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ACCOUNTANTS

An Ethical Decision Making Model for Modern Accountants

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Abstract

During the past decade the public trust in the accounting profession has declined. And for the most part this is deserved. With the collapse of publicly traded companies due to poor auditing and accounting it is understandable why public trust in accountants is an issue. The purpose of this paper is to discuss and examine an ethical decision making model for accountants and evaluate the model with respect to the accounting profession and culture, along with the American Institute of Public Accountants Code of Professional Conduct. This paper will also examine how this model will enhance public trust and discuss what the accounting profession needs to do to maintain and improve public trust in the profession.

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Section 1: Elements of the Model

In a time when corporate scandals have been headline news, it is important to consider what effect this has had on the accounting profession. There is no doubt that the public has great concern about placing its trust in the profession. It is imperative that the profession, as a whole, strive to act ethically in all situations to regain trust.

To begin, good ethics affects the good name of the company and builds trust. It is obvious that to cut corners for short-term gain will only erode the good name of the company. An accounting firm that cannot be trusted is useless, since people depend on the firm and individual accountants to provide them with accurate pictures of the financial status of other organizations. (Duska and Duska, 2003, p. 183)

With an understanding of the importance of being seen as trustworthy, it is time to consider the components of the ethical decision making model. These components are ability, benevolence, and integrity, which together make possible professional judgment.

Ability:

The first element of the model is ability. Ability is the skill or talent to do something (Webster's, 1987). Ability comes from a combination of education and experience. It not only includes past education and experience but also continuing education and experience made necessary as the world continues to grow and change. Studies show that life-long learning improves ability and quality of work. One such study shows that there is a relationship between quality review results, continuing education, continuing experience, and quality of performance in public accounting (Thomas, Davis, & Seaman,

1998). Anything that improves quality of work is going to enhance trust. Trust has been defined as relying on the ability of others (Mintz, 1995). Ability is an important element of competent and quality work. The Bible also speaks to the importance of working to the best of your ability. “Whatever your hand finds to do, do it with your might; for there is no work or device or knowledge or wisdom in the grave where you are going.” (Ecclesiastes 9:10, New King James Version). To do something with all your might encompasses the actual act of working along with continuing to gain education and experience. Also, someone who works with all his/her might will earn trust. For any accountant to gain trust, he/she will have to have the ability to do quality work which encompasses all of the various elements mentioned above. However, this alone will not enhance trust.

Benevolence:

The second element of trust enhancement is benevolence. Benevolence has been defined as “an inclination to do good” (Webster’s, 1987). A second definition is as follows. “Preservation of the welfare of people with whom one is in frequent personal contact” (Akers & Giacominio, 2000, pg. 89). The definitions of benevolence make it easy to see why it is an element of trust enhancement. The importance of doing good becomes even more clear when we see what is said in Scripture. “Let no one seek his own, but each one the other’s *well-being*.” (1 Corinthians 10:24). Those who concern themselves with the good of others will also earn trust. Now it is possible to see how ability and benevolence enhance trust. Learning to exercise both of these traits is a step in the right direction for the accounting profession. “To fulfill their role in society, accounting professionals should have technical expertise and moral expertise” (Mintz,

1995, pg. 249). Accounting is a profession where responsibility extends beyond the client. There is also a responsibility to anyone who would rely on financial information. This underscores the need for the inclination to do good. To be considered trustworthy, an accountant must consider the good of anyone relying on the financial information, not just what is in the best interest of the client. Benevolence is a second important element of trust enhancement but there are more elements to consider.

Integrity:

Integrity, as it relates to trust, is defined as honesty or sincerity (Webster's, 1987). Those who prove themselves to always act honestly, or with integrity, will find that they are trusted. Once again, it is possible to look to the Bible to gain even better insight to the importance of integrity. "The LORD shall judge the peoples; Judge me, O LORD, according to my righteousness, And according to my integrity within me." (Psalm 7:8). God honors a man who shows integrity. Considering the importance of trust enhancement and the direction given in the Bible, integrity is a necessity. When considering the evidence, it is easy to see that loss of integrity leads to devastating results (Copeland, 2005). A return to integrity is paramount to trust enhancement. This leads to one final element of trust enhancement.

