armaments to esoteric topics of pure sciences. Innumerable publications, conferences, symposia and are devoted to it. Professions and jobs have appeared in recent years which, unknown a short while ago, go under names such as systems design, systems analysis, systems engineering and others. Thus, a systems approach becomes necessary. It has been called the second industrial revolution and has developed only in the past few decades. Politicians frequently ask for application of the system approach to pressing problems such as air and water pollution, traffic congestion, urban blight, juvenile delinquency and organised crime, city planning, (Wolfe,1967), designating this a Carter, (1966), “revolutionary concept.” (also see Boffey 1967). The essential factors in public problems, issues, policies, and programs must always be considered and evaluated as interdependent components of a total system.

Systems theory is a way of elaborating increasingly complex systems across a continuum that encompasses a person in the environment, (Anderson et al, 1999). This leads to the basic assumption that the whole is more than the sum of its parts. This has been discussed earlier in this chapter. Characteristics of organisation, whether of a living organism or a society, are notions like those of wholeness, growth, differentiation, hierarchical order, dominance, control, and competition. Systems theory also enable us to understand the components and dynamics of client systems in order to interpret problems and develop balanced intervention strategies, with the goal of enhancing the ‘goodness of fit' between individuals and their environments. The systems theory does not specify particular theoretical frameworks for understanding problems, and it does not direct the social worker to specific intervention strategies. Rather it serves as an organising conceptual framework or metatheory for understanding, (Meyer, 1983). Von Bertalanffy's original conception of systems theory was one of organisation. He saw it as a method of organising the interaction between components parts of a larger organism. Since it was a way of organising information rather than explaining observations, it was easily adaptable to many different scientific fields, including psychology, psychiatry, sociology and management. The important distinction among the various fields adopting these principles was how they used their other theories to explain the interaction within the organism. Thus, systems theory is an organisational theory that looks at interactions between systems. How a field defines the system determines the nature of the interaction.

Where the system exists within a social environment, certain factors in the social environment affect the system and its outcome and outputs. The system also interfaces with other systems or collateral systems. There are expectations on the role and functions of the system to conform to standards within the larger social environment. If the system does not subscribe to those norms, then the system is considered dysfunctional. It is clear that writers embracing the GST as a basis for studying organisations have difficulties in following through. Part of this difficulty may stem from the awareness of the paradigm and our inability to operationalise all we think we know about this approach, (Thompson, 1967). Alternatively, the reason could be because we know too little about the systems under investigation.

GST grew out of the organismic views of Von Bertalanffy and other biologists. Thus, many of the characteristics are relevant to the living organism. It is conceptually easy to draw the analogy between living organisms and social organisations. There is, after all, an intuitive similarity between the organisation of the human body and the kinds of organisations men create. “GST would have us accept this analogy between organisms and social organisations.” (Katz and Kahn, 1966), but however a word of caution regarding this analogy. They considered using a physical model for the understanding of social structures as a fallacy handicapping the social sciences. The biological metaphor, with its crude comparisons of the physical parts of the body to the parts of the social system, has been replaced by more subtle but equally misleading analogies between biological and social functioning. This type of thinking ignores the essential difference between the social contrived nature of social systems and the physical nature of the machine or the human organism. So, long as scholars are committed to a theoretical framework based upon the physical model, they will miss the essential social psychological facts of highly variable, loosely articulated character of social systems, (Katz and Kahn, 1966).

The GST concludes that systems are organised, that is, they are composed of interdependent components in some relationship. Consequently, the social organisation would then follow logically as just another system. This analysis and conclusion faces the risk of circular thinking. It is true that all systems are by definition organised, but I doubt if they are all organisations. Organisation theory and the theory of organisations were distinguished by Rapoport and Horvath (1968) as follows, "we see organisation theory as dealing with general and abstract organisational principles; it implies to any system exhibiting organised complexity. As such, organisation theory is seen as an extension of mathematical physics or, even more generally, of mathematics designed to deal with organised systems. The theory organisations, on the other hand, purports to be a social science." It puts real human organisations at the centre interest. It may study the social structure of organisations and so can be viewed as a branch of sociology; it can study the behaviour of individuals or groups of as members of organisations and can be viewed as a part social psychology; it can power relations and principles of control in organisations and so fits into political science.

From a systems theoretical perspective, one's actions are deemed ethical when they engender an inclusive approach in dealing with the different systems in human existence. As we shall see in chapter 8, systems theory provides us with a more plausible and sustainable approach for social and ethical accounting.

7.5 Conclusion

In this chapter, I started by discussing some of the main tenets of systems theory. Systems theory arose from the scientific observation that reality is multifaceted or complex. Systems theory is accredited to the work of Austrian biologist, Ludwig von Bertalanffy who rejected the then modern mechanistic and vitalistic academic presumptions about the processes of life. For von Bertalanffy, the weakness of such an approach to the study of organisms was based on the disentangling of reality into small constituencies or isolated parts. What needed to be recognised is that our study of phenomena should focus on the whole instead of seeing the parts in isolation from the whole. Different parts and processes can only be intelligible when seen in relationship to the whole of the organism. In other words, a genuine understanding of a particular phenomenon should provide us with a holistic picture.

In this chapter, it was also deduced that systems theory is based on a worldview of holism as one of its basic tenets. On our quest for a holistic outlook towards reality, systems theory posits that scientific education should be integrative – no discipline should be seen in isolation from each other. This holistic approach to the conceptualisation of reality has been seen by other scholars as integral to new sciences such as quantum physics whereby the principle of complementarity is indispensable to the description of being as both wave and particle. For example, other physicists such as Donah Zohar argued that from quantum physics, both wave and particle nature of being, complement each other in a way that ultimately gives us a full picture of reality. Contrary to quantum physics which presents us with quantum stuff as, essentially, *both* wave-like and particle-like, simultaneously, in Newtonian mechanistic physics, a particle was considered to be what matter is made of. This type of physics promoted a view of reality where things were understood as existing in isolation from each other. Apart from quantum physics, the same holistic approach was also adopted by microbiologists when they observe that living organisms should be understood as open systems that are on the final analysis influenced by other living systems – thus implying the reality of interconnectedness within existence.

It was shown in this chapter that in our contemporary times there are other cosmological physicists such as Stephen Hawking and Leonard Mlodinow who are also questioning the classical Newtonian scientific worldview because of its failure to account for physical phenomena that presents itself in terms of complexity and chaos. In such situations, these physicists maintained that one is ultimately required to come up with a theory that should help us to account for everything. In other words, such a theory should help us to harness the reality of relationality. They called such a theory M-theory because one theory on its own cannot account for the reality of complexity that is engendered in existence. It was on the basis of this realisation that these scholars advanced the idea that there is a need to come with a theory that is inclusive in its account for all that has been achieved by other theories. This is another way of coming up with a theory that can encapsulate the reality of relationality in the generality of existence.

Process thought articulates a philosophy that puts emphasis on relationality whereby nothing that is real can be understood outside its relatedness and interrelatedness to other things in existence. In this regard, process philosophy gives primacy to relationality as the glue that cements everything in existence. In other words, all entities are constituted by an intricate web of relationships and can only have meaning within these relationships. What makes process philosophy to be a philosophy that is indispensable to systems thinking are the concepts of process and relatedness as constitutive of reality in general. As human beings we are beings that are immersed in interrelated processes and what we do has consequences that go beyond our own conceptual horizons of a given existence. In the light of the above, a succinct discussion of some of the main elements of systems theory were presented.

The chapter also investigated the implication of systems theory to social sciences. It was argued that the main contemporary problem that has beset the social sciences arises from specialisation whereby each discipline is studied in isolation from the other. This practice gives the learner the impression that these disciplines have nothing to share in common. This discrepancy in the acquiring and dissemination of knowledge is thus beset with disastrous consequences to socio-economic and the natural environment. It was argued that each discipline on its own is beset with limitations. The limitedness of disciplines lies in the fact that they specialise on abstracting reality, thus providing us with a partial view of reality. It is the prior commitment to the abstraction of reality which render these disciplines prone to commit a fallacy of misplaced concreteness. This was found to be problematic in the sense that the practitioners of these specific disciplines have a tendency to overlook the fact that they were only dealing with a minute aspect of reality, especially on those occasions when the practitioners are socialised into generalising their findings as the absolute truth. It was also argued that in the humanities postmodernists, especially deconstructive postmodernists have argued against the compartmentalisation of knowledge by adopting positions that are anti-structuralism, anti-traditionalism and anti-foundationalism. On the other hand, reconstructive postmodernists have argued that this compartmentalisation of knowledge can be overcome by finding a synthesis between the modern and the traditional – an approach that has been found in this study to be closely related to systems theory because of its commitment to relationality between the past and the present.

