Rebuilding the Foundation

Reestablishing Ethics in the Accounting Profession

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A Senior Thesis submitted in partial fulfillment of the requirements for graduation in the Honors Program
Liberty University
Spring 2009
Acceptance of Senior Honors Thesis

This Senior Honors Thesis is accepted in partial fulfillment of the requirements for graduation from the Honors Program of Liberty University.

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Abstract

Today’s business world has become increasingly diverse in its view of ethics. This lack of objective decision-making has been made clear through the scandals and questionable accounting methods in recent years. In light of these instances, the accounting profession has taken steps to regain and ensure the public’s trust, which the profession relies on. In the absence of ethical practices, the profession loses its trustworthiness and reliability. This paper will discuss the key role of ethics in accounting and the efforts that have been made in the past and are being made currently to ensure that this vital component is preserved in the future.
Rebuilding the Foundation: Reestablishing Ethics in the Accounting Profession

The accounting profession relies essentially on its own credibility in order to perform the services that it provides to the public. The public’s trust is key to the profession’s existence. James Copeland Jr. (2005), former CEO of Deloitte & Touche, stated that historically, the accounting profession’s foundation has been based on ethics and integrity. These foundations are the qualities that give the profession its trustworthiness and its reliability; the public expects nothing less. Through the scandals of the early 2000s of Enron, WorldCom, Adelphia, and various others, the accounting profession’s dependability, and consequently its ethics, were called into question (Copeland). Ethics, one of the fundamental aspects of accounting, seemingly needed to be reinforced and reincorporated. Efforts have been made through accounting ethics education courses, the creation of the Sarbanes-Oxley act of 2002, and the encouragement of ethics within the workplace to attempt to accomplish this. Various accounting bodies have also taken active roles in promoting ethics before and after accountants enter the working environment. Through these various forms of ethics implementation, it is hoped that the future of accounting can, and will, be brighter. Corporations, and even more importantly, the economy, cannot continue to operate successfully and effectively if those corporations are consistently brought down by their own mismanagement and lack of ethics. Some changes must be made. This paper will discuss these key topics and the implementation of the different methods of change to ensure that ethics and integrity are synonymous with the accounting profession now and into the future.

Ethics

In today’s multicultural world, ethics can be a confusing term due to the many definitions ascribed to it. In order to properly address this topic and observe its importance in accounting, it
must first be appropriately defined. A person’s ethical views determine how he or she makes decisions; how he or she determines what is right from what is wrong. It governs the way people live, the things they say, the way they treat people, and most important for this discussion, how they perform his or her work.

In the simplest sense of the word, ethics is “the discipline concerning what is morally good and bad, right and wrong” (Ethics, 2009, para. 1). Judging by the simplicity of this definition, one would assume that its application would be equally as simple. As is evident in today’s culture, however, this is not the case. In an increasingly diverse world, terms such as right and wrong are not universal; they vary according to differing backgrounds and cultures. This collaboration of ethical norms is the cause of many problems that have arisen in today’s business world (Copeland, 2005). What one person may see as ethically wrong and reprehensible, another may view as perfectly acceptable. A lack of ethics leaves people stranded in a confusing world of dilemmas with no compass to guide them. In the business world, when ethics are disregarded, corporations fall and ultimately, the public suffers.

As a society, America has forgotten those fundamentals that the country was founded upon: absolute truth, hard work, and the golden rule. The decreasing level of morality is apparent in today’s culture. This moral problem has been shown to be present in many situations and occupations, affecting almost every part of the culture: “Every sector of our society from business to education to government to the press to the church is experiencing its own ethical failures” (Copeland, 2005, p. 36). The lack of integrity has been made very clear in the business world with the frequent reports of fraud or deception coming from many major companies. Insider trading, bribes, asset misappropriation, tax evasion, stock fraud, accounting fraud, and stock option backdating are just a few of the many examples of the types of problems that
continually surface in the news today. The emphasis in today’s workplace seems to be placed
solely on meeting expectations instead of upholding reputation (Copeland). Fraud has lost the
disdain that is once held, society has become desensitized by its habitual appearance in the news.

When observing these ethical breakdowns, one is forced to wonder where the root of the
problem truly lies. In order to find this root and analyze society’s ethical shortcomings, one must
go to the source: “Unpopular as this notion of personal responsibility is in our society, ethics and
integrity—or the lack of them—finally boil down to individual people and the decisions they
make” (Copeland, 2005, p. 39). Therefore, it is the ethical viewpoints and decisions of
individuals—being the ultimate determinants—that are of upmost importance in this discussion.

