ETHICS – What I Have Learned in 50 Years as a CPA

It actually started before I became a CPA

James Small, CPA, MBA, CGMA

My Early Years

- My family had struggles and moved several times due to my father’s alcohol problems leading to some of his job changes
- My mother was a rock as was her mother who took care of me in my early years while my mother slept (she was an RN working the 11 pm to 7 am shift)
- I had a great older sister and brother who had positive values and helped influence me
- I participated in church and cub scouts but was not talented in sports
- I tested well in school and developed good study habits

My Middle Years

- I phased through a rebel stage in junior high and high school but kept my studies up
- I didn’t plan to go to college so worked for a year and a half after high school as a professional auto mechanic on a strictly commission-based compensation system (hard work pays better)
- I quickly learned to take full responsibility for my successes and failures (part of my ethical experiences)
- I had matured and was convinced to go to college by a co-worker
- My mechanic skills paid my way through college and grad school

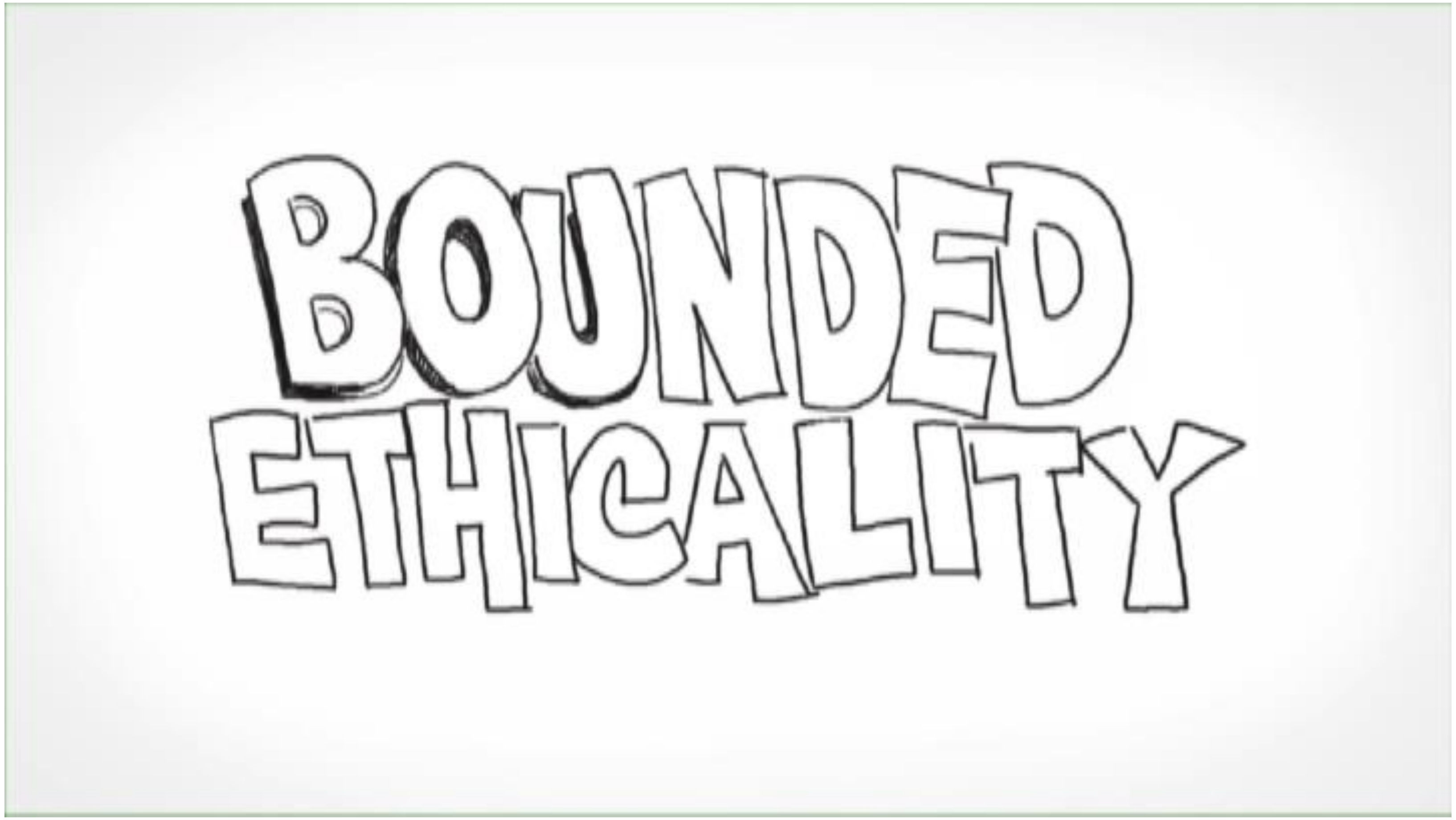
ETHICAL DECISION MAKING Langenderfer & Rockness

1. Identify the facts
2. Identify the ethical issues and the stakeholders
3. Define the norms, principles and values of the situation
4. Identify the alternative courses of action
5. Decide the best course of action consistent with item 3
6. Evaluate the consequences of each possible course of action
7. Consider discussing the alternatives with a trusted advisor
8. Reach a decision and take the appropriate action

ETHICS UNWRAPPED

- The video clips that follow are extracted from study material provided by The University of Texas at Austin 2012 Collection
- The videos are available online and have additional topics added periodically

ETHICAL DECISION MAKING

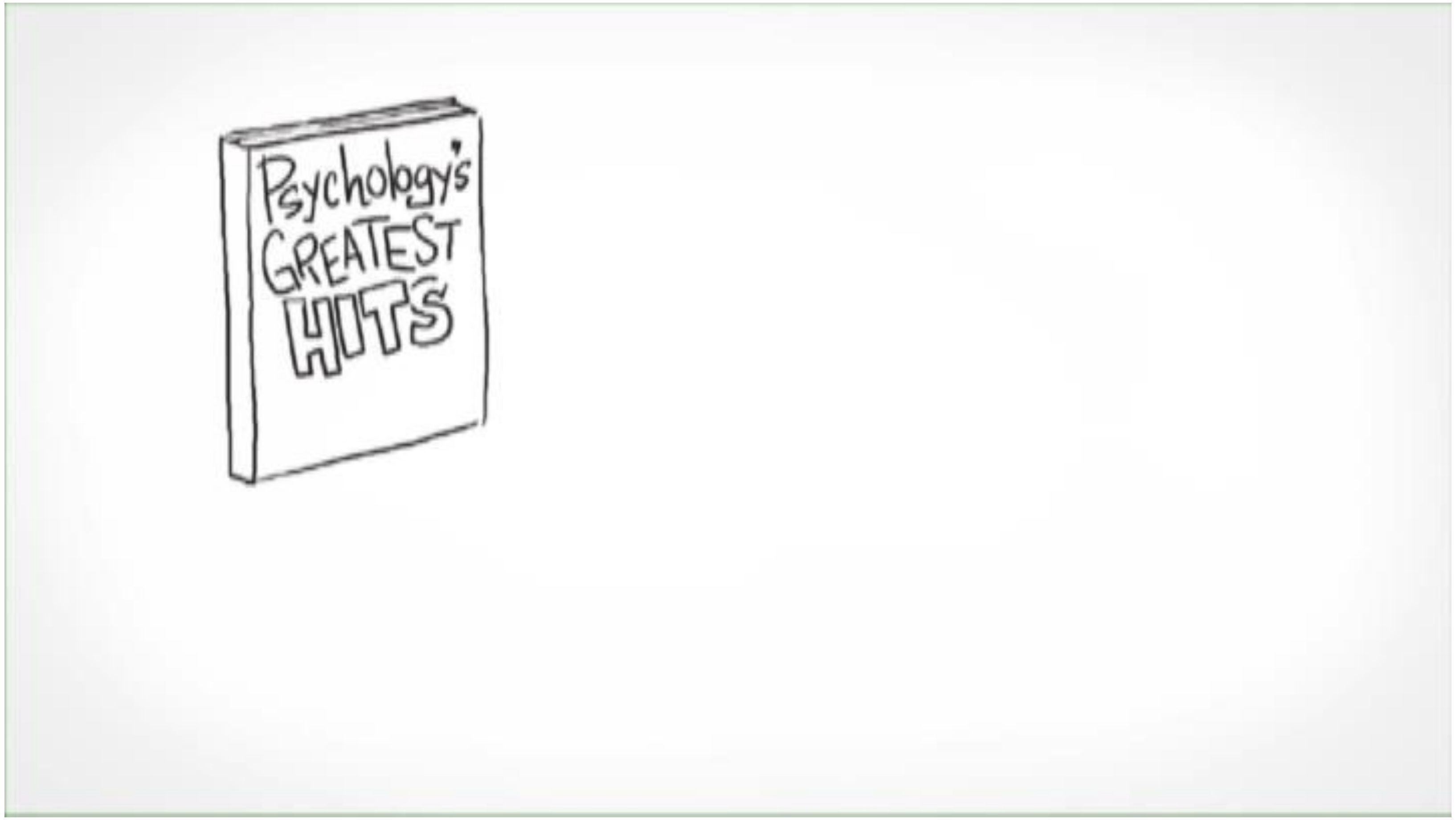


MORAL DEVELOPMENT James Rest

1. Moral Recognition – sensitivity to ethical issues
2. Moral Judgement – problem solving skills
3. Moral Motivation – intent to make moral choices
4. Moral Character – carrying out the moral choice with ethical action

Moral – a lesson concerning what is right, prudent and often derived from a story or experience