From the perspective of systems theory, social and natural sciences converge on the issue of relationality. However, some scholars have gone as far as to argue that the point of convergence among all the disciplines should be found on ethics, specifically professional ethics. I argued that adherence to a code of professional ethics on its own is not enough because some of the codes of ethics in the various professions can easily come into conflict in individual religions, cultural and political convictions that are usually taken by some professionals as guides to ethical contact. It is on these grounds that the worldview that is supported by systems theory has to be based on an inclusive approach to ethics. As we shall see in the following chapter, ethical accounting has to be broadened such as to include the social responsibility of the accountancy profession.

CHAPTER EIGHT: THE IMPLICATIONS OF GENERAL SYSTEMS THEORY TO SOCIAL AND ETHICAL ACCOUNTING

8.1 Introduction

Ali Mazrui argues that: "what can be taken for granted is that ideas can express further ideas if they are systematically referred to one situation after another. To change the metaphor, if an idea is fertile, it may well conceive a different kind of child if it is mated to a different kind of situation. There is always the possibility that it may produce nothing new, but the cross-breeding is worth attempting all the same" (1967: 4). In the light of the preceding chapter, this chapter will echo the insight of Mazrui by showing the cross-breed that arises between the mating of accounting ethics and general systems theory with specific reference to social and ethical accounting. Bearing in mind the fact that this chapter is not wholly exhaustive to the implications of general systems theory to social and ethical accounting, my main aim is to draw on some of the main insights which I deem pivotal to systems theory and it would be a contribution to social and ethical accounting.

This study is mainly about applied ethics. It is common knowledge that applied ethics presupposes some philosophical or metaphysical, social and religious background on what it means to be ethical. It is these backgrounds that ultimately determine the way how one applies ethics in a given situation. A metaphysical background that was chosen in this study is that which is proffered in general systems theory. As the topic of the study suggests, my aim in this chapter is to outline what I think to be the implications of the general systems theoretical approach to social and ethical accountability. We have to bear in mind that the accountants' professional work which is usually socially embedded presupposes that there are social ethical expectations on how accountants execute their professional responsibilities. As professionals, accountants do not carry out their responsibilities in a vacuum, rather they are embedded within a particular society which has its mores and values. The challenge which has confronted the accountancy profession is to fulfil social expectations in the carrying out of their professional responsibilities.

The scope of this chapter is mainly to draw the major elements of general systems theory that I think are critical to social and ethical accounting. In pursuit of this scope, the chapter will be structured in three sections. The first section will draw from the basic elements of systems theory with the aim of coming up with the implications to social and ethical accounting. This section will be followed by a second section that will show how social and ethical accounting can also be learnt from the social sciences from a systems theoretical paradigm. The third section will justify the application of systems theory to social and ethical accounting by drawing from the insights on the convergence of social and natural sciences.

8.2 Implications of Systems Theory to Social and Ethical Accounting

Systems theory can help to overcome a mechanistic approach to accounting. The accounting profession is inextricably linked to liberal capitalist values. In this regard, the accountants understand their primary responsibility as mainly that of ensuring that economic business activities are correctly reflected in their financial records. Accountants do not account for anything else besides the finances of the company or organisation. Costs in terms of profits and loss are measured purely in monetary terms. The main goal for the accountant is usually that of providing the business enterprise or organisation with a full picture or an accurate picture of profits accrued (if it is a profit making entity) or loss incurred within the business or organisation. Thus the responsibility of the accountancy profession is mainly restricted to those they give their professional services to. What is discounted in this way of thinking is the issue of the responsibility of the accountancy profession to the whole of society in the execution of their professional responsibilities. On the basis of the above observation, Bailey argued that “general systems theory may provide some guidance in the formulation of the role of accounting in the future” (Ibid). From a systems theoretical perspective Bailey deduced that,

> If accounting has a place in the universe, then it must be considered a system in a hierarchical structure of systems. At the highest conceptual level, accounting should be considered part of a social system and, a social system itself. Accounting is essentially people – people measuring and communicating information to people who use the information. Thus accounting must be viewed within the framework of the nature of social systems as developed in the behavioural sciences. …Social groups or systems exist in hierarchical structures (Bailey 1970: 92).

Thus Bailey is refuting the idea that accounting was to be understood as a natural science. The proper understanding is that of seeing it as a social system that is concerned with the behaviour of people and geared towards communicating information to people. Within the context of the whole, the accounting system is a part of the humanities. If accounting is a social system, it also follows that it has some social responsibilities towards the wellbeing of the whole of society. In the regard, we should see the accountants and their profession as wholly immersed in society and not exclusively to a particular company or organisation. One of the major problems with the accounting profession which has been identified in this dissertation is that the profession has been dominated by an understanding of it as mainly concerned with the keeping of accurate financial records and auditing the financial activities of companies and organisations. From a systems theoretical perspective, such an understanding of accounting is rather deficient. As Bailey puts it,

> Accounting may be considered in terms of a concrete system within a specific organisation. It might be regarded as a single concrete system made up of all those persons who function in the profession or vocation of accounting in all organisations. Accounting may also be considered abstractly as a set of relationships, roles, or functions. Both views of accounting, concrete and abstract, are significant in determining its nature. In concrete terms, accounting is a social system, people communicating with people. Behavioural considerations cannot be overlooked. From this concrete system, relationships may be abstracted by observers so that they may be considered directly (Bailey 1970: 94).

Accounting is not solely a profession which the individual takes, rather it also entails the relationships that are entered into between the individual and the rest of other people within the hierarchy of systems. In this regard, Bailey had this to say, “human organisations exist in a hierarchy of subsystems of subsystems of subsystems, and so on. A business firm, for example, is a subsystem of an industry which is a subsystem of an economic system which is a subsystem of the nation” (Bailey 1970: 95). What is implied here is that any organisation is a subsystem which is related and interrelated with other subsystems. This implies that there is no organisation or system which has some autonomous existence from other given systems of society. Whilst these systems could be understood as self-regulating, this self-regulating "is achieved by the feedback process" (Ibid). In other words, self-regulating relies on the feedback that derived from other subsystems which "is generally the weakest link in the chain of self-regulating system" (Bailey 1970: 96). The accounting subsystem depends on the feedback which it receives with regards to the information which it has provided to the hierarchy of systems or suprasystem. Within such a context, Bailey maintained that, "the role of accounting as an information component in a system is to provide feedback information in the process of self-regulation. …Feedback information is considered here…as consisting of all data relating to the functioning of the system, past, present, and future, in the meeting of its objective. Much of this information is of interest only to the internal functioning of the system. Outsiders have a legitimate interest in some of it, however, and such information may be made available to the suparasystem" (Bailey 1970: 98). In this systems conceptualisation of the accounting profession, we can say that it is a given nature of their profession that they have responsibilities to their shareholders as well as to the stakeholders.

Another problem that is currently faced by the accountancy profession worldwide is not only about the standardisation of the accounting profession, rather the problem is about dealing with complexity which has dovetailed the globalisation of neo-liberal capitalism. Some scholars such as James Davidson and Rees Mogg have alluded to this problem when they said that the globalisation of neo-liberal capitalism and the information revolution will make it difficult for government to check what individuals are doing with their business monies. As they put it,

> Information technology promises to alter dramatically the balance between protection and extortion, making protection of assets in many cases much easier, and extortion more difficult. The technology of the Information Age makes it possible to create assets that are outside the

> reach of many forms of coercion. This new asymmetry between protection and extortion rests upon a fundamental truth of mathematics. It is easier to multiply than to divide. As basic as this truth is, however, its far reaching consequences were disguised prior to the advent of microprocessors. High-speed computers have facilitated many billions of times more computations in the past decade than were undertaken in all the previous history of the world. This leap in computation has allowed us for the first time to fathom some of the universal characteristics of complexity (Davidson and Rees-Mogg 1997: 141).

