

# Brief Discussion of Status and of Causes Analysis on Lack of Good Faith in Accountancy in China

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## Abstract

"Dood faith" is the very foundation on which we build our country, as well as we work on accountancy. The accountancy works as a barometer of economic activities and it guards "money bag" in our community. Along with improvement of market economy and economic globalization progress of market economy, the accountancy reforms constantly go up and catch more attention all around the world. Therefore, Good faith means more than before in this field.

**Keywords:** Accountancy, Good Faith, Absence

Good faith in accountancy was born when social economy has been developed to an relatively advanced status. It means accountants should show their good faith on their works by following four principles: being honest to customers, being kind, telling truth and doing good matter. Accountants must work honestly without any defraud, offer precise statistics and keep professional related information confidential.

While good faith in accountancy becoming a popular phrase at the beginning of 21th century, it relates together with lack of good faith closely. Lack of good faith in accountancy should be settled down immediately[1-7], based on the reason that good faith in accountancy is the basic condition of its existence, that is, not good faith, no accountancy.

## 1. Status of good faith absence in accountancy in China

Good faith absence in accountancy has some special background in China. At the beginning of in 1980's, accountants were only in charge of reporting fiscal information, which was responsible for the government. The whole country operated as a "big factory" at that time, in which good faith was not a concern. Everything had been planned well and hadn't been heading for market. From the end of 1980's to the beginning of 1990's, reforms on state-owned enterprises became the first-class important event in our country. Therefore, from then on we should balance the profit distribution between the nation and enterprises, and accountants are mainly responsible for make accountancy on the behalf of these enterprises. At the end of 80's, the security markets have been set up in our country and many of enterprises began to finance by listing themselves on stock markets, which lead the accountants' task to make accountancy openly and transparently. From then on, accountants work on the behalf of the public and at the same time registered accountants' primary duty are to offer social credit of accountancy information. As a result, some accountants began to realize that their credit is a kind of product that can bring commercial profit and can be exchanged to money. Some accountants lost their professional morality and lack of good faith became more and more serious in the field of accountancy.

Lack of good faith in accountancy has already become an difficult issue in accountancy field and the supervision divisions in our country from the end of 1990's. According to the statistical information displayed by 100 copies of accountancy reports selected randomly by the national financial department at the end of 1999, 81 enterprises salted assets of RMB 3.761 billion Yuan and 89 slated profits of RMB 2.747 billion. In 2000 the investigation made on accountancy information from 159 enterprises showed a surprisingly result, in which 147 enterprises reported dishonestly by raising their profits by RMB 1.848 billion Yuan and decreasing by RMB 2.475 billion Yuan, as well as 157 salted their assets by raising RMB 1.472 billion Yuan and decreasing by RMB 1.943 billion Yuan. On December 25, 2001, the national audit administration released the the inspection result of 16 accountancy firms that had the audit qualification of annual fiscal statement from the listed companies. In the 32 copies of audit statements selected randomly, 23 copies of audit statements made by 14 accountancy firms gave

very false information. There were 41 registered accountants involved and more than RMB 7 billion concerned. In 2005, the national audit administration released the RMB 290 Yuan accounted violating the rules in the fields of central administrations, 16 local government, Petrol China, Agricultural Bank of China and its branches. According to these statistics, the accountancy information has been distorted seriously, which have great effect on the reconstruction of accountancy's good faith.

Accountancy information distortion also widespreadly exists in some government sectors, especially in which responsible for national fiscal appropriation. accountancy information distortion happened in the governmental departments has very negative effect on good faith of accountancy, for the reason of which lies in government sectors losing automotive capability when they supervise the enterprises those performing the same.

## **2. Causes analysis on Lack of good faith in accountancy**

We can analyse on the status of lack of good faith in accountancy in China and figure out the causes as follows:

### *2.1 Lack of good faith in the society*

Good faith is a soul in the society, and a platform of good faith will be formed by the efforts from citizens, enterprises and government together. However, there is no this kind of platform in China, where the government can give blank note as the cash to citizens directly, which can be exchanged and hocked. As a result, the government set up a bad example and has lost the good faith. The deceptive behaviours are widespread in the He'nan province called "the country of fraud" in China. In our country, some businesses have no good faith and produces dogus medicine, counterfeit fertilizer and famous brands at our country, the phenomenon of which can be described as "as more as chicken hair". Such a community cannot take the leading role of setting up good faith. An society of good faith will arrive based on our continuous efforts.

### *2.2 Backward professionally moral education in accounting*

Moral education in accounting has been developed along with the deepening of reform and opening-up, as well as the development of socialist market economy. People's behavior is driven by avail because the reform of the economic system lead people to be economic in nature. As a result, worth and morals adjudicated standard has taken place very big change, the accountants' professional moral education also catch more attention in accountancy.