Among the many viewpoints on ethics, most can be broken down into a few basic
categories. Dr. Norman Geisler (1971), a Christian apologist and philosopher and respected
authority on ethics, believes there are six major ethical systems that fall into two major
categories—absolutisms and non-absolutisms. Those systems that are characterized as
absolutisms assert that there are absolute principles that determine good from evil and verify
which actions are right and ought to be taken; the systems differ slightly in their viewpoints on
these universal principles. The non-absolutisms offer other alternatives: there are no ethical
norms, ethical norms are not universal, or love is the ultimate test of an action (Geisler, 1971).
The problem in a non-absolutist view is that, by definition, either it does not believe in any
ethical norms or its ethical basis is a subjective one. Without the constraints of absolutes, any
action can be justifiable and permissible, depending on the circumstances, situation, or people
involved.

An absolutist mentality would seem to fall in line with the accounting profession. The
profession promotes adherence to its codes of conduct, standards, and rules. The idea of a set of
rules outside of one’s self that are to be followed is reflective of the absolutist viewpoint. The profession has set up guidelines governing how things are to be handled and how these rules are to be followed. An accountant cannot change the rules; they have been established and cannot be altered or omitted according to personal preference. Every step through the accounting method is to be followed without regard to the outcome. For example, one does not work backward when producing financial statements to ensure that the final product is desirable; instead, there are principles for each step to guide the accountant. It is important for those in the accounting field to recognize the importance of making the right decisions in their day-to-day responsibilities and following the standards that have been previously established.

Ethics are vitally important for any people group. In his article “A Fresh Look at Accounting Ethics,” Dr. L. Murphy Smith emphasized their importance: “Ethical values provide the foundation on which a civilized society exists. Without that foundation, civilization would collapse” (2003, para. 6). Smith, in another article, relays Chuck Colson’s thoughts on the issue of ethics in society:

Societies are tragically vulnerable when the men and women who compose them lack character. A nation or a culture cannot endure for long unless it is under-girded by common values such as valor, public-spiritedness, respect for others and for the law; it cannot stand unless it is populated by people who will act on motives superior to their own immediate interest. (2006, para. 4)

The same holds true for the accounting profession. When ethics are removed, there are dire consequences.

In accounting, these consequences have the potential to have far-reaching effects on thousands, or even millions, of people. If an accounting firm desires the public’s trust, it must
show itself to be trustworthy. Behaving ethically and with integrity is the means of obtaining this trust: “The purpose of ethics in business is to direct businessmen and —women to abide by a code of conduct that facilitates, if not encourages, public confidence in their products and services” (Smith & Morris, 2003, para. 5). In a profession like accounting, lack of public confidence is a major crisis. If those people, whose job is meant to serve others, become selfish and begin to serve their own interests, they not only violate those individuals who are directly affected, but also deal a lethal blow to the profession and the public’s trust therein. If someone manipulates the numbers and this fraudulent behavior is exposed, the public’s trust in the accounting profession lessens. Drs. David Bean and Richard Bernardi (2005) stress the resulting danger: “the lack of ethics perceived by the public is a severe threat to the accounting profession” (para. 1). When a profession such as accounting has its fundamental characteristic—integrity—undermined, its very existence is in danger.

There must be a commitment to honesty and reliability in every field, even more so in accounting. Integrity in this profession must be paramount: “If integrity is second to anything else, however, it will be sacrificed in situations where a choice must be made” (Smith & Morris, 2003, para. 1). Ethical decision-making relies on priorities; a person must rank integrity higher than any other factor involved in making the decision. When these priorities are confused or misarranged, problems are inevitable.

Although the accounting field has been tied to the many problems that have occurred, the problems themselves come from the people behind them. Accounting is not inherently evil; when used appropriately, it is a useful and necessary tool for the business world. The actual problem is individual morality, or more particularly, the lack of it. The results of an analysis on auditing effectiveness showed that “the real problems seem to boil down to insufficient character and
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courage on the part of accountants and auditors to do the right thing in spite of the
consequences” (Copeland, 2005, p. 38). The ethical temperature of a society is set by its citizens;
the same can be said of the accounting profession and those individuals who call themselves
accountants. Each person makes his or her own decisions according to what he or she believes;
the more subjective the ethical system, the greater the risk of problems. The lack of personal
morality in today’s society has made it necessary for there to be greater implementation of ethics
through outside methods.