In the Information Age, the challenge for the accountants is obviously based on how to deal with complexity in which the issues of information which previously was understood as predictable and linear becomes unpredictable or chaotic. It is for this reason that many scholars have maintained that it is very difficult to deal with complex systems as compared to linear systems. Complex systems tend to defy predictability which is usually basic to linear systems. Confronted with the issue of the complexity of global neo-liberal capitalism which is currently being facilitated by information technology, the accounting profession has sometimes resorted to seeing its responsibility exclusively in terms of giving the financial picture of the company to the shareholders only. In this regard, one can say that the accounting practice is mainly functionalistic whereby financial reports are regarded as the exclusive mode of communication. In order to counter this way of thinking, we have seen that some scholars such as Carol Tilt arguing that, "[a]ccountants have an important contribution to make to the debate surrounding Corporate Social Responsibility" (Tilt 2000: 11; also see Russo and Perrini 2009: 208; Branco and Rodrigues 2007: 5).

In the preceding chapter, we have deduced that one of the main characteristic of systems theory is wholeness whereby our study of phenomena should focus on the whole instead of analysing the parts in isolation. Through the concept of wholeness, one can deduce that Bertalanffy would have been against the idea of seeing the accountancy profession from the rest of society because society was not "a sum of individuals as social atoms", rather in systems theory, such a mechanistic outlook "was replaced by the tendency to consider society, economy, nation as a whole superordinated to its parts (Bertalanffy 1968: 31 also see

Anderson et al, 1999: 4; Mele et al, 2010: 127; Chikere and Jude, 2015). A holistic outlook towards reality implies that the professional outlook of the accountants should provide a whole picture of what is being accounted for in relationship to society in general. In chapter 2 we have seen that one of the main problems for accountants arises from reductionist thinking whereby a complex reality is reduced to a particular. We have seen the effects of this reductionist thinking in the KPMG scandal where it provided false auditing information to South African Revenue Services (SARS).

As a response to this scandal, many clients are said to have deserted KPMG and some of those who have been charged for committing crimes of financial embezzlement by courts of law as a result of KPMG auditing threatened to take legal action against this auditing company. But since KPMG has a global research, the South African scandal has destroyed the professional integrity of this multinational auditing company because this company cannot be trusted anymore. In this regard, one can deduce the reductionist thinking of KPMG with regards to its auditing work for SARS affected the authenticity of its auditing work in the past, present and the future. Another example that shows the prevalence of reductionist thinking in accounting was that of Enron Corporation scandal in the USA where its own auditing firm, Arthur Anderson provided Enron with false accounting information which in this case was deemed desirable by the shareholders. From a systems theoretical perspective, a shareholder theory is reductionist in the sense that it excludes the existence of the stakeholders in the accounting process.

All the above cited examples do demonstrate that accounting should be understood as a science of relationships. The primacy of relationships concurs well with the stakeholder theory whereby the expertise of the accountants as auditors have a strong bearing on markets, investors, employees, the state and the whole of society. The stakeholder theory can only be sustained within systems theory whereby the parts are seen as contributing to the whole by virtue of the reality of their mutual dependence and interdependence. As George Khushf observes, “what characterises the grand project of reduction is the belief that the higher level wholes can be fully understood in terms of their constituent parts; that they are no more than that sum” (Khushf 2004: 129). For the accountants and auditors the implication the challenge is to see one’s auditing or accounting work in terms of its consequences to the whole. In attempting to account for the whole, some scientists have argued that we can only break away from mechanistic thinking if we can come up with a theory of everything which can help us to account for the reality of complexity. Such a theory will be inclusive in its account of all that has been achieved by other theories (Hawking & Mlodinow 2011: 16-17; also see Whitehead 1948: 64; Mesle 2008: 50). What the accountants can learn from systems theory is that as human beings and professionals we are beings that are embedded in interrelated processes and that what we do has consequences that go beyond our own conceptual horizons of a given professional existence.

In general systems theory, some systems are protected against breakdown through self-regulation. Many systems contain mechanisms within themselves which are capable of repairing or correcting malfunctions within the system. While linked to administrative activities, such mechanisms are part of the internal operation of the system and operate automatically, usually without external intervention. Such self-regulating mechanisms are often referred to as feedback or cybernetic systems. The most widely known and sometimes misunderstood example of a feedback system is the law of supply and demand. In a free market, when a commodity is in high demand due to either shortages or high quality, the persons seeking the commodity bid up its price, thereby increasing the profitability. Producers of the commodity then seek to increase their profits by producing more of it. Higher production satisfies more of the demand and eventually, prices decline. As profits decrease fewer numbers of the commodity are produced and an equilibrium is finally reached were enough of the commodity is produced to meet the customer demand at a price low enough to attract customers but high enough to yield to reasonable profit for its producers. This is Adam Smith's ‘Invisible Hand', seemly controlling the production and distribution of goods without the need for production quotas, marketing orders and other issues of central planning and administration. The profit attained on a commodity serves as information provided to the producer regarding the buyers' appreciation of his product. This information is used to make production decisions about this and other products and with enough actors working fairly independently, a relative well-ordered self-regulating system results. In the realm of accounting, the traditional accounting practice is based on the idea that accountants do produce accounting information that usually helps the capitalists to make decisions that help to protect their business empires. It is mainly for this reason that in the traditional accounting education, students are taught that their primary responsibility is to work for shareholders and are solely accountable to the shareholders who are mostly regarded as their employers (Horvat and Korosec 2015: 33; Smith 2003: 2). In the light of the above observation, I think the accounting profession can benefit a lot from the implications systems theory to social sciences with the aim of promoting ethical accounting.

8.3 Ethical Accounting from a Systems Theoretical Paradigm

From systems theoretical perspective we can deduce that ethical accounting has to be based on the principle of inclusivity. In chapter 2, it was discovered that the ideal economic person or *homo economicus* was someone who was wholly self-interested and in accounting, the shareholder is regarded as the main subject for the discipline. From a systems theoretical perspective, ethical accounting implies the adoption of a general ethical outlook. In other words, a general ethical outlook is mainly concerned with the promotion of the whole. In this regard, I should like to quote Henning who stated that,

> If a moral philosophy is to be of any practical use, it must move beyond 'mythological abstractions' and concretely demonstrate how a 'general ideal' can help moral agents make meaningful moral decisions. Although there is no Arcimedean ethical point from which we can leverage our moral dilemmas, nevertheless, it is possible to construct a moral decision-making process consistent with the organic conception of reality being defended. If the aim of morality is understood to be the maximisation of importance, and of importance is equivalent to beauty, then morality may be also understood as aiming at the maximization of beauty. Put differently, because everything in our processive cosmos aims at the achievement of beauty, the conditions of a beautiful experience are necessarily the conditions of a moral experience. Accordingly, as in Aristotle's use of the golden mean, we can devise an ethical system that in every situation aims at the most beautiful whole by negotiating the mean between simplicity and complexity on the one hand, and diversity and unity on the other (Henning 2005: 150-151).

The implication of Henning's observation is that morality or ethics should be aimed at the promotion of the beauty of the whole. In order to promote the beauty of the whole, one is required to be as inclusive as possible in one's professional outlook. For example, from a system perspective, I argued that most of our disciplines in the humanities are intertwined with each other. It was also shown that even the natural sciences are also intertwined with the humanities and that all disciplines can learn from each other. Whilst the accountancy profession has aligned itself very much with economics and other natural sciences, it has failed to see how its profession affects society in general. Practices such as creative accounting and profit smoothing are clear examples whereby short-term monetary interests are prioritised by the accountancy profession above the general good (Holda and Stazel 2016: 207; Tassadaq and Malik 2015: 544; Chong 2006: 41; Bora and Saha 2016: 736).

