



Ethics for the
Accounting
Professional

NEGASC 2017

MARCUM
ACCOUNTANTS ▲ ADVISORS

Agenda

Topic	Estimated Time
Welcome & Introductions	5 min
Ethical Guidance	15 min
Rules of Professional Conduct	20 min
Role of the Audit Committee	10 min
Case Study	20 min
Fraud Overview and Ethics in Investigations	20 min
Wrap-Up and Final Questions	10 min
Total	100 min

Introduction

Current Environment

- Does the economy play a part in adhering to high ethical standards?
- Pressures brought on by a sluggish economy may effect your ability to _____?
- Does your work environment play a part?

How To Look Like You're Busy



Be Vigilant

- Be aware of the pressures and remain vigilant
- Ethical dilemmas for:
 - Auditors
 - Board Member
 - Tax preparers
 - Business valuation
 - Consulting
 - Business:
 - Industry (internal audit, CFO)
 - Academia
 - Government

A large graphic on the left side of the page, composed of several overlapping triangles in various shades of teal and dark blue, creating a dynamic, abstract shape.

Ethical Guidance

Ethical Foundation

- Ethics Defined:
 - Principles of right or good conduct; a system of moral principles or values; or the rules or standards governing conduct of members of a profession
- Ethics deals with principles that drive human nature

The Utilitarian Approach

- Conceived in the 19th century
- Jeremy Bentham and John Stuart Mill
- Greatest balance of good over evil

Application

- Identify the various courses of action
- Ask who will be affected
- What benefits or harms will be derived from each
- Choose the action that will produce the greatest benefits and the least harm

The Rights Approach

- 18th century
- Immanuel Kant
- Individual's right to choose for herself or himself
- People are not objects to be manipulated; it is a violation of human dignity to use people in ways they do not freely choose

Application

- We must ask, Does the action respect the moral rights of everyone?

The Fairness or Justice Approach

- Ancient Greek philosopher Aristotle
- “Equals should be treated equally and unequals unequally”

Application

- How fair is an action?
- Does it treat everyone in the same way, or does it show favoritism and discrimination?