Accounting Scandals and Fraud

Through the turbulent times in the early 2000s, the ethics of the accounting profession
were quickly called in to question. Although there had been measures in years prior to uphold the
integrity of the accounting profession, there was an obvious ethical deficiency of certain groups
within the accounting community. The awakening of the public to this need occurred during the
first few years of the new millennium; they were outraged that this type of unethical behavior
had occurred unnoticed. Corporate giants such as Tyco International, Enron, Adelphia
Communications, and WorldCom all were exposed as being engaged in corporate fraud. The
once reputable accounting firm, Arthur Andersen LLP, and its connection to the fall of Enron,
showed that the problems were deep-seeded and could be found even in one of the Big Five
accounting firms. These particular occurrences, due to their size and massive impact, brought a
major problem into the public eye. Although these cases are the most well known due to the
extensive media coverage given them, sadly, they were not alone. In the article “Ethical Lessons
for Accountants,” the authors point out some alarming facts on this topic: between 2002 and
2007, there were over 1200 corporate fraud convictions (Buckhoff & Wilson, 2008). The public,
as well as the government, took notice of these injustices and demanded reform.
The first question that must be asked after these frauds occur is, “How did this happen?” How did companies that were believed to be reputable and solid suddenly come crashing down? The answer to this is to look at the company’s top leadership. These events were not sudden; they were the result of months, or even years of unethical, deceptive behavior. These cases of accounting fraud were not mistakes. They were deliberate actions taken by those at the heads of the company to deceive others as to their companies’ financial situations. One essential thing to realize in conjunction with these accounting scandals is that “Enron and WorldCom, were gross ethical failures before they were legal failures” (“Many Push,” 2005, p. 5). The reason these corporate giants fell was not due to accidental mistakes coming from inaccurate accounting methods; the inconsistencies in accounting were intentional and stemmed from a lack of ethics.

The observed breakdown of ethics and the subsequent mistrust in the accounting profession was not the fault of corporations, auditing firms, or any particular business. Copeland (2005) points out that “the destruction of our ethical consensus was not the fault of our institutions. It was caused by the individuals within these institutions” (p. 39). The aforementioned companies were brought down by the unethical decisions made by those at the helm of those institutions.

Ethical misconduct is not only found in those at the top of companies; employees at every level are faced with ethical decisions (Verschoor, 2005). Those in upper management get the most attention for their ethics deficiency because of the influence of their decisions. However, to say that the size of the influence makes managers’ decisions more unethical than low-level employees’ would make the standards for these decisions subjective. Ethics are important regardless of the person’s position or the situation in which one finds himself. The fact that over half of U.S. employees have witnessed ethical misconduct around them in the workplace is
particularly alarming (Verschoor, 2005). It is important for all employees not only to have a proper view of ethics for themselves, but also to see ethical behavior exemplified around them: “They want to know what makes their leaders tick—what do the leaders value? Not what the leaders say their values are, but how they behave because of these values” (Copeland, 2005, p. 42). Managers and coworkers have a great deal of influence over a person’s decisions. Ethics must be a part of the entire workplace: the norm, instead of the exception.

Rules and Regulations

After the aforementioned accounting scandals at the beginning of the twenty-first century, change was seen as necessary and obligatory. Accounting and governing bodies alike each responded in turn with their own updates and alterations. Each responded in his or her own way according to their respective authority and ties to the profession: laws were passed, rules and standards were updated, and committees and boards were formed.

Sarbanes-Oxley

The government did not hesitate to respond to the call for increased legislation. It saw fit to take steps of its own to increase the fidelity of the business world. The problems were so large that the government decided that it needed to take major action. This action came in the form of a bill presented by Senator Paul Sarbanes and Representative Michael Oxley. The bill was named after these two men who spearheaded the effort to organize the bill together and have it signed into law. The result was the most influential piece of corporate and accounting legislation since the Securities Acts of 1933 and 1934: the Sarbanes-Oxley Act of 2002 (Mason, 2008). It was a massive reform of accounting rules and processes and a major update of the way things had been done for the seventy years prior. It was signed into law on July 30, 2002, changing the accounting profession for years to come. After signing the bill into law, President George W.
Bush commented that the legislation had the “most far-reaching reforms of American business practices since the time of Franklin D. Roosevelt” (Bumiller, 2002, para. 3).