The pursuit of the general good implies that there should not be a bifurcation between the accountancy profession and ethics. Ethical reflection should be integral to accounting education in such a way that ethics should not be seen as intruding into the domain of accountancy profession. In chapter 6 we have seen that an attempt to overcome the bifurcation between the accountancy profession and ethics is coming through the idea of Corporate Social Responsibility. As we have seen in chapter 6, the idea of Corporate Social Responsibility implies that there is a link between business and society in such a way that any ethical business practice has to take into account the interests of society. Business does not operate in a vacuum, rather its activities are seen as fully embedded in society. Some scholars have observed that Corporate Social Responsibility is well articulated in the stakeholder theory. Edward Freeman observes that,

> The traditional picture of the firm consisting of customers, suppliers, employees and owners has had to change to encompass the emergence of environmentalists, customer advocates, media, governments, global competitors, etc. …The resulting generic stakeholder map serve as a starting point for the construction of a stakeholder map of a typical firm. Ideally the starting point for constructing a map for a particular business is an historical analysis of the environment of that particular firm (Freeman 2008: 113).

What the above quotation implies is that the responsibility of business is not mainly towards its own profits, rather it has to take into account the consequences of its actions towards all those that are affected by it. In other words, the responsibility of business is not only towards the maximisation of profits for its shareholders as alleged by Friedman. Some scholars see the responsibility of business as encompassing the present and the future. For example, James Handy asserted that in pursuit of business activities, there is "a moral imperative that there has to be some sense of responsibility towards the well-being of the future generations" (Handy 1998: 147). The same insight was made by Herman Daly when he said, "the value of a sawmill is zero without forests; the value of fishing is zero without fish; the value of refineries is zero without remaining deposits of petroleum; the value of dams is zero without rivers and catchment areas with sufficient forests to prevent erosion and siltation of the lake behind the dam" (Daly 1996: 221). This type of reasoning implies that Corporate Social Responsibility is a concept that goes against the pursuit of short-term self-interest as it promotes the common good for both the present and the future. In the concept of Corporate Social Responsibility and the contemporary stakeholder theory, financial reporting cannot be seen solely as a quantitative issue (Askers 2014: 38; Russo and Perrini 2008: 209). It was mainly on this observation of the pervasiveness of Corporate Social Responsibility and stakeholder theory that I argued in chapter 6 that financial reporting frameworks should be in the position to report both internally and externally. Accountants are therefore ethically responsible to report upon the impact of the operations of a business to society.

A very important concept that is central to systems theory is holism. We have seen in the preceding chapter that systems theory advocates that education should be integrative in the sense that reality itself is holistic. For businesses to be in a position to deal with issues such as Corporate Social Responsibility and the stakeholder theory, there is a need for a holistic conceptualisation of reality as an integrated whole. Human society and the natural environment upon which economic activities depend need to be seen as a totality. In chapter 2, we have seen that reductionism was integral to liberal and neo-liberal economic thinking and in this chapter, it was shown that this type of thinking was mechanistic. This mechanistic thinking is being surpassed by the modern scientific discoveries which are converging on the idea that everything in existence is intertwined in such a way that it becomes fallacious to reduce reality into various components. A holistic approach helps to deal with the problem of chaos. In social existence or within organisations, sometimes the problem of chaos presents itself in moral dilemmas. Deon Rossouw observes that,

> A moral dilemma occurs when an ethical evaluation of a situation produces two or more conflicting judgements. Such moral dilemmas can be of either a personal or a social nature. When conflicting judgements occur within a person, we refer to it as a personal moral dilemma. A social dilemma occurs when conflicting judgements arise not within one person, but between people or groups. …it is therefore typical of moral dilemmas that they divide opinion on whether something is right or wrong. …In ethics, it is important to realise that there are not only moral dilemmas. There are many matters that we regard as right, and there are many things that we regard as wrong (Rossouw 2012: 19-20).

The problem of complexity and chaos is found also in our human existence. Issues such as Corporate Social Responsibility and Stakeholder versus shareholder theories can easily create a moral dilemma for an accountant especially when one takes into account the fact that the accountant is employed to keep an accurate record of the financial transactions qua business activities and not to society as a whole. On the final analysis, such an approach overlooks the negative impact of business activities on the natural environment as a whole. A systems approach can overcome such a dilemma by insisting that a particular aspect of reality can only make sense when it is superimposed to the whole. As Khushf puts it,

> …on the side of the holist, systems theorists claim that the whole often involves an irreducible priority in explanation, and that there are aspects of the system that could not be accounted for in terms of the sum of the components that make up that system…Today, this holist argument is also closely wed to discussion of *complexity*, with the recognition that alternative forms of analysis are required for complex systems" [his italics] (Kushf 2004: 136-137).

Thus from the perspective of systems theory, what is required in dealing with complex situations is to avoid the danger of reducing the whole to the sum of its parts. When faced with a moral dilemma one is required to have a full picture of the reality at hand without resorting to simplistic solutions. Systems theory encourages a professional accountant to pursue interdisciplinary investigation. In the preceding chapter, it was argued that our contemporary societies in which accountants and auditors do their professional work are very complex. Louise Kretzschmar observes that in this multicultural society, "people of different faiths, cultures, ethnic groups, social contexts and educational backgrounds rub shoulders in the business environment. In a pluralistic context, we need to learn to deal with both moral consensus and the conflict of values. It is essential to understand both our own heritage and that of others" (Kretzschmar 2012: 30). In a multicultural society, people's professional behaviour is influenced by many factors instead of only the code of ethics for the profession. We can deal with complex moral situations as professionals by learning to deal with the reality of the conflict of values which is inherent in each and every profession.

8.4 Applying Systems Theory to Social and Ethical Accounting

In the previous section, we have seen that systems theory gives us a solid foundation for social and ethical accounting. In Chapter 6 the issue as to whom are accountants accountable to remains problematic. Systems theory sees this problem as a result of the compartmentalisation of knowledge into disciplines. In this compartmentalisation of knowledge, there is a deliberate selection of knowledge on what is to be taught to accounting students with the aim of promoting the ends of accounting as a discipline. This reductionism has also created a debate of whether it is feasible to teach ethics in accountants. For this reason, one finds that students who specialised in accounting were only taught a Code of Ethics for the auditing in passing and not ethics as a distinct module for BCom Accounting. In this regard, there was no effort to teach accountants students some of wider social issues which the accounting professionals can come across in future. In Chapter 3 it was noted that Codes of professional ethics are statements that state a standard of behaviour expected of professionals in a particular profession. These Codes of professional ethics are usually addressed to members of the profession by the same professional body to which they belong. These Codes do not specifically deal with ethical issues or moral dilemmas which the accountant as a professional might confront. One also finds that those who are outside this profession might not know the existence of such a Code of Ethics for accountants. Thus members of the accounting profession are required to abide by the Code of Ethics when discharging their professional responsibilities or face some punitive sanctions if they fail to do so.

Social accounting was defined by Islam (2015: 11) as “a set of organisational activities that deals with the measurement and analysis of the social performance of organisations and the reporting of results to concerned groups, both within and outside the organisation.” Rob Gray (2000: 250) defines social accounting as involving "… the preparation and publication of an account about an organisation's social, environmental, employee, community, customer and other stakeholders' interactions and activities, and, where possible the consequences of those interactions and activities. The social account may contain financial information but is more likely to be a combination of quantitative non-financial information and descriptive, nonquantified information. The social account may serve a number of purposes but discharge of the organisation's accountability to its stakeholder must be clearly dominant of those reasons and the basis upon which the social account is judged." It is an all-inclusive approach that which reports on all issues and events of social and environmental nature which come into existence as a result of the economic actions of an entity. Social accounting entails the inclusion of social and environmental activities in the economic financial reporting systems. The traditional economic financial statements are still important as they address the need of one range of stakeholders but they must be fused with the social events that came into being due to the economic activities of the business. This will make the financial statements cover a wider range of needs of various stakeholders (Gray et al, 1997: 6, also see Lungu et al, 2009: 1).

Social accounting can also be referred to as accounting for citizenship (Abreu, 2015: 933). On the other hand, ethics is concerned about a number of issues like behaviour, and values such as honesty, integrity, and so on. Such attributes enhance the general character and behaviour of an individual or business (Moon and Bonny, 2001:172). Ethical accounting, therefore, entails the accounting profession and its members, to carry an ethical attitude or behaviour in the preparation of the financial statements. They must prepare the statements with care and honesty towards the stakeholders. This will bring about financial statements that are free from error and prepared with a mind of communicating relevant and useful information to all the various stakeholders.