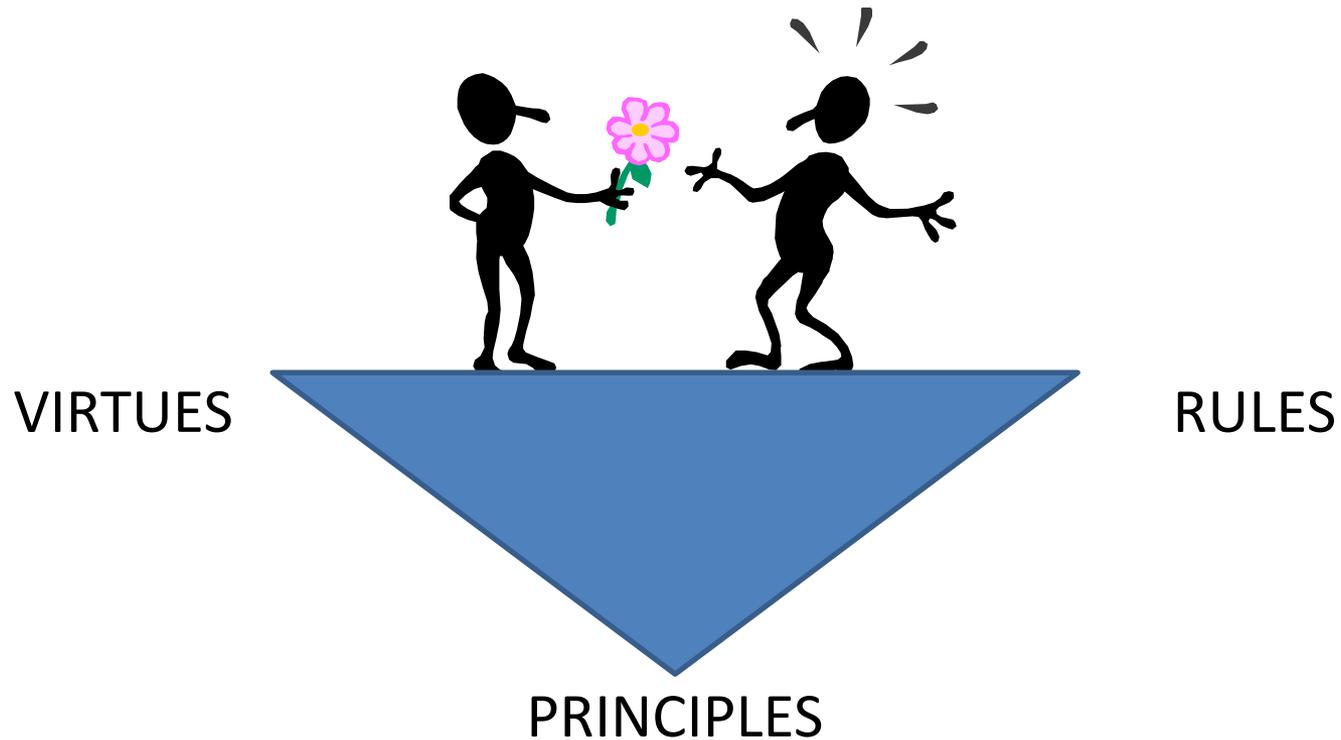
Virtue and the Role of Rules in Ethics

- Virtues help to make sense of and provide a rationale for the rules

➤ Fairness	➤ Courage
➤ Honesty	➤ Charity
➤ Temperance	➤ Objectivity
➤ Respect	➤ Patience

I N T E G R I T Y

The Relationship of Virtues and Rules



Judgment and Values

- Judgment is generally thought of in complying with standards.
- Values are attributes and beliefs that we choose, these values govern our actions because we use them to judge whether our actions are ethical.

The principles in Code has the following values:

A CPA has obligations to:

- The “public interest”
- The client
- Other CPAs

Judgment and Values

- Compliance with rules does not necessarily mean acting ethically
- Comply with the spirit of the rule, rather than the letter – “Form over substance”
- The true mark of professionalism is to consider and aligns one’s actions in accordance with both.

Public Expectations of the CPAs

Responsibilities

- Act honorably
- Be independent of the client-in fact and appearance
- Act with integrity and objectivity
- Comply with professional standards
- Keep client information confidential
- Not subordinate his/her judgment to another
- Exercise due professional care and diligence when performing professional services
- Only accept work that he/she is competent to perform

