University Affiliation

Analyzing Ethical Issue On The Financial Statement

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Introduction

Accounting is one of the sensitive areas demanding high levels of ethical practices. Ethical issues on financial statements are mainly related to preparation, presentation and the disclosure of the financial information. The ethical issues may be as a result of the fraudulent financial report. This practice is intentional and aims at misleading investors to invest capital in the business or to sustain the share prices of the company. It can also be done to reduce or evade tax obligations. Another possible ethical issue on the financial statement is a misappropriation of assets, which entails using the company's assets for selfish gains or interests. Again, we have the issue of disclosure violations. The financial statement may have misleading disclosures, or fail completely to provide the disclosures as required under Generally Accepted Accounting Principles (GAAP). In the event one or an organization is found guilty of having violated accounting ethics, they are entitled to punishment as stipulated under the Sarbanes-Oxley Act of 2002. Some of the possible punishments include; imprisonment, profession discontinuation or closure of the company, fines, penalties, etc.

Discussion

A formal method ought to be followed in the process of analyzing an ethical issue within a financial statement. The process should entail establishing that the ethical issue exists. There must be factual information supporting the same. This should be followed by determining the responsible individuals, and the motives behind the issue. Potential effects of the issue to the organization need to be evaluated, and finally consider remedial actions, based on the existing accounting standards and laws.

Gathering facts; when preparing financial statements, misstatements are likely to occur, in which some may be intentional or erroneous. Ethical issues arise from such misstatements. However, an erroneous or unintentional misstatement cannot be termed as an ethical issue. That is the reason as to why there is always a need to gather facts about the misstatements, before categorizing the misstatements as an ethical issue.

In the process of gathering facts, there arises the need for auditing. An independent auditor should be contracted by the concerned organization to audit the financial statement, with an objective of establishing whether there is actually an ethical issue. The auditor should issue an unbiased and independent audit report, about the financial statement. In case of an ethical issue, he or she should highlight the issue, its materiality and potential impact on the operations of the firm.

Determining the responsible individuals; the work of the auditor is only to provide evidence that there is an ethical issue within the financial statement. It is the responsibility of the management to identify the concerned individual or team, based on the area where the case has occurred, and the tasks & responsibilities of each worker within the organization.

Evaluating the reasons behind the ethical issue and potential organizational impact; with the help of the identified individuals, or the nature of the issue, the management can easily know the motives behind the action. The misstatements remain to be unethical, whether done in favor of the organization or individual employees. This is based on the fact that there are established accounting frameworks and standards that must be followed when preparing financial statements, to eliminate unethical practices.

Furthermore, an evaluation must be done to determine the potential impact of the ethical issue. Some effects may be negligible or insignificant, hence forcing the management to forgive and warn the offenders. However, in the event of serious offenses, legal actions ought to be taken.

Administering punishment; the individuals or group of people found guilty of having committed the ethical issue to have to be punished following the regulations issued by the Sarbanes-Oxley Act of 2002. Accounting is a sensitive profession, whose professionalism must be maintained by doing the right things. Corrective actions should be taken against the concerned individuals, to mitigate the possibility of having a similar ethical issue in future (Henderson et al., 2015).

Conclusion

Analyzing an ethical issue on a financial statement is a process, in which various individuals should be involved. It is not possible to analyze something that one is in doubts as to whether it is existing or not. Expertise knowledge should be utilized, in establishing whether the ethical issue is in existence, circumstances surrounding it, magnitude and possible actions to be taken in respect to the ethical issue. There must be facts supporting the issue, before coming into the conclusion that it actually occurred. Auditors or other experienced individuals should be involved in the process. Upon establishing the issue occurred, that should not be the end. Corrective actions must be taken against the convicted individuals. This is crucial in preventing the possibility of occurrence of the same issue in the future, as well as deterring individuals who had similar thoughts. There is a need to ensure that financial statements have been prepared in accordance with the established accounting framework, to facilitate easy detection of unethical practices, as well as preventing them from occurring. Financial statements have got a large number of stakeholders such as management, shareholders, employees, tax authorities, employees, suppliers, customers, etc. Presenting misleading information will result in wrong decisions, hence disadvantaging many people.

Reference

Henderson, S., Peirson, G., Herbohn, K., & Howieson, B. (2015). *Issues in financial accounting*. Pearson Higher Education AU.