Social and ethical accounting is defined by Moon and Bonny (2001: 172) as “a process that can help business (and other types of organisations) to address issues of accountability to stakeholders, and to improve performance: social, environmental and economic.” It brings together all the aspects of accounting and the needs and expectations of stakeholders in social, environmental and economic issues. It increases confidence of the citizens about the role of the accountant and the profession on the business activities. In social and ethical accounting, there is no set of stakeholders that gets a preferential treatment as the quality and content of the financial statements are defined by the interests and expectations of the business' stakeholders and by the, Moon and Bonny (2001: 173), "societal norms and regulations."

The traditional accounting framework is criticised for production and supporting of incomplete, biased and deceptive accounting information and the auditor is at the same time blamed for endorsing such information which is subjected to error and fraud. It must be noted that the reputation of the accountant to the stakeholders is vital for the survival of a company because effective engagement of stakeholders is dependent on reliable information. Information is perceived reliable if it covers the needs of those whom it is directed and the same group acknowledging the integrity and good reputation of the preparer and reviewer. In preparing the accounting statements the accountant must be mindful of social and environmental events in addition to the traditional accounting statements that dwell on economic events. While it is the responsibility of management to produce the financial statements, the accountants play a central role because they are the technical persons who have the know-how and have the power they possess by virtue of being professionals, to direct management on what information and what presentation makes up financial statements. They also have the power to refuse to take part in the production of financial statements that fall below the expectation or standards of the profession. Accountants are therefore fully responsible for the preparation of the financial statements in a way that embraces the requirements of social accounting (Abreu, 2015: 933-934).

It should be considered the role of the accountant is the citizen's impact to judge the accounting profession. The accounting profession must, therefore, develop an accounting system that is capable of providing both the citizen and the shareholder information that is relevant and truthful in a language that they can easily comprehend. Such an information system will enhance the quality of the relationship between the stakeholders and business, and it will also improve the perception of the stakeholders and the general public towards the accounting profession. The accountant must not only dwell on mandatory disclosures that are mainly economic but must enhance the quality of the financial statements by voluntary disclosures. This can be achieved through the adoption of social and ethical accounting.

In Chapter 3 I also argued that having a Code of Ethics can be problematic in the sense that it can create a sense of professional complacency whilst ignoring the contentious issues that impinge on their profession. Codes of ethics tend to be prescriptive in such a way that they do not necessarily take into account issues of complexity that can arise in society. For example, it is only recently that in South Africa an effort has been made by the South African Institute of Chartered Accountants to prescribe a module in applied ethics as a requirement for admission in the profession of accountants. Rossouw et al observe that besides the Code of Ethics,

> Now the profession [of accountants] in this country has taken a very important further step by requiring that students complete a course on applied ethics relevant to accountancy and auditing, as both a foundation for and an extension of their study of the Code itself, and as further ethical grounding for their work and personal lives. This is a welcome recognition of the fact that all of us will benefit from a deeper and wider-ranging understanding of the great practical ethical issues that face us as citizens and professionals (Rossouw et al 2012: xiv).

The idea that a module on applied ethics should be taught as an entry requirement for the accountancy profession came from a realisation that Code of ethics for the accountancy profession were not enough or that they did not provide the accountant with enough knowledge to deal with complex ethical issues that can be encountered at the work place. However, an important feature to note in Rossouw et al's textbook titled *Ethics for Accountants and Auditors* is that the book has been structured in a way that introduces students to the study of ethics as a general discipline in which various ethical traditions, religious, philosophical, cultural and professional topics are discussed. Thus this textbook does not restrict itself to the study of Code of ethics for the accountancy profession. In so doing, these authors have avoided the problem of reductionism which is usually entrenched in the Codes of ethics. As we have seen in the preceding chapter, systems theory goes against the idea of compartmentalisation of knowledge in the sense that such an approach to knowledge is prone to commit what Alfred North Whitehead called 'the fallacy of misplaced concreteness' (Daly and Cobb 1994: 25). In the profession of the accountants one finds that their Codes of ethics has been structured in way that tends to overemphasise the idea that their professional moral responsibility is solely based on their practice of accounting as a profession. Thus the exclusive emphasis that is put on the accounting discipline inevitably leads to an attitude of discounting an inclusive approach towards the acquiring of knowledge. By adhering to the accountants Code of ethics, a sense of professional belongingness is promoted through the reiteration of the orthodox teachings of the discipline.

In the previous chapter, I also argued that systems thinking challenges the accountant to go outside the orthodox teachings of the discipline. An attempt at going beyond the compartmentalisation of knowledge has come from postmodernists, a trend of thought which I have divided into two. The first type of postmodernism has been described by scholars as deconstructive postmodernism in the sense that its literary advocates are anti-traditionalism, anti-foundationalism or anti-structuralism. All of these terms denote an attitude of taking a critical stance towards the received knowledge and traditions (See Foucault 1965: xix; Derrida 1978: 278; Bauman 1993: 3). In deconstructive postmodernism, it is the idea of universalism which is the subject of criticism. What is championed by deconstructive postmodernists is particularism (Stackhouse 1981: 108). Deconstructive postmodernism appeals to systems theory's notion of reality as characterised by complexity. This is the position that was taken by Julian Webb when she said,

> The postmodern (or perhaps more properly post-structural) character of complexity theory also comes through in its emphasis on discourse as a process separate from the intentions of any discursive agents. Complexity theory treats society as a system of communications which take on differentiated meanings in different sub-systems, each of which is, in its own right, a complex system. For an event to be understood, it must be given meaning (‘coded’) within a system. It may then be dealt with as if created in that system. The coding of an event as a ‘crime’ or a ‘tort’, for example, is a necessary pre-requisite to further decisions about that event which will give it additional meanings within the legal system. The event coded as a crime or tort thus becomes translated and reconstituted in eh communicative world of criminal or civil procedure, evidence and so on. These wider perspectives shape the way in which complexity theory characterizes the complex. It is an approach which warns us against excessive emphasis on formalism, on rule-based… (Webb 2005: 231).

Whilst it is not clear the type of postmodernism which Webb is referring to, in the light of the above quotation the reader gets the impression that she understands postmodernism as synonymous with the deconstruction of grand narratives. But the problem arises when one is supposed to deal with complexity and chaos within society. In the accounting profession, the problem of complexity and chaos finds its traditional solution in the Code of ethics that were aimed at creating a situation of uniformity and conformity within the profession. Deconstructive postmodernism maintains that efforts that are aimed at promoting uniformity within the profession are myopic because of the reality of the diversity engendered in social existence. For this reason, reconstructive postmodernism maintains that the traditional and the modern should be brought into a synthesis whereby emphasis is put on being constructive in a way that enables one to come up with a creative synthesis between the old and the new. In this regard, systems theory advances the idea that there should be a convergence or unity of all knowledge that is aimed at promoting the common good of society in general. In this regard, from the perspective of systems theory, the ethics should be premised on the ideal of the convergence of all the disciplines. To that end, I have argued that from a systems theoretical perspective, a commitment to ethics should be based on an inclusive approach when dealing with the different or diverse social systems that encapsulate our human existence.

8. 5 Conclusion

In this chapter, I have deducted what I deem to be the most crucial implications of systems theory to social and ethical responsibility for the accountancy profession. It was deduced that systems theory is based on a holistic outlook towards reality and this implies that the professional outlook of the accountants should provide a whole picture of what is being accounted for in relationship to society in general. A holistic outlook goes against reductionist thinking whereby a complex reality is reduced to a particular phenomenon. For the accountants and auditors the challenge is to see one's auditing or accounting work in terms of its consequences to the whole. In attempting to account for the whole, some scientists have argued that we can only break away from mechanistic thinking if we can come up with a theory of everything which can help us to account for the reality of complexity. Such a theory will be inclusive in its account of all that has been achieved by other theories. I have argued in this chapter that the accounting profession can benefit a lot from the implications of systems theory to social sciences with the aim of promoting ethical accounting, especially with the concept of holism in systems theory. The responsibility of business is not only towards the maximisation of profits for its shareholders as alleged by Friedman. Some scholars see the responsibility of business as encompassing the present and the future.