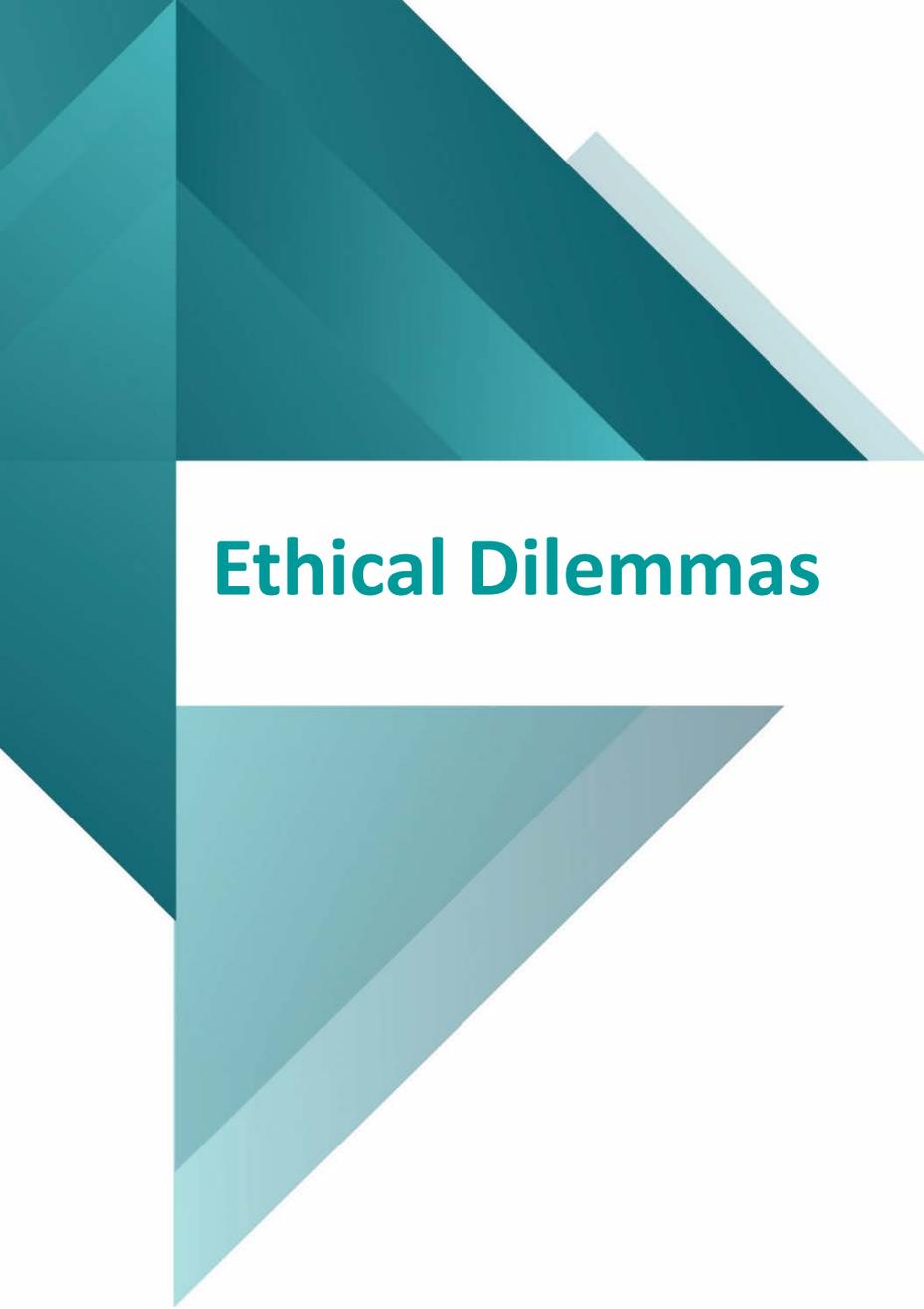
The Sociology of the Professions

- What is a profession?
 - A vocation or occupation requiring advanced education and training and involving intellectual skills.

 - Professional rules generally serve three purposes
 1. To restrict entry into and membership in the profession to qualified persons;
 2. To protect consumers from fraud and other misconduct;
 3. To protect the professional by establishing standards of normal professional conduct that could be used as a defense if the professional is accused of malfeasance

Protecting the Consumer

- Expectations:
 - know and follow GAAP and GAAS and any other applicable professional standards
 - are objective and as required, independent of the client
 - are properly trained and knowledgeable of current methodologies and techniques
 - do not have a financial self-interest in the outcome of your service
 - will keep your client's information confidential

