

ETHICAL VALUES – ARE BOTH A PERSONAL & PROFESSIONAL OBLIGATION

ARE YOU ACCOUNTABLE?

- James H. Small, CPA, MBA, CGMA

WHAT WE WILL LEARN

- Definition of ethics
- Why we need ethics & good leaders
- Why we need professional codes
- The AICPA ethics code impacts the entire profession
- Oklahoma ethics enforcement
- Professional ethics failures



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
- Ethics is the study of moral conduct.
- Ways of life that are admirable and worth living
- The word comes from the Greek word “ethos” meaning “a way of life.”



DEFINITION - 2

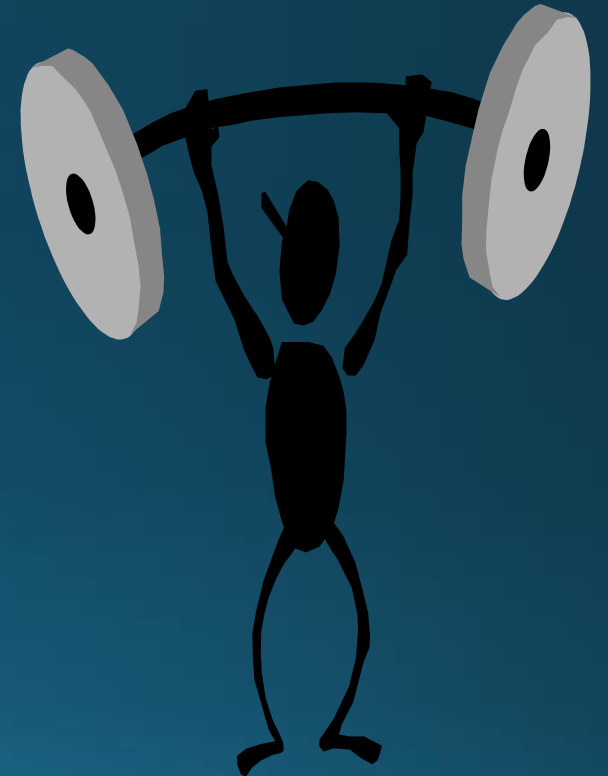
- **MORALS**: Refers to the actions of human beings as they are considered “right or wrong.”
- Our internal alarm system, moral compass
- The word comes from the Latin word “moralis” meaning “the custom or way of life.”
- Morals refer to the code of conduct governing an individual or group.

DEFINITION – 3

- INTEGRITY: This relates to the word “integral” meaning “whole” or “undivided”
- It is the combination of ethics, morals and consistency
- 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

CHARACTER

- A distinguishing feature of an individual
- Moral strength
- Virtue
- Honor
- Reputation
- Integrity
- Trust



WHY WE NEED ETHICS

- Rationality – reasons for actions – justify my behavior
- Least Harm – choose the least evil
- Consistency – same action given the same circumstances
- Impartiality – treat individuals the same (fairness)
- Openness – we must be open to a changing view based on changing circumstances but not indecisive
- Trust – necessary for business transactions. Commerce cannot survive without a degree of trust and respect.



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?
- Analyze the likely effects of the possible courses of action, make a decision and review the results

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.
- The next slide is ten year old data followed by more recent data