It was mainly on this observation of the pervasiveness of Corporate Social Responsibility and stakeholder theory that I argued in chapter 6 that financial reporting frameworks should be in the position to report both internally and externally. Accountants are therefore ethically responsible to report upon the impact of the operations of a business to society. Ethical reflection should be integral to accounting education in such a way that ethics should not be seen as intruding into the domain of accountancy profession. In chapter 6 we have seen that an attempt to overcome the bifurcation between the accountancy profession and ethics is coming through the idea of Corporate Social Responsibility. Practices such as creative accounting and profit smoothing are clear examples whereby short-term monetary interests are prioritised by the accountancy profession above the general good for those who exist in the present as well as the future. The pursuit of the general good implies that there should not be a bifurcation between the accountancy profession and ethics. Ethical reflection should be integral to accounting education in such a way that ethics should not be seen as intruding into the domain of accountancy profession. In a multicultural society, people's professional behaviour is influenced by many factors instead of only the code of ethics for the profession. We can deal with complex moral situations as professionals by learning to deal with the reality of the conflict of values which is inherent in each and every profession. In the previous section, we have seen that systems theory gives us a solid foundation for social and ethical accounting. The issue as to whom are accountants accountable to remains problematic. Systems theory sees this problem as a result of the compartmentalisation of knowledge into disciplines. In this compartmentalisation of knowledge, there is a deliberate selection of knowledge on what is to be taught to accounting students with the aim of promoting the ends of accounting as a discipline. This reductionism has also created a debate of whether it is feasible to teach ethics in accountants.

Systems theory goes against the idea of compartmentalisation of knowledge in the sense that such an approach to knowledge is prone to commit what Alfred North Whitehead called ‘the fallacy of misplaced concreteness'. In the profession of the accountants one finds that their Codes of ethics has been structured in a way that tends to overemphasise the idea that their professional moral responsibility is solely based on their practice of accounting as a profession. Thus the exclusive emphasis that is put on the accounting discipline inevitably leads to an attitude of discounting an inclusive approach towards the acquiring of knowledge. From the systems theoretical perspective, accounting as a system within the hierarchy of subsystems has to be pursued from an interdisciplinary approach with a wider understanding of human society and the impact of contemporary technological developments.

CHAPTER 9: GENERAL CONCLUSION

9.1 Introduction

In this chapter, my aim is to provide a general conclusion of the study in a way that is succinct for the entire study. The idea that the accounting profession is responsible to the local and international society at large requires a new ethical paradigm for the profession that accommodates the reality of interconnectedness as espoused in systems worldview. The problem that was investigated in this study is the professional and social responsibility of the accounting profession in the light of the idea that accountants are mainly presumed to be solely accountable to their employers when executing their professional responsibilities. To overcome this problem, this study subjected the issue of professional and social responsibility of the accounting profession to the light of the General Systems Theory. Since conclusions have been given throughout the various chapters, the main aim of this chapter is to give the overall conclusion of the study from the conclusions that have been given in the preceding chapters.

In chapter two I have argued that the contemporary accounting profession operates within an economic paradigm of neo-liberal capitalism which is an economic system which provides us with an image of a person who is wholly divorced from social concerns as the ideal person. This economic system is also based on the idea that a human being is primarily a maximizer of utility. On the other hand, under liberal capitalism, the economic sphere is deemed to be a private sphere which is not accountable to the generality of social existence. The main philosophy of neo-liberal capitalism is based on the philosophy that individuals should be left to pursue their economic interests without interference from government. I argued that in the philosophy of economic liberalism, the presumption is that the liberal economy will do well without external interference.

My main aim in this chapter was not to provide an extensive discussion of the philosophy of capitalistic economic liberalism, rather I wanted to demonstrate how economic liberalism has influenced the functioning of the accounting profession. Through the works of liberal economic thinkers such as Adam Smith and Philip Wicksteed, the main presumption of these classical liberal capitalistic thinkers was that the economy will do well without any interference from government because of selfish passions of individuals will ultimately promote the common good. For Adam Smith, the determining factor in the distribution of wealth in society was premised on individual pursuit of self-interest or greed. Philip Wicksteed went as far as asserting that economic relations were actually devoid of ethical evaluations. This implied that it was not an economic concern whether someone was dishonest or cheating in his or her economic dealings with others. What was important was in making sure that the action that was taken ultimately led to an economic gain.

I have demonstrated in this study that neo-liberal economic thinking is a systematic rational affirmation of classical liberal economic thinking in the aftermath of Adam Smith. Individual economic actions are deemed rational when they lead to utility maximization. The belief in utility maximization has given credence to the belief that economics was on par with natural sciences. The similarity between economics and natural sciences has been achieved through instrumental reasoning, a type of reasoning that ultimately discounts value judgements in the economic discipline. Without any value judgements, utility maximization becomes the only justifiable outcome of any economic action or transaction. It was part of the argument that was proffered in this chapter that economic reasoning is individualistic. Through the works of liberal thinkers such as Rand, Robert Nozick, Brittan and Heyne, just to mention a few, the idea of taxation was refuted on the grounds that it violated individuals' freedom to use their incomes in a way they choose qua individual. In this type of neo-liberal economic thinking, government is understood as there to protect individual properties.

Finally, in this chapter, I have argued that neo-liberal economic thinking has been adopted as the rationale behind the accounting profession. The accounting profession understands its main role as that of facilitating the expansion of neo-liberal capitalism within the financial sector. In this regard, the neo-liberal economic system has been divided into two camps – an economy of fixed assets that deals with goods and secondly the other economy which is contemporarily known as the global money market. In the global money market economy I have argued that through financial speculation, deception and cheating have become integral to the whole neo-liberal global financial system. In this regard, it was argued that the global financial reporting is turned into an instrument of facilitating the movement of global capital. Thus other scholars have argued that the ideal of standardized accounting in the context of global neo-liberal capitalism has remained utopian. International monetary institutions such as the IMF and the World Bank are there to promote the economic interests of the developed countries at the expense of the underdeveloped countries. An ethical problem that was observed in this chapter is that the accounting profession in the context of global neo-liberal capitalism arises from the fact that such an economic system is corrupt by nature. Some of the multinational auditing companies such as the KPMG in South Africa have been embroiled in corruption in such a way that the many institutions such as banks and companies who relied on KPMG auditing services have come to question the reliability of KPMG's auditing work.

Finally, the chapter discussed the issue of the ethics in the accounting profession, especially taking into account the fact that with the current globalization of neo-liberal capitalism the accounting profession has been embroiled in endless scandals all over the world. In this regard, some scholars are arguing that accounting is not simply about keeping clean financial records of the company or organization. On the contrary, there is a need to inculcate a sense of ethical accountability among the accounting profession. False information leads to a general loss of professional integrity and the ultimate ruin of the accountant's professional career. Ethical values do provide social and communal orderliness in society and in all commercial undertakings. Auditing companies that have been embroiled in scandals have made it difficult to convince the general public and the global citizenship with regards to what they stand for and the reliability of their accounting information. One of the challenges that have been identified in this chapter is that of speculation. In this regard, I argued that speculation which is integral to neo-liberal capitalism is also a contributory factor to the erosion of ethics in the accounting profession.

The objective of chapter three was to discuss ethics with specific reference to the world of the accounting profession. I have argued that professional ethics is a branch of ethics which is mainly concerned with the expected behaviour of the individual within a particular profession in accordance with the acquired technical knowledge that makes the individual to be socially considered as a professional within that specific field through specialised training. Accountants are professionals by virtue of their technical knowledge in the provision of accounts services to their clients. In this regard, I argued that there are moral relationships between professionals and their clients, hence this presupposes the prior existence of ethical standards that are used as regulatory measures against the abuse of professional power.

I went on to argue that the foundation of any commercial system is indispensable from reliable accounting whereby the thoroughness of the accounting profession promotes the integrity and reliability or sustainability of the economic system of a particular country. The values that are espoused by the accounting profession such as integrity, objectivity, competency, due care and confidentiality do contribute to the general wellbeing of the national economic system. I went on to give a detailed discussion that shows how all these values contribute to professionalism in the accounting profession and the resultant public trust. It is partly for this reason that I have argued that an effective accounting profession has to understand its responsibility as inextricably conjoined with the rest of society. This observation led me to discuss the accounting profession with reference to the concept of public interest.