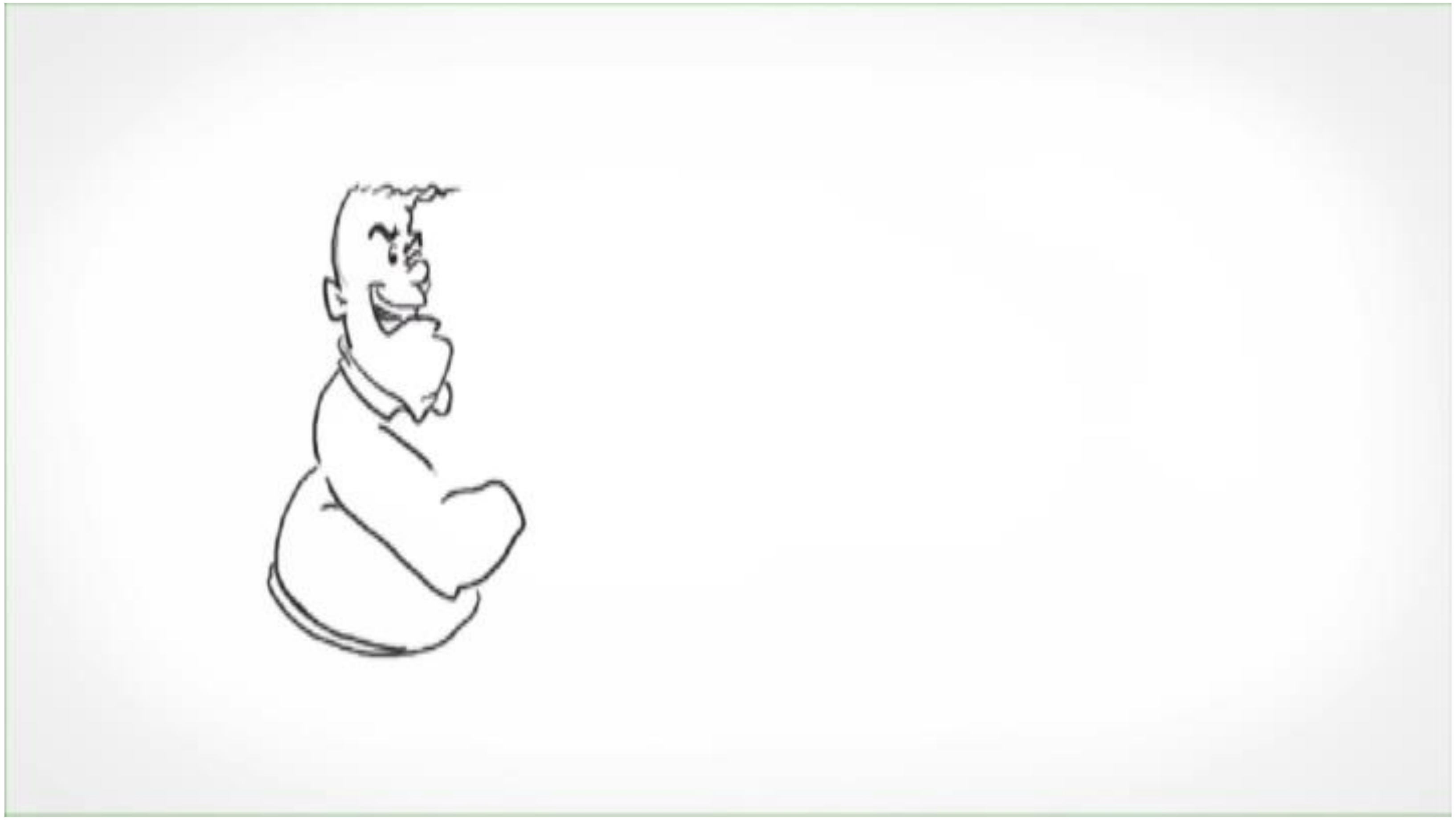
MAINTAINING MORAL VALUES



TEACHING ETHICS

- The Uniform Accountancy Act (UAA) serves as a guideline for state boards of accountancy
- The National Association of State Boards of Accountancy establishes UAA standards and calls for:
- *[An ethics] program of learning that provides students with a framework of ethical reasoning, professional values, and attitudes for expressing professional skepticism and other behavior that is in the best interest of the public and the profession. At a minimum, an ethics program should provide a foundation for ethical reasoning and the core values of integrity, objectivity, and independence.*

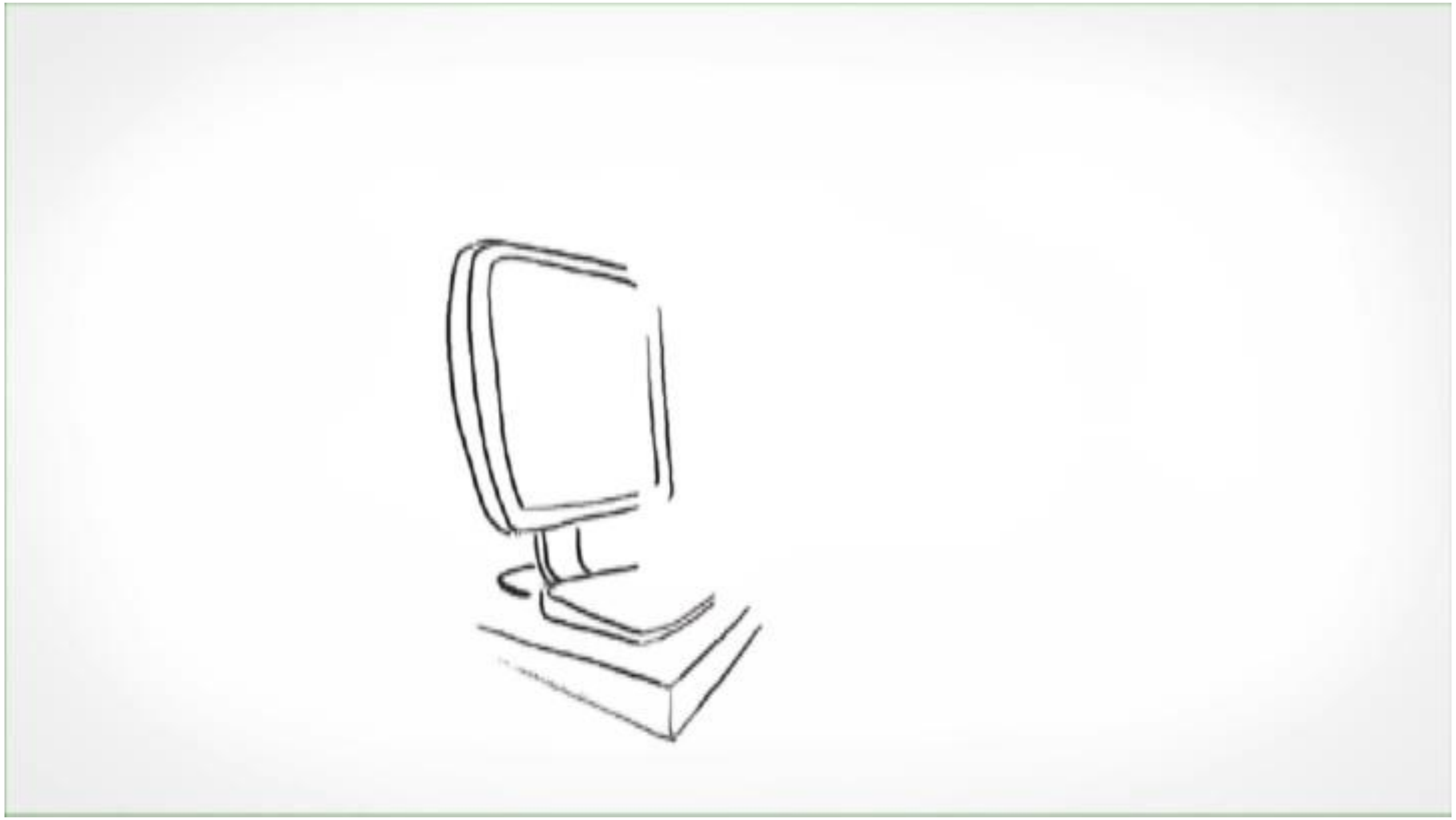
PART OF THE TEAM



PART OF THE TEAM

- Often times we are expected to “go along with the crowd” in our personal lives and business situations
- This is considered a “a shield” and by being one of many we can escape blame “everyone else was doing it
- The employees at WorldCom and Enron were pushed to make bogus entries in the financial statements and supporting records and were embarrassed (and sometimes prosecuted) when their activities were made public

