The Need for Ethics in Accounting

An Honors Thesis (HONRS 499)

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Abstract
This examination focuses on several important topics related to ethics and the accounting profession. In order for one to understand why a keen sense of ethics is necessary in business situations, one must first understand the basic background of ethics, which is my first topic discussed. Next, my attention of the examination turns towards the recent decline in business ethics, some of the major reasons for this decline, and a description of how a lack of ethics in accounting can lead to the destruction of both a company and individuals. Since the beginning of accounting services, groups and acts have been created to foster the implementation of ethics in daily business situations. I will discuss some of the prominent groups and events that encourage ethics and socially responsible behavior. Finally, my examination concludes with a discussion of how to rebuild stakeholder’s and society’s trust in the accounting industry.

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Ethics has gained increasing attention in the business world amid a higher prevalence of corruption and fraud cases, yet it continues to be a topic that is overlooked and underrated. Defined as a set of principles concerned with right or wrong held by an individual or group, ethics is an integral part of any business decision (Duska 2003, 34). Accountants can encounter situations on a daily basis that require a deep consideration of ethics. Before one can successfully apply ethics in their life and occupation, however, there must a true understanding of why studying ethics is so vital. First, some moral beliefs an individual has are too simple to apply to complex situations. The ability to ethically reason is essential when deciding what course of action to take when there are conflicting ethical principles involved (Duska 2003, 37). Another important reason to study ethics is to provide a deep evaluation of why one has certain opinions or beliefs and if they are worth continuing to have.

Many accounting groups have assisted in enforcing ethics in business, and many companies have incorporated ethical standards and programs into their work culture. By understanding the importance of ethics, one can apply it in the business world in a way that benefits both the company and most importantly, the stakeholders. Ultimately, the study of ethics is necessary so an individual can understand ethical principles, identify the need to apply them in everyday life, and make the most ideal decision in a given situation.

History of Ethics

The main ethical principles can be classified into four basic ethical theories: egoism, utilitarianism, deontology, and virtue ethics. Egoism, the first ethical theory, inherently has a negative connotation in most societies. This theory focuses on the idea of self-interest, not selfishness. Self-interest is defined as what is best for one’s own self, and selfishness is doing what is best for one’s own self at the expense of others (Duska 2003, 53). The theory of egoism,
consequently, usually cannot be applied in business situations, especially in the field of accounting in which an accountant cannot always provide the service a customer requests. In this situation, applying egoism would suggest that the accountant provides services regardless of their qualifications or lack thereof for that job. Furthermore, egoism cannot settle disputes because it ultimately revolves around the idea of looking out for one’s own best interests—the very factor that has led to many fraudulent crimes in the business world.

The second ethical theory, utilitarianism, is accurately defined by utilitarian John Stuart Mill as “actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness” (Mill 1863). Much the opposite of egoism, utilitarianism is based upon the greatest good for the greatest number of people. There are flaws in this theory, however, because the term “good” is ambiguous and not specific enough to determine what good is. Furthermore, utilitarianism bases the success of an outcome on just the outcome, not on the means that were used to reach it. When examined in this way, utilitarianism can lead to corruption even if it seems a large number of people are benefiting short-term.

The third major ethical theory is deontology, which supports that not all ethical judgments regarding actions can be made on the basis of consequences. Factors other than those associated with the outcome must be considered in evaluating its ethical standing (White 2013), and one must follow set rules of action in a situation rather than choosing a course of action that will lead to a desired outcome. Deontology is another theory to consider in business when choosing how to respond in a situation in which ethics are being evaluated. It can guide decision-making when employees or executives are tempted to act outside of their limits enforced by their organization.
The final theory, virtue ethics, has a differentiating characteristic compared to the previously mentioned theories. Rather than focusing on action or outcome, virtue ethics focuses on an individual and the type of person they want to become. Virtue ethics is highly applicable to accountants. The Commission on Standards of Education and Experience for Certified Public Accountants outlines the characteristics of a professional employee as follows:

1. A specialized body of knowledge
2. A recognized formal education process for acquiring the requisite specialized knowledge
3. A standard of professional qualifications governing admission to the profession
4. A standard of conduct governing the relationship of the practitioner with clients, colleagues, and the public
5. Recognition of status
6. An acceptance of social responsibility inherent in an occupation endowed with the public interest
7. An organization devoted to the advancement of the social obligations of the group

In order to uphold these qualities, an accountant must apply reasoning in decision-making to address ethical issues. Ethical principles can help an individual analyze their own feelings in a situation. However, it is also important to consider the ethical codes of conduct and laws set by accounting organizations in order to encourage ethical behavior in business situations. Being aware of one’s own ethical standards as well as enforced regulations can build a foundation for a true understanding and practicing of ethics in a socially responsible manner.