The major purpose of the Sarbanes-Oxley Act, commonly referred to as SOX or Sarbox, was “to improve corporate transparency and thus boost investor confidence” (Leder, 2007, para. 1). The government felt it necessary to do its part to ensure that the financial information being presented to the public was accurate and open. Corporate transparency was unquestionably required. SOX placed clear repercussions for the violation of its terms. It was passed in hopes that it would assist in upholding the public’s trust and to maintain the nation’s economy.

Sarbanes-Oxley’s dramatic changes did not come without a price. The many new steps and processes required of public accounting firms placed on them an added financial burden. One thing was clear, there was a definite need for change and Sarbox supplied this need, although Arguably in excess. There are those on both sides who argue about the necessity of the many reforms included in SOX: “Some of these steps may not have been necessary, but the need to reestablish public confidence in the capital market system forced legislators to avoid any ‘quick fix’ solutions” (Hoyle, et al., 2009, p. 540). As Hoyle points out, Sarbanes-Oxley was not perfect; its expedient creation and enactment were due to necessity.

Sarbox established a diverse new mix of standards and rules. Although its implications are vast, a few specific topics have attracted the most attention due to their revolutionary nature and broad impact. Specifically, the new requirements placed on public accounting firms are notable: the need to register with the Public Company Accounting Oversight Board (PCAOB), the inclusion of foreign firms, the responsibility placed on corporate officers, the subjection to inspection by the board, and an increased emphasis on auditor independence (Hoyle, et al., 2009). James Copeland commented that although some components of Sarbanes-Oxley were
“hasty and counterproductive” (2005, p. 39), there were aspects of the law that were beneficial and helpful. The incredible new demands of SOX were a shock to some as it radically changed many aspects of the accounting process. With both the public’s and the government’s calls for reform, no area of accounting was excluded from possible restructuring or reconsideration (Leder, 2007, para. 1). This new and innovative law proved that this was indeed true; it had far-reaching implications and effects that no one could have believed a few years prior.

Public Company Accounting Oversight Board

The PCAOB was established as a major component of Sarbanes-Oxley. For many years prior to Sarbanes-Oxley, the accounting profession took its self-regulation as a point of pride. After observing the gaping oversights in accounting, the government felt that the profession no longer was capable of handling this on their own and that new action was needed on the government’s part. Previously the American Institute of Certified Public Accountants (AICPA) had been in charge of establishing and enforcing the accounting profession’s code of conduct as well as its auditing standards (Hoyle, Schaefer, & Doupnik, 2009, p. 537). The creation of the PCAOB effectively stripped away the majority of the profession’s privileges to self-regulation.

The board is controlled by the Securities and Exchange Commission (SEC). It is made up of five independent members who are appointed by the SEC. The PCAOB is given responsibility for setting the standards and for overseeing the auditors of public companies. Its other roles include enforcing the registration and inspection of public accounting firms, quality control, setting independence standards and rules, along with investigation and discipline of those firms involved in questionable practices (American Institute of Certified Public Accountants [AICPA], 2002). With the passing of Sarbanes-Oxley in 2002, the PCAOB turned into the major public accounting governing body overnight. It is meant to work alongside the rest of the accounting
profession but it has the overall authority to “amend, modify, repeal, and reject any standards” (AICPA, Sec. 103). The PCAOB will continue to work with, and govern, the accounting profession in the future, as it adapts to forthcoming issues.

Ethics in Major Accounting Organizations

American Institute of Certified Public Accountants

The American Institute of Certified Public Accountants (AICPA) plays a major role in the governing of the behavior of Certified Public Accountants (CPA). The AICPA is the largest professional association for CPAs in the United States. The organization currently has 338,687 regular members, the majority of those being in public accounting: 142,249, and in business and industry: 140,981 (AICPA, 2008). Its broad and far-reaching influence on CPAs in particular gives it a vast amount of authority in guiding their performance and their commitment to ethics.

The AICPA’s purpose is to equip CPAs to fulfill their duties to the public. Their mission is to “provide members with the resources, information, and leadership that enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients” (1995). The organization has a commitment to supply its members with the things they need to serve the public properly. Aside from guidance in theories and standards, ethics is also a crucial part of the tools necessary to adequately serve the public. As an expectation for the use of these resources and the privilege of membership therein, the AICPA requires adherence to a specific code of conduct.