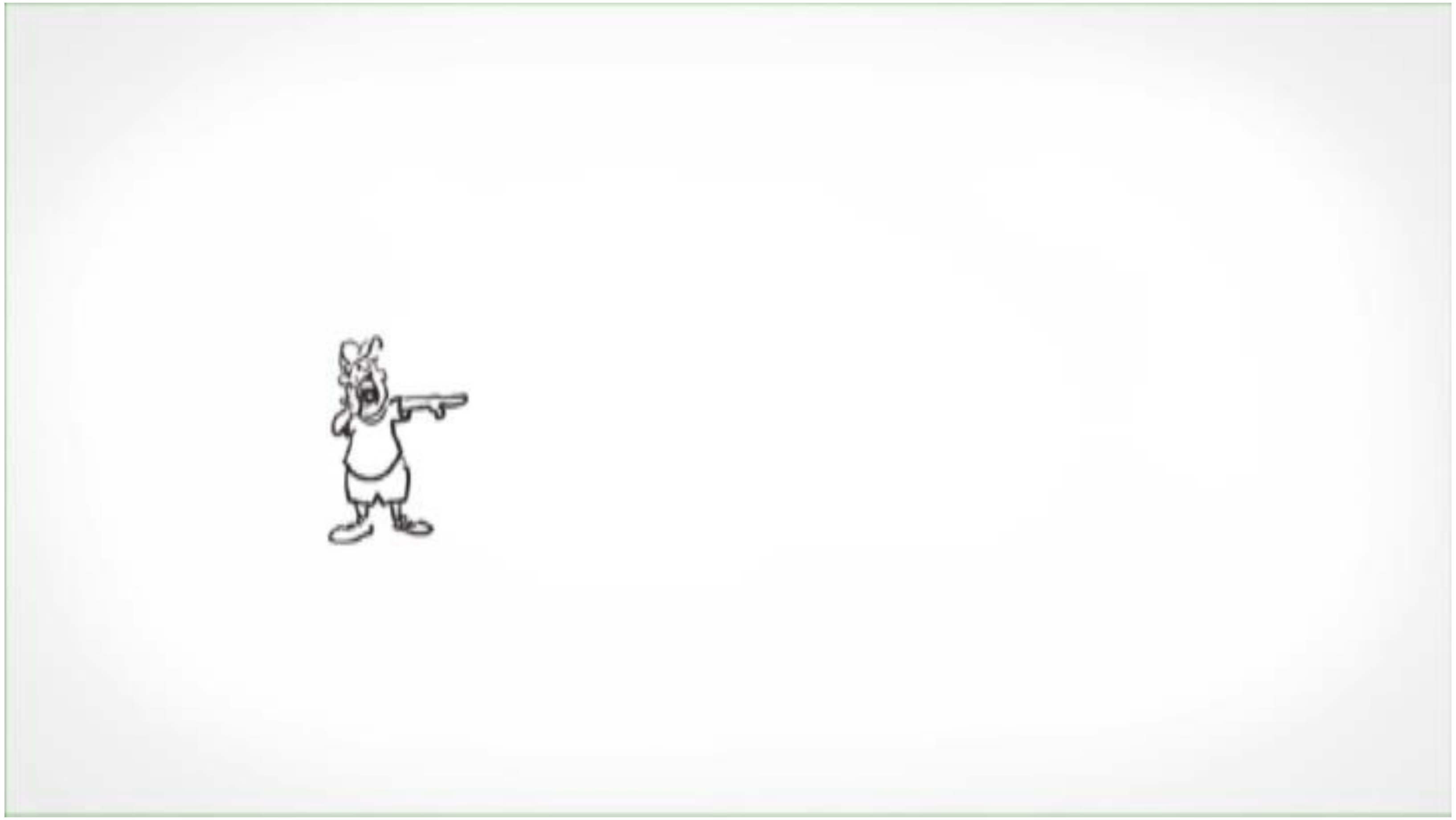
PART OF THE TEAM



TEACHING ETHICS Michael Shaub

- Shaub points out that nowhere in an accounting curriculum are students taught how to develop the moral courage necessary to follow through ethical decisions with ethical action.
- An accounting ethics course ought to be designed not just to teach moral reasoning, but also to maximize moral behavior, because people are judged by their behaviors, not their reasoning. Consistent moral behavior in challenging situations is only possible if processes are put in place to enable moral courage in the presence of duty. The course is meant to prepare people for a profession, not just a job, and a duty to others (or to the public) to prevent harm is implicit in any field as a profession. This duty requires both competence and integrity.

OVERCONFIDENCE



OVERCONFIDENCE or IGNORANCE?

- Many large financial statement frauds are perpetrated by a collusion between the CEO and the CFO
- Lower level employees would generally not question their behavior due to fear of retaliation – demotion or loss of their job
- Financial statement frauds median loss is $593,000 per the 2022 ACFE report to the nation (mostly perpetrated by high level executives)
- Owner/Executives committed only 23% of occupational frauds but caused the largest losses - $337,000 per the ACFE
- Per the ACFE, 42% of occupational frauds are detected from tips, only 4% from external audit