The origin of business ethics stems from a time when the sole purpose of existence for a business was profit maximization. There was no consideration or value in non-economic aspects, or those associated with ethics. Nowadays, it is imperative to consider both economic and non-economic aspects when evaluating success and validity as a socially responsibly corporation. The accounting profession has gone to great measures to ensure ethical decision
making and corporate governance among accounting individuals and companies; however, there still has a prominent decline in business ethics in the workplace.

**A Decline in Business Ethics**

There have been many proposed reasons as to why ethical practices have decreased in professional businesses. Amid economic weakness and a competitive business environment, companies strive to make a profit but sometimes at the expense of ethical standards. The enforcement of laws and internal controls teams have helped deter some unethical behaviors in profession settings, but according to a recent study done by the Ethics Resource Center, there are increased trends towards ethical misconduct and discouraged reporting of such misconduct. In their 2011 findings, 45% of U.S. workers observed workplace misconduct, 65% of U.S. workers who witnessed misconduct reported it, and of those who reported it, 22% experienced retaliation due to their report (Ethics Resource Center 2012). Furthermore, 13% of U.S. employees said they felt pressure to compromise their company's ethical standards and break the rules- this being the highest percent since the year 2000. These and other statistics gathered by the Ethics Resource Center suggest a weakness in ethical abidance in the workplace. Such factors that can contribute to the deterioration of ethics in the workplace can be a poor work culture, upper management pressure, greed, retaliation on whistleblowers, and failure to report accurately. Strong ethics programs and work cultures produce the strongest business work environment which is characterized by higher rates of reporting and less misconduct, pressure, and retaliation against reporting. Creating this ideal environment, however, is mainly the responsibility of upper management. A critical factor in instituting a successful work culture is communication between management and employees. As David Gebler, President of the business ethics and training company Working Values Ltd. stated, “Few things are more fundamental than open and
honest communications." A lack of open communication in the workplace can lead to confusion, a lack of productivity, and ultimately, a poor work environment in which honesty and openness are not valued as key components of an ethical culture (O’Flaherty 2013). Top management must display support for an ethical work culture to employees in order for employees to also adopt an ethical outlook.

Yet another predominant issue behind ethical misconduct in the workplace is pressure from upper management. Many of the most well-known corporate scandals associated with ethics have involved upper management attempting to make financial books appear more profitable, or they have involved management pressuring employees to compromise their duty for independence and honesty thereby accepting construed numbers as accurate. Upper management is often blamed for losing sight of the pressure that is put on employees, which can eventually lead to unethical decisions. In a survey by the Chartered Institute of Management Accountants, some of the most common pressures placed upon employees included: meeting reporting deadlines, compiling management accounts, awarding contracts to suppliers, and allocating bonuses (Chartered Institute of Management Accountants 2012). In these situations, accountants must remember their duty to act independently, with integrity, and in the best interest of the public.

Other possible driving forces behind unethical behavior include greed, opportunity, and ignorance. Greed and opportunity could be associated with management pressure or an individual accountant’s decision. The desire for money has led many accountants to turn towards fraudulent acts just to get ahead. Furthermore, when large amounts of cash are being handled, such as in many accounting situations, it can be easier to conceal or remove cash with little chance of detection. Ignorance is yet another possible reason for the decline in ethical behavior
in professional businesses. Although no less of an unacceptable reason for acting unethically, some people do not even realize they are breaking a law or deviating from accounting standards, or they actually believe their unethical behavior is in the best interest of stakeholders or the company. The possibility of ignorance by employees reiterates the importance of possessing integrity according to the AICPA Code of Conduct.

The above reasons for increased unethical behavior in the accounting profession correspond with author and management consultant Saul W. Gellerman’s four own explanations for misbehavior:

1. My behavior is not actually illegal or immoral
2. The actions are in the company’s best interests
3. No one will ever find out
4. The company will protect me

Gellerman’s fourth reasoning for unethical behavior, that the company will protect the unethical employee, depends on the integrity and culture of the company. Unethical companies will allow unethical behavior if it is believed that the company will profit from such action. However, even if this activity is accepted, it will continue as long it is undetected by higher authorities or a concerned coworker, which leads into the topic of whistleblowing.

