

CONTINUING PROFESSIONAL ETHICS EDUCATION FOR CPAS: GOALS AND TEACHING APPROACHES

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ABSTRACT

The accounting profession has experienced significant challenges after the accounting scandals of the early 2000s increased legislation and rules regulating ethical behavior of CPAs and CPA firms. This paper considers ethics education for CPAs and concludes that there is a need for a broader, principles-based approach to continuing professional ethics (CPE). This conclusion is supported by the recent trend toward principles-based global ethics standards and a review of the current professional standards and CPE requirements for ethics education for CPAs. This paper presents recommendations on how tools, such as listing core values, creation of a personal mission statement, and the utilization of a comprehensive ethical decision model, can be incorporated into ethics CPE courses for CPAs as well as ethics education in academic programs. We also present the results from a survey about ethical dilemmas collected from a sample of CPAs taking CPE ethics courses. Finally, the paper demonstrates how the recommended tools could be used to enhance ethics CPE for ethical dilemmas, particularly those that cannot be satisfactorily resolved using a rules-based approach.

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INTRODUCTION

The accounting scandals of the early 2000s raised numerous legal and ethical issues about the behavior of corporate management, boards of directors, accounting professionals generally, and auditors specifically. Legislatures and professional organizations reacted to these financial scandals and the associated professional breaches by issuing a myriad of laws, rules and codes with weighty sanctions. This response suggests that more rules with stiff penalties will be sufficient to alter behavior and thus avoid another series of professional ruptures.

In July 2002, the Sarbanes-Oxley Act (SOX) was enacted by Congress as a formal response to the corporate accounting scandals. The stated purpose of the Act was “to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws”¹. Starting with SOX, corporations and the accounting profession have been besieged with compliance initiatives to improve external financial reporting and reduce related unethical behavior. For auditors of public companies, SOX instituted new regulations for auditor independence and created the Public Company Accounting Oversight Board (PCAOB) to set auditing and additional independence standards, as needed, such as spinning off consulting practices. There has been a ripple effect such that global, national, and state standard setters and regulators have increased compliance requirements over professional accountants.

Ethics education, both for entry into the accounting profession and for maintaining a Certified Public Accountant (CPA) license, has been mandated in most states in the U.S. This mandated accounting ethics education tends to re-enforce and play a supporting role to the increasing compliance strategy as the principal method for combatting professional violations and ethical lapses. Such courses primarily review the relevant statutes and professional codes with the resulting penalties that include career and legal consequences. Accounting ethics for purposes of continuing professional education (CPE) is generally categorized as regulatory (compliance) or behavioral (broader ethical approaches).

In effect, courses related to ethics education for the accounting profession predominantly accentuate compliance and avoidance of punishment. However, compliance solutions to ethical problems have proved to be inadequate in the past.² Avoidance of punishment is the lowermost of Lawrence Kohlberg’s³ six levels of moral development and reasoning. This level purports that rules are important to obey because they become the best means to avoid punishment. Emphasis on this lowest level signifies that other motivations are largely irrelevant. It also places significant constraints on what accounting ethics education can become to more effectively influence ethical decision making and actions. Such an approach precludes or diminishes the use of important tools such as stakeholder analysis, values clarification, mission statements, and decision models focused on principles and values. Beyond avoiding punishment, principles-based ethics education expands the spectrum of the education experience to include the individual’s own motives and understanding of the importance of ethics for one’s integrity and self-definition as a professional. When the individual becomes interested and engaged as the course becomes more personalized, self-referencing occurs as the individual CPA relates the

¹ See, U.S. Congress, The Sarbanes-Oxley Act of 2002. Available at <http://www.gpo.gov/fdsys/pkg/PLAW-107publ204/pdf/PLAW-107publ204.pdf>

² See, for example, Howard Rockness & Joanne Rockness, Legislated ethics: From Enron to Sarbanes-Oxley, the Impact on Corporate America, *Journal of Business Ethics*, Vol. 57(1) at 31 (2005).

³ Lawrence Kohlberg, *Essays on Moral Development*, the Psychology of Moral Development: Moral Stages, Their Nature and Validity. San Francisco: Harper & Row (1984),

discussion and information to his or her experiences. A strong correlation has been found to exist between self-referencing and an increased susceptibility to learning, comprehension, retention of material, and persuasion.⁴

Education research in academic accounting journals has largely focused on the accounting education in academic programs, with little consideration of continuing professional education (Paisey and Paisey, 2007).⁵ The December 2007 issue of *Accounting Education: An International Journal* was devoted to articles about continuing professional education (CPD). In that issue, Fisher, Swanson, and Schmidt⁶ expressed their concerns about the narrow focus of ethics CPE and also the lack of an ethical foundation provided by universities on which ethics CPE can be built. They state that “if ethics CPE is to move beyond its infancy, accountants must develop a learning foundation grounded in ethical and organizational decision models prior to leaving the university and participating in adult education and professional seminars” (p. 355). Further, they elaborate on the need to move away from a narrow, rules-based approach:

Broader coverage that takes ethics CPE beyond the rote study of rules by putting those rules in the context of ethical perspectives and the regulatory environment is needed, especially given the convincing evidence that cognitive and behavioral skills can be learned and improved upon through exposure to educational programs that blend theoretical principles and practice...The point is that accounting ethics should not be reduced merely to rules and codes but rather it should provide an intellectual grounding and perspective for them.

This is consistent with other calls for more comprehensive ethics education and better coordination between academics and the profession.⁷

This paper addresses and builds on the concerns raised by Fisher et al. (2007) and others, particularly about the need for a move to broader perspectives in ethics CPE. In this regard, we compare and contrast the goals and teaching approaches for principles-based and compliance-based (“rules” or “regulatory”) continuing professional ethics for CPAs in the United States. We also briefly update the changes in accounting ethics education in our university and as required in California, the state in which our university resides. Although our CPE focus is on the U.S., the issues raised and recommendations made are relevant for continuing professional ethics education for all licensed or certified professionals, including licensed accountants in other countries, managerial accountants, internal auditors, and other professionals such as attorneys. While compliance-based (regulatory) ethics is important, principles-based ethics is critical to best serve the individual accounting professional, the public, clients, colleagues, and other interested parties.

⁴ Robert Burnkrant & H. Rao Unnava, Effects of Self-Referencing on Persuasion, *Journal of Consumer Research*, Vol 22(1), at 17 (1994).

⁵ See, Guest Editorial by Catriona Paisey & Nicholas Paisey, Continuing professional development, *Accounting Education: An international journal*, Vol 16(4) at 315 (2007).

⁶ Dann Fisher, Diane Swanson & Jaime Schmidt, Accounting education lags CPE ethics requirements: Implications and a call to action, *Accounting Education: An international journal*, Vol 16(4) at 345 (2007).

⁷ Eg., PricewaterhouseCoopers, *Educating for the Public Trust: The PricewaterhouseCoopers Position on Accounting Education*, PricewaterhouseCoopers, New York. Available at http://www.pwc.com/en_US/us/faculty-resource/assets/educatingfortrust.pdf. See also, Beverly Jackling et al, Professional Accounting Bodies’ Perceptions of Ethical Issues, Causes of Ethics Failure and Ethics Education, *Managerial Auditing Journal*, Vol 22(9) at 928 (2007).

The article is organized in the following structure: (1) a brief overview and critique of the current professional standards and CPE requirements for ethics education for CPAs, (2) recommendations for approaches to teaching ethics CPE, (3) an update on changes in accounting ethics education in our university and California ethics requirements to sit for the CPE exam, (4) results and analysis from a survey⁸ collected from a sample of CPAs taking CPE ethics courses, and (5) conclusions and recommendations for further action and research.