LEVEL OF TRUST - 2

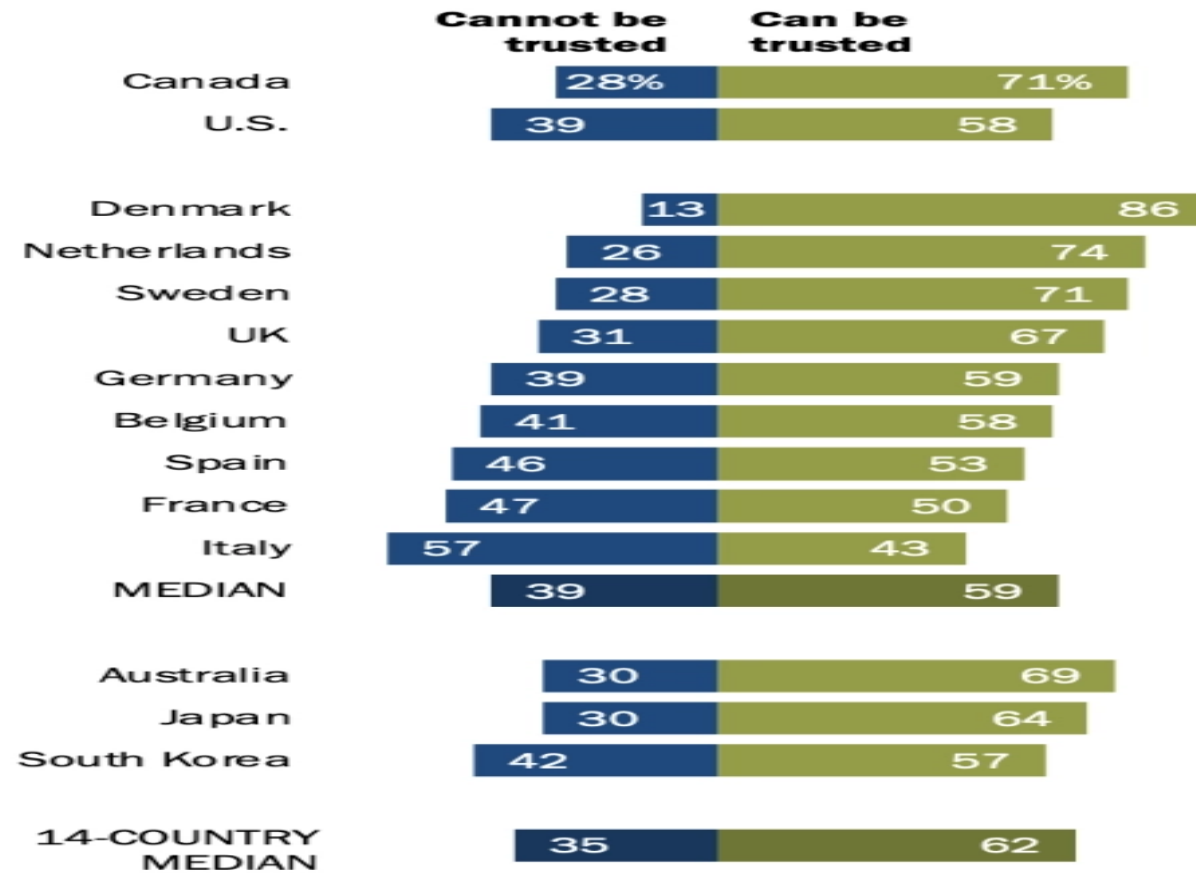
• Denmark	89% Trusting
• Switzerland	74% Trusting
• United Kingdom	69% Trusting
• France	56% Trusting
• United States	49% Trusting
• Greece	40% Trusting
• Chile	13% Trusting



LEVEL OF TRUST – 3

Majorities in most surveyed countries say most people can be trusted

% who say that, in general, most people ...



Note: Those who did not answer are not shown.

Source: Summer 2020 Global Attitudes Survey. Q5.

PEW RESEARCH CENTER

LEADERS & FOLLOWERS

Leaders:

- They have a vision
- They set clear expectations and set an example
- They teach and train their subordinates
- Establish an ethical climate/culture
- They provide support for the mission/engagement
- They provide performance feedback and communicate



LEADERS OF REMOTE WORKERS

- Characteristic No. 1: Indefatigable. ...
- Characteristic No. 2: Company Evangelist. ...
- Characteristic No. 3: Encouraging. ...
- Characteristic No. 4: Approachable. ...
- Characteristic No. 5 Constructive. ...
- Characteristic No. 6: Leadership 2.0.

Forbes 06/10/16

LEADERS & FOLLOWERS

Followers:

- They manage themselves well.
- They are committed to the organization and to a purpose, principle, or person outside themselves.
- They build their competence and focus their efforts for maximum impact.
- They are courageous, honest, and credible.