Professional Judgment:

The word professional is defined as someone who is "engaged in a specific occupation for pay" (Webster's, 1987). Therefore, professional judgments would be judgments or decisions based on the standards for the occupation. Professional standards are based on the shared knowledge (education) and experience of a group of professionals. Considering this, professional judgment is supported by the other elements

of the model. An individual making a professional judgment would be relying on his/her ability. Also, for this judgment to be ethical, it should take into consideration doing good for others and acting with integrity. Another way of saying this would be “professional judgment, then, can be seen as a combination of being ‘correct’ and being ‘good’ or ‘right’” (Thorne & Hartwick, 2001, pg. 341). Once again, it is possible to turn to the Bible to examine this element. “Now give me wisdom and knowledge, that I may go out and come in before this people; for who can judge this great people of Yours?” (2 Chronicles 1:10) Even King Solomon knew that to lead God’s people he would have to make professional judgments. He also realized the importance of knowledge in making these judgments. Striving to acquire all the necessary traits for trust enhancement will lead to being able to make trustworthy professional judgments.

The model of trust enhancement encompasses these elements. Each of these elements alone represents a trait of a trustworthy individual. In the professional realm, the elements ability, benevolence, and integrity do not stand alone. Applied together they are invaluable when making sound professional judgments. These sound professional judgments enhance trust. When considering the multitude of scandals in the business world that have destroyed trust, it appears that regaining trust is impossible. However, if this model of trust enhancement is applied, it is possible to see trust grow once again.

Section 2: Organizational Culture and the AICPA Code of Professional Conduct

The organizational culture of the accounting profession and the AICPA Code of Professional Conduct have provided the profession with plenty of tools for trust enhancement. However, there is much recent evidence that many in the profession have not utilized these tools.

While the last few years have seen disturbing ethical scandals in virtually every sector of our society, Enron and other financial scandals have raised particularly serious concerns about the ethical failure of the accounting and auditing profession. To regain the trust and respect it previously enjoyed, the profession must rebuild its reputation on its historical foundation of ethics and integrity.

(Copeland, 2004, pg. 35)

Due to these scandals and the organizational culture they have created, it is now necessary for the accounting profession to regain trust. One way of doing this is to apply the model of trust enhancement and the principles of the AIPCA Code of Professional Conduct.

Ability:

The first element of the model is ability. Ability is repeatedly addressed in the code. In Section 56-Article V.03 the code speaks about competence.

Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm.

Each member is responsible for assessing his or her own competence—of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed. (AICPA Online, 2006-2008)

This definition of competence is a description of ability. It is imperative that accountants maintain a level of knowledge that allows them to provide quality services. If one is known for providing quality services, the level of trust that is placed in this person or firm will be enhanced. It is important to note that not only does the code speak to having the ability to do quality work, it also addresses the means to gain ability (competence). “Those standards stipulate that proper education and experience are the means by which practitioners should obtain such training and proficiency” (Thomas, Davis, & Seaman, 1998, pg. 341). In Section 56-Article V-02 it states “Competence is derived from a synthesis of education and experience” (AICPA Online, 2006-2008). So as has already been recognized, ability is gained through continuing education and continuing experience. So once again we see that having ability (competence) allows accounting professionals to be better trusted.

Benevolence:

The second element of trust enhancement is benevolence. As noted earlier, benevolence has been defined as “an inclination to do good” (Webster’s, 1987). Although the code does not specifically say to do good, it still addresses the idea of benevolence. Section 56-Article-V.01 states the following.

The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability

with concern for the best interest of those for whom the services are performed and consistent with the profession's responsibility to the public. (AICPA Online, 2006-2008)

The best interest of the client and consistency with the profession's responsibility to the public are about doing good. The accounting professional must always remain aware of the fact that there is a dual responsibility to the client and to the public who has reason to rely on financial information. Section 53-Article II speaks to this responsibility and considers acting in the best interest of others.

A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of 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. This reliance imposes a public interest responsibility on certified public accountants. The public interest is defined as the collective well-being of the community of people and institutions the profession serves. (AICPA Online, 2006-2008)

This responsibility is what brings about the need for benevolence or considering the best interest of others. When a person is viewed as having concern for the best interest of others, it enhances the trust placed in this person.

Integrity:

As this discussion of the elements of trust enhancement continues, it is good to review the definition of the element of integrity. Integrity, as it relates to trust, is defined as honesty or sincerity (Webster's, 1987). Before examining the code, there is a

description of the best cornerstone for every accounting department that is worth consideration.