I argued that the idea of seeing the accounting profession in terms of serving or promoting public interest implies that in the exercise of its professional duties the accounting profession has an indispensable role to play in the promotion of the general wellbeing of society rather than the use of the profession for the pursuit of self-interests. I went on to authenticate the argument that the idea of seeing the accounting profession on the basis of promoting public interest finds its echo in codes of conduct in professional ethics. These codes are usually aimed at raising or promoting common or shared consciousness within a particular profession with reference to its anticipated professional contribution to the general public.

This chapter four had an objective of discussing the need and adequacy of teaching ethics to accounting students. It was clearly argued that there is a need to teach ethics to accounting students though there are mixed opinions to this thinking. The accounting profession needs ethical practitioners who will uphold the values and ethical expectations of the public. In this regard, I argued that the only place that is conducive to initiating professional ethics to the professional is during their learning process. All the accounting professionals go through this process before they are admitted into the profession making it the right time to teach them what they are expected of when they finally join the profession. It was established that accountants have an ethical obligation to both society and owners of the business. It was also noted that the professional code of ethics must be the key point in the teaching of the ethics but however, the codes have limitations that need to be addressed if they are to be a useful tool in the ethical development of accountants. They need to be contextual adaptive to the economic environment which is ever changing.

In my endeavour to meet the objective of this chapter, I started by briefly looking into the history of accounting and ethics in the accounting profession. This was done in order to establish the events that lead to the condemnation of the accounting profession as a result of various ethical failures. It was established that ethics in the accounting profession originated almost at the same time as the accounting profession. The only challenge was that the accounting discipline was originated from a capitalistic perspective and it was ethical enough to apply accounting systems that were robust in accounting for the profits of the owners of capital. This did not give due regard for the profession to be accountable to anyone other than the owners of the businesses. Thus, there were no meaningful advances in the development of ethics. As explained in the chapter, only accuracy and transparency to owners were emphasised and violations carried severely punished.

It was noted that as development continued society become more aware that the accounting profession has an ethical duty to deal with financial scandals that were mostly a result of ethical failure of its members. This called for the teaching of ethics to accounting students as a way of preparing them to tackle ethical challenges they will meet in the profession. It, however, was noted that there is more that needs to be done in the teaching of ethics to accounting students. Ethics education is not being allocated enough time as much time is being devoted to technique acquisition. I also argued that it was necessary to teach ethics not only as a stand-alone module, but they must be infused in all modules as a way of reinforcing their importance to the accounting students. I am of the idea that if the accounting professionals are more ethical in their conduct, the frauds that have been a common sight in the economic environment can be minimised and accountability enhanced.

This chapter five had the objective of discussing the shareholder theory and the stakeholder theory and establish how much they affect the accounting the accounting profession as they relate to fulfilment of stakeholder information requirements. It was my argument that the shareholder theory is limited in scope as it focuses only on shareholders as sole owners of a business because of its foundations that are deeply rooted in capitalism. This model had significant influence in shaping today's economic environment which is more skewed to owners of capital. As a result, accountants have for a long time been guided by this framework starting from their training through to the practice. It was seen that this model has been dominating the business platform for a long time resulting in the accounting profession producing information that further the interests of capitalists. It was also noted that the shareholder perspective has sustained the perpetration of unethical activities in the accounting profession some of which have left giant economies trampling. The shareholder perspective is slowly losing its fame due to the hazards that are associated with it as evidenced by numerous accounting scandals that have been taking place since the beginning of this decade. This is so mainly because of the issue of the invisible hand the capitalist economy trust to bring optimal distribution of resources. The economy is left to regulate its self through the market mechanisms. This market mechanism, as I noted seems to work for the benefits of the shareholders to the detriment of most other stakeholders.

I also argued in this chapter that Freidman's notion CSR of a business as to maximise the returns for the shareholders is not in line with the general context of CSR which is all-embracing. The stakeholder model's view is that business has a responsibility to embrace all the stakeholders and treat them equally. For this reason, the accounting profession is challenged to adopt a position that reflects and address the concerns of other stakeholders of a business. As it stands accountants are found guilty of not including other stakeholders as addressees of the financial information. I went on to argue that the notion of taking shareholders as the owners of a business was not correct both economically and at law. Legally shareholders do not have the mandate of superintending over the affairs of a business. Their influence is only limited to the appointment of directors who have a full mandate of running the affairs of the business. Economically shareholders have been found not to have any significant influence over the finances of a business. It was established that the directors are the ones who have the mandate of deciding upon the distribution of the earnings of a business without consulting the shareholders. In this regard, I therefore, concluded that the shareholders are less owners of the business than other primary stakeholders like debtholders who have the power of even seizing the business if their interests are violated. The accounting profession must consider changing their orientation and take into account the interests of all stakeholders that are affected by the operations of a business. They must do so not to act from the pressure activated by the stakeholders but on ethical grounds. This orientation has given the accounting profession an ethical duty to be responsible and be accountable to the owners of capital, the environment and society.

It is also my argument that sustainability reporting is the way forward of embracing all stakeholders in financial reports. Sustainability reporting has been noted as slowly being taken on board by the accounting profession and much more is expected to be done to address the concerns of stakeholders. It was also noted that sustainability reporting is limited in scope due to the current reporting structures that are still inclined to traditional accounting methods that are more oriented to the quantitative aspects of financial reporting. There are still many restrictive concepts that do not support the inclusion of other stakeholders as partakers of the financial accounting information and there is much leeway that allows the accounting profession to behave unethically but legally.

The discussion in chapter six has pointed out that the accounting profession is behaving unethically and such a behaviour has cost many governments a lot of revenue. The tax avoidance practice has denied tax authorities to collect revenue as they should have done if all taxpayers and advisers act ethically. This has caused a lot suffering to the public through poor service delivery as a result of lack of adequate revenues by the government in question. It has been established that the social welfare function is affected by the level of revenues, this means the accounting profession have immensely contributed in undermining the living conditions of the general public when they engage in tax avoidance and evasion. Accountants are deliberately putting in place and selling complicated tax avoidance schemes to multinational corporations and the rich elite for the purpose of enriching themselves and assisting the tax dodgers to attain their objective of maximising profit. The general stakeholders have been left in the dark with little or no information on the operations of the capitalistic enterprises despite the calling of the profession to serve the public interest. This has increasingly cast doubt on the integrity of the accounting profession as it is now known for its heartless unethical behaviour. It can do anything within the parameters of the law to achieve the objective of profit maximisation, regardless of the harm it has to other stakeholders. They only have respect for owners of capital are determined to manipulate the law to the limits for the benefit of shareholders and lenders of capital, and themselves. The challenges that come up with such a behaviour is that not all that is legal is ethical. It has been noted that an ethical person is one that always does good even if the wrong thing is legal. The accounting professionals have this defining character as human beings.

It was also observed that the profession has gone further and embrace cooking books or window dressing of financial statements through creative accounting as a normal way of doing business. Accountants are engaging in creative accounting to achieve predetermined positions that are in sync with their individual objectives and that of the shareholders who are the so-called owners of the business. Accountants have become so creative to the extent of roasting books or misrepresenting figures sometimes for the purpose of nourishing their needs and those of the owners of capital who are a minority group compared to other stakeholders who are being left as users of the financial statements. I have argued in this chapter that creative accounting is unethical as figures are manipulated and sometimes completely misrepresented, omitted or overstated in the financial statements for an unholy cause in the disguise of creative accounting.

It has been established the practices of creative accounting and tax avoidance are underpinned in the inadequacy of the accounting frameworks. The accounting framework has given the profession a big latitude to the accounting professionals to use personal judgement, assumptions and estimates in the preparation of the financial statements. This has been the hiding places to support the practices of creative accounting and income smoothing. The laws that guide in the calculation of taxes are also inadequate to cover all the loopholes that allow the accountants to avoid taxes. It was, therefore, my suggestion that the accounting profession rely more on the ethical pillar when the other pillars (the conceptual framework and the regulatory framework) become vulnerable to manipulation. An ethical accountant will not be seen riding on the weaknesses of the frameworks for personal gain or for furthering the interests of the minority, instead, he/she will use them in favour of the betterment of the social welfare function. To achieve this, the profession has been called to open up and embrace all that are affected by their work and accept that it is a component of the vast global system. It having a duty to give out information to other components and also receiving information from the same as espoused by the general systems theory.