Professional Standards and Requirements for CPE Ethics Education

Background

In the United States (U.S.), professional standards and requirements for CPE are jointly established by the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA).⁹ *The Statement on Standards for Continuing Professional Education (CPE) Programs* provides “a framework for the development, presentation, measurement, and reporting of CPE programs.”¹⁰ Individual state boards of accountancy and state societies of CPAs have, with some adjustments, adopted AICPA ethical standards and follow the AICPA and NASBA standards for CPE. More recently, the PCAOB and global standard setters have had an impact on U.S. standards. Founded in 1977, the International Federation of Accountants (IFAC) has in the past decade become the leading global standard setter for auditing standards, ethics standards, and educational standards for professional accountants. IFAC “is comprised of 179 members and associates in 130 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.”¹¹ IFAC has moved ethics standards from primarily rules-based to a more principles-based approach. The International Ethics Standards Board of Accountants (IESBA) has developed and revised a conceptual framework that is used to help accountants identify, evaluate, and address “threats to compliance with the fundamental principles.” As a member of IFAC, the AICPA is committed to adopting the ethics standards of the IESBA. In 2006, the AICPA¹² implemented the *Conceptual Framework for AICPA Independence Standards*. In 2008, the AICPA released *Guide for Complying with Rules 102-505*. In January of 2014, the AICPA approved a revised professional code of conduct. The revised code includes a *Conceptual Framework for Members in Public Practice* and a *Conceptual Framework for Members in Business*. These new frameworks are adaptations of the IFAC framework that identifies threats and safeguards for carrying out the duties of a professional accountant. While the revised professional code of conduct will be in force as of December 15, 2014, the new frameworks are not effective until December 15, 2015.

⁸ These scenarios were initially created by Jim Lampe, we acknowledge and appreciate his important contribution to the creation of this paper.

⁹ American Institute of Certified Public Accountants and National Association of State Boards of Accountancy, the Statement on Standards for Continuing Professional Education (CPE) Programs (2011).

¹⁰ AICPA and NASBA at i (2011).

¹¹ <http://www.ifac.org/about-ifac>

¹² American Institute of Certified Public Accountants, Code of Professional Conduct and Bylaws, Reprinted from AICPA Professional Standards (2013).

The International Accounting Education Standards Board (IAESB) delineates education for initial professional development (IPD) and continuing professional development (CPD).¹³ CPD is more often called continuing professional education (CPE) in the U.S. The IAESB clearly includes ethics as an important part of continuing professional education.

CPD provides continuing development of the (a) professional knowledge, (b) professional skills, (c) professional values, ethics, and attitudes, and (d) competence achieved during IPD, refined appropriately for the professional activities and responsibilities of the professional accountant.¹⁴

There are two particularly pertinent matters concerning the delivery of CPE ethics education. First, to have an impact, ethics must be required of CPAs in order to maintain their license. Such a requirement is consistent with CPD described by the IAESB. Without a requirement, individual CPAs are left to make their own decision about whether to take ethics courses as part of their continuing professional education.¹⁵ Second, the type of ethics education is critical. Regulatory ethics, which primarily considers the compliance aspect of rules and regulations, is necessary but insufficient. A wider ethical foundation and application of ethics education is important to professional accountants to carry out their duties. The preamble of the AICPA's Code of Professional Conduct¹⁶ provides a basis for scope of ethical responsibilities for CPAs.

These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage (American Institute of Certified Public Accountants, 2014, ET Section 0.300.010.02).

CPE Ethics Requirements in the U.S.

As described above, there has been a significant increase in regulation of CPAs since the early 2000s. Misiewicz¹⁷ reports that only 24 of the 50 states included ethics as a required area for continuing education, while Fisher et al.¹⁸ indicate the number is 34. In any case, the number

¹³ CPD provides continuing development of the (a) professional knowledge, (b) professional skills, (c) professional values, ethics, and attitudes, and (d) competence achieved during IPD, refined appropriately for the professional activities and responsibilities of the professional accountant

¹⁴ International Accounting Education Standards Board, 4 (2012).

¹⁵ It is possible that states without ethics requirements may not even accept ethics education toward CPE credit, which would further reduce the incentive for continuing ethics education.

¹⁶ These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage. American Institute of Certified Public Accountants, ET Section 0.300.010.02 (2014).

¹⁷ Kevin Misiewicz, the Normative Impact of CPA Firms, Professional Organizations, and State Boards on Accounting Ethics Education, *Journal of Business Ethics*, Vol 70 at 15 (2007).

¹⁸ The discrepancy between the two articles is to some extent due to the inclusion of the District of Columbia and four U.S. territories by Fisher et al. (2007). There is also some room for interpretation as to whether CPE is required

of states requiring ethics education continues to increase. According to information available from the National Association of State Boards of Accountancy (2014), only six of the fifty states do not currently have a CPE ethics requirement in 2014 (Alabama, Georgia, North Dakota, South Dakota, Utah, and Wisconsin). This demonstrates a strong regulatory response over the past decade.

Principles and Compliance

Professional ethical principles are largely rooted in deontological and virtue ethics approaches. They spell out the duties and values that guide professionals in their decisions and behavior. The IESBA (2013) has five fundamental principles that form the reference for its code of ethics: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. The AICPA (2014) principles, which are similar to those of the IESBA, are as follows:

Responsibilities principle. In carrying out their responsibilities as professionals, *members* should exercise sensitive professional and moral judgments in all their activities (ET 0.300.020.01).

The public interest principle. *Members* should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism (ET 0.300.030.01).

Integrity principle. To maintain and broaden public confidence, *members* should perform all professional responsibilities with the highest sense of integrity (ET 0.300.040.01).

Objectivity and independence principle. A *member* should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A *member* in public practice should be independent in fact and appearance when providing auditing and other attestation services (ET 0.300.050.01).

Due care principle. A *member* should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the *member's* ability (ET 0.300.060.01).

Scope and nature of services principle. A *member* in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided (ET 0.300.070.01).

The AICPA (2014) states that the “principles provide the framework for the rules that govern the performance of professional services by members” (ET 0.100.010.01). Thus, for the AICPA, it is not the principles, but the rules that actually “govern” behavior. That is, professional compliance is primarily oriented toward following rules. However, regulations cannot cover every ethical situation, so professionals are encouraged to refer to the principles.

by a state board. Further, there could be some timing differences even though both articles were published in the same year.

CPE ethics education should incorporate a principles-based approach while maintaining a compliance (rules-based) component. As described earlier in this paper, by adopting many features of IESBA Code, particularly the conceptual frameworks, the AICPA is working toward a more principles-based approach to ethical standards. While the IESBA has eliminated the term “rule” from its Code, the AICPA continues to refer to rules and “interpretations” that must be followed.

Recommended Approaches for Ethics CPE

Foundational Aspects for Teaching Ethics CPE

To build an effective ethical environment, a strong foundation is essential. If the ultimate goal is for accounting professionals to act ethically, as defined by the AICPA and additional relevant code sections in a CPA’s particular state, then what are the educational steps needed to support and help achieve this goal? Certainly, a major step is to help insure that the code sections and laws relating to ethical conduct are understood. Accordingly, there is a need for ethics education to reiterate, review, and elucidate those rules and regulations. However, this should not be the only focus of our ethics education programs. Ethics CPE should provide a broad foundational base that will be more personal, more interesting, and will better prepare CPAs to achieve the ethical responsibilities of the profession. Without a personal connection to ethics as critical to their self-perception as a CPA, compliance-based programs will have minimal impact for most CPE attendees. In short, a strong ethical underpinning as part of a professional self-definition is not created in most CPA ethics courses. In a pure compliance modality, ethics becomes merely a listing of rules and potential consequences.

Unlike a compliance program that ignores personal ethics, a carefully crafted accounting ethics program should proceed first with a personal ethics educational focus using tools and exercises that make the case that professional ethics is relevant to each professional accountant. Following this foundational connection, a review and application of applicable state ethics code sections can take place. CPE participants may thereby gain an appreciation for the importance of taking ethics seriously combined with a foundation and tools to assist them in ethical decision making.

