

PROFESSIONAL ETHICS

TCOSCPA Spring Cluster

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WHAT WE WILL LEARN

- **What are ethics?**
- **Why do we need ethics?**
- **Why do we need professional codes?**
- **How can mentors and leaders impact the ethical behavior of their associates?**
- **Why is the AICPA Code of Professional Conduct important to all CPAs?**

DEFINITION - 1

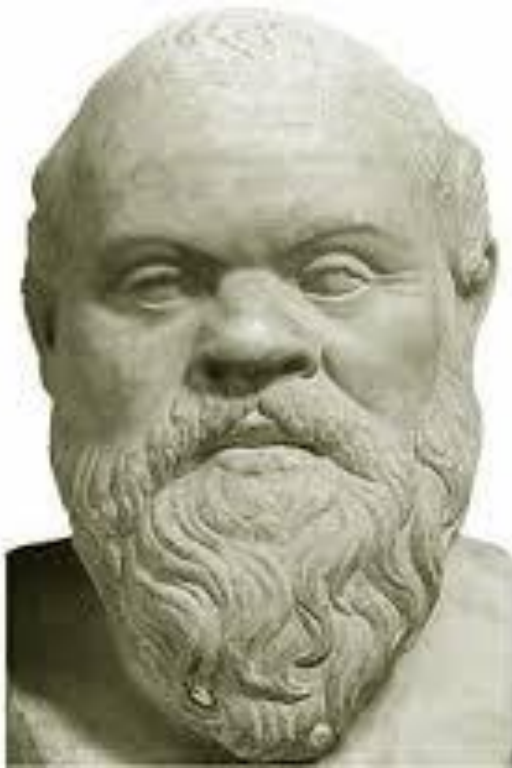
- **ETHICS**: The study of good and evil, right and wrong in human conduct.
- Principles of right conduct, rules or standards governing a person/profession defined by a source external to the individual.
- Ethics is the study of moral conduct.
- The word comes from the Greek word “ethos” meaning “a way of life.”

ARISTOTLE



Wrote the Nicomachean Ethics in the 4 century B.C. that emphasized the importance of judgment, virtue and character

SOCRATES



Socrates identifies knowledge with virtue:

- **If knowledge can be learned, so can virtue.**
- **Thus, Socrates states, virtue can be taught**

DEFINITION - 2

- **MORALS**: Refers to the actions of human beings as they are considered “right or wrong.”
- The word comes from the Latin word “moralis” meaning “the custom or way of life.”
- Morals refer to the personal code of conduct governing an individual or group.

ETHICAL QUESTIONS

- **Is it legal?** – would you be violating criminal or civil laws?
- **Is it balanced?** – is it fair to all parties in both the short and long-term?
- **Is it right?** – how do you feel in your gut, are you proud of your decision (could you defend it to your spouse or your children?)

DEFINITION – 3

- **INTEGRITY**: This relates to the word “integral” meaning “whole” or “undivided”
- It is the combination of ethics, morals and consistency of actions
- A person of integrity behaves the same whether anyone is watching or not
- Success Will Come and Go, But Integrity is Forever – Amy Rees Anderson

WHY DO WE NEED ETHICS?

- **Rationality** – reasons for actions
- **Least Harm** – choose the least evil
- **Consistency** – same action given the same circumstances
- **Impartiality** – treat individuals the same
- **Openness** – we must be open to a changing view based on changing circumstances

CORE ETHICAL VALUES

- 1. Trustworthiness**
- 2. Respect**
- 3. Responsibility**
- 4. Fairness**
- 5. Caring**
- 6. Citizenship**

(Source: Josephson Institute of Ethics)

ETHICAL MODEL

- What leads to ethical behavior? James Rest, moral psychologist, proposed a 4-component model:
 - Moral **sensitivity** to see and interpret a situation
 - Moral **judgment** to decide what's best
 - Moral **motivation** or degree of commitment to act
 - Moral **character** or courage to overcome temptation, etc.