The AICPA Code of Conduct is its fundamental set of standards for its members. It was created to “provide guidance and rules to all members—those in public practice, in industry, in government, and in education—in the performance of their professional responsibilities” (2007a, para. 2). It is a widely accepted compilation of standards for an accounting professional. It is
broken down into two main sections: principles and rules. The principles section serves as a framework for the rules section. The rules section governs the actions of members and their observance is strictly required.

The AICPA Code of Conduct directs virtually every area of the professional accountant’s behavior. It covers the topics of independence, objectivity, integrity, general standards accounting principles, responsibility to clients and colleagues, and other professional responsibilities and practices (2007a). In particular, ethical behavior is affirmed through the integrity and independence sections.

The AICPA recognizes the need for integrity and ethics in the accounting profession; they serve not only as its badge of honor but also as its lifeblood. In section ET Section 102 - Integrity and Objectivity, it focuses on integrity in the professional’s behavior in everything that he does: “In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others” (1988, para. 1). The Code of Conduct affirms that it is necessary for a professional to do his or her job with the utmost integrity and honesty.

The Code of Conduct gives a concise, yet complete, definition of integrity that clarifies its purpose in the accounting profession: “Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions” (AICPA, 2007c, para. 3). The Code recognizes that integrity is not only necessary, but also fundamental to all that accountants do. It holds that even in situations when there is no specific rule or standard as to their current predicament, an accounting professional ought to examine one’s actions according to what ultimately upholds integrity. An accounting professional is held to high standards and his or her
actions examined extremely critically; he must avoid any perception of untrustworthiness or deceitfulness. By constantly performing their tasks with integrity, accountants ensure that they avoid these negative associations and uphold their credibility.

*Institute of Management Accountants*

Another influential accounting body is the Institute of Management Accountants (IMA). It is self-described as “the world's leading organization dedicated to empowering management accounting and finance professionals to drive business performance” (Institute of Management Accountants [IMA], 2008a, para. 1). The IMA serves the Certified Management Accountant (CMA) in the same respect that the AICPA does the CPA. The Institute of Management Accountants is a resource for those in the accounting and finance fields to progress in their respective jobs through certification, education, networking, support, and research (IMA, 2008a). The IMA serves not only to provide for the CMA’s professional needs, but their ethical ones as well.

The Institute for Management Accountants has placed a large impact on ethics in their services. The IMA provides an Ethics Center on their website with numerous resources for the Management Accountant and anyone else who desires to use them. The mission of the Ethics Center is “Encourage organizations and individuals to adopt, promote and execute business practices consistent with high ethical standards, by providing valuable insight into the complexities that result from social and technological change” (IMA, 2008b, para. 1). The Ethics Center presents the organization’s Statement of Ethical Professional Practice—which provides its users of IMA’s expectations from its members, an ethics hotline for help and support, as well as external links to other websites and articles on ethics.
The IMA has a strong commitment to ethics from the top down. John Pollara—the IMA’s current Chair-Emeritus—states in his article “The Welcome Burden of Ethics”: “Because everything flows through the financial statements, we stand as the first line of defense against egregious error and fraudulent behavior” (2008, p. 6). In this article Pollara also describes the resources that the IMA has provided and encourages IMA members to take advantage of these for support; these include an internet ethics education course, group discussion resources, and the aforementioned ethics hotline (Pollara). The IMA’s clear stance on ethics stands as an example for all other organizations that it influences, which one would hope is able to produce a trickle-down effect upon each of them.

Education & Training

Accounting Ethics Education

A huge topic of debate in the post-Enron accounting world is ethics education. There are many on both sides of the debate who argue over its effectiveness and its necessity. Some believe that ethics is a personality trait and cannot—and should not—be taught. On the other hand, there are those that believe that something as elemental as ethics must be enforced and that it is currently being ignored by those in accounting academia.

When the major accounting scandals occurred in 2001 and 2002, there were already some sets of standards and ethical codes in place. In spite of these previously established standards, these ethical catastrophes still were able to take place. The personal application of ethics was apparently absent. The proponents of ethics education believe that its implementation would make a difference in this area. Theodore Roosevelt once stated, “To educate a person in mind and not in morals is to educate a menace to society” (Smith & Morris, 2003, para. 6). It is clear to see the menacing effects of those disregarding ethics in business and accounting in today’s
culture. Since ethics is undeniably a key component of accounting, the argument for including it in accounting education is very strong.

