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Written Ethical Code of Conduct for Accountants in Turkey and Criticisms of These Codes

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ABSTRACT *The official and written ethical principles that accountants are required to comply with in Turkey are discussed briefly in this study. Various aspects of these principles gathered under a specific regulation are criticized. It is ultimately concluded that some instances will arise during professional decision making in which even the regulation will be inadequate, where accountants will have to rely on their own conscience.*

KEY WORDS *Ethics, ethics codes, accounting, Turkey*

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1. Introduction

Accountancy and its applications date back to ancient times. According to Nigam (1986), accountancy applications similar to those utilized today were practiced from around 2000 BC in Egypt, and around 200 BC in the Roman Empire. It is claimed that the “Double Entry System” used in today’s accountancy applications was suggested by Paciolo in 1494 AD, but a similar system was used by the Sumerians, who lived in Mesopotamia around 5000 BC. Before today’s concept of the “company” was established around the 16th or 17th century, the classical economist Adam Smith discussed some principles for the economical classification and record keeping of the work performed by existing groups doing business in the country (Samuel, 1977).

An important feature of the science and application of accountancy based on the history mentioned above is that it has a strong systematic approach. However, in some cases, this approach fails to satisfy in practice; occasionally, there are times that accountants must act independently. More clearly, an accountant may find in some cases that it is necessary to act in accordance with his or her own voice of conscience. In these instances, personal ethics, defined as the ability to distinguish right from wrong in accordance with conscience, come into play (Ulgen and Mirze, 2010).

Where do we find ethics in accounting? Interestingly, accountancy is a science in which ethics and ethical principles are addressed officially in a written form. As more general concepts, personal ethics and morality issues should be mentioned before discussing accounting ethics. Personal ethics and morality are different from each other. Morality is “directed” conscience; what needs to be done or what is right to do is somewhat obvious with respect to a given set of rules, and the information that people, both in their relationships with one another and with their government, are expected to receive is established within the context of morality (Ulgen and

Mirze, 2010). One can talk about personal ethics when an action requires a person to act on his/her own accord in addition to what is expected of him/her or, in other words, when his/her own will and conscience exceeds his/her expectations (Daft, 2000). Thus, personal ethics can be understood as a code according to which a person makes choices independent of general morality (Ulgen and Mirze, 2010). On the other hand, in accounting, the written form of ethics is not personal ethics. Written ethics for accountants contains the principles of professional ethics with which accountants must comply.

Briefly, morality is understood as the body of rules that are propounded over time by a society. These rules guide individual people as members of society to adhere to certain behavioral patterns. On the other hand, personal ethics is distinct from morality and can be considered as a personally ruled and followed body of informal criteria and principles.

2. Personal Ethics and Professional Ethics

Professional ethics is an overemphasized issue in accounting applications. Professional ethics, which is defined as a body of rules and principles that shape the behaviors and decisions of professionals in performing their duties (Aydin, 2010), is dependent on the written rules of given countries, including Turkey, when it is evaluated in terms of accountancy. These rules certainly guide people who want to be accountants; however, the ethical values of these people are at least officially being ignored. As a result, professional and written ethical principles are the only ones considered in accounting activities, and accountants' conscientious decisions regarding their profession are officially not valued as being important.

The point mentioned in the previous paragraph may cause a serious problem. Special cases may arise that cannot be explained by professional ethical rules, and in such cases, it may not be clear to accountants what they should do. Therefore, situations may present themselves where professional ethics may become insufficient, and in such cases, the accountant practitioner may have to turn to his/her own conscience (personal ethics).

Primarily for this reason, the written form of the ethical rules of the accountancy is important to discuss. In 1998, the "International Federation of Accountants (IFAC)" took an important step by determining the rules of professional ethics that are expected of accounting practitioners on a global basis (Yereli, 2008). These rules of professional ethics have emerged in Turkey and require consideration, particularly in establishments such as the Expert Accountants' Association of Turkey (EAAT) and Union of Chambers of Certified Public Accountants in Turkey (UCCPAT), which are members of the abovementioned IFAC.