SCHOOLS OF ETHICAL THOUGHT

- Utilitarianism: the end justifies the means
- Rights and duties: individuals have certain rights; others should not interfere with them
- Justice: people should get what they deserve
- Virtues: everyone should do what is right, moral, and virtuous

TEACHING BUSINESS ETHICS

- Reflect on models of ethical behavior in individuals and organizations
- Link personal pride and moral values to ethical behavior in the classroom and in business
- Provide ethical decision making tools
- Present case studies of actual events, decisions and results
- Help develop a personal code of ethics

ETHICAL DILEMMA

- A situation that involves a decision about appropriate behavior. Generally involves situations in which welfare of one or more individuals is affected by the results of the decision
- There is no clear black or white answer to the situation
- What is convenient, what will win?

ETHICAL DILEMMA

1. Identify the problem and the stakeholders
2. Identify possible courses of action
3. Identify any constraints relating to the decision
4. Analyze the likely effects of the possible courses of action – who benefits and who gets hurt by the decision
5. Select the best course of action
6. Follow through and follow up.

UNETHICAL BEHAVIOR

- Overly aggressive financial objectives
- Abusive and intimidating behavior (bullying)
- Conflicts of interest
- Poor communications
- Strained business relationships
- Poor teamwork among employees
- Highly competitive work environment

STANDARDS

- Standards should guide our decision making
 - Is it subjective or objective?
 - Is it negotiable or constant?
 - Is it recognized or unrecognized?
- We must define our own standards based on our life influences and determine how we will honor those standards

STANDARDS

- We must align our behavior and business practices with our personal defined standards
- “There’s harmony and peace to be found in following a moral compass that points in the same direction regardless of fashion or trend.”
– Ted Koppel, journalist

ETHICAL ISSUES

- Human beings are not ethical by nature – they generally favor preservation of self.
- It is difficult, if not impossible, for humans to be ethical all of the time in all facets of their lives.
- Ethical issues are not black and white, they have many shades of gray.
- Financial influences and competition have swayed many CPAs and other professionals

BASIC ETHICAL PREMISE

- On any occasion, one ought to perform that act which, on reasonable reflection, promises to maximize benefits for the moral community and distribute them fairly (who defines what is “fair” and whose “moral values”?)
- Focus is on the personal responsibility to attend to the character and consequences of his/her individual actions based on their personal moral code

ETHICAL CONCEPTS

- **Metaethics**: where basic ethical principles come from – foundations of morality
- **Normative ethics**: moral standards that regulate right and wrong behavior
- **Applied ethics**: methods of dealing with specific controversial issues - dilemmas
- **Professional ethics**: codes of conduct adopted by a professional group – like CPAs

CHARACTERISTICS OF A PROFESSIONAL

- Specialized knowledge base
- Complex skills
- Formal education process
- Standards of entry
- Autonomy of practice
- Recognition of public responsibility
- Adherence to a code of ethical behavior

IMPORTANCE OF PROFESSIONAL ETHICS

- Professionals occupy a strategic position in modern society. They:
 - shape our ideas
 - make decisions that affect large numbers of people without their consent or knowledge
 - services are highly valued
 - service the major economic, political, and cultural institutions of industrial society

PROFESSIONAL CODES

These codes are designed to:

- Protect the general public
- Protect other members of the professional group
- Set minimum standards of service to clients
- Provide clear guidance for members
- Establish guidelines for legal decisions in court actions involving a professional



ACCOUNTING ETHICS CODES

American Institute of CPAs

- Principles of Professional Conduct
- Rules: Applicability and Definitions
- Independence, Integrity and Objectivity
- General Standards
- Accounting Principles
- Responsibilities to Clients
- Responsibilities to Colleagues
- Other Responsibilities and Practices



ACCOUNTING ETHICS CODES

Association of Certified Fraud Examiners

- Commitment to professionalism
- Avoid illegal and unethical conduct, conflicts of interest
- Exhibit the highest levels of **integrity**
- Comply with lawful court orders
- No expressed opinion on guilt or innocence
- Keep information confidential
- Reveal all matters which could influence outcome
- Strive to increase competence and effectiveness

ACCOUNTING ETHICS CODES

Institute of Management Accountants

- Principles
 - Honesty and fairness
 - Objectivity and responsibility
- Standards
 - Competence and confidentiality
 - Integrity and credibility