Whistleblowing is the confidential reporting of fraudulent acts in the workplace. The U.S. has had a Whistleblower Protection Act since 1989, but the mere creation of the act does not ensure compliance (Painter 2008, 40). Employee willingness to whistleblow can be attributed to both individual and situational factors (Near 1995). Individual factors relate to the personal characteristics of the whistleblower and the reporter’s credibility and organizational status in the company. Situational factors include the degree of available evidence, the effect on the company, and the legal origin behind the complaint (Painter 2008, 41). Regardless of the factors behind whistleblowing, retaliation prevents many employees from reporting fraudulent
acts. This alone has kept many individuals with knowledge of fraud from the public. In a 2009 survey conducted by the Ethics Resource Center, various forms of retaliation experienced as a result of whistleblowing have been reported. Sixty two percent of those surveyed were excluded from management decisions, 60% experienced another employee giving them the cold shoulder, 55% were verbally abused by higher management, 48% almost lost their job, 43% did not receive a promotion or raise, and 42% were verbally abused by co-workers. Furthermore, 27% were relocated and 18% were demoted (Ethics Resource Center 2012). Given these statistics, it is evident that retaliation against whistleblowers is a serious issue. Considering the damage fraudulent behavior can have on a company and its reputation, retaliation on whistleblowers should be replaced with awards for pursuing a more ethical, honest and strong workplace.

**A Perpetrator of Ethical Misconduct-Walt Pavlo**

The previously mentioned major ethical issues in accounting such as management pressure, greed, and the manipulation of financial statements have led to the demise of many business people and large corporations. Other such factors that have led to fraudulent accounting cases include: pressure on senior management to meet goals, autocratic management systems, aggressive accounting practices and poor systems of internal control (Biegelman 2012, 134). Upper management may often feel pressure to manipulate financial statements, for example, by overstating inventory or assets and income, failing to record write-offs, capitalizing expenses, creating fake revenues, and concealing liabilities. Because of these issues, the accounting profession is sometimes characterized as one of greed and fraud. Fraud is found in large name corporations such as Enron and WorldCom to small name individuals in accounting. When one decides to engage in one of these acts, there is an inherent risk of lawsuits, loss of reputation, criminal punishment, and bankruptcy. One such individual is Walt Pavlo, known for “cooking
the books” at MCI Telecommunications, Inc. in Atlanta, Georgia. Once a criminal, Pavlo is now a reformed business professional who shares his story of deceit and temptation to prevent others from making his same mistakes. Pavlo’s story reiterates the importance of ethics in accounting to prevent issues such as greed and fraudulent reporting, and that there is more to success than just “meeting the numbers.”

Walt Pavlo graduated from West Virginia University in 1985 with a degree in engineering. Upon graduation, he joined Goodyear Aerospace as a financial analyst. In 1988, he moved on to work at GEC Avionics, Ltd. as a senior contract manager (Biegelman 2012, 172). Walt continued to build an impressive resume when he later became a senior manager of credit and collections for MCI in the mid-1990s, prior to its purchase by WorldCom. Pavlo was in charge of the billing and collections process of approximately one billion dollars in monthly revenue in the MCI reseller division. Amidst financial pressure in his division, Pavlo devised a plan to increase collection fees from resellers. Within a nine month period between April 1996 and January 1997, Pavlo and his accomplices stripped MCI of approximately six million dollars (Biegelman 2012, 172).

In an interview Pavlo participated in, he detailed the fraud scheme and provided further insight into his act. In 1995, many customers of the reseller division began to default on payments. A man familiar with success and a respectable reputation in the business world, Walt panicked amid frustration from the lack of collections, and he began to pressure his customers to make their payments by a set deadline, or they would be cut off from business and services. Knowing the customers were desperate for funds, Pavlo’s accomplice would show up at the customers’ doorsteps and would pretend to be an investor wanting to purchase telecommunications companies. This investor would then suggest that the customer pay off their
MCI debt prior to them making a business transaction. The investor required a large fee of approximately $250,000 to make the investment possible, and he required quick weekly repayments of the loan. No money was ever sent to MCI in repayment of the debt, however, and Pavlo cooked the books to appear as though the customer balances were paid by the investor (Biegelman 2012, 173). With the use of only six major MCI customers, Pavlo and his accomplice were able to pull six million dollars out of MCI and into their hands.