Based on many years of teaching a combination of personal and compliance based CPE ethics courses for CPAs, the following four foundational aspects of teaching personal ethics, as a prelude to a review of relevant legislation, are recommended: (1) formation of a list of personal core values, (2) development of a personal mission statement, (3) understanding of the importance of an organization’s ethical environment, and (4) facility in using an ethical decision model. We discuss each below.

1. Formation of a list of personal core values

A very effective exercise for CPAs in a professional ethics class is to list their personal core values. Such a list captures the fundamental beliefs that can provide guidance and focus to making ethical decisions in professional and personal settings. To assist the attendees in this exercise, the following list may be offered.¹⁹ The list below is not to be considered the exclusive

¹⁹ For a comparison of other lists of core values, the Josephson Institute of Ethics suggests its own list of core character values (2014). Josephson Institute of Ethics “The Six Pillars of Character,” available at

list of values for accounting professionals, but only a tool to help them consider their personal core values:

- Honesty (truth telling, candidness, openness)
- Integrity (acting on convictions, courageousness, advocacy, leadership by example)
- Promise keeping (fulfilling the spirit of commitments)
- Fidelity (loyalty, confidentiality)
- Fairness (justice, equal treatment, diversity, independence)
- Caring (compassion, kindness)
- Respect (human dignity, uniqueness)
- Citizenship (respect for law, societal consciousness)
- Excellence (quality of work as a professional accountant)
- Accountability (responsibility, independence)

2. Development of a personal mission statement

A personal mission statement provides an opportunity to define one's goals by reflecting on life's priorities. It can become a "personal constitution," setting a standard for life's decisions, small and large (Covey, 1989).²⁰ The CPA's personal core values may be helpful as a reference in completing this exercise. In order to assist attendees draft an operative personal mission statement in the limited time of a CPE class, it has been found effective to help the attendees focus on four key elements of an effective mission statement: heroic ambition, challenges to reaching the heroic ambition, signposts of achievement to show progress towards one's heroic ambition, and a healthy balance between work, family, and self.

3. Understanding the Importance of an Organization's Ethical Environment

A CPA working in a firm or corporation will often feel constrained or guided solely by the perceived values of that organization. Whether it is a multi-national firm or a small-town business, each institution has its own ethical environment. Individuals in that atmosphere quickly perceive the business and ethical norms and act accordingly. Moreover, if it becomes clear that the organization rewards those who follow these norms, whether they are ethical or unethical, such a system will likely influence an employee's performance. Research demonstrates that the ethical climate of an organization can have a positive or negative impact on dysfunctional behavior and important job outcomes, such as job satisfaction, organizational commitment, and psychological well-being.²¹ Also, unethical and corrupt behavior in organizations may be maintained through various rationalization and socialization techniques.²² It is therefore critical for employees to understand the values in their workplace to determine whether or not their personal values are in conflict with those in their environment. An exercise that may be useful at this point is having the CPE participants list the six actual values as practiced in their employment environment. Attendees can then be asked to discuss the similarities and disparities

<http://josephsoninstitute.org/sixpillars.html>. See also Michael Josephson, Making Ethical Decisions, Josephson Institute of Ethics (2002).

²⁰ Stephen Covey, *The Seven Habits of Highly Effective People*, New York: Simon & Schuster (1989).

²¹ E.g., Kelly Martin and John Cullen, Continuities and Extensions of Ethical Climate Theory: A Meta-Analytic Review, *Journal of Business Ethics*, Vol 69(2) at 175 (2006).

²² Vikas Anand, Blake Ashforth & Mahendra Joshi, Business as Usual: The Acceptance and Perpetuation of Corruption in Organizations, *Academy of Management Executive*, Vol 19(4) at 9 (2005).

between this list and their list of personal core values. This allows for a rich discussion and a deeper appreciation of the possible influence of the workplace values on one's personal ethics.

A discussion of the ethical environment of the workplace may also include aspects of finances, time, and relationships outside of the work environment. First, there is a need to consider how personal financial pressures or goals may make it easier to act unethically in order to keep one's job or to earn additional funds. Second, it is important to have close friends who are outside one's field of employment who can be objective and issue warnings when actions appear to be straying or crossing the threshold of that which is unethical and potentially illegal. If all of one's friends are in the same field of endeavor, they may have adopted values and behaviors accepted as normative and cannot provide the detached perspective necessary to fully understand if one's actions are in accord with acceptable conduct. Third, it is critical for accounting professionals who take ethics seriously to engage in activities outside of work. It is not only that working all the time is unhealthy physically, it is also unhealthy ethically. When a professional's only definition of personal success is based on his or her prestige or income as a successful CPA, there is a danger of acting unethically if such behavior is believed essential to maintaining that status. Accordingly, activities outside of work, where one is valued as an important individual apart from the workplace, lessen the dependence on the need to maintain one's status as a successful CPA and thus may be less susceptible to unethical actions.

4. Facility in using an ethical decision model

Ethical decision models allow for a cognitive process, which usually includes considering the relevant stakeholders, values, and options. Such models help practitioners take into account such indicia as the accounting professional core ethical values, outside viewpoints, and the need to review additional alternative actions.

Stakeholder analysis, for example, is critical because it allows the decision maker to appreciate how others may view a particular situation differently from one another and from the decision maker. Values clarification assists the decision maker to push aside self-interest and short-term gains to understand the values at play in the situation under consideration. Pressure to ascertain the pertinent values therefore brings up awareness of and alters the emphasis of self-serving motivation too often used to control decision making. Looking at a variety of options can open up one's thinking and allow for a productive brainstorming of ideas. Often a decision maker in a stressful situation believes that there are limited options from which to choose. However, with time and the directive to think outside the parameters initially given, more options from which to choose are found. It has been the experience of many professional ethicists that a better option is to address the situation by taking time to list more alternatives than those that were initially presented.

Beyond the reasons given above for the use of a decision model, two additional purposes need to be considered. First, the use of a decision model allows one to take time just to think and calm down. Unfortunately, some professionals believe that a quick and forceful decision will project a sense of strong leadership. This approach is shortsighted and often leads to antagonistic relationships over the issues of power and control. Time and energy is then wasted in apologizing and attempting to mend the broken fences that might not have cracked if the original decision had been made more carefully. Second, a model that involves input from others allows for the building of respectful relationships. Often the actual final decision becomes less

important and will cause less acrimony if others feel that they were involved and their opinions respected, even if they were not followed.

Many ethical decision models have been proposed over the years. For example, the AICPA's most recent update of its Code of Professional Conduct includes a version of the AICPA's longstanding approach to resolving ethical "conflicts" (2014). The AICPA model is focused primarily on how "to best achieve compliance with the rules and law" (p. 31). Most models developed by ethicists are intended to be used for a wide range of ethical dilemmas. Below we offer an ethical decision model that incorporates compliance with professional standards and law and also provides a broader framework that can be applied to most ethical dilemmas that may be faced by a professional accountant.²³ While this model has been found helpful to many in the accounting profession because it is perceived as user-friendly, each professional should take time to create or find a model that is personally comfortable and useful. The model includes eight major steps, described below.