CODES of PROFESSIONAL CONDUCT

- **AICPA**
 - Voluntary Professional Organization
- **State Boards of Accountancy & State Societies of CPAs**
 - Licensing Bodies & Professional Organizations
 - Investigates allegations that a CPA violated the rules
 - Issues sanctions
 - Suspension
 - Revocation



RULES, CODES & DISCRETION

- Overemphasis on rules in professional codes sometimes lead the practitioner to assume all actions that are not prohibited are permitted
- Society should regulate behavior only to the degree necessary to provide essential goods and prevent major harm

LEVEL OF TRUST - 1

- The Organization for Economic Cooperation and Development surveyed 30 industrialized countries with the question, "Generally speaking would you say that most people can be trusted or that you need to be very careful in dealing with people?"
- The O.E.C.D.'s data also shows that higher levels of trust are strongly associated with lower levels of income inequality.

LEVEL OF TRUST - 2

- Denmark 89% Trusting
- Switzerland 74% Trusting
- United Kingdom 69% Trusting
- France 56% Trusting
- **United States 49% Trusting**
- Greece 40% Trusting
- Chile 13% Trusting

CODE OF PROFESSIONAL CONDUCT

Preamble –

Membership in the American Institute of Certified Public Accountants is voluntary. By accepting membership, a certified public accountant assumes an obligation of self-discipline above and beyond the requirements of laws and regulations.



CONDUCT

- Within the CPA profession our professional conduct is established by the AICPA Code of Professional Conduct and Bylaws
- The public and the business community rely on CPAs and their obligation to act for the common good
- The individual cannot take refuge from moral responsibility behind rules no matter how well devised – loopholes can be traps



THE AICPA CODE of PROFESSIONAL CONDUCT

Provides a framework for ethical behavior of CPAs.

Consists of two parts:

- 1) Principles - provide overall framework
- 2) Rules – govern performance of professional service
 - a) Interpretations
 - b) Ethics Rulings



AICPA CODE – PRINCIPLES

- Preamble
- Article I – Responsibilities
- Article II – The Public Interest
- Article III – Integrity
- Article IV – Objectivity and Independence
- Article V – Due Care
- Article VI – Scope and Nature of Services



AICPA CODE - RULES

- **101 Independence**
- **102 Integrity and Objectivity**
- **201 General Standards**
- **202 Compliance with Standards**
- **203 Accounting Standards**
- **301 Confidential Client Information**
- **302 Contingent Fees**
- **501 Acts Discreditable**
- **502 Advertising and Other Forms of Solicitation**
- **503 Commissions and Referral Fees**
- **504 (Deleted)**
- **505 Form of Organization and Name**



RULE 102 – INTEGRITY and OBJECTIVITY

- In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free from conflict of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.
- This rule impacts all CPAs



RULE 102 – INTEGRITY and OBJECTIVITY

- In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free from conflict of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.
- This is another important rule that impacts all CPAs – public practice, industry and government



RULE 201 – GENERAL STANDARDS

- Professional Competence
- Due Professional Care
- Planning and Supervision
- Sufficient Relevant Data
- We are expected to know when we are in over our heads or outside our comfort zone so we can bring in outside help



RULE 202 – COMPLIANCE WITH STANDARDS

A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council.



RULE 202 STANDARDS

Technical Body

- Auditing Standards Board (ASB)
- Management Consulting Services Executive Committee (MCSEC)
- Accounting and Review Services Committee (ARSC)
- ASB, MCSEC, and ARSC
- FASB, GASB and FASAB

Standards

- Statements on Auditing Standards
- Statements on Standards for Consulting Services
- Statements on Standards for Accounting and Review Services
- Statements on Standards for Attestation Engagements
- FASB, GASB and FASAB Statements and related Interpretations



RULE 301 – CONFIDENTIAL CLIENT INFORMATION

CPAs should maintain confidentiality of sensitive client information.

Rule 301 prohibits the direct reporting of illegal acts by clients to outside parties unless there is a legal duty to do so

- CPA-client relationship is *confidential* but not *privileged* under common law.