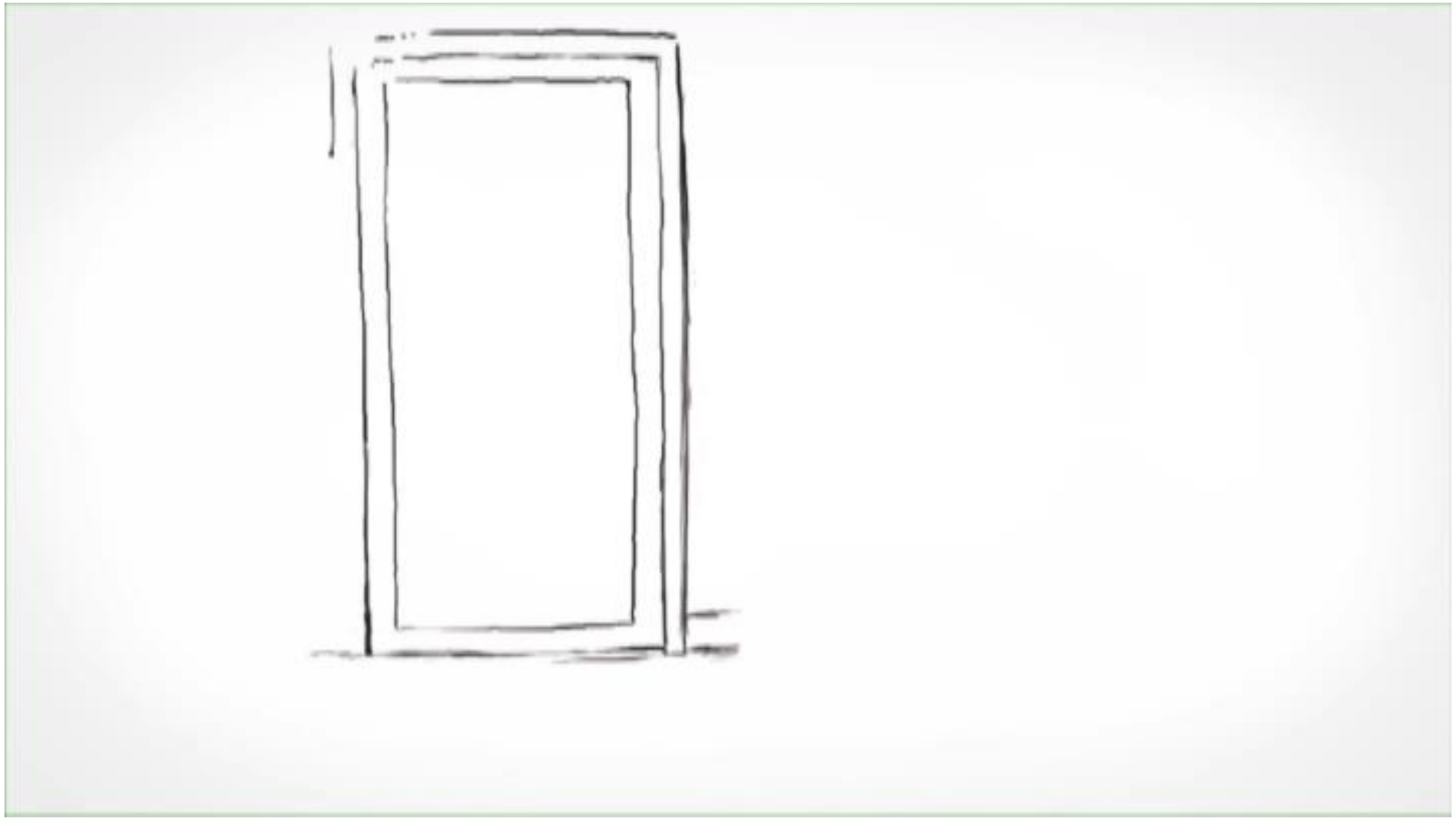
CONFLICTS OF INTEREST - 1

CONFLICTS OF INTEREST - 2

CONFLICTS OF INTEREST - 3

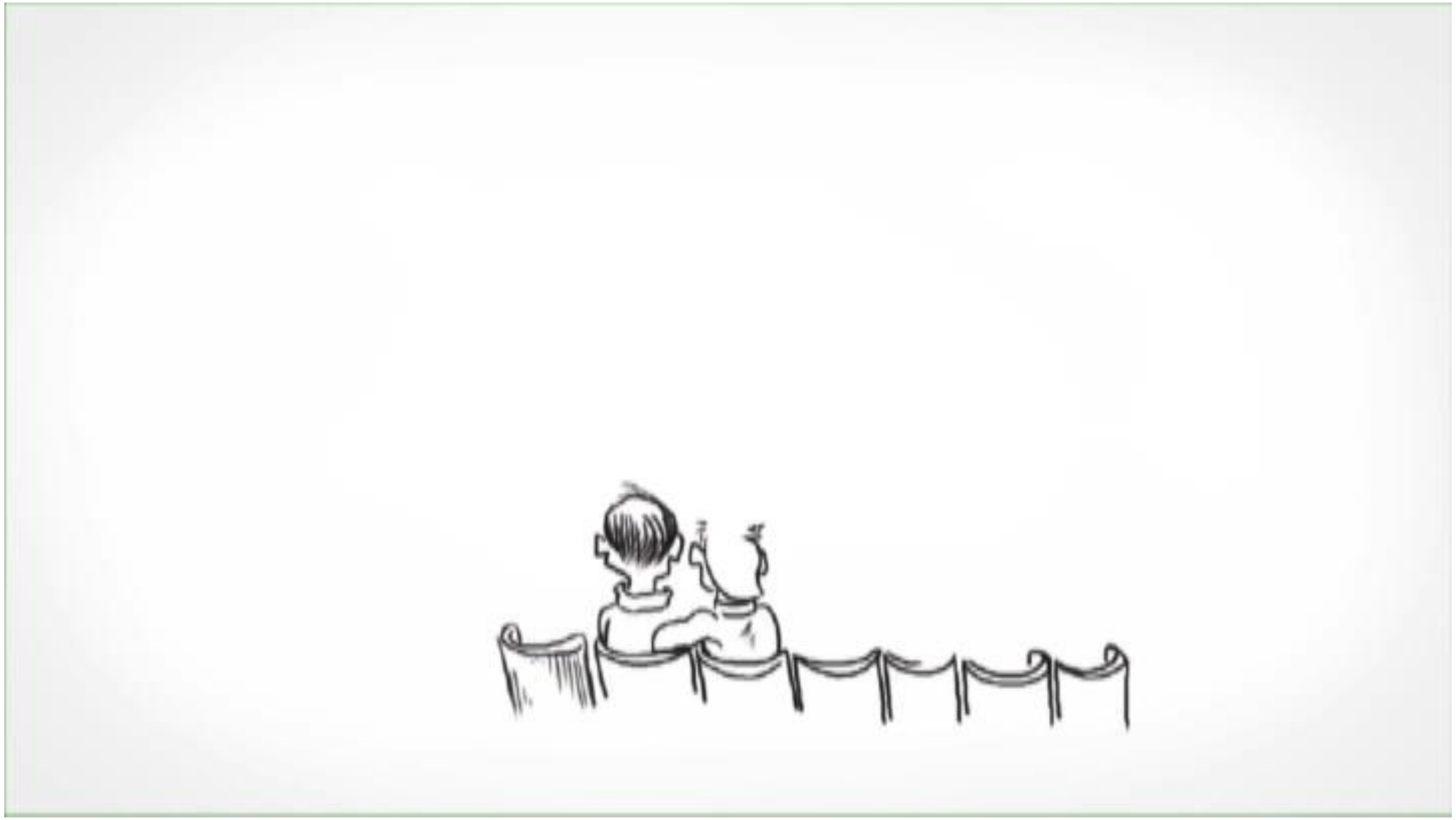
INDEPENDENCE RULES & CONFLICTS

MITIGATING CONFLICTS OF INTEREST

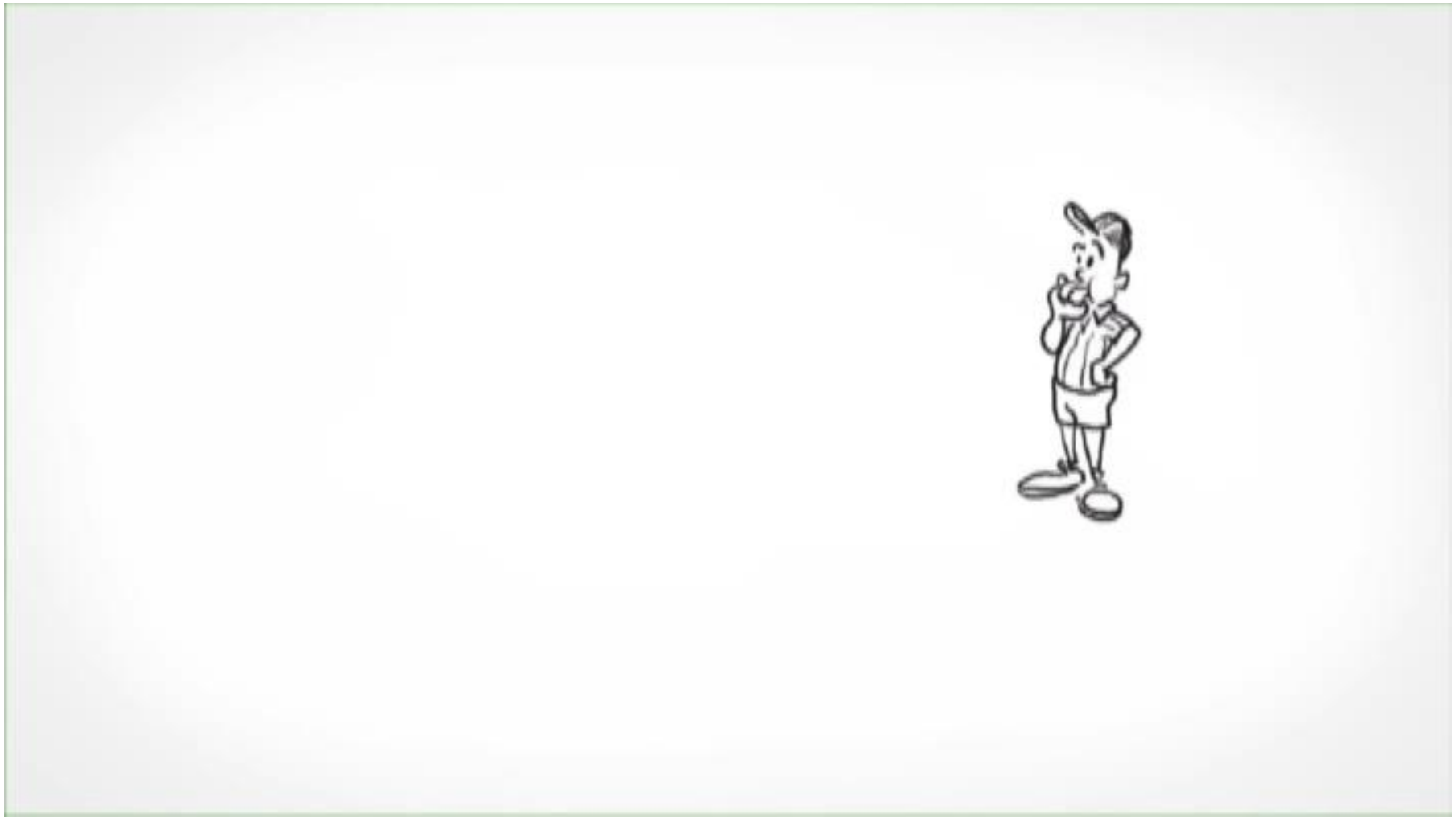


CONFORMITY BIAS – BE LIKE THE OTHERS

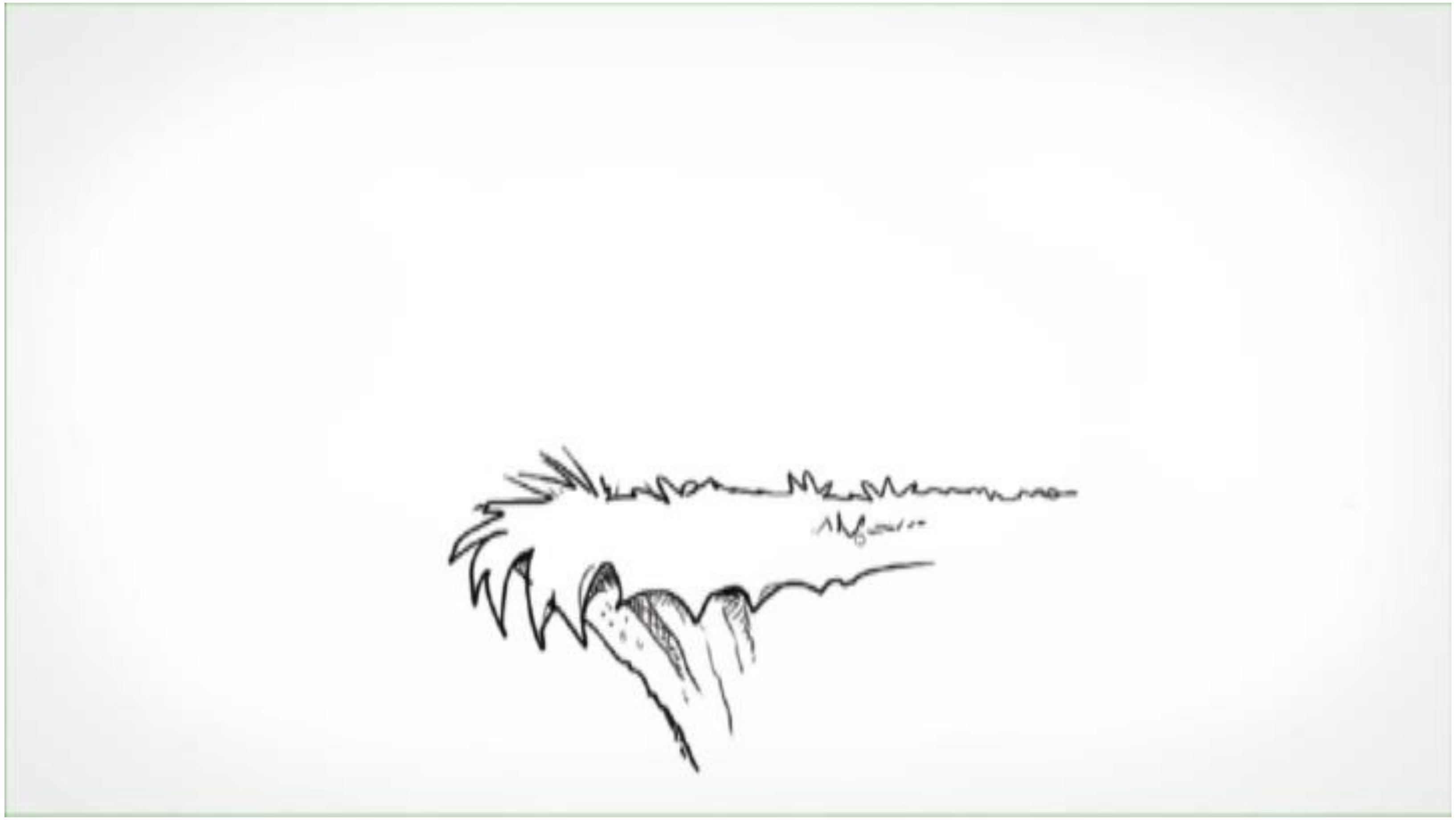
VICTIMS OF INFLUENCE?



TEAM PLAYER? or GROUP THINK?