Upon awareness of the fraudulent act, the FBI and IRS became involved and Pavlo eventually admitted to the crimes which included wire fraud, money laundering, and obstruction of justice. In March of 2001, he received a three and half year prison term and he served his time (Biegelman 2012, 172). Now, Pavlo has reformed into a professional ethics lecturer and presents at major university business schools, corporations, law enforcement agencies and other establishments. He shares his story and enforces the importance of ethics and honesty, and he discusses some possible motivations for participating in white-collar crimes. Pavlo’s story proves that pressure to meet financial targets can cause otherwise ethical people to ignore their morals and jeopardize their business reputation due to corrupt business deals involving manipulation of financial records.

Enforcing Agents of Ethical Standards

The vast array of ethical issues previously discussed proves that there has been a definite need to rebuild aspects of the accounting profession with an emphasis on compliance with regulations and ethical standards. Although having personal ethical values and standards to follow is beneficial, it is essential to have higher levels of authority guiding accountants according to set rules. Because there are an extensive number of organizations in the accounting
profession that have contributed to increased awareness of ethics and social responsibility, the following focuses on some of the main influencers of ethics.

One of the earlier and most significant corporate compliance initiatives was the American Institute of Certified Public Accountants, or the AICPA. Founded in 1887, the AICPA represents accountants worldwide. It serves as a professional association for accountants and professional organizations by setting auditing standards and rules and providing resources for continued accounting education in order to provide the highest level of quality and service to stakeholders and clients (AICPA 2004). Furthermore, the AICPA also serves as an ethics enforcing agent in the accounting profession.

In an effort to further impose and highlight the importance of ethics, the AICPA developed a Professional Code of Conduct to guide accountants in their responsibility to provide the most accurate depiction of financial records as possible, and in doing so, to act in the best interest of the public, clients, and colleagues.

The AICPA Professional Code of Conduct is divided into two main sections, unenforceable principles and enforceable rules (Duska 2003, 81). The first principle of the code focuses on responsibility and the necessity for moral judgment in order to fulfill this responsibility. As previously mentioned, members of the AICPA have a duty to not only their clients, but to colleagues and the public as well. It is essential for accountants to provide the professional services their clients expect, to cooperate with colleagues and uphold the reputation of the profession, and to maintain the public's confidence that accountants are acting in a socially responsible and honest manner.

To expand on the first principle of responsibility, the second principle is the serve the public interest. As opposed to other occupations, public accounting is greatly geared towards
honesty to society and respect for their interests. Section 53 of Article II of the code defines the public as “clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce (AICPA 2004).” To uphold the responsibility behind this expansive definition, an AICPA member must always act with care, honesty and integrity, the third principle in the code.

Integrity is essential in the accounting profession because of the vast range of people that rely on financial records and associated information. Integrity relates to the previously mentioned topic of ethics, in particular virtue ethics, because both focus on honesty and following one's ethical standards. According to CPA and Accounting professor Murphy Smith of Mays Business School:

“On a personal level, everyone must answer the following question: What is my highest aspiration? The answer might be wealth, fame, knowledge, popularity, or integrity. But if integrity is secondary to any of the alternatives, it will be sacrificed in situations in which a choice must be made. Such situations will inevitably occur in every person’s life.”

As stated above, serving the public and maintaining their trust should not be secondary to personal gain, and a high sense of integrity is essential to fulfill professional responsibilities (Magill 1991, 170). Rather a vague principle, integrity is still, nonetheless, an important principle in the AICPA code.

The fourth principle of the code focuses on objectivity and independence, two requirements for imposing impartial and moral judgment. The Institute of Chartered Accountants in England and Wales defines objectivity as “the state of mind which has regard to all considerations relevant to the task in hand but no other (ICAEW)”. Given this definition, it is clear that an accountant must remove all feelings in any situation in order to maintain objectivity and independency. For example, in performing an audit, it is mandatory that the auditor must
have no personal ties to the audited company. This could come in the form of being a stockholder; in this situation, the auditor would want their auditing results to reflect a stable and positive financial position. Throughout the history of the accounting profession, there has been a strong emphasis on independence.