1. Define the problem carefully and be certain that all pertinent facts have been gathered. Too often we act without taking time to obtain necessary information.
2. Research professional standards, laws, and regulations that are relevant to the situation. One's duty as a professional requires adherence to professional standards. AICPA guidance for ethical conflicts states that "the member may be required to take steps to best achieve compliance with the rules and the law" (2014, 31). Professional standards also include professional values, such as integrity and objectivity, in the code of conduct. These values may also be reviewed as part of step 4. When professional standards provide a clear guidance for an ethical dilemma, except in the most unusual circumstances, a CPA should comply with professional standards and the law. However, when professional standards are ambiguous or not applicable, other parts of the decision model may be prioritized (see step 6 below).
3. List all of the parties that you believe may be affected by the decision (stakeholders). This part of the decision model is based on stakeholder analysis, under which responsible ethical decisions involve considerations of the impact of the decision on the network of persons who have a stake in the decision. Accordingly, a decision that does not take into account the way in which it may affect others is not ethical, regardless of its actual consequences.
4. List all the personal and work related values that are involved in the decision. These values may include those listed earlier in the article. This portion of the decision model is based on a theory of absolute values. According to this theory, there are certain ethical principles that are universal and that impose an absolute duty on a person. Immanuel Kant referred to such duties as 'categorical imperatives' because they allow for no exception.
5. List all possible alternative actions. Often one believes that there are only a limited number of options, when in fact there are several others that may resolve the situation in a way that produces either the greater good or the least harm. This aspect of the decision

²³ Our proposed model has been adapted from several sources, primarily Michael Josephson, Josephson Institute, *supra*, (2002), Thomas Beauchamp and Norman Bowie (1983), Manuel Valasquez, *Business Ethics: Concepts and Cases*, Prentice Hall, Englewood Cliffs, NJ (1982), and Markkula Center for Applied Ethics (2014). See Markkula Center for Applied Ethics, *Making an Ethical Decision*, available at www.scu.edu/ethics/practicing/decision/making.pdf (2014). The model is also consistent with, but broader than, the AICPA's steps for resolution of an ethical conflict, AICPA, ET Section 1.000.020.02-.06 (2014).

model is based on utilitarianism, a theory that requires the ethical person to evaluate the likely consequences of contemplated conduct and weigh the good the act may produce against the harm it may cause.

6. Choose and prioritize:
 - A. Determine which professional standards, laws, or rules pertain to the decision. Identify all options that fall within professional standards. The AICPA's conceptual frameworks may be useful in this step.
 - B. Of all the parties you listed above, select the one that you believe is most important for purposes of making this decision.
 - C. Of all the values you listed above, select the one you believe is most important for purposes of making this decision.
 - D. If professional standards are not clear or are inapplicable, of all the options you listed above, select the one that you believe will cause the greatest good, or least harm.
7. Make a decision based on the above priorities. The professional accountant will almost always deem professional responsibilities as more important than stakeholders and personal and organizational values.
8. Devise a strategy that will effectively implement your decision.

Although the ethical decision model is highly effective for a group decision process, it is also very appropriate as a tool for an individual. However, it cannot be overemphasized that one should not make a decision alone. The AICPA guidelines for ethical conflicts recommend that members consult with others within their organization, or even outside of their organization, including the possibility of talking with an "appropriate professional body or legal counsel" (2014, p. 31).²⁴ As noted earlier, it may be a good idea to consult with a trusted friend or mentor who is not in the profession. Consultation can help insure that a thorough and thoughtful decision is made. Within an organization with a good ethical climate, consultation and collaboration will normally result in a better decision and may protect the organization from uninformed or ill-advised individual decisions.

All of these suggestions and tools are simply a way to raise the consciousness that ethics is not only a choice but that it requires work to create a supportive environment for making ethical decisions. In effect, being an ethical CPA means that one has built a strong foundation of personal ethics that becomes part of one's self-reflection as an ethical CPA.

Recent Changes in Accounting Ethics Education

Ethics education of professional accountants requires attention to ethics in academic programs (initial professional development) and while practicing accounting (continuing professional development). Fisher et al. (2007)²⁵ noted that while ethics CPE requirements were increasing after the accounting scandals in the early 2000s, ethics courses required in business schools were actually declining. They called for stand-alone ethics classes in accounting programs to provide a foundation for broader coverage of ethics in CPE courses taken by practicing accountants. In this brief section, we provide selected information about the

²⁴ AICPA Guidelines, 31 (2014).

²⁵ Dann Fisher, Diane Swanson & Jaime Schmidt, Accounting Education Lags CPE Ethics Requirements: Implications and a Call to Action, *Accounting Education: An international journal*, Vol 16(4) at 345 (2007).

University in California²⁶ and the California requirements for ethics for CPA licensure and ethics CPE.

Since the 2007 issue on CPD in *Accounting Education: an international journal*, the state of California has made modest changes to the requirements for ethics CPE, but has dramatically changed its ethics requirements for CPA licensure. Since January, 2010, the California State Board of Accountancy (CSBA) requires 4 hours of general (behavioral ethics) ethics for every two-year reporting period, plus 2 hours of regulatory review (regulatory ethics) within every six-year period. Thus, the CSBA has balanced its ethics requirements between a more rules-based compliance orientation (regulatory ethics) and a more principles-based approach. In 2011, the California legislature passed Senate Bill 773 which requires 10 semester hours of ethics education for CPA licensure. This requirement became effective January 1, 2014. Initially, there is no stand-alone ethics course required, and there is a rather wide range of accounting, business, and other courses which qualify toward the requirement. A maximum of three semester hours can be taken in the disciplines of philosophy, religion, or theology. Beginning January 1, 2017, as part of the 10 semester hours, a CPA applicant must take a “minimum of three semester or four quarter hour units in courses devoted to accounting ethics or accountants’ professional responsibilities.”²⁷ Even though numerous types of courses may be used to satisfy this requirement, it is a significant ethics requirement for a state to impose. The wide range of courses that may satisfy the requirement and the delay in the required hours devoted to accounting ethics were included to provide accounting programs time and flexibility to implement these changes.

The authors of this paper teach ethics at University in California and also teach ethics CPE. The Department of Accounting introduced a stand-alone accounting ethics and professional responsibilities course in 2007, which became a required course for accounting majors in 2008. The accounting program is compliant with both the 2014 and 2017 California CPA licensure requirements. The authors of the paper have used the tools recommended above, including a variation of the ethical decision model, in business and accounting ethics classes, as components of selected classes, and in many ethics CPE courses. Feedback from course evaluations and anecdotal evidence from alumni suggest that the quantity and quality of ethics education at University in California have an impact on ethical awareness and ethical decision making beyond the classroom.

A Survey on Ethics: Development and Results

Development of the Survey

As part of our goal to consider the implications of principles-based and compliance-based CPE ethics education, a survey instrument was developed and distributed to CPAs taking an ethics CPE course. The survey consists of three parts: demographic and professional questions, six self-constructed scenarios involving ethical dilemmas that a professional accountant might face, and items that comprise the ethics position questionnaire (EPQ; Forsyth, 1980).

In developing the demographic and professional questions, the objective was to obtain information about the subjects’ professional experience and current position, and their opinion of

²⁶ For this manuscript we will refer to the university at which the authors teach, which is located in California, as “University in California” to keep the identity of the authors anonymous.

²⁷ Details are available at the CSBA website at http://www.dca.ca.gov/cba/applicants/ethics_study.shtml.

the ethicality of themselves, other CPAs, and their clients. Five professional scenarios were created. Each scenario presented the respondent with four options for what the CPA in the scenario should do. Scenarios ranged from situations in which professional responsibilities are relatively clear in professional rules to situations in which there are no specific rules and/or the facts are more ambiguous. The scenarios included in the survey are reproduced in the Appendix. For purposes of this article, the numbers assigned for the scale used to measure the level of ethicality for the four options are included parenthetically (1 for least ethical, 4 for most ethical). Finally, the Ethics Position Questionnaire (Forsyth, 1980) was included in the survey.

The Ethics Position Questionnaire (EPQ) measures the idealism and relativism of individuals using items measured on a scale from strong agreement to strong disagreement. Individuals who score high on the idealism scale “assume that desirable consequences can, with the ‘right’ action, always be obtained” (Forsyth, 1980, p. 176)²⁸. Items on this scale include statements such as, “A person should make certain that their actions never intentionally harm another even to a small degree,” and, “It is never necessary to sacrifice the welfare of others.” Relativism reflects the fact that “some individuals reject the possibility of formulating or relying on universal moral rules when drawing conclusions about moral questions” (Forsyth, 1980, p. 175). Items on this scale include statements such as “There are no ethical principles that are so important that they should be a part of any code of ethics,” and “What is ethical for everyone can never be resolved since what is moral or immoral is up to the individual.”