Robert Kelley, Harvard Business Review



SUCCESSFUL REMOTE WORKERS

1. Self-Discipline and Great Organizational Habits. ...
2. An Adaptable and Flexible Nature. ...
3. Strong Written and Verbal Communication Skills. ...
4. Independent and Successful Troubleshooting Skills. ...
5. Self-Confidence and Reliable Judgement.

Aspirant.com 06/10/16

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 with our 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 – we tend to watch out for our own interests
- 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 have swayed many CPAs and other professionals



ETHICAL CONCEPTS

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



ETHICAL MODEL

What leads to ethical behavior? James Rest, moral psychologist, proposed a 4-component model:

1. Moral *sensitivity* to interpret situation
2. Moral **judgment** to decide what's best
3. Moral *motivation* or degree of commitment
4. Moral *character* or courage to overcome temptation, etc.

PROFESSIONAL ETHICS

“In most businesses, the watchword is, ‘The customer is always right.’ Accountants, however, are charged with telling the customer when he is wrong. What other profession has that responsibility?”

Arthur Levitt, former chair of the SEC, 2002



IMPORTANCE OF PROFESSIONAL ETHICS

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

Association of Certified Fraud Examiners

Institute of Management Accountants

All of these codes of conduct refer to Independence,
Integrity and Objectivity in the performance of their duties



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



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.



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



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OTHER AICPA ETHICS MATTERS

- Statements on Standards for Tax Services
- Statement on Standards for Valuation Services
- Statement on Standards in Personal Financial Planning Services
- Standards for Consulting Services
- Standards for Compilation and Review Services



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PROFESSIONAL ETHICS EXECUTIVE COMMITTEE (PEEC)

PEEC comprises 20 members:

12 public practice members (Big 4, medium, and small firms represented)

4 state board representatives

3 public members (including academia and government)