Accountants face a wide range of situations on a daily basis. They must apply judgment and meet work-related expectations in a professional and competent manner, which is a characteristic of applying due care, yet another principle of the code (Calhoun 1999, 25). Using due care requires one to adhere to the technical and ethical standards of the business. This is especially important in accounting because of the accountant’s responsibility to perform tax and consulting services for their clients according to specific specifications. Thoroughly following the clients’ requirements in a knowledgeable and diligent manner reinforces the principle of due care. Client satisfaction is the greatest measure of an accountant’s use of due care, and quality-control systems, reviews, and continued accounting education are effective ways to ensure due care (Colson 2009).

The final principle, scope and nature of service, is a combination of all of the principles in the code. It focuses on professionalism and judgment in conducting business and providing services, and it also requires the accountant to avoid conflicts of interest in fulfilling their duties to clients. Furthermore, the code calls for AICPA members to practice in firms that have internal quality-control procedures (Duska 2003, 91). Although the code principles are criticized for being too ambiguous and unenforced in the accounting profession, they are effective at presenting professional standards to adhere to.

The enforceable aspects of the code are the rules which govern the aforementioned principles. Within each section of the rules are related ethical rulings. The AICPA Code of
Professional Conduct labels the rule sections as Section 100 Independence, Integrity, and Objectivity, Section 200 General Standards Accounting Principles, Section 300 Responsibilities to Clients, Section 400 Responsibilities to Colleagues, Section 500 Other Responsibilities and Practices (AICPA 2004). Section 100 reiterates the principle of independence and how to be aware of what situations threaten independence. Section 200 directly relates to the principle of due care and complying with standards in the profession and generally accepted accounting principles. Section 300 of the code details the accountant's duties and responsibilities to their client, including the confidentiality of client information and rules regarding contingent fees. A contingent fee is defined by the code as “a fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service” (AICPA 2004). The code states that such fees are not allowed in conducting business with a client as their use would promote dishonest financial representations. In addition to clients, accountants also have a responsibility to their colleagues, which is described in Section 400. Although this section draws attention to the fact that accountants should encourage and aid their colleagues, there are currently no rulings in this section governing official responsibilities to colleagues. Lastly, Section 500 describes other responsibilities and practices of an accountant. Under this section, an accountant is prohibited from acting discreditably to the profession and also prohibited from gaining clients through the use of misleading advertising (Duska 2003, 104). The last part of Section 500 addresses the topics of commissions and referral fees and practicing public accounting only in a form of organization permitted by law (Duska 2003, 106). Similar to the code principles, the rules focus on honesty, independence and professionalism.
Another important accounting organization is the Financial Accounting Standards Board, or FASB. Designated by the AICPA in 1973, the FASB is the current organization that sets accounting standards to which AICPA members must comply. The standards set by the FASB include: professional competence and the ability to conduct services according to standards, due professional care, planning and supervision, and sufficient relevant data (Calhoun 1999, 113). The FASB is supported by its parent organization, the Financial Accounting Foundation, or FAF. Its responsibilities include appointing members of the FASB, guaranteeing sufficient financial support for FASB endeavors, and overseeing the fulfillment of such endeavors (Spiceland 2004).

The FASB is comprised of full-time members who range from accounting representatives to government workers. Because FASB is an independent entity, its goals and members represent many different professional interest groups.

In 1984, the FASB assembled a group called the Emerging Issues Task Force, or EITF. Comprised of senior accountants from major firms, the EITF’s main purpose is to provide quicker responses to upcoming financial reporting issues before the FASB must become involved. The EITF has become an essential component of FASB and the standard setting process due to its ability to identify reporting problems and minimize the amount of time FASB must be involved in what may be a small-scale, easily extinguishable issue (FASB). Because the FASB and EITF are known for their involvement in creating such accounting standards, it is important for an accountant to always consider these rules and their obligation to act as a responsible professional when ethical dilemmas are encountered.

Yet another prominent corporate milestone was the formation of the Committee of Sponsoring Organizations in 1985. According to COSO’s mission statement, it aims to develop "comprehensive frameworks and guidance on enterprise risk management, internal control and
fraud deterrence designed to improve organization performance and governance and to reduce the extent of fraud in organizations" (COSO 2012). In 1992, COSO issued one such framework titled *Internal Control-Integrated Framework*. It provides guidance on creating effective internal control systems which include five necessary elements: the control environment, risk assessment, control activities, information and communication, and monitoring (Biegelman 2012, 58). This COSO framework continues to be implemented in many corporations across the United States today.