Accounting appeared under the central planning system and has experienced fast development after the reform and opening-up progress in China. In this case, overage of the attention changed how to cultivate accountants quickly in order to adapt to an economic requirement, in which the key word is "quickly". People forgot a most true sayings at this time: Making haste results in delay. In a short time fast- enlarging accountants only got professional techniques in education, during which they got almost "null" moral education. If there is no fundamental education of professional ethics cultivation for accountants, we can not get qualified staff at hundred percent. Especially amid the accounting education system in China, after theirbeing at works, nobody concerns the accountants' professional ethics education, which leads to accounting personnel incapability of working honestly, carefully obeying accountancy morals, insisting on handling affairs by law. Some of them make use of a position to embezzling to satisfy themselves; Some accounting personnels can not stand the temptation of matter, oblige for pursuing pecuniary benefit, seek individual pleasant and appear anomaly and exuviate to even sink on their moral concept.

Accounting moral education in our country being under the status of such a "inborn scarcity, lack the day after tomorrow" and the walked into into 21th century stumbly. It also went into the end of good faith imperfection in accounting. According to the above-mentioned causes, the accounting moral education has already arrived the step that has to be managed in our country.

### *2.3 Imbalance caused by serious distortion of accounting information*

Accounting is an important source of getting enterprises' information by their owners and the related investors. The quality of accounting information is relatively low in China, which results in that the operators could know about the enterprises by accounting information comparatively better than these firms' owners and investors could. The key causes are listed as follows: equity mechanism of enterprises in our country leads to accounting information distortion, the accounting rules are not carried out effectively and external supervision and audit does not perform well. What is mentioned here is the main objective causes of accounting information distortion. In some enterprises, accountants keep silence when they find that the leaders have salted or distorted accounting data even if they are at anger because of their lack of professional belief or their consideration of personal security, which results in abundant of serious distorted accounting information. In practice, some accountants make mistake in accountancy because of their lack of professional capacities, which reduce the efficient of their

work and obey their professional morals. Otherwise, the fundamental accountancy is neglected, the financial status is not supervised well, the internal management is in disorder. For example, some enterprises don't have a strict control of their assets, which leads to the differences between the account and entities.

Therefore, the treatment of accounting information distortion is an important step to reconstruct good faith in accounting.

#### *2.4 Uncertain principals in entrusted relations*

In the modern community, the social relations are mainly in form of contracts, which has been a basic requirement in all the relations, no matter economic or social, no matter physical or psychological. Otherwise, all the relations will be broken if there is no contractual links. Nowadays accounting becomes a kind of bridge establishing the contractual relations between investors and operators, market and enterprises, managers and staff. Entrusted agent is the subject of contractual relations, in which the ownership is separated from the operating rights. Here the principal is a outsider of the entrusted agent and is on the downward wind of controlling accounting information, but comparatively, the agent is insider and masters relatively more information within the company. When the stock equity is scattered, the company is on the control of the agent but not the principal. However, good faith in accounting is based on the relatively stable entrusted relation on which the entrusted accountants must work hard on the behalf of the principal honestly and provide the reliable information on accounting. If principals come from different companies and are on a flowing status, they are always indifferent to authenticity of accounting information and only care for profits from the stock shares they hold at present because they may not be the principal any more the next day. Therefore, the principal perhaps do something which could harm the next principal in the future. As stated, uncertainty of principals is a very important cause of lack of good faith in accountancy. There are many cases about lack of good faith in accounting caused by uncertain agency happened in listed companies in China.

#### *2.5 The basic cause of imperfection of enterprises system*

The majority of listed companies are transformed from state-owners enterprises. Due to the imperfect transformation and lack of effective restricted mechanism, there are some obvious issue on operation in the companies. Security firms don't have a unified standard to organize stockholders' committees, boards of director, superiors and to delimit some relations. At the same time, in the security firms that are state owned in nature or owned mainly by state owned companies, there is no representative standing for the state owned assets and no three committees, even if have, they exist in form. The supervision committees are often not responsible for supervising financial state, directors' operation, but for other political or administrative jobs. Due to the uvuum status of power balance, superior managers have right to make final decision in practice, which lead to on information transparency, irregular operation and control by the insiders and no scientific and democratic decision making within some companies. Moreover, there are two shortcoming of equity construction as follows: on one hand the major stockholders often make close control of management, even by appointing managers, which interfere with the benefit of other stockholders. On the other hand, some security holders design disperse equity structure consciously, in which each stockholder has a small share and even the so called major stockholders have less than ten percent of the total shares. It means in this kind of companies, the boards of directors, as well as stockholders' committees will have a weak control of companies' operation. Instead, the companies can be controlled by inside operators completely. Both of these two structures reduct the quality of accounting information and are the main cause of good faith imperfection in accounting in China.

As stated, imperfection of good faith in accountancy is a kind of discordant factor in fast developed economy in China, Especially in recent years, we feel the issue more serious while there appears some cases on imperfection of good faith in accountancy in transnational companies. Moreover, we can not set up a set of efficient enough credit system because of absence of specific strategies and regulations dealt with imperfection of good faith in accountancy in our country. However in recent years, we improve the researches on good faith in accounting and set up a set of related regulations by learning mature research methods from foreign countries, which has stimulated the progress of setting up the set of effective faith system that can control behaviours of fraud registration, fraud account and credit transaction.

In conclusion, good faith is the soul and vein and then the basic principles in accountancy, and it is the fundamentally professional morality to accountants. Even if accountants keep good faith and comply in law and regulations strictly, the accounting information fraud will disappear and the accounting profession will reconstruct a good image, which can get widespread trust and support and improve accountancy progressively.

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