Prior Relevant Studies

Ziegenfuss and Singhapakdi (1994)²⁹ developed three ethical scenarios for a sample of members in the Institute of Internal Auditors (IIA). They found that higher ratings of the IIA Standards of Conduct in the IIA Code of Ethics were positively related to levels of ethical perception of the three scenarios. Idealism and relativism played a moderately minor role in the ethical perception of the respondents. Relativism was negatively related to one of the scenarios, while idealism was positively related to a different scenario (both at the .10 level). Holding the CIA (certified internal auditor) designation had no impact on the ethical outcomes. Shaub, Finn, and Munter³⁰ use the term “ethical orientation” to describe the components of idealism and relativism. For a sample of Big 6 auditors, they found that idealism and relativism were negatively correlated (.01 level). Using path analysis, they found that idealism and relativism were both negatively associated with ethical sensitivity (at .053 and .05 levels, respectively). Sparks and Hunt (1998)³¹ used a marketing scenario to examine the ethical sensitivity of marketing students and marketing professionals. Relevant to this study, they found that professional socialization was not associated with ethical sensitivity, while ethics education and relativism were negatively associated with ethical sensitivity.

²⁸ See Donelson Forsyth, A Taxonomy of Ethical Ideologies, *Journal of Personality and Social Psychology*, Vol 39(1) at 175 (1980).

²⁹ Douglas Ziegenfuss & Anusorn Singhapakdi, Professional Values and the Ethical Perceptions of Internal Auditors, *Managerial Auditing Journal*, Vol 9(1) at 34 (1994).

³⁰ Michael Shaub, Don Finn & Paul Munter, The Effects of Auditors’ Ethical Orientation on Commitment and Ethical Sensitivity, *Behavioral Research in Accounting*, Vol 5 at 145 (1993).

³¹ John Sparks & Shelby Hunt, Marketing Researcher Ethical Sensitivity: Conceptualization, Measurement, and Exploratory Investigation, *Journal of Marketing*, Vol 62 at 92 (1998).

Survey Results

The survey was distributed to CPAs in CPE ethics courses at various locations in the United States. There were 133 CPAs who volunteered to complete the survey. After eliminating 33 surveys due to lack of sufficient data, our final sample for analysis includes 100 surveys. Demographics of our respondents and the ways in which the demographics influence their ethical orientation and ethical decisions are important considerations. Therefore, measures from the survey are examined in various ways, including analysis of descriptive data and examination of the statistical relationships among the variables measured and how certain demographic data and ethical orientation are related to the decisions respondents made in each of the six scenarios.

Table 1 presents descriptive data for the variables measured, as well as a comparison of the data for gender and whether the respondents currently work in public accounting firms. In the sample are 62 males and 38 females and 57 of the 100 reported that they work in a CPA firm. The survey asked respondents three questions about the ethical level of “most CPAs,” “yourself,” and “your clients” from “not very ethical” to “very ethical.” Table 1 shows that respondents, on average, rated themselves highest, followed by their fellow CPAs, and then their clients. On average, the respondents have a substantial amount of experience (about 22 years, with a range from 1 to 46 years) and are about 50 years old (range from 25 to 73). Male respondents have more experience and are older than female respondents. Respondents in a CPA firm have statistically more experience than those CPAs not practicing in CPA firms. Male respondents rate job satisfaction and the ethicality of CPAs statistically higher than do female respondents. Respondents practicing in CPA firms rate their own ethicality lower than do those not in CPA firms (at .10). Reliability for the idealism and relativism measures in our study are .884 and .724, respectively (measured by Chronbach’s alpha). These are comparable to prior studies and exceed .700, normally considered to be sufficient for reliability. For idealism and relativism, there are no significant differences for gender or practice type. The descriptive statistics for the scenario outcomes are discussed below.

Table 2 presents the univariate associations among all of the variables, with the exception of age.³² Experience was found to be unassociated with idealism, but negatively correlated with relativism, which is consistent with Forsyth’s findings about age.³³ Similar to prior studies of accountants, idealism and relativism are negatively correlated³⁴ (e.g., Shaub et al., 1993; Douglas, Davidson, and Schwartz, 2001). The respondents’ opinions of ethical levels of themselves, CPAs, and clients are all highly correlated; job satisfaction is also positive and significantly associated with the perceived ethical levels. Although the causality is not clear, those more satisfied with their jobs perceive higher ethicality in themselves and others, and have higher levels of idealism. Further, CPAs who think more highly of their own ethicality have lower levels of relativism. The six responses for the five scenarios are only selectively associated with the other variables. The scenarios are further analyzed as to their outcomes through regression analysis and descriptive data of frequency responses later in the paper.

³² Age is highly correlated with experience (years as a practicing CPA; .81 and a p value=.000). For purposes of this study, professional experience is viewed as a more significant factor and thus age was excluded from the analyses.

³³ Forsyth, *supra* at 181.

³⁴ Shaub, *supra* at 145–169. See also Patricia Douglas, Ronald Davidson, and Bill Schwartz, The Effect of Organizational Culture and Ethical Orientation on Accountants’ Ethical Judgments, *Journal of Business Ethics*, Vol 34 at 101 (2001).

The outcomes of interest (idealism, relativism, and scenario choices) are investigated using correlations, multiple regression, and frequency analyses. The survey includes five scenarios with six outcomes (Scenario 1 has two parts). The empirical results strongly suggest that the scenarios represent a variety of types of ethical dilemmas. Table 1 reveals that there is a wide range of means for the scenario outcomes, with a low mean of 1.59 for Scenario 5 to a high mean of 3.86 for Scenario 3. Table 2 shows that the variables significantly associated with the various outcomes are limited and selective. As discussed below, regression results suggest that there are empirical issues with some of the regression models, particularly for some of the scenario outcomes. Therefore, the nature of the scenarios and the frequencies of the responses are also considered later in this section.

Regression analysis is used to consider the impact of multiple variables on the outcomes of interest. We first regress the demographic and ethical perception variables on idealism and relativism. Subsequently, idealism and relativism are included in the regression models with the scenario outcomes as the dependent variables. OLS was employed for regression for our analyses.³⁵ The regression results are presented in Table 3. The results for two of the scenario outcomes (SA1b and SA2) are eliminated because the F-stat indicates that the models are not a good fit. For the idealism measure, consistent with the correlation results, only job satisfaction is significant. For the relativism measure, CPAs with more experience have lower levels of relativism, but those who rate the ethics of other CPAs more highly have higher levels of relativism. For the four scenario outcomes included in Table 3, there are no independent variables with a consistent impact on outcomes. Therefore, the scenario results are analyzed for each separate scenario below using the Table 3 regression results and the Table 4 frequency results. Each scenario provides for a decision with options from 1 through 4 (recoded for our purposes from 1 being least ethical to 4 being most ethical).

Scenario 1 involves a situation in which a company is manipulating financial statements to their own ends. Part a. of the scenario provides information from the viewpoint of the CFO, while Part b. is from the perspective of the auditor. Professional standards are clear that CPAs, either as auditors in public accounting or financial statement preparers in corporations, should insure that financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). In that regard, it also is clear in the professional standards that an auditor must either give a qualified or adverse opinion about non-GAAP statements, and may want to consider withdrawing from the engagement. The clarity of professional standards is reflected in the outcome decisions. A large majority of respondents answered either 3 or 4 for both parts (SA1a and SA1b). For the decision about the auditor (SA1b), the largest number of respondents recommend withdrawal from the engagement if the company does not agree to proper consolidation of the financial statements (see Table 4). There are no significant differences when comparing gender and practice type (see Table 1). Among the independent variables, only experience is associated with the decision for SA1b on a univariate basis (positive at .10, Table 2), while job satisfaction (positive at .05) and idealism and relativism (negative at .05) are associated in the regression model with the decision for SA1a (Table 3).