Another organization that helps enforce social responsibility and protect stakeholders’ rights is The Public Company Accounting Oversight Board, or PCAOB. It was a result of the Sarbanes-Oxley Act of 2002, and it was created in an attempt to oversee the auditing of public companies that are subject to securities laws (Carmichael 2004). Within the PCAOB are five appointed members of whom two must be Certified Public Accountants, or CPAs, and three must not be CPAs. All members must be skilled and knowledgeable of generally accepted accounting principles, internal controls, financial statements, and audit committee responsibilities (Biegelman 2012, 69). A private and nonprofit corporation, the PCAOB serves many purposes in the accounting profession. The most recent version of the PCAOB’s Strategic Plan lays out the following four main goals:

1. Protect the interests of the investing public in informative, fair and independent audit reports on the financial statements of public companies through effective oversight of registered public accounting firms and their associated persons
2. Develop a program to protect the interests of the investing public in informative, fair and independent audit reports on the financial statements and selected practices and procedures of broker-dealers through effective oversight of registered public accounting firms and their associated persons
3. Inform, educate and obtain input from a broad cross-section of the public, including auditors, investors, the academic community and other interested parties, about the PCAOB’s oversight activities
4. Operate the PCAOB with careful stewardship over its resources consistent with the public interest nature of its mission (PCAOB 2010)
These main goals reinforce the importance of ensuring accuracy and independency in the accounting profession. Furthermore, by focusing on the performance of high quality audits, the PCAOB could effectively prevent the demise of many corporations and, as their Strategic Plan states, ultimately protect the interests of those invested in the business.

**Accounting Acts and Standards Supporting Ethics**

In addition to the founding of accounting organizations such as COSO and FASB, there have also been many acts put into place to further stress the importance of ethics and compliance. With increased focus on effective conformity due to the creation of COSO, fraud mitigation gained increased awareness in the accounting and auditing profession in the late 1980s. In 1988, the Auditing Standards Board of the AICPA introduced the Statement on Auditing Standards 53, The Auditor’s Responsibility to Detect and Report Errors and Irregularities (Ramos 1997, 4). Under this standard, only an overall risk assessment of material misstatements is required, including misstatements from both fraud and error (Hoffman 1997, 99). Following its issuance, however, criticism increased in regards to fraud and auditor’s responsibilities in the detection of material misstatements in financial records. In response to such criticism, SAS 82, Consideration of Fraud in a Financial Statement Audit, was introduced in 1996. As opposed to SAS 53, under SAS 82 auditors are required to assess the risk of fraud separately from the risk of error. The two main purposes of SAS 82 were to describe one’s responsibilities relating to fraud in a financial statement audit and provide guidance on what is required to meet those responsibilities (Ramos 1997, 4). Following SAS 82, SAS 99 called Consideration of Fraud in a Financial Statement Audit was issued in 2002, and it proved to be the most effective means of providing guidance to auditors on how to identify, assess, and report fraudulent risks. SAS 99 requires an auditor to take into consideration the type, significance,
likelihood, and pervasiveness of risk as it relates to fraud (Biegelman 2012, 86). A much deeper audit analysis is required under this standard, and it has given auditors better tools and guidance for fraud detection.

Another milestone act in accounting was the Sarbanes-Oxley Act of 2002. It was created, as Senator Paul Sarbanes of Maryland stated, “because the problems originally laid bare by the collapse of Enron are by no means unique to one company, one industry, or even one profession…” and “something needs to be done to restore confidence in the world’s greatest marketplace” (Winig 2012). The main purposes of Sarbanes-Oxley were to strengthen corporate accountability and governance of public companies, improve auditor integrity and independence, empower audit committees, and protect employees and stakeholders from fraudulent acts (Biegelman 2012, 68). Furthermore, this act made changes to financial reporting processes, one being the requirement that management report on and assess their company’s financial statements and internal control systems in order to determine if material weaknesses exist that would prevent financial records from being correctly portrayed (Graham 2010, 4). Precipitated by previous fraudulent scandals such as those at Enron, Tyco, and WorldCom, the Sarbanes-Oxley Act addressed many detrimental flaws in corporate financial reporting and continues today to protect the interests of investors.

As previously mentioned, whistleblowers in the workplace face retaliatory acts from both upper management and co-workers. In defense of these ethically minded and socially responsible workers, the Dodd Frank Whistleblower Provisions of 2010 helped alleviate this problem. Under this provision, the Securities and Exchange Commission, or SEC, must reward eligible whistleblowers who voluntarily inform the SEC of a federal securities law violation that results in enforceable administrative action (SEC 2011). Furthermore, this provision prohibits
employers from retaliating against employees who report to the SEC any such violation. Regardless of this whistleblowing provision, it is important that every individual understands their role in a corporation as an individual of integrity who has a responsibility to protect the ethical standards supported by their workplace and continue to report unethical acts.