In chapter seven I started by discussing some of the main tenets of systems theory. Systems theory arose from the scientific observation that reality is multifaceted or complex. Systems theory is accredited to the work of Austrian biologist, Ludwig von Bertalanffy who rejected the then modern mechanistic and vitalistic academic presumptions about the processes of life. For von Bertalanffy, the weakness of such an approach to the study of organisms was based on the disentangling of reality into small constituencies or isolated parts. What needed to be recognised is that our study of phenomena should focus on the whole instead of seeing the parts in isolation from the whole. Different parts and processes can only be intelligible when seen in relationship to the whole of the organism. In other words, a genuine understanding of a particular phenomenon should provide us with a holistic picture.

In this chapter, it was also deduced that systems theory is based on a worldview of holism as one of its basic tenets. On our quest for a holistic outlook towards reality, systems theory posits that scientific education should be integrative – no discipline should be seen in isolation from each other. This holistic approach to the conceptualisation of reality been seen by other scholars as integral to new sciences such as quantum physics whereby the principle of complementarity is indispensable to the description of being as both wave and particle. For example, other physicists such as Donah Zohar argued that from quantum physics, both wave and particle nature of being complement each other in a way that ultimately gives us a full picture of reality. Contrary to quantum physics which presents us with quantum stuff as, essentially, *both* wave-like and particle-like, simultaneously, in Newtonian mechanistic physics, a particle was considered to be what matter is made of. This type of physics promoted a view of reality where things were understood as existing in isolation from each other. Apart from quantum physics, the same holistic approach was also adopted by microbiologists when they observed that living organisms should be understood as open systems that are on the final analysis influenced by other living systems – thus implying the reality of interconnectedness within existence.

It was shown in this chapter that in our contemporary times there are other cosmological physicists such as Stephen Hawking and Leonard Mlodinow who are also questioning the classical Newtonian scientific worldview because of its failure to account for physical phenomena that presents itself in terms of complexity and chaos. In such situations, these physicists maintained that one is ultimately required to come up with a theory that should help us to account for everything. In other words, such a theory should help us to harness the reality of relationality. They called such a theory M-theory because one theory on its own cannot account for the reality of complexity that is engendered in existence. It was on the basis of this realisation that these scholars advanced the idea that there is a need to come with a theory that is inclusive in its account for all that has been achieved by other theories. This is another way of coming up with a theory that can encapsulate the reality of relationality in the generality of existence.

Process thought articulates a philosophy that puts emphasis on relationality whereby nothing that is real can be understood outside its relatedness and interrelatedness to other things in existence. In this regard, process philosophy gives primacy to relationality as the glue that cements everything in existence. In other words, all entities are constituted by an intricate web of relationships and can only have meaning within these relationships. What makes process philosophy to be a philosophy that is indispensable to systems thinking are the concepts of process and relatedness as constitutive of reality in general. As human beings we are beings that are immersed in interrelated processes and what we do has consequences that go beyond our own conceptual horizons of a given existence.

The chapter also investigated the implication of systems theory to social sciences. It was argued that the main contemporary problem that has beset the social sciences arises from specialisation whereby each discipline is studied in isolation from the other. This practice gives the learner the impression that these disciplines have nothing to share in common. This discrepancy in the acquiring and dissemination of knowledge is thus beset with disastrous consequences to socio-economic and the natural environment. It was argued that each discipline on its own is beset with limitations. The limitedness of disciplines lies in the fact that they specialise on abstracting reality, thus providing us with a partial view of reality. It is the prior commitment to the abstraction of reality which renders these disciplines prone to commit a fallacy of misplaced concreteness. This was found to be problematic in the sense that the practitioners of these specific disciplines have a tendency to overlook the fact that they were only dealing with a minute aspect of reality, especially on those occasions when the practitioners are socialised into generalising their findings as the absolute truth. It was also argued that in the humanities postmodernists, especially deconstructive postmodernists have argued against the compartmentalisation of knowledge by adopting positions that are anti-structuralism, anti-traditionalism and anti-foundationalism. On the other hand, reconstructive postmodernists have argued that this compartmentalisation of knowledge can be overcome by finding a synthesis between the modern and the traditional – an approach that has been found in this study to be closely related to systems theory because of its commitment to relationality between the past and the present.

From the perspective of systems theory, social and natural sciences converge on the issue of relationality. However, some scholars have gone as far as to argue that the point of convergence among all the disciplines should be found on ethics, specifically professional ethics. I argued that adherence to a code of professional ethics on its own is not enough because some of the codes of ethics in the various professions can easily come into conflict in individual religions, cultural and political convictions that are usually taken by some professionals as guides to ethical conduct. It is on these grounds that the worldview that is supported by systems theory has to be based on an inclusive approach to ethics. As we shall see in the following chapter, ethical accounting has to be broadened such as to include the social responsibility of the accountancy profession.

In chapter eight I have deducted what I deem to be the most crucial implications of systems theory to social and ethical responsibility for the accountancy profession. It was deduced that systems theory is based on a holistic outlook towards reality and this implies that the professional outlook of the accountants should provide a whole picture of what is being accounted for in relationship to society in general. A holistic outlook goes against reductionist thinking whereby a complex reality is reduced to a particular phenomenon. For the accountants and auditors, the challenge is to see one's auditing or accounting work in terms of its consequences to the whole. In attempting to account for the whole, some scientists have argued that we can only break away from mechanistic thinking if we can come up with a theory of everything which can help us to account for the reality of complexity. Such a theory will be inclusive in its account of all that has been achieved by other theories. I have argued in this chapter that the accounting profession can benefit a lot from the implications of systems theory to social sciences with the aim of promoting ethical accounting, especially with the concept of holism in systems theory. The responsibility of business is not only towards the maximisation of profits for its shareholders as alleged by Friedman.

It was mainly on this observation of the pervasiveness of Corporate Social Responsibility and stakeholder theory that I argued in chapter 6 that financial reporting frameworks should be in the position to report both internally and externally. Accountants are therefore ethically responsible to report upon the impact of the operations of a business to society. Ethical reflection should be integral to accounting education in such a way that ethics should not be seen as intruding into the domain of accountancy profession. In chapter 6 we have seen that an attempt to overcome the bifurcation between the accountancy profession and ethics is coming through the idea of Corporate Social Responsibility. Practices such as creative accounting and profit smoothing are clear examples whereby short-term monetary interests are prioritised by the accountancy profession above the general good for those who exist in the present as well as the future. The pursuit of the general good implies that there should not be a bifurcation between the accountancy profession and ethics. Ethical reflection should be integral to accounting education in such a way that ethics should not be seen as intruding into the domain of accountancy profession. In a multicultural society, people's professional behaviour is influenced by many factors instead of only the code of ethics for the profession. We can deal with complex moral situations as professionals by learning to deal with the reality of the conflict of values which is inherent in each and every profession.

In the previous section, we have seen that systems theory gives us a solid foundation for social and ethical accounting. The question as to whom are accountants accountable to remains problematic. Systems theory sees this problem as a result of the compartmentalisation of knowledge into disciplines. In this compartmentalisation of knowledge, there is a deliberate selection of knowledge on what is to be taught to accounting students with the aim of promoting the ends of accounting as a discipline. This reductionism has also created a debate on whether it is feasible to teach ethics in accountants. Systems theory goes against the idea of compartmentalisation of knowledge in the sense that such an approach to knowledge is prone to commit what Alfred North Whitehead called ‘the fallacy of misplaced concreteness'. In the profession of the accountants, one finds that their Codes of ethics has been structured in a way that tends to overemphasise the idea that their professional moral responsibility is solely based on their practice of accounting as a profession. Thus the exclusive emphasis that is put on the accounting discipline inevitably leads to an attitude of discounting an inclusive approach towards the acquiring of knowledge

9.2 Conclusion

In this study, I have argued that accounting is integral to business ethics. This implies that the accounting profession has a social responsibility or that it is expected to contribute positively towards flourishing of the common good within society. In this regard, it is maintained that doing business ethically will be to the advantage of business than otherwise. It was also argued that accountants should see their professional work as integral to the promotion of public interest instead of seeing their work solely in terms of parochial business interests. For this reason, I argued that in our today's world we need to conceptualise ethical accounting and its social responsibility from a holistic perspective as espoused in systems theory. The study argued that the idea of the social responsibility of the accountants which echoes systems theory is the stakeholder theory.

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