A number of steps have been taken in Turkey to standardize not only the ethics of the accounting profession but also the application of such ethics in the accounting profession. The most important step for the standardization of practices in Turkey is the "Uniform Chart of Accounts (UCA)", which is a series of criteria and applications that include the principles for accounting records and operations to be performed. This set of policies was made mandatory by the Ministry of Finance with the General Communiqué on Accounting Practices issue No: 1, published in the Official Gazette No. 21447 and dated December 26, 1992; it has been implemented since January 1, 1994 (Republic of Turkey, Prime Ministry, General Directorate of Legislation Development and Publication, 2011a)

In Turkey, the very first official step regarding professional ethics for all accounting practitioners was taken in 2004, and a decision was made regarding the establishment of an ethics committee. The decision was published in the Official Gazette No: 25486, dated June 8, 2004

(Republic of Turkey, Prime Ministry, General Directorate of Legislation Development and Publication, 2011b).

The last official step concerning this subject was the regulation of ethical rules published in the Official Gazette No: 26675, dated October 19, 2007, which was applied to independent accounting practitioners, certified public accountants, and sworn-in certified public accountants (Republic of Turkey, Prime Ministry, General Directorate of Legislation Development and Publication, 2011c). This is the regulation that is scrutinized and criticized in this article.

There were no moral or ethical principles included in the abovementioned UCA. Thus, from 1994 until 1998, even though the accounting practices were conducted in accordance with the established regulations in Turkey, it can be claimed that accounting practitioners were not officially subject to a written code of ethics. Since 1998, it appears that *only* accountants that are members of UCCPAT and EAAT have been expected to comply with a written code of ethics.

3. Regulation of Ethics of Accounting in Turkey and Brief Criticisms

The mandatory regulations for accounting practitioners were published in the Official Gazette on October 19, 2007, and are divided into three parts. The first part concerns all accounting practitioners. The second part concerns independent accounting practitioners and the third part employed accountants (Republic of Turkey, Prime Ministry, General Directorate of Legislation Development and Publication, 2011c). The various issues discussed in the first part are as follows.

3.1. Honesty

The concept of honesty implies the idea that accounting profession practitioners need to think about issues related to their profession in an impartial manner and reflect this impartiality in their conduct. In addition, in accordance with the principle of honesty, all members of the accounting profession are also obligated to be accurate and trustworthy in their professional relations. Practitioners in the accounting profession need to be fair and straightforward to maintain accuracy and reliability. If an accounting practitioner wants to exhibit a reliable and honest attitude in his/her work, he/she must avoid using any kind of erroneous work-related information that he/she has received and could use, any misleading element and any potential hidden statements.

3.2. Impartiality

The principle of impartiality imposes on all accounting professionals the responsibility to not compromise on their professional decisions in cases of bias, conflict of interest or various kinds of pressures or influences that they may experience. Briefly, accounting practitioners are required to refrain from any element that may affect their impartiality in their work.

On the other hand, how should an accounting practitioner behave in cases in which his/her impartiality is jeopardized by pressure? According to the regulation in question, if the accounting practitioner can perceive the pressure or threat that he/she is faced with, he/she is responsible for eliminating it. To this end, self-employed accounting practitioners should terminate his/her accounting service; likewise, employed accounting practitioners should resign from their positions.

The pressures mentioned in previous paragraph may occur in the form of a statement, action, or implication. In this context, a concrete example can be given as follows. Assume that an accounting practitioner is working in an auditing company. Also assume that an official of the company who is under the inspection of the accounting practitioner says that a document that the accounting practitioner requests is lost. In this case, is this document really lost or is it being said to be lost even though it is not? In the absence of the document, should the auditor cease the audit and prepare a conditional report or should he/she ignore this fact? The auditor must cease the audit and prepare a conditional report according to Generally Accepted Auditing Standards (GAAS). However, at this point, there are no mechanisms in place that call for the inspection of the conduct of the accounting practitioner; instead, activities related to the inspection of the accounting practitioner are examined later by official control mechanisms (for example, Capital Markets Board, the Ministry of Finance etc.).

It can be very difficult to define and make decisions regarding the situations in which these pressures are experienced. “Reasonableness” should be taken as the basis for the formation of standards that will be used to identify these situations, (Republic of Turkey, Prime Ministry, General Directorate of Legislation Development and Publication, 2011c). More clearly, in a situation in which pressures on the accounting practitioner exist, to maintain impartiality, the accounting practitioner should avoid elements that could disrupt his/her impartiality. In addition to dealing with such pressures, accounting practitioners should not accept gifts or favors that would enhance their level of material well-being.

3.3. Ethical Conflicts

Ethical conflicts involve issues regarding ethical dilemmas that accounting practitioners may experience. Accounting practitioners may occasionally face dilemmas in their profession. These nonconformities can range from a very small number of transactions (for example, during auditing, finding out that a receipt with a small number of transactions has not been recorded) to very serious illegal activities, such as accounting fraud.