In spite of the growing need for ethics, many academic institutions have been lethargic about developing and implementing ethics education courses into their curriculum. Meanwhile, the scandals in recent years have brought to light a major problem: “accounting graduates are ill-equipped to recognize ethical dilemmas, much less prevent and resolve them. As educators we should find this alarming” (“Many Push,” 2005, p. 5). The reason that accounting graduates lack the skills in ethical decision-making is because they are not being equipped. Less than half of colleges and institutions offer a separate course in ethics, with only eighteen percent of those offering a course within the accounting department; of those, only fifty-one percent required the ethics course for graduation from their accounting program (Mastracchio, 2005). One is forced to wonder how this trend has continued when there is such a glaringly obvious deficit. In their article, David Bean and Richard Bernardi pose the question: “What courses are more important in a curriculum educating accountants than an accounting ethics course?” (2005, para. 7). There is no question as to the elevated importance of ethics in accounting; its emphasis in education ought to be equally valued.

Although a large majority of accounting academia has declined to accept the responsibility to integrate ethics into their curriculum, accounting professionals are insisting on its importance. Those in the working world know the needs better than anyone: “The accounting profession, especially the large firms, see a need and have expressed support for ethics courses as part of the accounting curriculum” (“Many Push,” 2005, p. 5). Those in opposition of this move toward ethics courses argue that teaching ethics will not be effective and that the move is futile. Bean and Bernardi affirm this possibility, but argue the point:
Certainly no single ethics course or group of ethics courses can guarantee that students will always behave and act ethically. Similarly, there is no guarantee that those taking accounting courses will always properly account for a given transaction…An accounting ethics course should lessen the frequency and severity of ethical lapses in the profession. (2007, para. 13)

To concede to this problem and allow unethical behavior is absurd; the facts show that ethics educations courses are necessary and should be encompassed in accounting curriculum.

Accounting professionals must insist on an ethical focus in education. No one knows and understands the accounting culture and its needs better than those working on its forefront. It ought to be those in the field making the decisions as to what they want in the newly graduated employees: “the profession clearly has the right, if not the obligation, to require an accounting ethics course as a condition for admittance” (Bean & Bernardi, 2007, para. 15). Accounting professionals must recognize their influential power on the accounting field and use their influence to demand ethics in accounting education.

**CPA Exam**

The CPA exam is an extremely influential test; it is the standard for those wishing to become Certified Public Accountants. The requirements to become a CPA vary by state but the CPA test is uniform. Since it is the bar by which many accounting professionals are judged, it is crucial that it is complete and includes all necessary topics that a CPA ought to be educated in and be familiar. To ensure that ethics is incorporated into the knowledge of professional accountants, ethics should have a defined and important place on the CPA exam.

There is currently a strong drive by many to place more of an emphasis on ethics on the exam. In the current version of the test, last updated in October 2005, there is a very small focus
on ethics. It makes up fifteen to twenty percent of the regulation section of the exam, and only about five percent of the exam as a whole; taking at most 36 minutes out of the fourteen hour examination (Bates, Waldrup, & Calhoun III, 2008, p. 9). The time spent testing on the exam does not presently correlate with its importance in the workplace. Not only is it important to ensure that ethics is included in the test, but also having experience and education as a requirement to sit for the exam and to continue ethics education afterward. Only four of the fifty states require the completion of an ethics course to sit for the examination; twenty-four require an ethics course before they can be certified (Bates, et al., 2008). With so little weight placed on ethics in the requirements for certification, it is no surprise that there are so many ethical problems appearing in the professional accounting world.

If ethics were incorporated into a larger component of the CPA certification, it would subsequently increase in importance in ethics education and in turn become more central to those in the accounting field. Jacqueline Burke and Jill D’Aquila underline the effects of this action: “In light of the recent accounting scandals and the consequential deterioration of the public’s trust in our profession, the CPA exam would better reflect the needs of the public by expanding its coverage of ethics on the exam” (2004, par. 15). Accounting professionals must know how to deal with ethical situations; adding more ethical questions and simulations to the exam would be beneficial in equipping those professionals with the ethical judgment necessary to deal with these types of situations in the workplace.