AICPA ETHICS CODIFICATION

- The Code of Professional Conduct started as eight rules and was adopted 04/09/1917
- The Rules were added to the Code in 1973
- The reformatted Code exposure draft was released for comments on 04/15/2013
- Comments were accepted until 08/15/2013
- The reformatted ethics Code is intuitively organized for easier reference (online)



AICPA ETHICS CODIFICATION

- **Part 1** – contains rules of conduct and interpretations applicable to members in public practice
- **Part 2** – contains rules of conduct and interpretations applicable to members in business and industry
- **Part 3** – contains rules of conduct and interpretations applicable to retired members and those between jobs



AICPA ETHICS CODIFICATION

- Each part of the reformatted Code is further broken down by topic, subtopic and section
- Ethics rulings have been redrafted as interpretations under the appropriate topic
- Non-authoritative guidance is also included
- The AICPA has issued a Guide for Complying With Rules 102-505 dated 11/10/2008 that describes a threat and safeguard method of compliance with the Code
- Better aligned with IESBA code of ethics



AICPA ETHICS DIVISION STRUCTURE

Professional Ethics Division staffs the following committees:

Professional Ethics Executive Committee

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graph TD; A[Professional Ethics Executive Committee] --- B[IND/BHS Standards Subcommittee]; A --- C[TNS Standards Subcommittee]
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IND/BHS Standards Subcommittee

TNS Standards Subcommittee

**The Professional Ethics Division consists of
19 Technical Staff and 5 Support Staff**



AICPA DISCIPLINARY ACTIVITY

CALENDAR YEARS	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total cases at beginning of year	982	912	734	827	819
Cases opened during the year	703	483	708	437	768
Cases completed during the year (below)	<u>-583</u>	<u>-413</u>	<u>-530</u>	<u>-530</u>	<u>-760</u>
Total cases at end of year	<u>1102</u>	<u>982</u>	<u>912</u>	<u>734</u>	<u>827</u>
<u>Summary of completed cases:</u>					
Expelled or suspended	162	75	113	90	88
Admonished	33	25	66	76	161
Corrective action taken	149	120	113	167	244
No violation/dismissed	43	43	81	69	36
No further action	152	100	100	85	182
Subsequent monitoring completed	30	33	32	30	32
Other	<u>14</u>	<u>17</u>	<u>25</u>	<u>13</u>	<u>17</u>
Cases completed during the year	<u>583</u>	<u>413</u>	<u>530</u>	<u>530</u>	<u>760</u>



AICPA PROFESSIONAL ETHICS DIVISION CONTACT INFORMATION

- **Ethics Hotline:**
(888) 777-7077 (Option 5 then option 2)
- **Ethics email:**
ethics@aicpa.org
- **Ethics Division Web site:**
<http://www.aicpa.org/members/div/ethics/index.htm>
 - **Current Developments**
 - **Code of Conduct**
 - **Plain English Guide to Independence**
 - **Ethics Decision Tree for Members in Business**
 - **Other Resources**



STATEMENTS on STANDARDS for TAX SERVICES 1 – 7

- **Effective January 1, 2010**
- **Applicable to Members who provide tax services**
- **Complements other standards of tax practice**
- **Recognizes Member responsibilities**



OSCPA ETHICS REPORTING

- **Consumers (clients of CPAs) can report matters for consideration by the Professional Ethics Committee on the OSCPA website, by telephone or by mail**
- **The OSCPA staff reviews the reported issues and communicates the ones requiring resolutions to the Committee by email or at its periodic meetings**

OSCPA ETHICS PROCEDURES

- **The Professional Ethics Committee considers the reported issues and takes appropriate action**
- **Many cases are referred to the AICPA for investigation under the JEEP procedures**
- **Action on some cases in litigation may be deferred until the legal issue is resolved**
- **Members may request guidance on issues**

OKLAHOMA ACCOUNTANCY BOARD

"Other professional standards" means those standards as defined by Statements on Management Advisory Services, Statements on Responsibilities in Tax Practice, Statements on Standards for Accounting and Review Services and Statements of Quality Control Standards, where applicable, issued by the American Institute of Certified Public Accountants.

The SEC and PCAOB rules may also be considered.