1 business and industry member

Chair –Brian Lynch



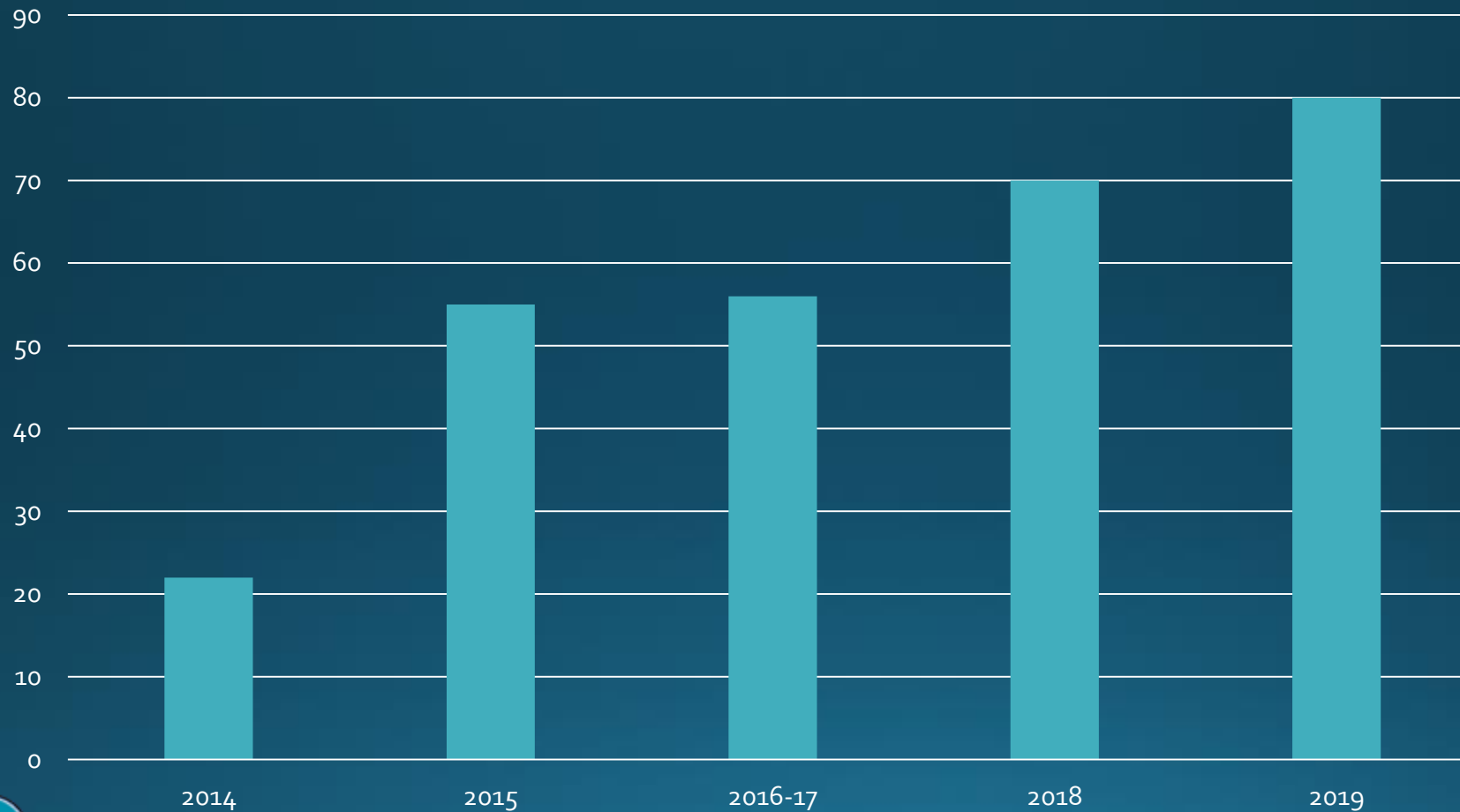
AICPA DISCIPLINARY ACTIVITY

CALENDAR YEARS	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total cases at beginning of year	967	997	1029	982	912	734
Cases opened during the year	260	517	533	703	483	708
Cases completed during the year (below)	-450	-547	-565	-583	-413	-530
Total cases at end of year	<u>777</u>	<u>967</u>	<u>997</u>	<u>1102</u>	<u>982</u>	<u>912</u>
<u>Summary of completed cases:</u>	-	-				
Expelled or suspended	113	128	149	162	75	113
Admonished	34	48	48	33	25	66
Corrective action required	60	133	96	149	120	113
No violation/dismissed	82	59	78	43	43	81
No further action	126	132	136	152	100	100
Subsequent monitoring completed	25	30	39	30	33	32
Other	10	17	<u>19</u>	<u>14</u>	<u>17</u>	<u>25</u>
Cases completed during the year	<u>450</u>	<u>547</u>	<u>565</u>	<u>583</u>	<u>413</u>	<u>530</u>



PEER REVIEW - NONCONFORMITY

Series 1



October 2021

Series 1

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PROFESSIONAL LIABILITY CLAIMS

- 66% from Tax Services
- 12% from Accounting & Bookkeeping Services
- 12% from Audit & Attest Services
- 6% from Consulting Services
- 4% from Fiduciary Services

Source: Journal of Accountancy April/May 2021 – CNA Claims Database

PROFESSIONAL LIABILITY CLAIMS

	From 1986–2019	Three-Year Avg. 2017–2019
Audit	\$ 317,000	\$ 193,000
Bookkeeping	\$ 90,000	\$ 55,000
Compilation	\$ 137,000	\$ 8,000
Review	\$ 193,000	\$ 62,500
Projections/Forecasts	\$ 76,000	\$ 5,000
Tax	\$ 47,000	\$ 61,000
Bus Mgmt/Inv Adv/PFP	\$ 153,000	\$ 40,000
Trust	\$ 92,000	\$ 36,000
Business Valuations	\$ 101,000	\$ 3,000
Litigation Support	\$ 142,000	\$ 13,000
Other	\$ 82,000	\$ 53,000
All Scopes of Practice	\$ 88,000	\$ 66,000

OSCPA ETHICS REPORTING

- Consumers (clients of CPAs) can report matters for consideration by the Professional Ethics Committee on the OSCPAs website, by telephone or by email or mail
- Some CPA firm employees and former employees have reported matters to be investigated
- The OSCPAs 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 (which often takes years)



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.