A commitment to ethics should always be the cornerstone of every accounting department, but today this attribute isn't just part of a corporate mission statement. Accounting scandals and resulting government legislation have placed a spotlight on professional integrity. The best financial leaders are respected and trusted, setting the tone for the entire organization through their ethical behavior and straightforward communication. (Messmer, 2006, pg. 20)

So, leaders who set an organizational tone of integrity are respected and trusted. Always being honest is of great value and, also, this level of integrity is demanded by the code. It is addressed in Section 54-Article 3. "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 Online, 2006-2008). A person of integrity is worthy of public trust. There are few ways to say it any better, an individual or firm that shows integrity in all actions will be viewed as trustworthy.

Professional Judgment:

Professional judgments would be judgments or decisions based on the standards for the occupation. The AICPA Code of Professional Conduct provides the standard for the accounting profession. It may be difficult to find direct statements about professional judgment in the code. However, with careful examination, the application is there.

The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes

the obligation to perform professional services to the best of a member's ability with concern for the best interest of those for whom the services are performed and consistent with the profession's responsibility to the public. (AICPA Online, 2006-2008)

If an accounting professional is going to “discharge professional responsibilities with competence and diligence,” it is going to be necessary to make professional judgments. Also, as discussed earlier, observing the other three elements of the model of trust enhancement creates a foundation for sound professional judgments. Making these sound professional judgments will only enhance trust in the profession and the accounting professional.

In consideration of the past organizational culture of the accounting profession which included a foundation of ethics and integrity, and also the current culture that is trying to rebuild trust after past failures, there is an evident need to wholeheartedly return to, embrace, and apply the AICPA Code of Professional Conduct. When these principles are applied they provide a foundation of ethics and integrity. They also provide guidelines to follow when the standards do not apply. Following this framework in light of the model of trust enhancement will help the accounting profession once again gain the public trust.

Section 3: Importance and Interrelatedness of Elements in the Model

Public Trust:

As previously discussed, the decision making model for accountants consists of ability, benevolence, integrity, and professional judgment. This model supports the proper organizational culture of the accounting profession and the AICPA Code of Professional Conduct. We will now examine the importance and interrelatedness of ability, benevolence, and integrity as they relate to maintaining and increasing public trust in the accounting profession.

To maintain trust in the accounting profession, ability, benevolence, and integrity need to be in place. The level of trust in the accounting profession will increase with more ability, benevolence, and integrity on behalf of accountants. And in turn with less ability, benevolence, and integrity with accountants, trust will decrease.

To enhance public trust in the accounting profession including accounting firms:

A major challenge to corporations and their leaders is to create a “tone at the top” and a corporate culture that promotes ethical conduct on the part of the organization and its employees. Improvements in systems of corporate governance alone will not restore the public’s trust. Corporations should work to support responsible behavior and build environments in which employees take the initiative to address misconduct rather than waiting until after the damage is done. (Peterson and Snow, 2002, p. 22)

Each accountant has to have the ability to do his or her job. They need to be benevolent and demonstrate their integrity. Along with professional ethics each of them also needs personal ethics.

They are basic. We can hire all kinds of bright minds, but human character is fundamental to making the whole system work. As a government official, this means the ability to wake up and say, "I want to do the right thing; I want this system to work." In the private sector, it is so important to have the inner compass that says, "I know I have obligations to clients and others, but I want this to be fair, I want this to be decent, I want to do the right thing." Often government must establish an appropriate regulatory framework, but personal decisions are also critical. They are basic to good government and a good corporate community. (Niemojko 2003, p. 5)

Present and Future Issues:

The accounting profession has a lot of obstacles ahead of it to improve upon the trust that the public has in it.