OKLAHOMA ACCOUNTANCY BOARD

- All CPAs should be familiar with the OAB CPE requirements to protect their certificates
- If you practice any type of accounting work you are subject to the CPE requirements and must report your information to the OAB each year
- You are aware and should help inform your associates of this important requirement

WHO RULES ACCOUNTING?

- **SEC**
- **FASB**
- **PCAOB**
- **IASB**
- **BIG FOUR**
- **AICPA**
- **State Boards of Accountancy**
- **State CPA Societies**

PCAOB ACTIVITY

- Created by Sarbanes-Oxley in 2002
- Oversee audits of public companies and brokers and dealers in securities
- Performed over 2,000 inspections
- Inspections conducted in over 40 countries
- Released 16 new auditing standards
- Issued 56 disciplinary orders including sanctions against 42 firms and 59 individuals

CHOICES

- **A good name is more desirable than great riches; to be esteemed is better than silver or gold. — Proverbs 22:1**
- Most firms, entities, organizations base compensation on productivity or profit and not on ethical behavior
- We sometimes have to sacrifice our desires to meet our standards of ethics and morals

WHAT WENT WRONG?

- Thomas Flanagan, ex-Deloitte partner, pleads guilty to insider trading – 08/08/2012
- Scott London, Ex-KPMG partner, hit with insider trading charges – 04/11/2013
- James Gansman, Ex-Ernst & Young partner convicted on 6 counts, got 1 year prison – 09/09/2011
- Ex-PwC employees settle insider trading charges – 01/16/2008

NBES 2013 FINDINGS

HIGH RETALIATION RATE: *A Cause for Concern*



More than **1 in 5** U.S. workers

[21%] who **reported misconduct** said they **experienced 6.2 million** retaliation. That is about **Americans.**¹¹