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 now aware and should help inform your associates of this important requirement



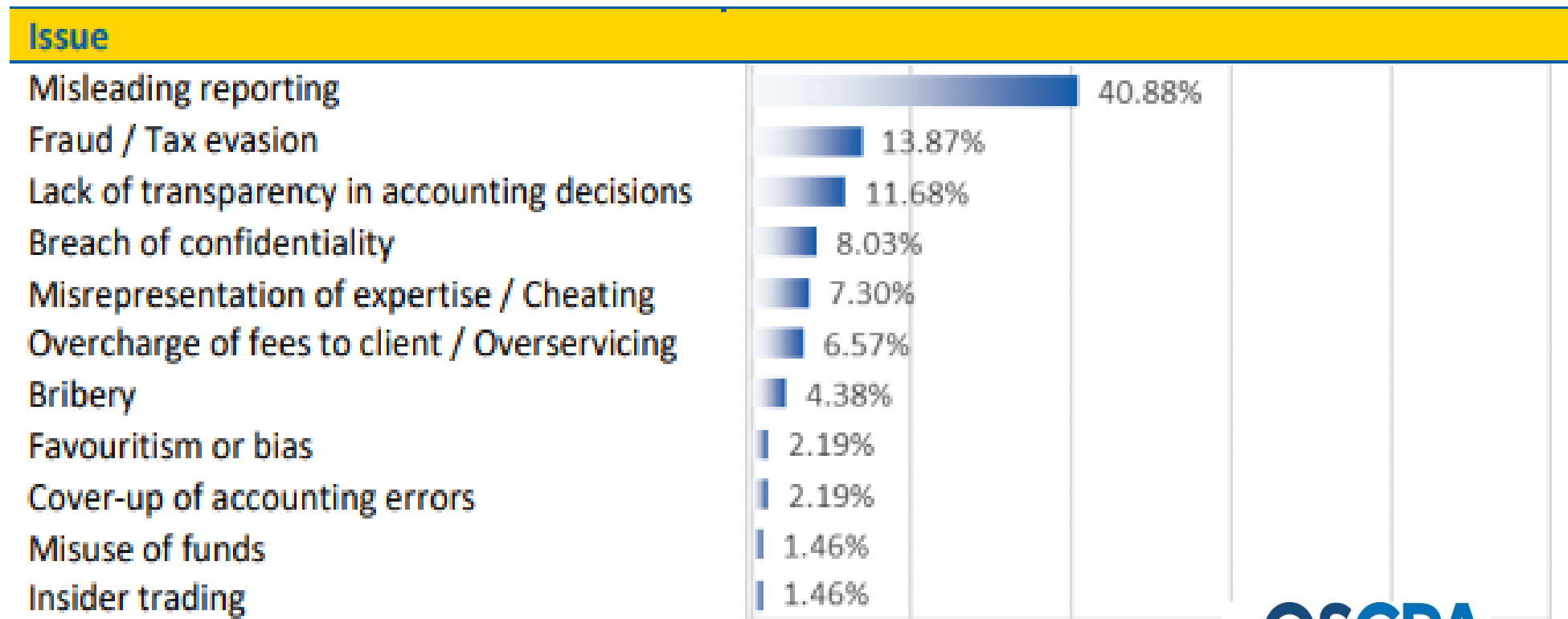
ENGAGEMENT LETTERS

- May help mitigate the risk of a professional liability claim
- 50% of tax related professional liability claims had no engagement letter making defense more difficult
- Letter should cover scope of services, professional standards, work product to be delivered, limitation of services, firm and client responsibilities
- Adhere to the engagement letter in performing your services