These nonconformities may create various kinds of dilemmas that accounting practitioners must face. These dilemmas of conscience can result in a conflict between two types of developments: one in which the accounting practitioner listens to his/her own conscience and another in which he/she does not listen to his/her own conscience. It is not possible to list the details of possible conflicting developments. Ethical conflicts are addressed according to the previously mentioned regulations. However, the details of these conflicts are not considered in the regulations. In cases of such a conflict, accounting practitioners may consider their own interests by circumventing the general ethical principles in the regulation.

The issues described briefly in the previous two paragraphs indicate that accounting practitioners can experience conflicts in cases in which there are omissions or errors and that, due to the lack of sufficient details in the abovementioned regulations, opportunities do exist for these accounting practitioners to *avoid acting in the right way* to benefit their own interests.

Another important factor that can cause conflicts of conscience is the explicit or implicit enforcement of illegal behavior of either the client by the accounting practitioner or of the accounting practitioner by his/her manager if there is one. The client may use ending his/her business relation with the accounting practitioner as a threat, while the manager of the accounting practitioner may use the termination of the accounting practitioner’s position as a threat. Through this threat, the accounting practitioner may be asked to do accounting tasks that could be illegal or inappropriate with respect to professional ethics. In such a case, the expected response from the accounting practitioner is to not comply with relationships or interests that could affect, weaken, or threaten his/her accuracy. When members of the profession are faced with noteworthy challenges to professional ethics, they should follow the policies of their own accounting office if they work independently, or if they work in a company, they should follow the established company policies (Republic of Turkey, Prime Ministry, General Directorate of Legislation Development and Publication, 2011c).

Self-employed accounting practitioners can prepare their own office ethical policies according to the aforementioned regulations. On the other hand, there may not be an ethical policy within the company that includes ethics principles for the activities of the company in which the accounting practitioner works, or if there is one, the policy may not be sufficiently comprehensive. In such a case, what should the accounting practitioner who works for a company and experiences a conflict do? The accounting practitioner can go to his/her manager to resolve the conflict in accordance with the regulation. If the problem cannot be resolved with the manager and if the accounting practitioner has decided to go to upper management, it will be appropriate to inform the higher-level manager about this issue. If the higher-level manager is the person responsible for the professional conflict the accounting practitioner is faced with, the accounting practitioner should himself/herself communicate this professional conflict to managers at an even higher level. If the manager of the accounting practitioner is the managing director or the equivalent, the next highest position to go for advice can be the administrative committee, the board of directors, non-executive directors, trustees, partners, the executive committee or shareholders. As a last resolution, the accounting practitioner may be expected to resign.

3.4. Professional Competence and Due Diligence

The tenth and eleventh articles of the regulation are related to professional competence and due diligence. An accounting practitioner should be competent not only early in his/her profession but for as long as he/she serves his/her profession. He/she should constantly develop him/herself to have the necessary professional knowledge. Professional qualification exams taken during the beginning of the profession or during the transitional stages between titles do not adequately assess professional competence. An accounting practitioner must constantly improve him/herself to carry out his/her job successfully and address professional issues. Thus, domestic or international studies must be monitored. It is necessary for the practitioner to participate in training sessions to inform him/her about new developments and improve him/her. In addition, in the execution of his/her profession in this regard, he/she should exercise his/her profession with due diligence while also strengthening his/her knowledge of the profession. Accordingly, the accounting practitioner should avoid as many errors as he/she can while conducting his/her activities, and likewise he/she should complete all professional duties in a timely manner. Uncompleted tasks and careless mistakes may harm the client of the accounting practitioner. Again, this damage is compensated for by the accounting practitioner. In addition, if the accounting practitioner is serving as part of a team, he/she is the one who is responsible for training and professionally disciplining all employees in his/her team. Therefore, all of the team members must comply with the abovementioned criteria of timeliness and care as well.

A criticism of the articles addressing professional competence and due care in the regulation is the lack of detail regarding what needs to be done within the framework of the criteria to preserve and improve professional competence. For example, accounting practitioners should have good knowledge of the law in their fields. However, this requirement is not included in these articles. In this context, it becomes apparent that the interests that accounting practitioners will show towards professional competency will be up to them. In other words, the decision as to how efficient in their profession the accounting practitioners will be is left to their own conscience. Striving to bring one's professional knowledge up to date versus not striving at all can lead to a conflict of conscience. Mistakes due to a low level of professional competence could cause damage to a practitioner's company or client. Covering up or not covering up mistakes to avoid penalties due to damages incurred may in itself become the subject of internal conflict for accounting practitioners.