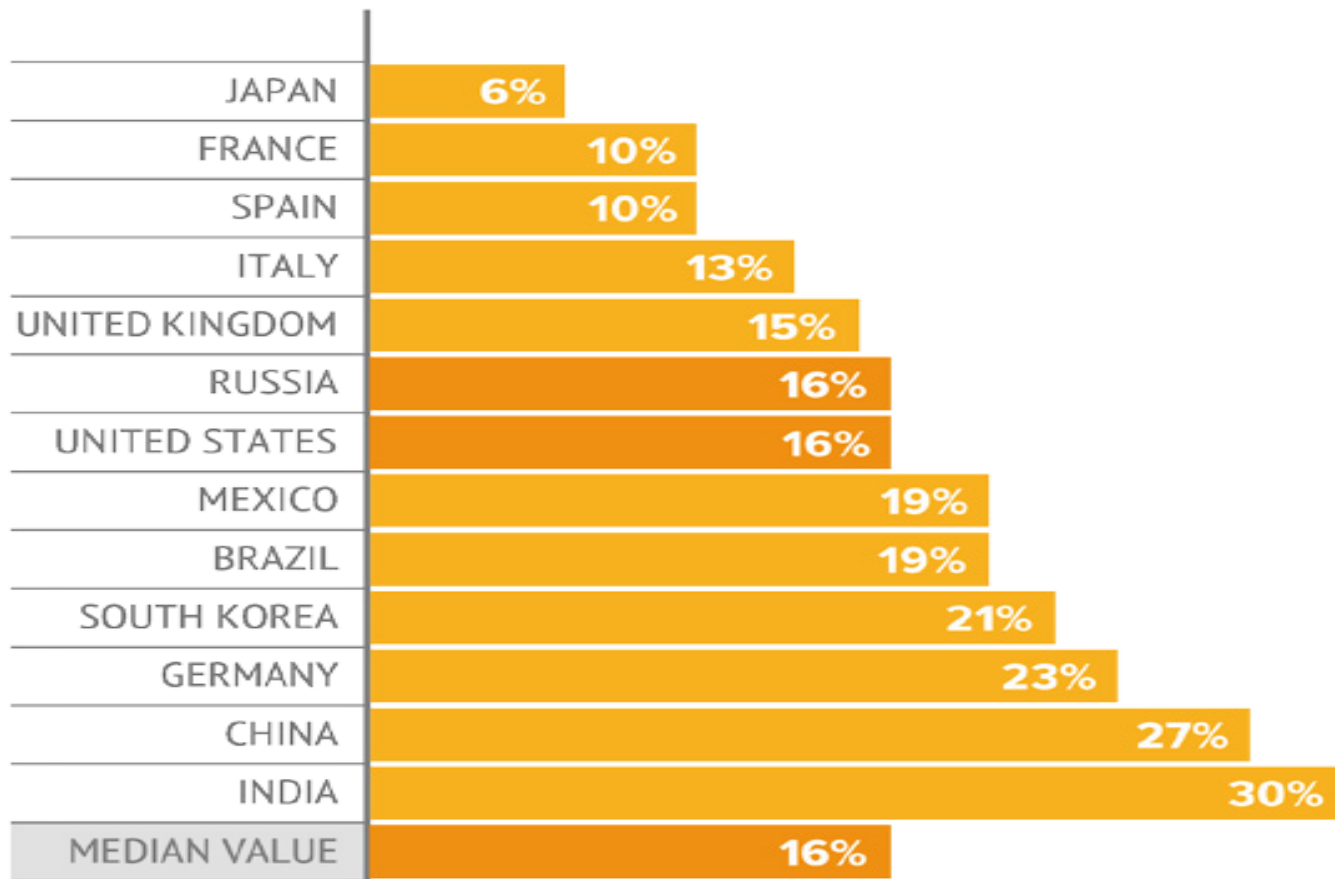
GLOBAL BUSINESS ETHICS STUDY

2016 RATES OF ETHICS ENVIRONMENT – ALL COUNTRIES STUDIED