In preparing for the exam, requiring ethics courses for preparation would increase accountants’ ethical knowledge as well. The future of ethics for accountants, and particularly CPAs, relies heavily on those who draw up the requirements in each state for the CPA exam. In order to facilitate the profession’s needs, “practicing accountants should control the agenda on
qualifications to become a CPA and should become active proponents of ethics education both in the initial education of those entering the profession and in continuing professional education” (Bean & Bernardi, 2005, para. 2). Reengineering the CPA exam and its requirements is a necessary step in implementing ethics into the education and the mindsets of accountants.

Ethical Culture

Corporate Culture

In order to promote ethical behavior in individual accountants, it is highly important to cultivate an ethical culture within each accounting organization. The public must be able to place their trust in accountants: “If we are going to continue restoring consumer confidence in business, it is imperative we promote the kinds of cultural changes that ensure ethics permeate our companies from the top down” (Lebovits, 2006, para. 2). Individuals will be influenced by, and will influence, the ethical character of their coworkers, superiors, and subordinates. In addition, the views of the organization as a whole on ethics will affect the way a person behaves ethically. Due to this dependence, organizations must do their part to make doing “the right thing standard operating procedure” (para. 2). One important step toward this ethical culture is establishing a code of ethics that the organization and its members can take ownership of and accept.

The effects of adopting and supporting a strong ethical culture in the organization are astounding. The behavior of the employees is greatly shaped by the ethical culture of the company of which he is a part. In a study, ethical violations were much higher in organizations with a weak ethical culture compared to those with strong ethical cultures (70% compared to 34%); on the other hand, there was a much greater chance that employees would report ethical misconduct in those organizations with strong ethical cultures (79% compared to 48%)
(Verschoor, 2005). Not only are there positive effects from within the company, the public respond affirmatively as well. Evidence proves that organizations that are committed to ethical behavior fare better economically as well. Those same companies that stand out for their ethical cultures stand out financially; according to studies, those organizations “outperformed the S&P 500 by more than 370% over the past five years” (Verschoor, 2007, p. 11). The benefits of promoting an organization’s ethical culture are observable and advantageous.

**Leading by Example**

The leaders of every company have a responsibility to those under them. James Copeland explains his own personal stance on this responsibility while he was serving as CEO of Deloitte and Touche: “I felt I had two key responsibilities: (1) to create a positive expectation for ethical behavior, and (2) to set a personal example for others in the firm” (2005, p. 42). Before an employee will follow an ethical code or norm, he must see it exemplified by those above him.

An organization’s leadership is the ethical thermostat for the organization: “Employees listen and watch management intently for cues on how to model their behavior” (Lebovits, 2006, para. 8). Employees will react in turn when they observe their superiors behaving ethically. In his article, Curtis Verschoor quotes David Rhind—Hudson Highland Group American counsel: “Even with clear ethics policies in place, companies must create a culture of integrity throughout the organization by providing both the means and the mandate to report concerns...When senior executives lead by example, employees are more likely to follow suit” (2007, para. 14). It is important for every organization to have leaders who stand behind their ethical convictions and support them. John Pollara expresses his views on the influence of management accountants: “By choosing to act ethically, we stand in a unique position to protect our companies, our employees, our shareholders, our financial markets—even our countries. It’s a burden let’s all...
share” (2008, p. 7). This attitude of willingness and acceptance of the responsibility to uphold integrity and behave ethically is one that all professional accountants should adopt. The influence that an organization’s leadership has over its employees is perhaps greater than any other force.

In today’s ethically grey business world, leaders who are willing to stand up for ethics and do what is right are desperately needed. Those leaders that take these stands ought to be recognized and commended, leaders such as Ralph Larsen, former chairman of Johnson & Johnson or Truett Cathy, founder of Chick-Fil-A. Larsen once instructed his organization’s leadership, “Not only do I not want you to cross the line; I don’t want you to get even close to it” (cited in Brower, 2006, p. 6). This dedication to being above reproach and avoiding any perception of unethical conduct is an attitude that should be adopted by all those in accounting, from the highest officer to the lowest level accountant. During a congressional hearing on business and accounting ethics, the Chick-Fil-A founder displayed his commitment to integrity above success and all else, “Mr. Cathy quoted Proverbs 22:11, which says: ‘A good name is more desirable than great riches; to be esteemed is better than silver or gold’” (cited in Smith, 2003, para. 7). This biblical principle should be the foundation of every ethical code of conduct: putting reputation before riches.