Scenario 2 involves a manager in a CPA firm who is considering leaving the firm to start his own firm and may take some clients and firm personnel with him. A non-compete agreement does not exist. In this scenario, there are no professional standards that specifically apply. In fact, laws vary by state as to the legality of non-compete agreements and if they are legal, how they

³⁵ We also examine the scenario outcome measures as interval variables and run logistic regression for all models. The results do not differ from those presented for OLS regressions.

would be enforced. The mean response is 2.42, and this scenario has the largest standard deviation (1.00, see Table 1). This decision outcome is not significantly related to any other variable. While 40 respondents selected the second option, every option was chosen by 18 or more respondents. The decision outcomes were ranked from least ethical (give short notice and take the clients and staff personnel) to most ethical (stay with the firm or take no clients or personnel). This ranking is based primarily on ethics of consideration of others and loyalty to the employing accounting firm. An ethical dilemma such as this one that is not covered directly by professional standards (i.e., the rules) lends itself to a broader discussion using other ethical approaches.

Scenario 3, similar to Scenario 1, involves non-GAAP financial reporting. In this scenario, professional standards provide a very clear answer. This is reflected in the decision choices, in which 92 of the respondents selected the most ethical response—insisting on bringing the financial statements into line with GAAP. Although there was not much variation in the responses, females are somewhat less likely to choose the most ethical option (at .10, see Tables 1, 2, and 3) and those rating the ethicality of clients higher are less likely to choose the most ethical option (at .05, see Tables 2 and 3).

Scenario 4 presents a tax situation in which a CPA has developed a tax shelter and the method of billing clients for the tax shelter is in question. There are no specific professional standards that exist for this situation. Therefore, respondents would need to apply another ethical framework or orientation. In this scenario, the ethicality of the decision outcomes was again ranked primarily on the consideration of and fairness to others (i.e., higher levels of self-interest are ranked lower). Whether the respondent practices in public accounting is the most salient variable that impacts the decisions for this scenario. Those practicing in CPA firms are much more likely to choose lower level options (higher self-interest) than those not in CPA firms (at .01, Tables 1, 2, and 3). The significant difference between males and females (at .10, Table 1) does not follow through for correlations and multiple regression analyses. Those who view CPAs as more ethical are more likely to choose more ethical options (at .05, Table 3). However, only 17 respondents chose the lowest ethical level, in which they would charge the client the most, with no explanation (Table 4). The largest single category choice was charging more, but explaining the billing to each new client (47 respondents, Table 4).

Scenario 5 involves embezzlement by the CFO of an audit client, who had previously been employed by the auditor. In some ways, this scenario has the most ambiguity of all of the scenarios in terms of the facts and options. Under recent standards, auditors do have some responsibility to audit for and find fraud that is material to the financial statements. The first ambiguity in the scenario is whether the amount embezzled is material. Though it is a relatively large amount (\$500,000), the client's attorney is asserting negligence, but the auditor is maintaining that the amounts are not material. Also, in the four options presented, the ethicality was ranked with the assumption that the auditor has liability. Therefore, on a statistical basis, there is little impact from the independent variables. There is somewhat more generosity toward the client by the female respondents (at .10, Tables 1 and 2; at .05, Table 3) and those with more idealism (at .10, Table 2). Overwhelmingly, respondents selected the "lowest" ethical option (63 selected that a proper audit was conducted and there should be no responsibility by the auditor). This scenario is actually a good combination of professional standards and broader ethical approaches. Due to the ambiguities of the materiality and professional responsibility for fraud, a review of the appropriate standards is a good starting point for discussion. The options then

provide for an excellent conversation about the potential legal and ethical issues of the responsibility of the auditor if there is some negligence involved.

Examples of Applying the Ethical Decision Model

In this section, we discuss how the recommendations and tools described above could be applied to the scenarios in this study. For this study, the scenarios were presented without discussion, and participants chose their responses without consultation. The results, presented earlier in this paper, demonstrate that participants, as a group, are much more likely to choose higher levels of ethical actions when the scenario is more directly related to specific professional standards and the facts are less ambiguous. Even for cases when the professional standards are clear, the use of tools such as the ethical decision model can clarify decisions and assist in their implementation.

Scenarios 1a, 1b, and 3 had much higher levels of agreement than did the other scenarios. These three scenarios provided cases in which GAAP was not being followed. When using the ethical decision model for these scenarios, it would become apparent that choices that are consistent with following professional standards should be a priority. Despite prioritizing the professional standards for an ethical solution, a stakeholder analysis and evaluation of personal and organization values is still valid for coming to a decision, but particularly for a strategy to implement that decision. A CPA cannot subordinate his or her professional judgment to either satisfy an important stakeholder or to be compassionate. However, understanding the perspectives of different stakeholders and considering personal and organizational values can elucidate existing conflicts inherent in the situation. It is important to note that making a decision is not the last step in the model. Even when one is confident about the most ethical decision, the implementation of the decision will have an impact on others and may challenge some personal values. Using the entire model will provide a stronger basis for understanding and communicating the decision to others, thus helping to make the final decision more effective.

Applying the full ethical decision model is critical in situations when professional standards may not be clear or are not applicable and the facts may be ambiguous. Scenarios 2 and 4 have no specific professional standards, rules, or laws that clearly apply. Therefore, it is likely that stakeholder analysis and/or personal or organization values will be most important in making a decision. As stated in the results section, we based the ethical ranking of the alternatives on the consideration of other stakeholders and the value of loyalty to the accounting firm for scenario 2. Similarly, for Scenario 4 we ranked alternatives that involved self-interest lower and the interest of others (in this case, the clients) higher. In a CPE class, other points of views and values could emerge. Participants would refer to their own values as a reference, and a discussion among all participants would provide the role of consultation for coming to a decision based on a thorough analysis.

Scenario 5 is interesting in that it does involve professional standards, but it also contains ambiguities about facts and the extent to which specific standards apply. The case provides a good opportunity to review ethics and auditing standards for independence and for auditing in addition to reporting fraud. Although it is stated that \$500,000 has been embezzled by Fred, the former auditor, it is not clear whether that amount is material in any given year, or even cumulatively. In a discussion, it can be determined what additional facts may be needed, and how they may be used in applying professional standards. Stakeholder analysis and personal and organizational values can also inform the discussion and ultimate decision. As revealed in the

results section, females and those with higher levels of idealism were more likely to assign higher levels of responsibility to the CPA firm (i.e., award more damages).

CONCLUSIONS

The accounting profession has experienced significant challenges resulting from the accounting scandals of the early 2000s. Legislation and regulation has diminished the profession's authority over auditing standards for public companies, increased monitoring of audit firms that conduct public company audits, and generally intensified expectations for ethical behavior of CPAs and CPA firms. This paper considers ethics education for CPAs, one important aspect of the accounting profession's brand rehabilitation. We find that ethics continuing education has increased over the past decade, as measured by the number of states specifically requiring ethics CPE. However, there is no systematic evidence that a broader approach to ethics CPE is being adopted. Despite the impetus for a more conceptual and broader approach to ethics by global standard setters, the AICPA is just now making substantive changes to its Code. It is likely that it will take time for this approach to deeply impact practitioners and for CPE to reflect this change.

Results of a survey taken by 100 CPAs in CPE programs suggest that CPAs have higher levels of agreement on ethical decisions for cases when professional standards are clear and facts are unambiguous. There is a large variance in the choices of ethical decisions by respondents when professional standards are unclear or not applicable. Also, the results demonstrate that there are few significant differences in views of ethicality of others, idealism, relativism, and ethical responses to cases by gender or whether the CPA is employed by a CPA firm. We conclude that the survey results also indicate the need for a broader, principles-based approach to ethics CPE.