Public confidence has been shaken by the incidences of fraud and misrepresentations revealed in the financial statements of companies. Enron, Xerox, and WorldCom are just a few examples of corporations which have misled investors with their financial statements. Since 1997, there have been almost 1,000 restatements of earnings by companies. Investors have suffered substantial financial losses and are unsure of the validity of the audits of public companies. There is a lingering fear that

there will be additional revelations of corporate fraud or misrepresentation. This has already harmed investor confidence and could continue to have an adverse impact on the financial markets. (Akaka, 2002, p. 1)

To help with these issues the International Federation of Accountants (IFAC) states:

With respect to accountants in business and industry, respondents to IFAC's first annual Global Leadership Survey labeled several issues as "very important" over the next year, including:

Applying new accounting standards (56%)

Adopting good practice in internal control and risk management (50%)

Perceptions of accountants' integrity by the public and regulators (47%)

Increasing complexity of financial reporting (46%)

Adopting good practice in corporate governance (43%)

"Investor confidence in the profession is vital to the profession's ability to contribute to the optimal functioning of capital markets and, consequently, to economic development," said IFAC President Fermín del Valle. (IFAC 2007 Global Leadership Survey, 2008, p. 20)

As a profession, we CPAs have a credibility problem about where our loyalties lie. It is all too obvious the public has lost confidence in our ability to provide reliable attest services. Is it not time to devote 100% of our efforts to reestablishing our priorities and their trust?

Let's forget the marketing of nonaudit services until we can clearly demonstrate an ability to consistently and reliably provide the core services that brought the CPA profession to prominence.

Those who rely on our opinions need to believe the accounting profession is focused on regaining their trust in our ability to provide an opinion through an audit that is truly objective and free of even the appearance that we lack independence. (Haugh, 2003, p. 1)

In light of these issues, Congress and the New York Stock Exchange have implemented changes. These new rules will increase professional judgment.

Stung by the high-profile accounting scandals that drove some [of] the nation's leading companies into bankruptcy court, Congress and other regulatory authorities have taken up their pens in an attempt to legislate business behavior. The Sarbanes-Oxley Act, which President Bush signed into law in July of 2002, requires publicly traded companies to disclose whether they have adopted a code of ethics for their senior financial officers, and if not, why. They also must report promptly any amendments to or waivers from the code.

The New York Stock Exchange, meanwhile, proposed new corporate governance standards which—if the SEC approves them—would require companies traded on that exchange to adopt corporate governance guidelines and a code of business conduct and ethics for all employees.

CPAs can help employers or clients navigate these new rules and create a

code of ethics that complies with all of the requirements. (Myers, 2003, p. 3)

Now is the time to design and implement major reforms in the governance and oversight of independent audits of the financial statements of public companies. Auditing firms need to adopt reforms that embrace a role that is fully consistent with high public expectations, tackle fraudulent financial reporting, and accept and support the necessary regulatory processes that give comfort to investors and the public that the auditing profession is doing all that it can do to prevent future episodes of failed financial reporting. It is critical to the integrity of the U.S. capital markets that the public trust in independent auditors be restored. (Schuetze, Sutton, and Turner, 2002, p. 2)

Section 4: Steps Toward Rebuilding Public Trust

The accounting profession is taking the correct steps to rebuild public confidence.

New and improved rules are being established to increase professional judgment.

Personal judgment is also an item that the human resource function should be looking for when filling positions in the accounting department. Accounting firms should be adding to their hiring packages ethical and professional questions and conditions. To increase professional judgment, personal judgment needs to be at an equally high level.

To go forward with steps toward rebuilding public trust, the accounting profession needs to be proactive in identifying problem areas. It appears so far that the accounting profession has been reactive to problems, as they become public knowledge. “The profession must address the issues facing it in a proactive manner, instead of reacting to external circumstances. It is far better to employ preventative measures, such as continuing professional development, than disciplinary tools.” (The Public Trust Task Force, 2006, p. 2) The accounting profession needs to explore the possibility of working with sociologists, psychologists, and pastors to identify areas of concern in ethical behavior patterns so that the group can better foresee what steps need to be made to help educate the accounting profession on how to make better ethical decisions.

Accountants should be content with providing the highest quality and ethical services possible. Contentment should not be driven by money or perceived fame. Many times accountants need to say no to their clients and stand up for quality and ethics.

“No” means protecting the public interest by rejecting unsound corporate accounting practices. “No” means reducing the risk of deceit and fraud.

“No” means ensuring that audited statements are not just accurate, but

illuminating. “No” means questioning and challenging management. When justified, it means rejecting management’s accounting decisions. Saying “no” means saying “yes” to protecting the public interest. Only if auditors are fully prepared to say “no” will investors be fully prepared to say “yes.” (Melancon, 2002, p. 5)

The accountant’s good reputation is his or her most valuable asset. Without it, they will never have the public’s trust. “A good name is to be chosen rather than great riches, Loving favor rather than silver and gold.” (Proverbs 22:1)

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