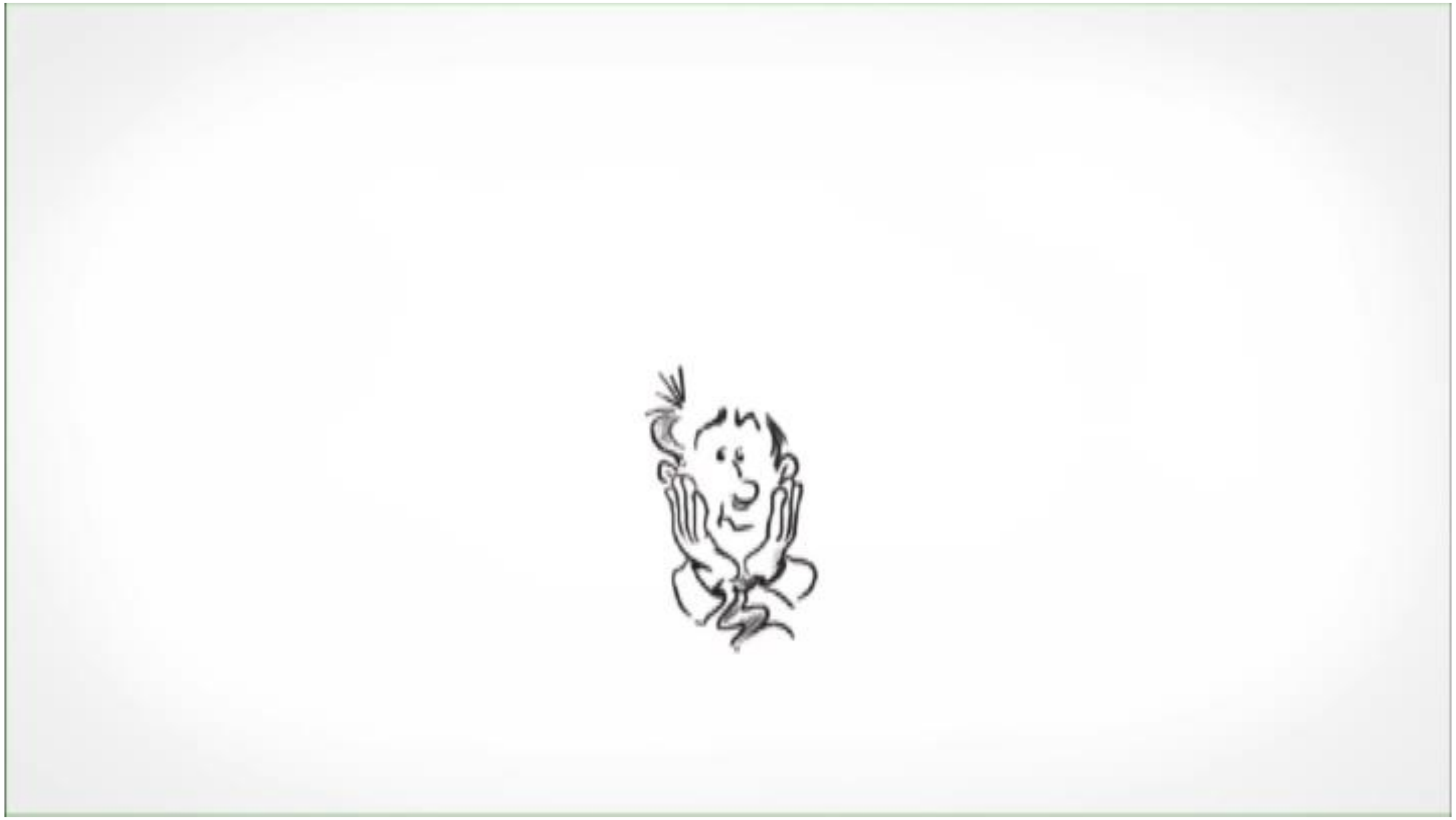


BE TRUE TO YOURSELF

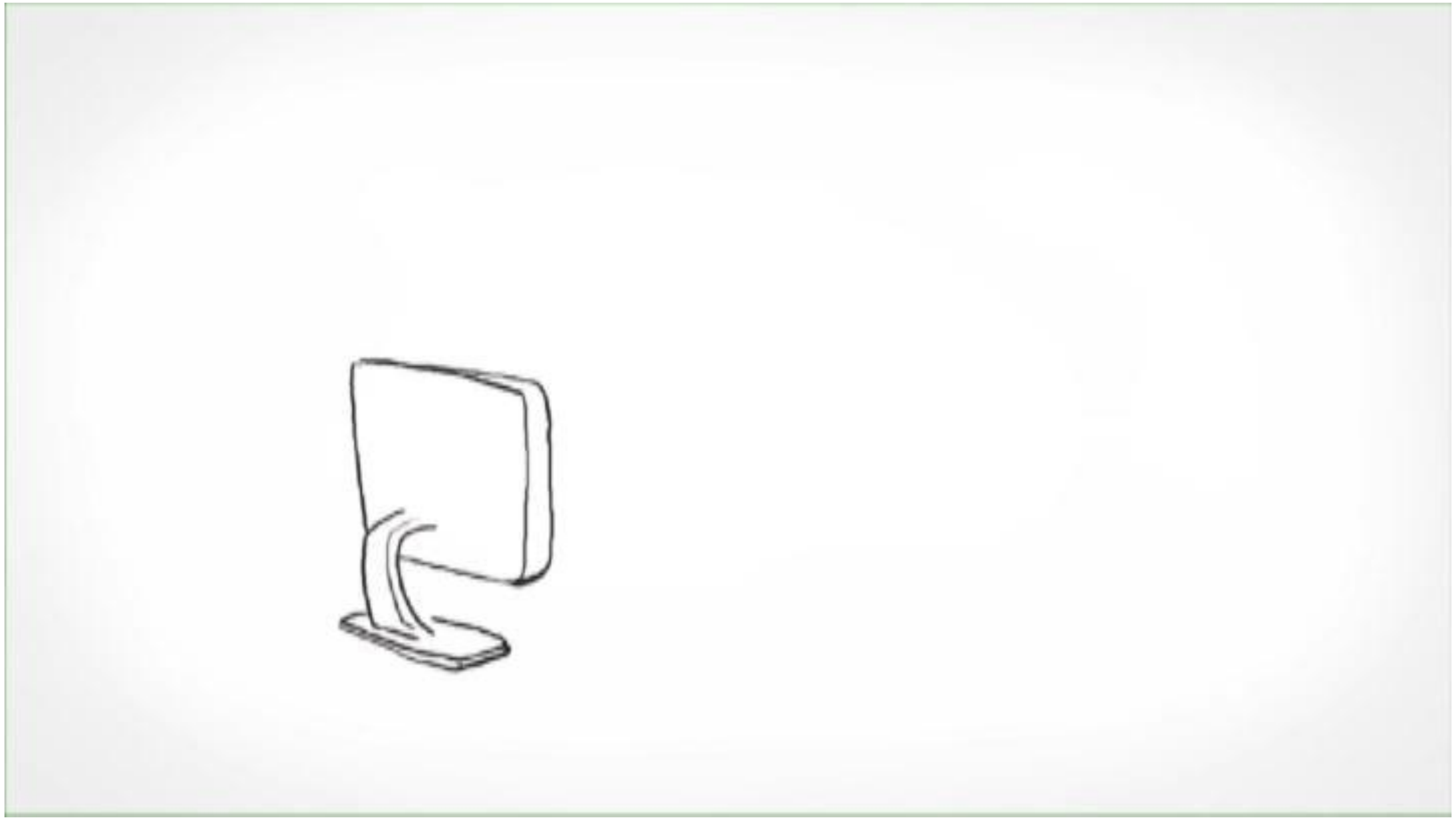


HINDSIGHT IS 20/20

RATIONALIZATION FOR OUR ACTIONS

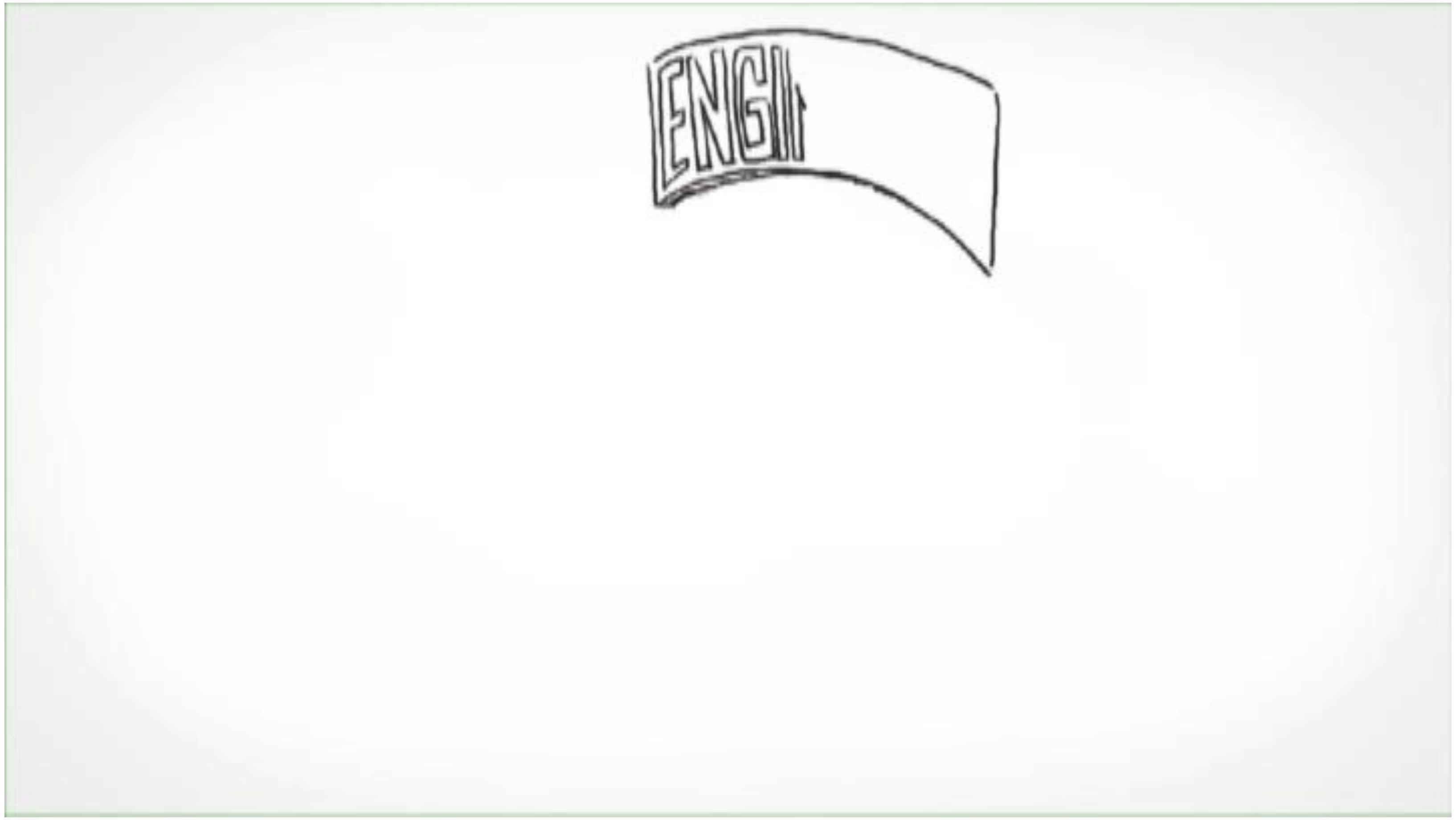