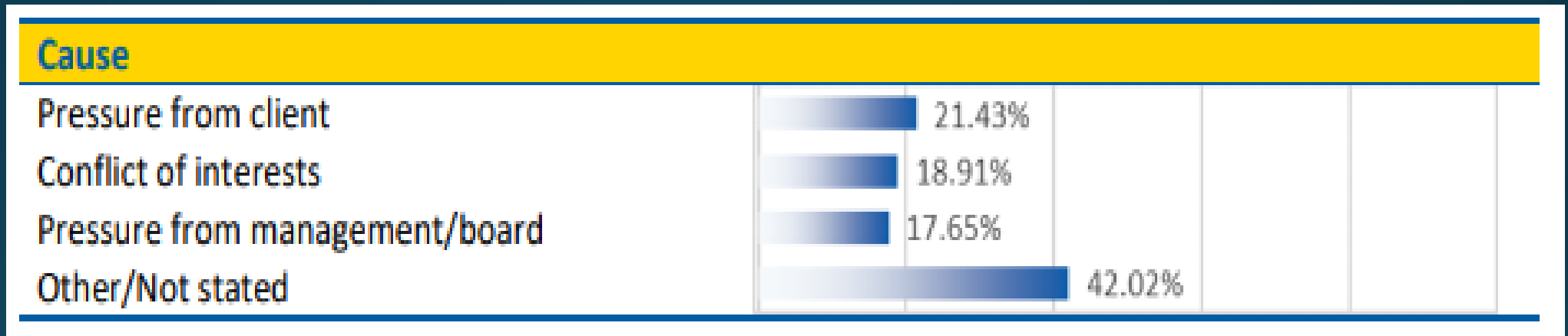
IAFC AUSTRALIAN & NEW ZEALAND STUDY

Table 1 - Common Ethical Issues



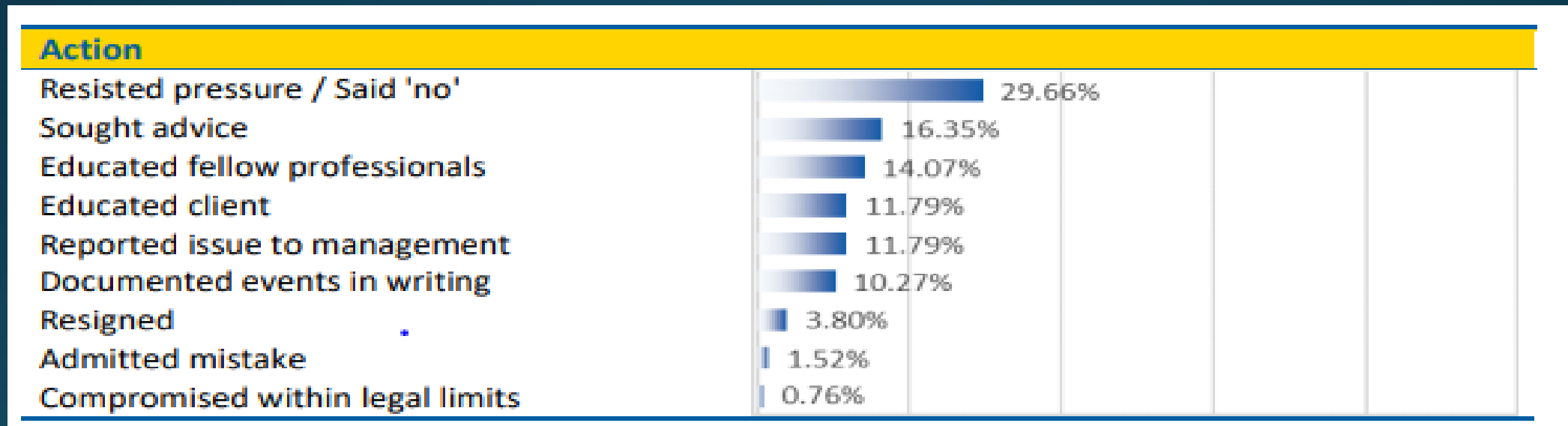
IAFC AUSTRALIAN & NEW ZEALAND STUDY

Table 2 - Common Causes of Ethical Issues



IAFC Australian & New Zealand Study

Table 3 - Common Responses to Ethical Issues



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



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



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



GOOD THOUGHTS

“Try not to become a person of success, but rather try to become a person of value.”

Albert Einstein

“Pick the right crowd; Act with integrity; Be confident.”

Warren Buffett

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

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 is worth our efforts