In such a case, it can be concluded that professional competence and due diligence are directly related to issues such as ethical conflicts and professional performance.

In terms of professional competency and due diligence, not only in the case of changing titles but also in monitoring professional competency, regular exams may be an appropriate method for eliminating shortcomings and the elements of conflicts caused by these shortcomings.

3.5. Confidentiality

According to section 5 of the regulation, it is an accounting practitioner's obligation to preserve confidential information learned during his/her service related to a customer's or employer's business. Confidentiality should be maintained even if a practitioner retires or at the end of the relationship between the accounting practitioner and a client or employer. In addition, accounting practitioners must make sure that they protect the privacy of the personnel under their management, people consulted or people that were provided with assistance. Confidentiality does not only concern the disclosure of this information. At the same time, confidentiality requires that the information that an accounting practitioner accesses during his/ her professional service is not used for the sake of personal interest, for the benefit of third parties or to create an impression that the information is being used in these ways.

The most appropriate disclosure condition for confidential information about customers is obtaining permission from customers. If the permission for disclosure is obtained from customers or employers, all parties whose interest could be affected should be considered, including third parties. Additionally, confidential information should be disclosed in the case of legal obligations. For example, if there is a court order, related customer records or notarized copies of the records must be delivered to expert witnesses appointed by the court (Republic of Turkey, Prime Ministry, General Directorate of Legislation Development and Publication, 2011c).

Briefly, in accordance with the privacy policy in the regulation, accounting practitioners are responsible for not revealing the information about personal services rendered during business or at the end of the business with respect to the customer if he/she is self-employed and with respect to the employer if he/she is employed by an institution. However, it should be pointed out that there is not much emphasis on insufficient care by the accounting practitioner regarding confidentiality of information. The diligent exercise of duties should be considered within the concept of ethics, but professional negligence may result in the disclosure of professional information. In other words, professional information may be released due to a lack of control by the accounting practitioner beyond the circumstances considered. The confidentiality policy in the regulation does not involve the disclosure of detailed information due to professional negligence by the accounting practitioner or circumstances beyond his/her control, although it does advocate that the accounting practitioner consciously protect customer confidentiality.

3.6. Promotion and Professional Conduct

According to the regulation, accounting practitioners should not use tools in their marketing and promotional activities that will harm their professional dignity. In addition, accounting practitioners should not make exaggerated claims about their services, qualifications, or experiences, nor should they denigrate other accounting practitioners (Republic of Turkey, Prime Ministry, General Directorate of Legislation Development and Publication, 2011c). There is no detailed information in the regulation regarding which marketing and promotional tools may damage the profession's dignity. In this case, accounting practitioners may apply a dishonorable method in their marketing and promotion activities to gain further benefits. The lack of specification regarding what is honorable and what is not may lead accounting practitioners to rely on their own consciences in their professional promotional activities and behaviors.

4. Discussions About the Mentioned Regulation and Conclusions

A written form of professional ethics principles, which requires the compliance of accounting practitioners, is now discussed. It is assumed that an accounting practitioner will accept these principles as is and fully comply with them. Therefore, an accounting practitioner must adopt these principles and put his/her personal ethical values aside if he/she wishes to maintain his/her profession. That is why professional ethics principles are expected to come first. However, an accounting practitioner may use his/her own personal values when ethical professional principles are not explicitly stated.

It was mentioned that when there are pressures against principles of impartiality and honesty, the existence of these pressures must be perceived by the accounting practitioner, and if they do exist, the intensity of these pressures must be determined; moreover, for the process of this determination, “reasonable” rules need to be present. However, what these reasonable rules are or what they could be are not covered in the regulation in any detail. Accordingly, reasonableness can be interpreted in different ways by different accounting practitioners. Some accounting practitioners may think of pressure (or pressures) in one dimension. For example, they may only investigate the origin of the pressure. The direction of the pressure may not be very important for self-employed accounting practitioners, but an accounting practitioner who works for an employer will want to determine the direction of the pressure. On the other hand, some accounting practitioners may only look at the content of the pressure that is applied against their impartiality and honesty. The physical, emotional or financial aspects of this pressure will lead to different perceptions by different accounting practitioners. The intensity of the pressure may be another dimension. Different accounting practitioners may be more or less deterred by the same intensity of pressure. The timing of the pressure is another dimension; an accounting practitioner may feel increased pressure during certain periods. Another dimension might be the frequency of incidence of the pressure.