PUTTING THE FRAUD BEHIND US



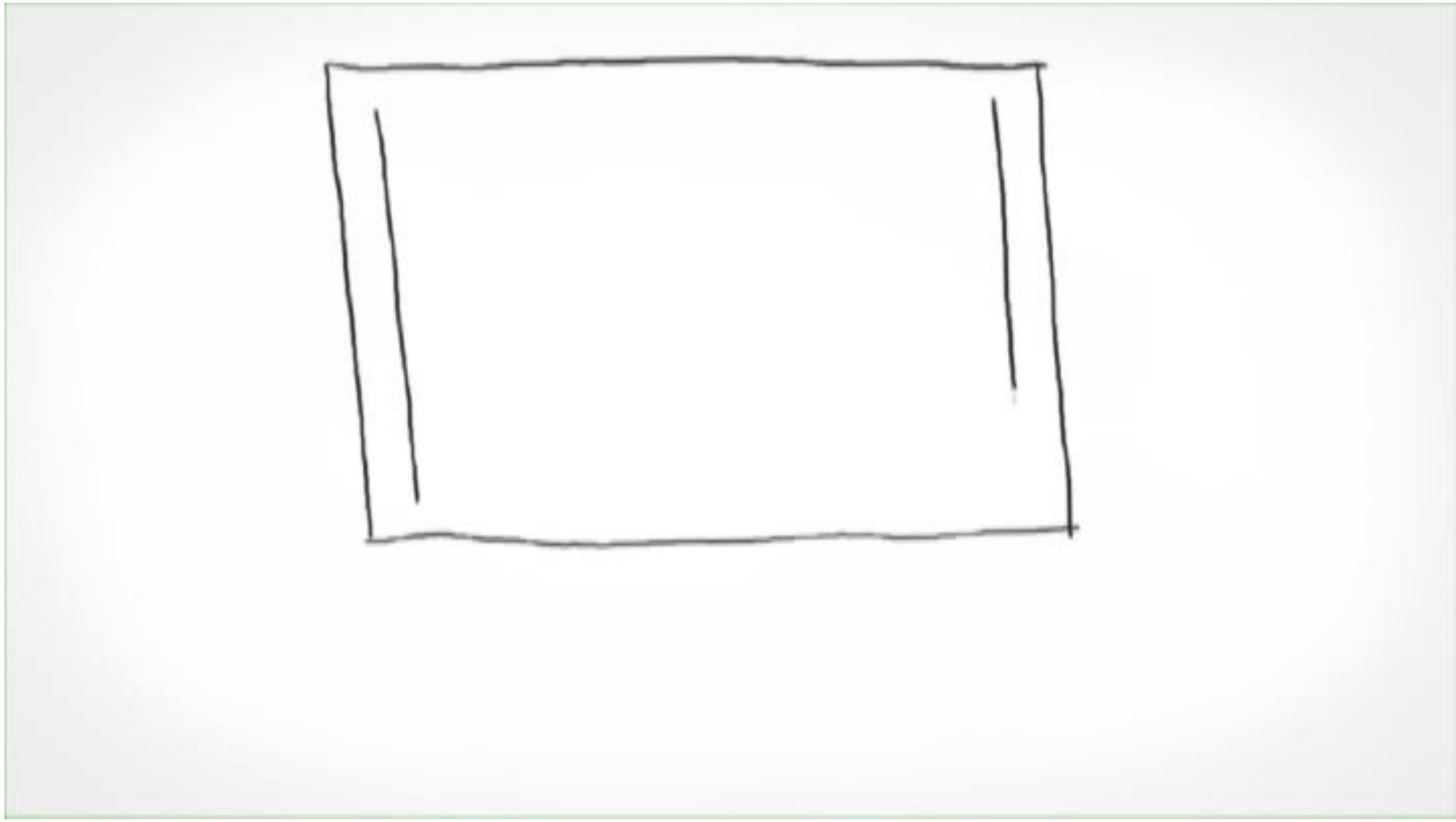
COMPARTMENTALIZATION

FRAMING THE ISSUE

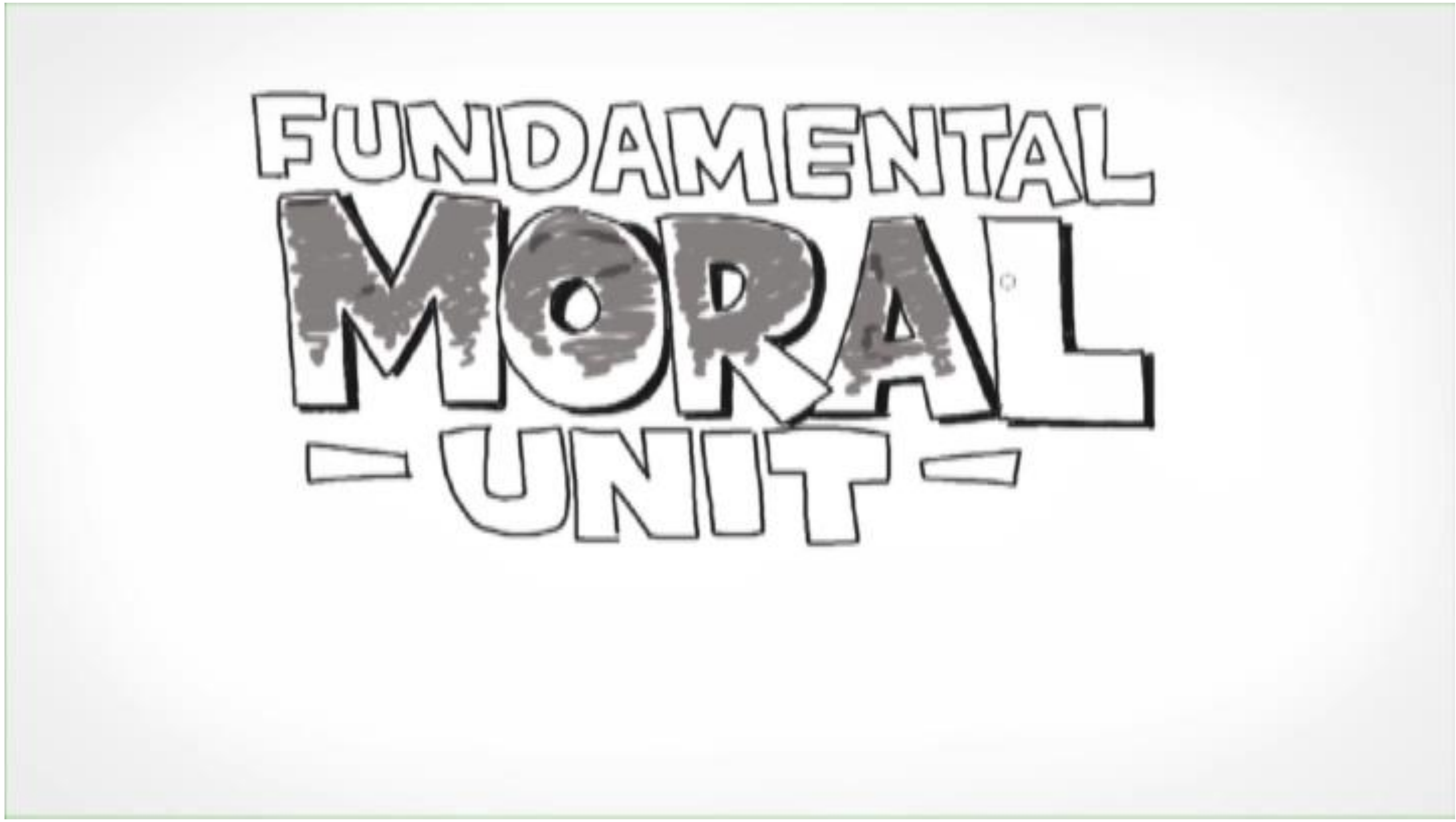


ARE YOU OBJECTIVE?