GLOBAL BUSINESS ETHICS STUDY

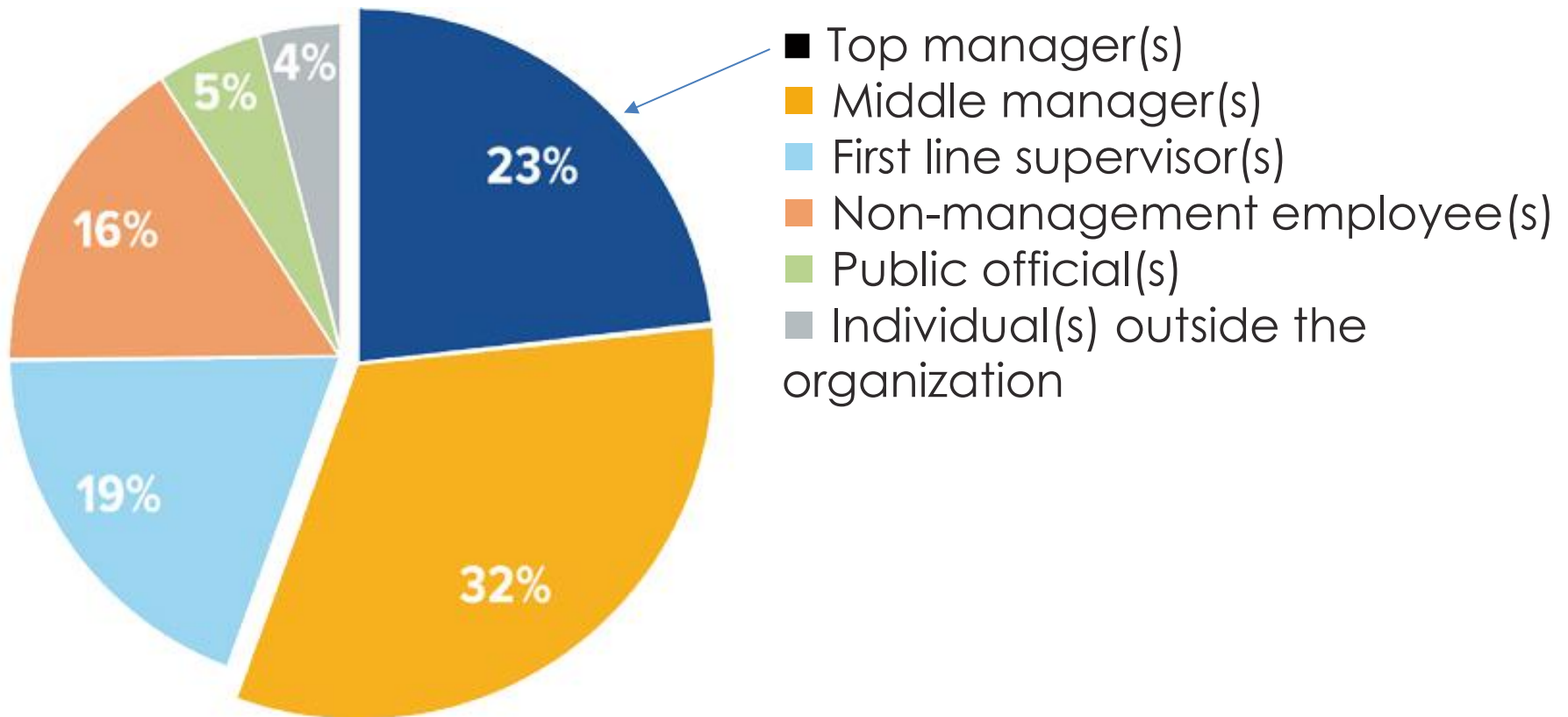
2016 RATES OF BRIBERY AND CORRUPTION RELATED MISCONDUCT