Setting the Standard

The Bible serves as an unrivaled source for ethical principles. The great leader and the first American president, George Washington, gave his opinion on the necessity for biblical principles: “Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensible supports. Reason and experience both forbid us to expect that national morality can prevail in exclusion of religious principle” (Smith & Morris, 2003, para. 9). Just as America, as a nation, cannot grasp morality without religious principles, neither can the
accounting profession uphold ethics without holding to those same religious principles. The AICPA’s Code of Conduct calls for its members to be independent “in fact and appearance” (2007b, para. 1). Christian accountants are held to a similar but even higher standard; the Bible calls for believers to be above reproach and blameless. Therefore, they must avoid every appearance of evil. Christians following a biblical ethics system will never have to worry about crossing lines or behaving unethically in the workplace. If they are truly following biblical principles, they ought to have no problems or actual dilemmas; their actions are guided by the ultimate moral authority.

*The Call for Ethics*

For the accounting profession, ethics is the foundation of all it does. The public’s trust depends on it and its very nature requires it. Behaving ethically as an accountant not only builds trust, it affirms the profession’s core principles. If the public cannot trust those who are looked to for affirmation and confirmation, the accounting profession cannot survive. If the profession allows its commitment to ethical values to waver, it ebbs away at the very foundation on which it stands. When ethical values are undermined, the value of the accounting profession declines along with them.

The accounting profession as a whole, as well as individually, must be willing to take ownership of a strong, absolute view of ethics. The many accounting problems that have surfaced in the last decade cannot ultimately be solved through legislation, no matter how much effort is put forth. James Copeland presented a quote by T.S. Eliot which effectively explains these efforts: “They constantly try to escape from the darkness outside and within—by dreaming of systems so perfect that no one will need to do good” (2005, p. 39). The solution must be a personal one, with ethics becoming a part of each accountant’s mindset and behavior. As Dr. L.
Smith writes, “Rules and regulations cannot preserve a free and ethical society whose people lack integrity” (2003, para. 10). There must be steps outside of government action to establish ethical behavior in the workplace and within each individual.

The major accounting governing bodies must continue to assert the importance of ethics through their decisions and their requirements. If unethical behavior is tolerated or ignored, those within the profession will begin to adapt to this tolerance. This acceptance is not a possibility for the accounting world; there must be a clear stance on the issue. Ethics must be established from the top all the way down.

To establish the authority of ethics in the accounting field, the role of education is crucial. Those entering the profession must understand its importance and its dependence in the workplace. Therefore, it is imperative that ethics be an integral part of accounting education. Its curriculum ought to embed it into the students and its tests enforce it. Only when accounting students see and understand the importance of ethics throughout their education will its significance be ingrained into them. Meeting the status quo no longer suffices; there must be a higher standard placed on accounting education to match the standard that the profession is held.

Perhaps most importantly, the role of leaders in accounting is the most influential. Those in positions of authority must display the upmost commitment to integrity and ethics. Those superiors have an incredible influence on those below them. For that reason, leaders must work to establish strong ethical cultures within their companies as they continue to stand as moral beacons in the ethical tumult. These leaders must take a stand on strong ethical principles; they must implement the principle that Abraham Lincoln urged: “Honor is better than honors” (cited in Smith, 2003, para. 7). Ethical behavior must be held to in even the most challenging situations:
Ethical decisions can have negative repercussions, but integrity and character come with a price tag. If they were free, everybody would have them. But today, we are discovering that the cost of integrity and character is cheap compared to the cost of not having them.

(Copeland, 2005, p. 42)

To do this, it will take a strong commitment on every accountant’s part to stand strong in his or her commitment to ethics.

As the accounting profession continues to adapt and evolve to the demands of the business world, it must continue in its devotion to ethical behavior. When all else fails, ethics must remain. In the past, there has been an insufficiency of proper treatment of ethics in the profession. Accountants, both in education and in the workplace, must strive in the future to ensure that the face of accounting in the future continues to be one of honesty, integrity and commitment to the public’s best interest. There has been progress, but the progress must not cease; its continuance is vital. Each accountant must take it as his personal ambition to uphold ethics for himself, and those that are influenced by him. The future of the accounting profession will only be as strong as its commitment to ethics.
References


Retrieved January 24, 2009, from

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Ethics in Accounting