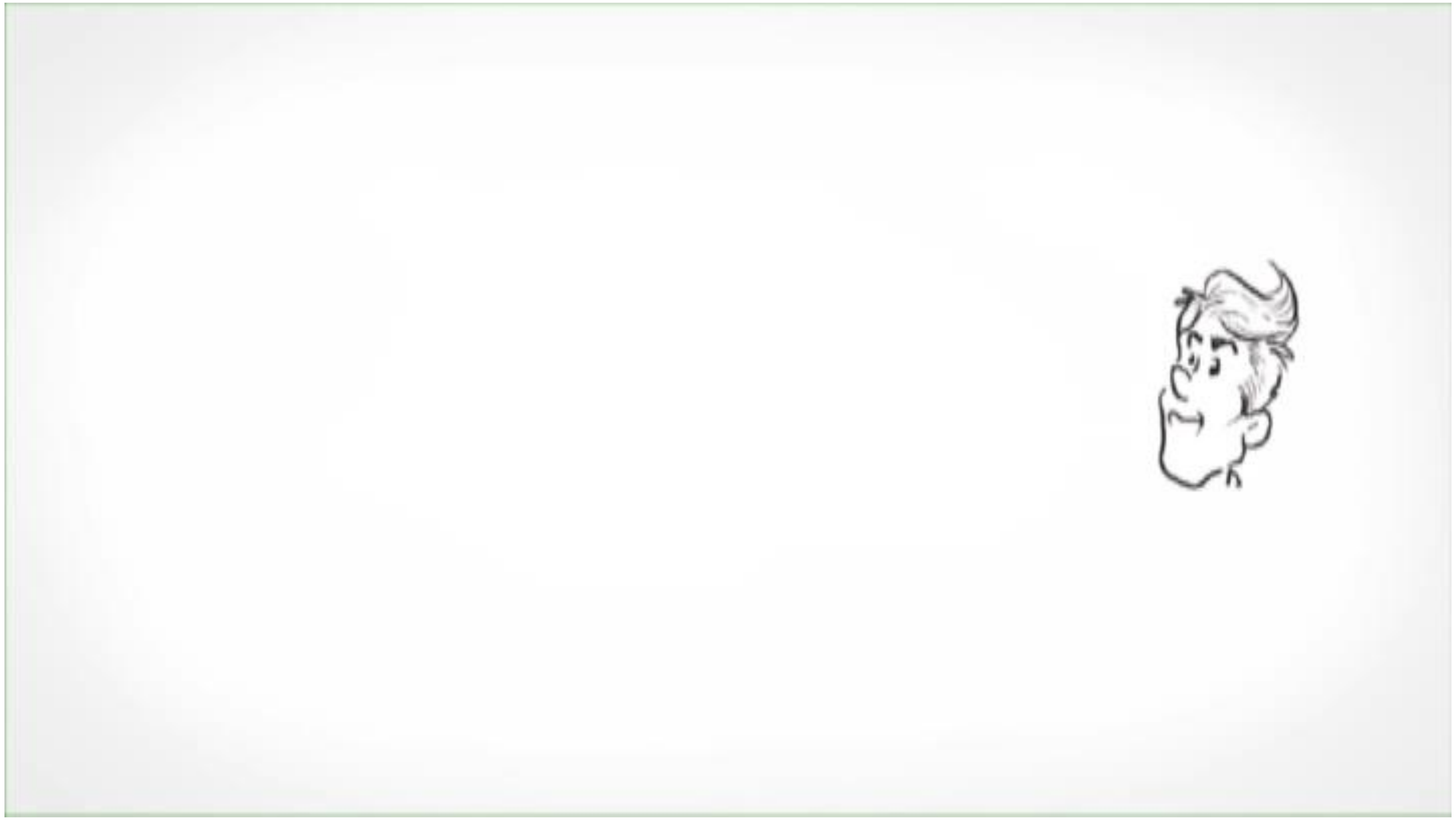
LOYALTY vs. ETHICAL BEHAVIOR



MY LIFE, MY ETHICAL DECISION!