This paper includes recommendations on how tools, such as a comprehensive ethical decision model, can be incorporated into ethic CPE courses, thereby providing CPAs with a framework for practitioners to make better, more informed decisions when ethical conflicts arise. Such an approach in accounting programs and CPE courses can accelerate a meaningful adoption of principles-based ethics by the accounting profession. The adoption of clear ethics requirements as part of the education of accounting students is likely to provide a beneficial foundation for them as they enter practice. A stronger coordination of ethics education between accounting programs and accounting professionals, including appropriate CPE ethics is still needed. Also, more research is needed with regard to the impact of ethics education on the attitudes and behavior of practitioners.

TABLE 1 Descriptive Statistics and T-Tests for Gender and CPA Firm

Variable	Scale	Sample Mean	Sample Std. Dev.	Gender			CPA Firm/Non-CPA Firm		
				Male Mean	Female Mean	t-Stat (p-value)	CPA Firm Mean	Non-Firm Mean	t-Stat (p-value)
Experience	NA	22.04	11.81	23.99	18.81	.03**	25.15	18.47	.01***
Age	NA	49.62	11.67	51.75	46.18	.02**	51.28	47.90	.16
Job Satisfaction	5 pt.	3.85	.99	4.00	3.62	.06*	3.87	3.85	.91
Ethical level of CPAs	5 pt.	3.89	.69	3.98	3.74	.08*	3.88	3.90	.86
Ethical level of self	5 pt.	4.48	.54	4.55	4.37	.11	4.38	4.58	.07*
Ethical level of clients	5 pt.	3.45	.72	3.59	3.23	.02*	3.49	3.37	.42
Idealism	7 pt.	4.61	1.18	4.57	4.67	.66	4.68	4.50	.46
Relativism	7 pt.	4.08	.90	4.10	4.04	.73	4.09	4.04	.78
Scenario 1a	4 pt.	3.03	.63	3.05	3.00	.71	2.98	3.12	.28
Scenario 1b	4 pt.	3.55	.67	3.56	3.55	.97	3.59	3.51	.58
Scenario 2	4 pt.	2.42	1.00	2.35	2.54	.37	2.45	2.32	.53
Scenario 3	4 pt.	3.86	.51	3.93	3.74	.06*	3.89	3.80	.40
Scenario 4	4 pt.	2.35	.95	2.22	2.55	.09*	2.02	2.78	.00***
Scenario 5	4 pt.	1.59	.90	1.46	1.79	.08*	1.56	1.60	.84

*p≤.10, **p≤.05, ***p≤.01

TABLE 2 Correlations of Variables of Interest

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Gender	1.00														
2. Experience	-.21**	1.00													
3. CPA firm	-.13	.28** *	1.00												
4. Job satisfaction	-.19*	.18*	.11	1.00											
5. Ethical-CPAs	-.17*	.12	-.02	.38** *	1.00										
6. Ethical-self	-.16	.27** *	-.18*	.25**	.33** *	1.00									
7. Ethical-clients	-.25**	.03	.08	.36** *	.26** *	.26**	1.00								
8. Idealism	.04	.13	.07	.23**	.06	.00	.09	1.00							
9. Relativism	-.03	- .26** *	.03	-.14	.13	-.20**	-.09	-.24**	1.00						
10. SA1a	-.04	-.14	-.11	.12	-.08	-.16	-.08	-.17*	-.10	1.00					
11. SA1b	-.00	.18*	.06	.01	-.06	-.05	-.09	-.05	.01	.22**	1.00				
12. SA2	.09	-.03	.06	-.06	-.03	-.02	-.05	.07	.07	.12	.07	1.00			
13. SA3	-.19*	-.00	.09	-.02	-.21**	-.12	.09	-.05	.02	.11	-.01	-.06	1.00		
14. SA4	.17	-.24**	- .40** *	-.01	.15	-.04	-.10	.11	-.04	.10	-.10	.17*	.06	1.00	
15. SA5	.18*	.04	-.02	-.15	-.03	-.14	-.15	.17*	.06	-.05	-.17*	.14	.09	.08	1.00

*p≤.10, **p≤.05, ***p≤.01

Gender is coded as female=1 and male=0; CPA firm is coded as practices in a CPA firm=1, else 0.

TABLE 3 Regression Results

<i>Independent Variables</i>	Dependent Variables					
	<i>Idealism</i>	<i>Relativism</i>	<i>SA1a</i>	<i>SA3</i>	<i>SA4</i>	<i>SA5</i>
Gender	.352	-.236	-.159	-.210*	.193	.406**
Experience	.015	-.024***	-.010	.002	-.004	.015
CPA firm	.072	.116	-.083	.029	-.761***	-.122
Job satisfaction	.279*	-.122	.153**	.009	-.075	-.107
Ethical-CPAs	.010	.404***	-.031	-.205**	.310**	.061
Ethical-self	-.254	-.316	-.191	-.104	-.205	-.209
Ethical-clients	.102	-.092	-.078	.110	-.068	-.068
Idealism			-.141**	-.020	.108	.131
Relativism			-.157**	.023	-.039	.115
R²	.089	.202	.183	.132	.250	.142
Adjusted R²	.013	.135	.094	.036	.168	.047

*p≤.10, **p≤.05, ***p≤.01

Note: Results for dependent variable models with no significant independent variables and a large F statistic are excluded from this table (SA1b and SA2).

TABLE 4 Frequency Results for Scenario Outcomes

<i>Decision Choice</i>	<i>SA1a</i>	<i>SA1b</i>	<i>SA2</i>	<i>SA3</i>	<i>SA4</i>	<i>SA5</i>
1	1	1	18	1	17	63
2	15	7	40	3	47	20
3	64	27	22	4	20	10
4	20	64	19	92	16	6
n	100	99	99	100	100	99
Mean	3.03	3.55	2.42	3.86	2.35	1.59

APPENDIX

Scenarios

Note: Survey participants were provided four answers to choose from for each scenario. For purposes of analysis, answers were recoded from least ethical (1) to most ethical (4). The recoded values are in parentheses for each scenario below.

Scenario A1a

Max is a hardworking owner of a paving company he began 40 years ago and has successfully employed his three children and subsequent grandchildren in the business. A consultant has helped implement a new structure of ownership that allows Max to have complete control of the entire business, but also provides advantages of transferring assets to children and grandchildren, and at the same time facilitates manipulation of reported net income. Basically four family corporations have been set up. The primary Home Corporation (Home Corp) owns most of the assets and 19% of each of the other three corporations. Home Corp is owned 49% by Max, 10% each by the three children, and the remaining percentage between the grandchildren. Corporation One (Corp I), with Child One as president and chief operating officer, is owned 19% by Home Corp, 17% by Child One, 15% each by child two and three, with the remaining 34% split between grandchildren. Corp I operating activities are extracting and crushing road materials from two gravel pit locations. Corp II and Corp III have similar ownership and operate primarily to: II) transport the road paving materials, and III) lay the pavement. None of the three corporations has substantial business activities with other outside parties.

Max sets the land, building and equipment rental rates for Corp I, II, and III as well as prices for the extraction, transportation, and paving operations. This allows Max to generate and report about any desired profit level. The ownership has been structured so that no one person or entity has more than 19% ownership in Corp I, II, or III. For tax purposes all four business units are consolidated. Based on strong reported earnings in the financial statements, Home Corp has negotiated a very favorable line of credit with the local bank and is currently seeking to extend it. Fred is a CPA and CFO for Home Corp as well as overseeing financial and accounting activities for all four corporations. Which of the following best represents what you think Fred should do?

1. **(4)** Fred should resign as CFO before allowing the clear manipulation of reported profits.
2. **(3)** Fred should strongly recommend that consolidated statements would best represent business activities
3. **(2)** Fred should explain why consolidated statements would be preferred but clearly state that final decision is up to Max.
4. **(1)** Fred has no alternative but to go along with the existing corporate setup because he cannot show that it is a clear violation of GAAP.