For example, an accounting practitioner of a public organization may be expected to face more frequent pressures that threaten his/her impartiality and honesty than a self-employed accounting practitioner (public establishments in the process of privatization in Turkey in particular may tend to have this direction). In short, pressures against the honesty and impartiality of accounting practitioners depend on various dimensions and different levels of perception by different practitioners.

What is the relationship between “personal ethics” and the perception of pressures on accounting practitioners? Because practitioners are human, they will inherently have personal ethical rules. Thus, an accounting practitioner will follow his/her personal ethical values in response to pressures against his/her honesty and impartiality in the case of a lack of information about what to do in terms of professional ethical principles. Under exactly these kinds of conditions, three things can determine what an accounting practitioner will do: personal ethical rules, pressure-related perceptions and the possible relationship between these two.

Personal ethical values can be expected to come into play in the aforementioned case. If personal ethical values and the perception of pressures are considered to vary from person to person, accounting practitioners will naturally act quite differently, even under similar pressures. Even accounting practitioners who are under “exactly” the same pressures and have “exactly" the same personal ethical values may be working under different conditions or may have different personal characteristics. These differences can affect the perceptions of accounting practitioners and reveal different behaviors against these pressures.

Therefore, one of the situations that cannot be explained by the written form of professional ethical principles is pressure against accounting practitioners’ honesty and impartiality. Personal ethical principles come into play in the absence of adequate professional ethical principles, and individuals may have different responses to pressures, even under the assumption that they have the same personal ethics.

Let us assume that an accounting practitioner has determined, perceived, and reacted to pressure against his/her impartiality and honesty. The mentioned regulation states that to eliminate the pressure, a practitioner should consult a higher-level manager. If the manager’s recommendation does not yield any results, the accounting practitioner should seek advice from an independent consultant or accounting establishment. The question that the regulation has not taken into account is as follows: what will the accounting practitioner do if the multiple pieces of advice given contradict each other? Which piece of advice will be best in terms of ethical values? What will happen if all of the pieces of advice given agree well with ethical values but partially (maybe fully) contradict each other?

In such cases, the accounting practitioner would be expected to have difficulty in deciding what to do. If the ethical conflicts and pressures on honesty and impartiality continue and the advice received fail to work, the recommendation for the accounting practitioner to resign is noted in the referred regulation. However, in today's business world, this advice does not seem very realistic, especially if the accounting practitioner faces the possibility of unemployment. The conscience or, in other words, personal ethics of the practitioner raise the question about how to proceed in these cases. What to do is fully connected with a person’s ethical values, though these values alone may not be sufficient. Indeed, personal ethical values could be insufficient in resolving the dilemmas that an accounting practitioner will experience due to the advice given while facing professional pressures.

A condition for the disclosure of confidential information within the regulation is obtaining permission from the client or employer. In addition, all concerned parties are also required to be taken into account in the regulation at the stage of information disclosure. However, an important deficiency in the regulation is a lack of detailed clarification about which all of the concerned parties are. How information should be provided to which concerned parties and under what conditions this should be done is not specified. In addition, clients or employers may not want to share some of their information with some involved parties. Although this is the client’s or employer’s right, it will lead to an injustice between interested parties in terms of sharing information between interested parties. Such injustices may not fit into the personal ethical values of an accounting practitioner. Thus, the accounting practitioner may have personal ethical dilemmas regarding the information sharing and disclosure process to be fair to all involved parties and meet the demands of the customer or the employer.

Currently, there are some criticisms that have been made regarding the written code of ethics for the accounting profession in Turkey in terms of issues that are either not addressed at all or not addressed in sufficient detail. Another point to consider is the difference between the existence and application of ethics. It is not enough to have ethics available; indeed, the more important issue is the application of existing ethics. In short, this concept, which can be thought of as "ethical commitment", can occur in different forms and levels from person to person, and it may be affected by several different aspects.

These aspects include the professional situations encountered by accounting practitioners and practitioners' personalities, their perceptions of themselves and their perceptions of their professional development. Simply put, if professional ethics can not sufficiently address these kinds of cases, personal ethical values must be taken into account.

However, it is possible that different accounting practitioners have different personal ethical values, and even commitment to ethical values may differ from person to person. In this situation, it can be concluded that accounting practitioners who are expected to act in a similar manner may act completely different and thus produce different results.

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