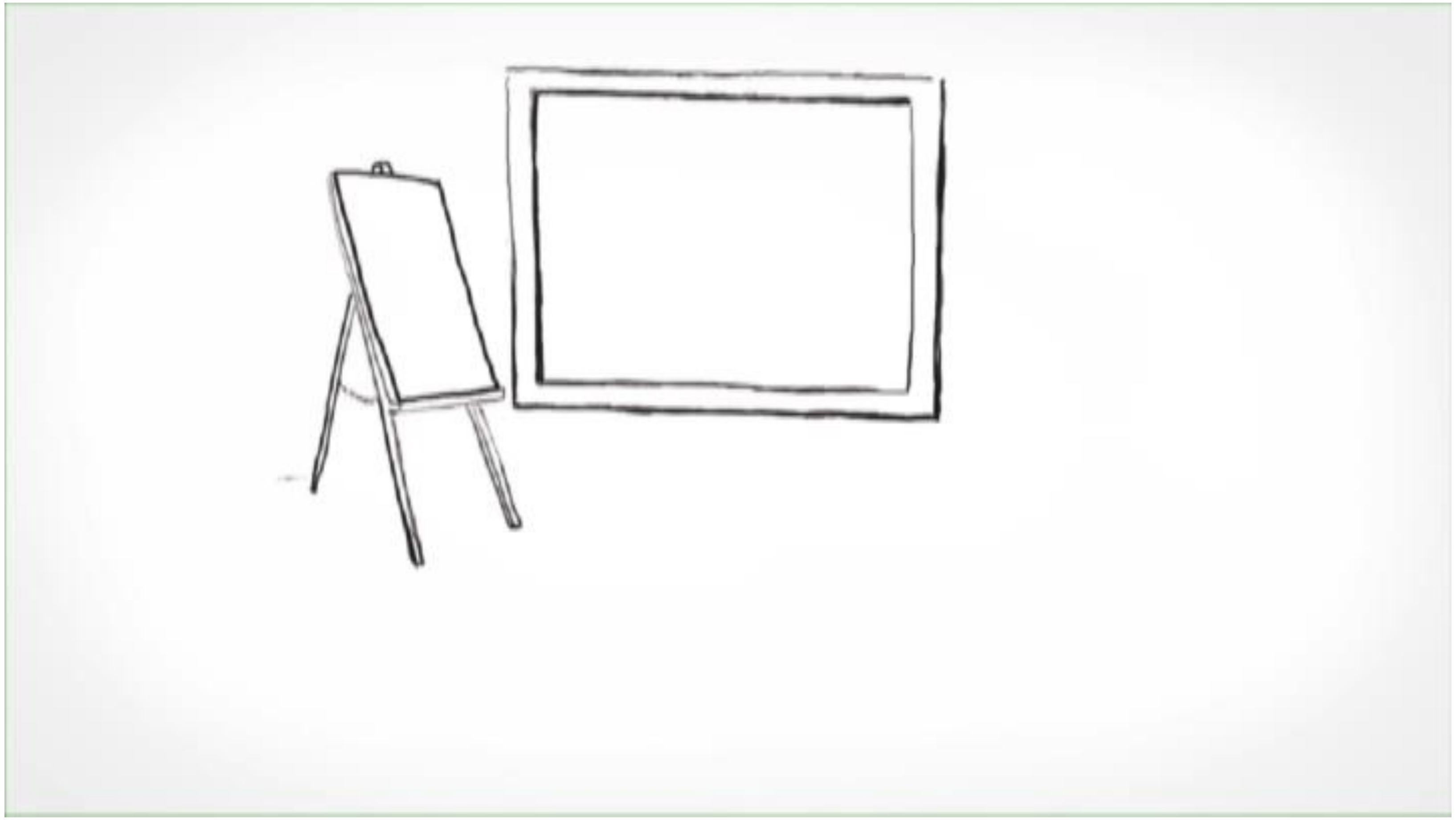
THE GREATER GOOD MINDSET



GAMING THE SYSTEM

THE IMPACT OF MANIPULATION

ACCELERATION OF SALES



INCREMENTALISM

BOILING THE FROG

ENRON AND FRAUD CREEP

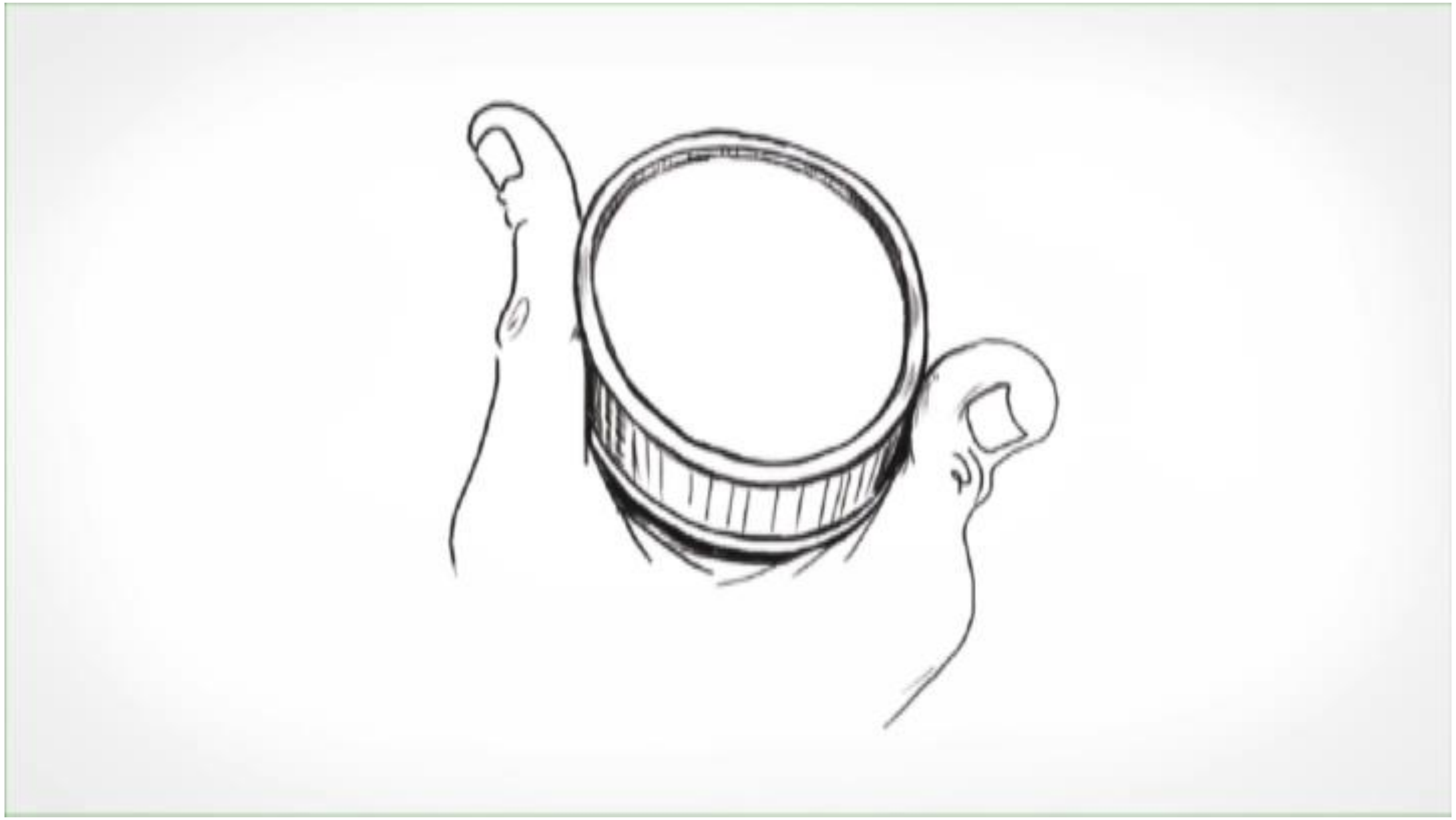
MORAL AGENT & MORAL WORTH

OVERCONFIDENCE BIAS

OVERCONFIDENCE IN BUSINESS

SEE OURSELVES AS OTHERS SEE US

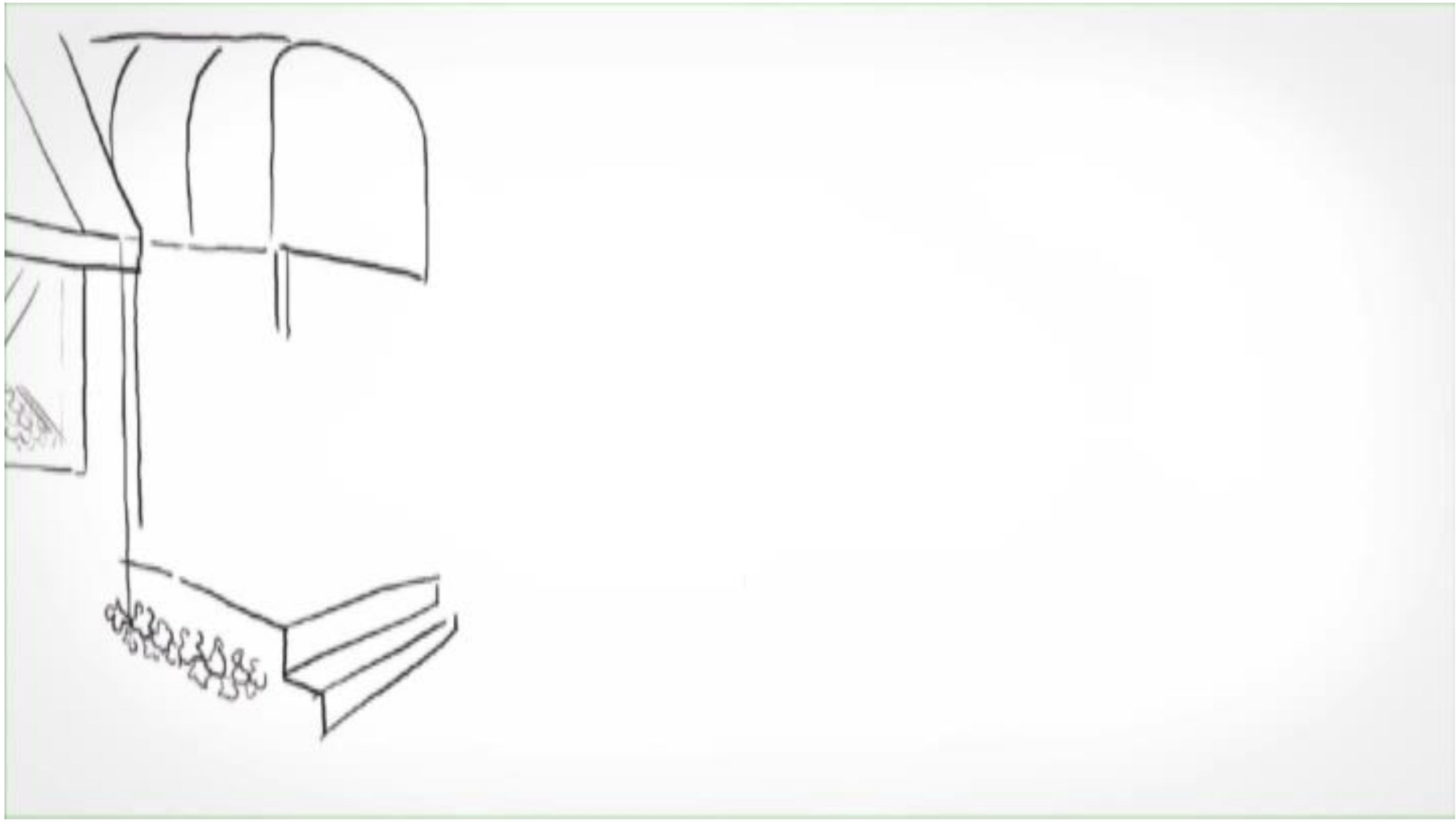
ENRON AGAIN



ROLE MORALITY

DELEGATING OUR JUDGEMENT

PERSONAL VALUES vs. BUSINESS VALUES



JEEP – Joint Ethics Enforcement Program

- Members of the OSCPA Professional Ethics Committee were invited to attend the virtual meeting of the Professional Ethics Division of the AICPA annual meeting on September 27, 2023
- The meeting covered a wide range of topics related to professional ethics and related enforcement action
- I have included some of the more significant information in the following slides
- The AICPA works in coordination with the Oklahoma Accountancy Board and the OSCPA on ethics investigation and enforcement

JOINT ETHICS ENFORCEMENT PROGRAM

AICPA ethics resources

Website

Ethics home page
aicpa.org/ethics

Code of Professional Conduct
aicpa.org/ethicslibrary

PEEC projects
aicpa.org/peecprojects

Ethics complaints
aicpa.org/fileacomplaint

Hotline

888.777.7077 (option 2, then option 3)

A division service for answering inquiries on ethics issues

Staff responds to approximately 1,500 calls annually

ethics@aicpa.org

JEEP PURPOSE

JEEP

Joint Ethics Enforcement Program

Established in 1978, this program permits the AICPA and state CPA societies to work together to perform a single investigation of a joint member in order to enforce the AICPA and state codes of conduct. It also allows the AICPA to investigate on behalf of a state society if the respondent is a state society member only.

JEEP SOURCE OF CASES

- Government referrals
- Outside parties — aicpa.org/fileacomplaint
- Peer review referrals
- State boards
- Work product follow-up
- Media

DIRECTIVES ISSUED FOR TECHNICAL VIOLATIONS

When pre-issuance review may be prescribed

Missed a major program

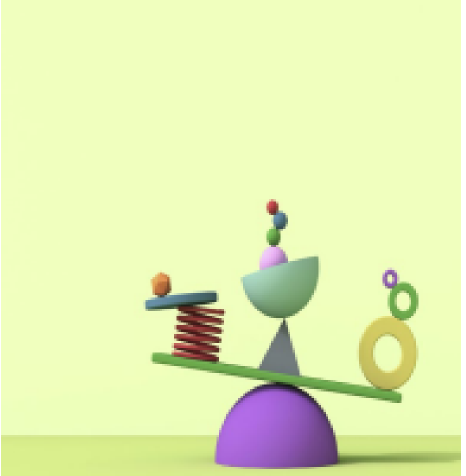
Knowing misrepresentations in financial statements

Failure to perform several significant audit steps

Pervasive errors

Incompetence

Financial statements misleading



ETHICS DIVISION CASES IN PROGRESS

Ethics division case statistics — 2022 and 2021

	2022	2021
Total cases January 1	629	722
Cases opened	431	389
Cases closed	(521)	(482)
Total cases December 31	539	629
Cases in litigation deferral (included in total cases above)	77	81
Cases being monitored for follow up (not included in total cases above)	150	236

7

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ERC FILINGS & CONTINGENT FEES

The Contingent Fees Rule (1.510.001.01(b)) states
"a member in public practice shall not prepare an original or amended tax return or claim for a tax refund for a contingent fee for any client."

The division has already had enforcement cases where members were found to have violated the code and was sanctioned.

Effective September 14, 2023, the IRS placed a moratorium on the receipt of new ERC claims or processing of ERC existing claims.

- IRS believes 95% of current claims are not valid
- With new review, may take up to 180 days to process

BENEFICIAL OWNERSHIP INFORMATION

- Anti-money laundering reporting requirements issued by FinCEN
- Existing companies file between Jan 1, 2024 and Jan 1, 2025
- Companies created after Jan 1,2024 or have a change in ownership or need to correct information have 30 days to file •
- Penalties on business up to $10,000 and 2 years of jail time

This will be covered in greater depth in Kara Vincent’s presentation on November 1 at 3:00 pm. Your clients will likely be asking for assistance in completing the required forms