Scenario A1b

Mary, a CPA, has been engaged to audit the financial statements of Home Corp. for the purpose to further extend the favorable line of credit at the local bank. Max explains to Mary how he manipulates the rental and product pricing to report large profits for Home Corp, and proudly feels certain that everything is in accordance with GAAP including a hazy related party transaction footnote. Mary agrees that the accountancy treatments do not violate existing GAAP rules for business combinations and that adequate related party disclosure has been included in the financial statements. She takes it a step further and suggests development of a computer program that would allow Max to input his desired profit results for Home Corp. The algorithm would compute the optimal rental and product prices to achieve Max's desired profit results for all four corporations. The program would allow Max to quickly and more accurately change prices on a monthly basis instead of making guesses throughout the year and then retroactively apply rents and prices for corporate transfers after year end. Which of the following best represents what you think Mary should do?

1. **(4)** Mary must insist on consolidation of the companies because it better portrays operations and economic reality to the bank. If Max does not agree, Mary should withdraw from the engagement.
2. **(3)** Mary should not develop the computer program to help Max improve his pricing schemes and should strongly recommend consolidation.
3. **(2)** Mary cannot personally develop the program and also lead the audit, but could have other professionals from her firm develop the program while she performs the audit for the statements of Home Corp only.
4. **(1)** There is no problem with Mary developing the program and also issuing an audit report for Home Corp only as long as the new independence rules for non-attest services are followed.

Scenario A2

John has been with the same CPA firm for nine years since graduation from college. John has performed well for the firm, is now manager in charge of several audits, and in line to be considered for partnership next year. He is considering leaving the firm to start his own practice. After talking with several of his clients, John is assured that 4 or 5 key clients will move their audits with John rather than staying with the existing firm. Neither John nor other members of the firm are asked to sign non-compete agreements before admission to partnership in the existing firm. John has also talked with the two most promising staff personnel and they have indicated that they will resign their current positions to join John's new firm.

The AICPA Code of Professional Conduct reserves Section 400 for "Responsibilities to Colleagues" but has deleted all rules, interpretations, and rulings associated with responsibilities to colleagues. Therefore, if John decides to leave his current firm and takes key clients and

promising staff members with him, he cannot be formally charged with illegal or unethical behavior. Which of the following best represents what you think John should do?

1. **(1)** The norms and practices of the profession permit John to leave with two weeks notice and take the clients and staff personnel with him.
2. **(2)** John should clearly indicate his intentions to the existing partners with reasonable time for transition of clients and personnel.
3. **(3)** John should attempt to reach an agreement with the existing firm to pay a small amount for the clients and personnel.
4. **(4)** John should either stay with the existing firm or leave without taking any of the clients or personnel.

Scenario A3

Lightbolt Oil is in the oil and gas exploration and development business, went public two years ago but management stills owns the majority of the common stock. In the past two years, Lightbolt has spent a great amount of resources in obtaining 3-D seismic and operating leases for several potential drilling sights internationally and has acquired substantial debt. This year company management has blatantly double recorded revenues at several of the existing wells, has capitalized many operating expenses, and has failed to record substantial debt incurred in the last quarter. Art, the manager of the audit engagement, becomes aware of several of the fraudulent revenue entries made by Lightbolt and one of the expense capitalization entries. When Art confronts management with the evidence of wrongdoing, they readily admit the fraudulent entries, disclose others yet uncovered by the audit, and inform Art of the unrecorded debt. The reasons given are that *not* manipulating the books would result in financial disaster for all involved: investors, creditors, employees, and management. They are highly confident that operations will be highly profitable within the next 10 to 12 months. After this relatively short period, operations should provide positive returns for all the stakeholders. Their perspective is that if revenues, expenses and debt were properly recognized in the financial, covenants would be broken that would result in virtually certain Chapter 11 reorganization. This would result in all parties (investors, creditors, employees, and the owner/managers) suffering substantial losses. By buying some time with the questionable reporting, all of the stakeholders will soon enjoy positive financial rewards. They need Art's help. Art believes the company will turn around soon. Which of the following best represents what you think Art should do?

1. **(4)** Art must insist on adjustments to bring the financial statements in accordance with GAAP regardless of the consequences.
2. **(2)** Art should reconsider more liberal revenue recognition GAAP as well as the level of materiality cutoff and acceptable level of audit risk to permit a substantial number of the questioned entries.

3. **(3)** Art should work with management to find some gray area accounting methods that can be retroactively applied to mitigate some of the revenue recognition problems, but insist on proper accounting and disclosure for everything else.
4. **(1)** In order to help all of the parties involved, Art should rework some of the audit schedules to indicate that no problems were found and allow the financial statements to be issued as is in order to help the greatest number of people.

Scenario A4

Linda, a CPA, has stretched her brain and developed a very aggressive and very innovative tax shelter for client Joe. She has explained to her client that the IRS may well challenge the shelter, but that it saves Joe many tax dollars and should be defensible in tax court. Linda has spent over 200 hours in research and remodeling of the tax shelter and charges Joe on the basis of the hours worked.

Linda recognizes that several of her clients as well as numerous other successful small businesses could benefit from similar tax shelters. With only 8 to 10 hours each, Linda has tailored similar shelters for three additional clients and has charged them amounts similar to what she charged Joe. She has typically billed all clients on an hourly basis modified slightly for special circumstances. In this situation Linda believes her innovation deserves all that she can charge her clients as long as she is still saving them tax dollars. Linda considers the above actual hours billing to be an offset for other client fee adjustments, for time on potential clients who do not hire her, and for her hours of professional development. She has identified about 50 additional potential clients and has written them letters explaining that she has a tax plan that could save them many tax dollars. Her objective is to use the shelter as a foot in the door for other continuing services to the new clients. She would spend less than 10 hours tailoring the package for each client, charge them for the equivalent of about 100 hours work, still save them significant tax dollars, and start providing them with other professional services. Which of the following best describes what you think Linda should do?

1. **(1)** Linda's current plan is permissible because it is not illegal, does not violate ethical rules, and is the way most accountants bill for similar work.
2. **(4)** Linda should attempt to average out charges for the previous and potential clients based on the total number of hours worked.
3. **(2)** Linda's charging for more than actual hours worked is acceptable as long as she explains the billing to each new client.
4. **(3)** Linda should charge only for her actual hours worked on each client.

Scenario A5

Fred is CFO of Ion Corp. and has embezzled \$500,000 over the past four years. He was the former auditor for Ion and has retained the same audit firm. Nancy is currently in charge of the audit and has known Fred for more than 6 years when he was still with the audit firm.

Management of Ion has recently discovered the fraud, and is suing both Fred and the CPA firm for treble damages, \$1,500,000. Fred's only meaningful assets are his home that is totally protected by the homestead provisions of the state. Therefore, the only real chance for Ion collecting damages is from the CPA firm.

The Ion attorney is asserting that Nancy was negligent and did not perform adequate audit procedures likely due to her long friendship with Fred. Furthermore, because Fred was the former auditor, more extensive, rather than reduced audit procedures should have been performed. The CPA firm states that an audit is not for the primary purpose of detecting fraud, that the amounts of embezzlement each year are not material, and that normal audit procedures have been followed. It is not reasonable to assert that the complex embezzlement should have been detected. They further state that if the firm does have any responsibility, Fred is most responsible rather than the small part that Nancy or the firm plays in the whole situation. Which of the following best describes what you believe to be the CPA firm's responsibility?

1. **(4)** The CPA firm should have detected the embezzlement and is properly responsible for the full \$1,500,000.
2. **(3)** The CPA firm is responsible, but only for the amount of \$500,000 actual damages.
3. **(2)** The CPA firm should be responsible for only a small amount of the \$500,000 loss proportionate to the respective responsibilities of Fred and the CPA firm.
4. **(1)** The audit has been conducted properly and the CPA firm should have no responsibility for this event.