**Rebuilding Stakeholders Trust**

The accounting profession has grown phenomenally over the past few decades, but with growth comes the need for increased regulation in response to an influx of fraud and corruption among accounting corporations. Such regulations have combatted some issues related to fraud and a lack of ethical awareness, but stakeholders trust has diminished in response to criticisms of the business. Rebuilding stakeholders trust in the accounting profession is essential to overcome recent accounting scandals and to re-establish accountants as trustworthy and ethical professionals. Over the years, the role and responsibilities of the accountant have shaped according to set rules and regulations, but trust continues to be an issue when evaluating the relationship between the accountant and client. To rebuild trust, accounting companies must pave the way to greater accountability by instilling a professional tone at the top of management, creating a work culture with open communication, providing ethics training for employees, and ultimately focusing on the client as the top priority.

It is a common belief that the leaders of an organization are the individuals responsible for instilling and maintaining a corporate culture that revolves around ethical behavior and responsibility. This role is reiterated by top management’s responsibilities to oversee the financial performance of their firm (Schwartz 2005). Boards of directors and top management are constantly critiqued by the public given the enormous financial and social damage corporate scandals have imposed on society. Leaders of these companies are often highly intelligent and
competent individuals with experience in business and accounting, and they are expected to uphold ethical standards that reflect such expertise and knowledge. A high degree of trust is placed in the hands of directors, and they must commit to professional ethical obligations imposed upon them.

Ethics management programs, therefore, consistently begin with approval and support from top management and the board of directors for a company-wide ethics program (Hoffman 1999). Top management must be aware of the need for such a program and the ethical risks involved if one is not implemented. Typically, once the leaders of a company see the need for an ethics program, set the tone for an ethically sound company, impose the program, and lead through example, the company culture can begin its transformation into an ethics abiding environment (Painter-Morland 2008).

In addition to creating a tone at the top of management, it is almost necessary to form a work culture that focuses on open communication in order to rebuild stakeholders trust. Creating a culture with open communication between top management and employees is beneficial for building trust and necessary for business success (D’Aprix 2011, 29). An informal group of Fortune 200 senior communication executives together defined open communication as the following:

"An open communication culture is one in which information flows freely and is easily accessible to both insiders and to the public at large. Consistent with the culture and values of the organization, its leadership enables advocates and provides open access to information in which employees, customers, shareholders and the general public have a legitimate interest."

In order to embrace the above definition of open communication, top management must fully understand and support the idea, and they must identify where their company currently stands in relation to their goals for a culture with communication (D’Aprix 2011, 31). Such a culture can
lead to an environment with heightened employee engagement and financial success company-wide. It fosters the idea of information moving seamlessly, quickly, and effectively from one person to another. Also, it promotes collaboration and engagement among employees.

One example of a corporation that has fully embraced the idea of an open communication culture is Cisco, a multinational corporate leader known for producing and selling networking equipment. Cisco has integrated open communication into their cultural expectations for over 26 years. Chairman and CEO John Chambers identifies his role within the company as setting the business strategy, developing the leadership team, enforcing the corporate culture, and openly communicating all of these roles to his employees (D’Aprix 2011, 29). One method Chambers uses to openly communicate with his employees are through question-and-answer sessions with his employees which occur six times a year. The tone for open communication ultimately rests high in the organization, but such support from upper management encourages open communication among employees as well. Cisco implements many technologically advanced systems to encourage direct communication between employees. One way Cisco allows employees to communicate with each other is through the use of TelePresence videoconferencing rooms, of which Cisco has over 600 around the world. Each TelePresence meeting can join employees in up to 48 different rooms into one virtual conference (D’Aprix 2011, 32). Systems such as this allow Cisco to create a collaborative workplace for its employees and a culture that supports open communication and global expansion.

Yet another way to rebuild stakeholders trust is by designing and implementing an effective business ethics training program. Within the business world full of increased economic and social issues, there is a need for recognizing and overcoming moral business challenges.
Especially given the explosion of corporate scandals in recent years, it has become even more important to project an image of integrity and trustworthiness to stakeholders.