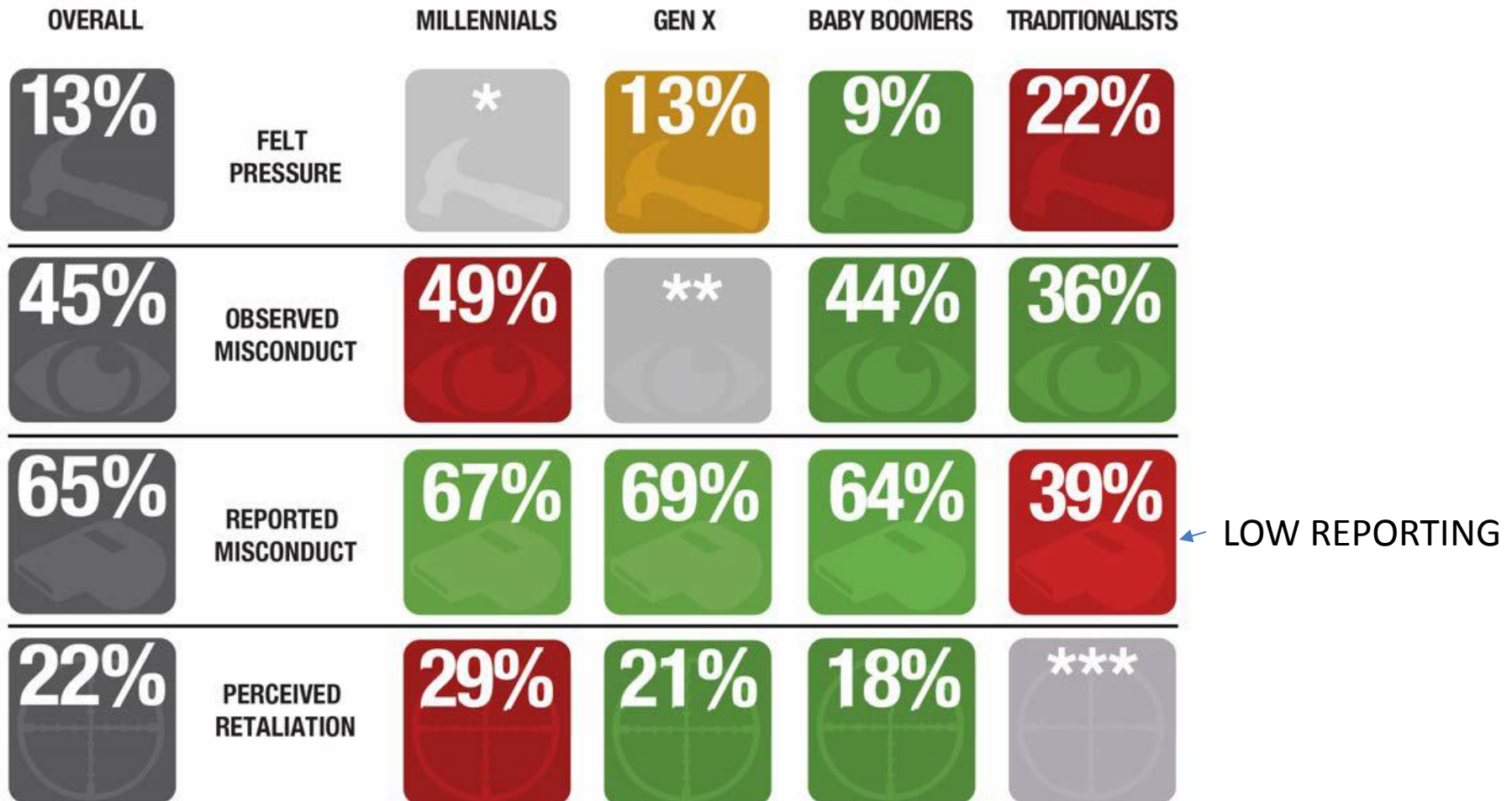
GLOBAL BUSINESS ETHICS STUDY

STUDY

BRIBERY INVOLVEMENT



NBES 2011 GENERATIONAL



CORPORATE ETHICS

- When preparing a Code of Conduct:
- Express terms as values, beliefs, expectations
- Use common language and be concise
- Consider your reader's level of comprehension
- Use active voice and give examples when appropriate
- Include electronic/cyber ethics and social media elements

TEACHING ETHICS

- Behaving ethically is learned and we develop our moral compass from our family, education and experience
- Many colleges & universities are increasing their focus on ethics training
- Schools are including ethics elements in their general business and accounting courses
- Some states have increased the ethics CPE requirements for CPAs

AND IN THE END

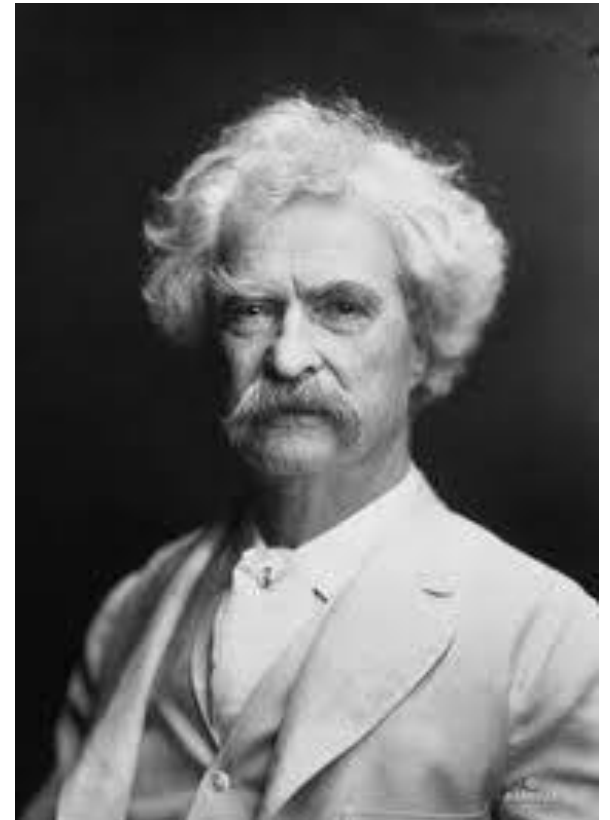
- A CPA is sometimes faced with some difficult decisions that are in conflict with their ethical and moral standards
- You may have to consult legal counsel about your personal exposure to liability
- You may have to resign your position or withdraw from a client engagement

MARK TWAIN'S TRUTH

When in doubt, tell the truth.

**Always do right – This will
gratify some and astonish
the rest**

**If you tell the truth, you don't
have to remember anything**



REFERENCE SOURCES

- www.ethics.org
- www.aicpa.org
- www.cfo.com
- www.financialexecutives.org
- www.acfe.com
- www.imanet.org
- www.oscpa.com

THANK YOU

Thank you for the opportunity to speak to you today about a topic that is very high in the minds of CPAs in their daily work

We hope that we can always think clearly and form the best possible conclusions to assist our clients or our employers

Our reputations and the future of the profession are worth our efforts