There are many approaches used for designing and enforcing ethics training programs successfully. Lawrence Kohlberg developed a theory of cognitive moral development which identifies several suitable goals for business ethics initiatives. One suggestion of the theory is that values, ethical sophistication and other similar managerial ethical behaviors evolve with time, maturity, and experience (Weber 1997, 62). Therefore, much of the success with ethics training programs again lies in the hands of management. Kohlberg’s theory states that managers should gain insight into learning theories in preparation for designing business ethics programs. Research into learning styles can allow a manager to be aware of the most effective training approach for different groups of employees, such as verbal or written techniques.

Research on learning techniques has resulted in many principles that assist in designing educational environments and materials for teaching and learning.

Another proponent of researching ways in which people learn is Professor Michael Eraut of the University of Sussex. His research of workplace dynamics further bolsters the idea of studying different learning techniques among employees. Eraut’s research found that complex interactions in which people are required to draw on tacit knowledge and experience to solve problems are more valued than routine interactions (Eraut 2004, 247). Furthermore, he discussed different forms of knowledge that are used in training. Codified knowledge is based on textual materials such as manuals, company plans, and policies. Cultural knowledge is learnt through participation, and personal knowledge is that which individuals use in thinking, interacting, and performing in different situations (Painter-Morland 2008, 271). Cultural and personal knowledge are believed to foster tacit knowledge and can more effectively guide one to
participate and communicate with employees and align their values with those stressed by the company.

Another aspect of Kohlberg's theory states that employees consider not only their personal value judgments in ethical dilemmas but also their company's values and how other employees think. Therefore, Kohlberg suggests training in a collective environment that includes active discussion between employees and managers. Furthermore, incorporating discussions of real business ethical cases can stimulate employees to think critically about the implications of such business dilemmas and advance further in their personal moral development (Weber 1997, 64).

The next part of Kohlberg's theory of cognitive moral development focuses on the use of inductive learning in business ethics training programs. Inductive learning includes the employee as a participant in the learning process, therefore providing an effective and direct involvement and understanding (Weber 1997, 65). This technique also involves managers in open discussion with employees. It also reiterates the importance of a work culture which fosters open communication in an effort to most honestly serve and focus on their stakeholders, which is yet another way to rebuild the public's trust.

Stakeholder analysis is also an essential component of a business ethics training program. Stakeholders can range from stockholders, managers, employees, suppliers customers, or even family and friends. Any one of these parties can be affected negatively or positively by the performance and actions of a company, so many companies have developed pro-active strategies that focus on their key stakeholders. Different steps involved in stakeholder analysis include identifying the most important stakeholders and the associated responsibilities to these parties, identifying and taking advantage of opportunities with these parties, and eliminating conflicts
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with them (Weber 1997, 64). Using stakeholder analysis typically can benefit both the
corporation and the stakeholder since there is a focus on decision-making and involvement with
these key parties, and it reiterates the importance of focusing on the clients.

No matter what business ethics training approach is used, it is important for the program
to be motivated, formulated and integrated into the organizations. According to author Mollie
Painter-Morland, ethics programs should come from an organization designed as an intricate
adaptive system which consists of many relations, not from an organization fixed as the center of
a stakeholder plan. Ethics programs should be created for the purpose of life enhancement and
sustainability, not out of fear of liability or due to a focus on bottom lines. They should arise
out of the desire for congruence among employees, not from corporate compliance
specifications. Finally, they should focus on the ethical responsibilities of the employees who
serve their duties to stakeholders because of their values, not because of direction or force from
upper management.

Accounting is a service industry based on benefiting its stakeholders and the public.
Accountants have specific functions laid out by the public, a major responsibility being to
accurately and fully disclose a given company's financial situation. Defying this social
responsibility goes against the main purpose of the accounting industry. The creation of groups
such as the AICPA and FASB has assisted in the rebuild of the accounting profession as a
respectable and honorable business. Furthermore, many successful companies have gone so far
as to make social responsibility their main focus. They find it more important to meet or exceed
stakeholders' needs than it is to only measure their company's success based on financial
evaluations. Company cultures such as this, paired with an effective ethics program, can further
raise a positive view of accountants from society. Thomas G. Labrecque summarizes the importance of ethics in business as it applies to both companies and society:

“Although behaving ethically should be an end in itself, there also are valid business reasons for doing what’s right. If you look closely at examples of unethical business behavior, you discover two things: the company derives only short-term advantages from its actions, and over the longer term, skimping on quality or service doesn’t pay. It’s not good business.”
Works Cited


<http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176154526495>