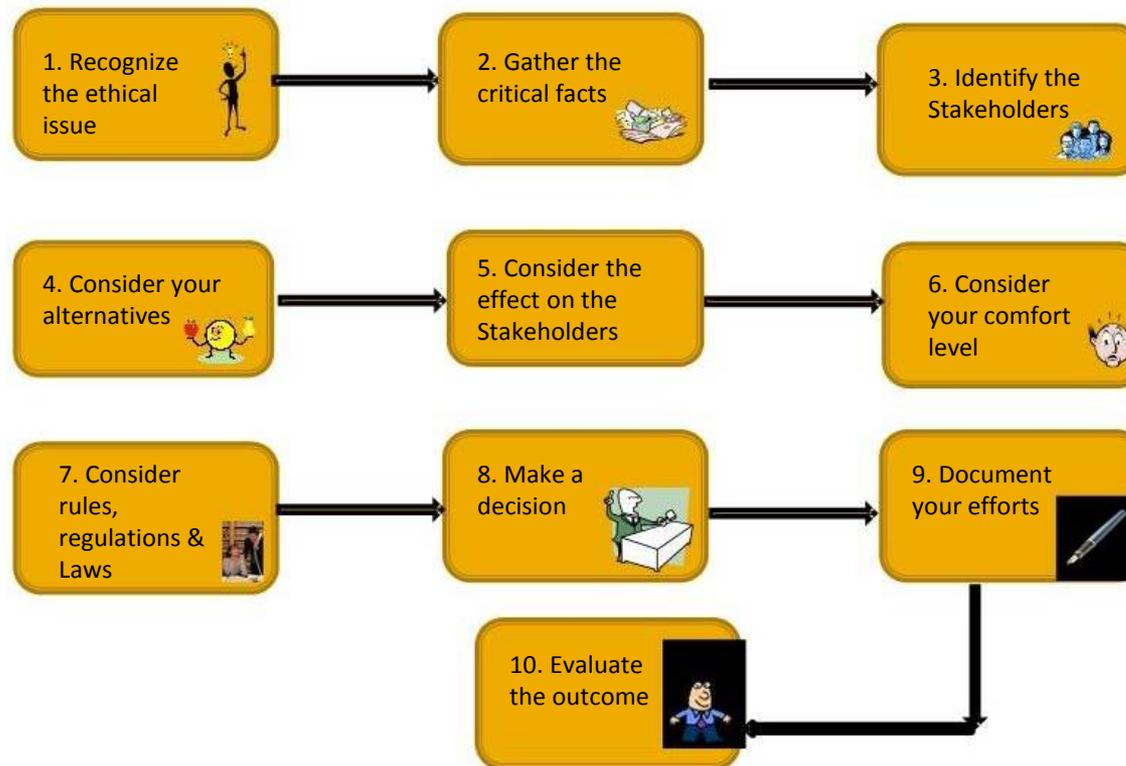


Ethical Dilemmas

Ethical Dilemmas

- Apply an ethics decision-making model- series of evaluative questions designed to help you analyze the issues and determine the best possible solutions
- If a matter is highly complex, critical, or highly sensitive let others help you to evaluate it from different perspective.
 - Contact AICPA hotline or state accountancy board staff for assistance
 - Consider whether you should obtain legal advice
 - Consider individuals whose judgment you trust and could, when needed, provide a fresh objective perspective
 - Consider the sensitivity of the information before disclosing it to anyone (no name basis)
 - Consider whether to obtain guidance directly from the regulator whose rules you are attempting to apply
 - If you are in public practice, you may wish to contact your professional liability carrier for advice.

Using an Ethical Decision Making Model 10 Steps



AICPA Ethics Hotline



The AICPA Professional Ethics Division educates members and promotes the understanding of ethical standards contained in the Code by responding to member inquiries on the application of the Code to specific areas of practice. If you have questions, e-mail us at ethics@aicpa.org or call at 888-777-7077.

Case Study



Fraud Overview and Ethics in Investigations

Fraud

- Fraud defined
- Why are frauds committed

Fraud Overview

- Fraud Defined
 - Intentional perversion of the truth in order to induce another to part with something of value or to surrender a legal right
- Fraud Involves
 - Deception
 - Intent
 - Confidence
 - Trust

Fraud Overview

Types of Fraud:

- Against an organization
 - Employee embezzlement
 - Vendor fraud
 - Customer fraud
- Fraud on behalf of an organization
 - Management fraud
 - Investment scams

Fraud Overview

Reasons for Committing Fraud:

- Pressure
 - Financial
 - Living beyond one's means
 - Compensation tied to performance
 - Vice-related
 - Gambling
 - Work induced
 - Feeling underpaid
 - Greed

Fraud Overview

Reasons for Committing Fraud (continued):

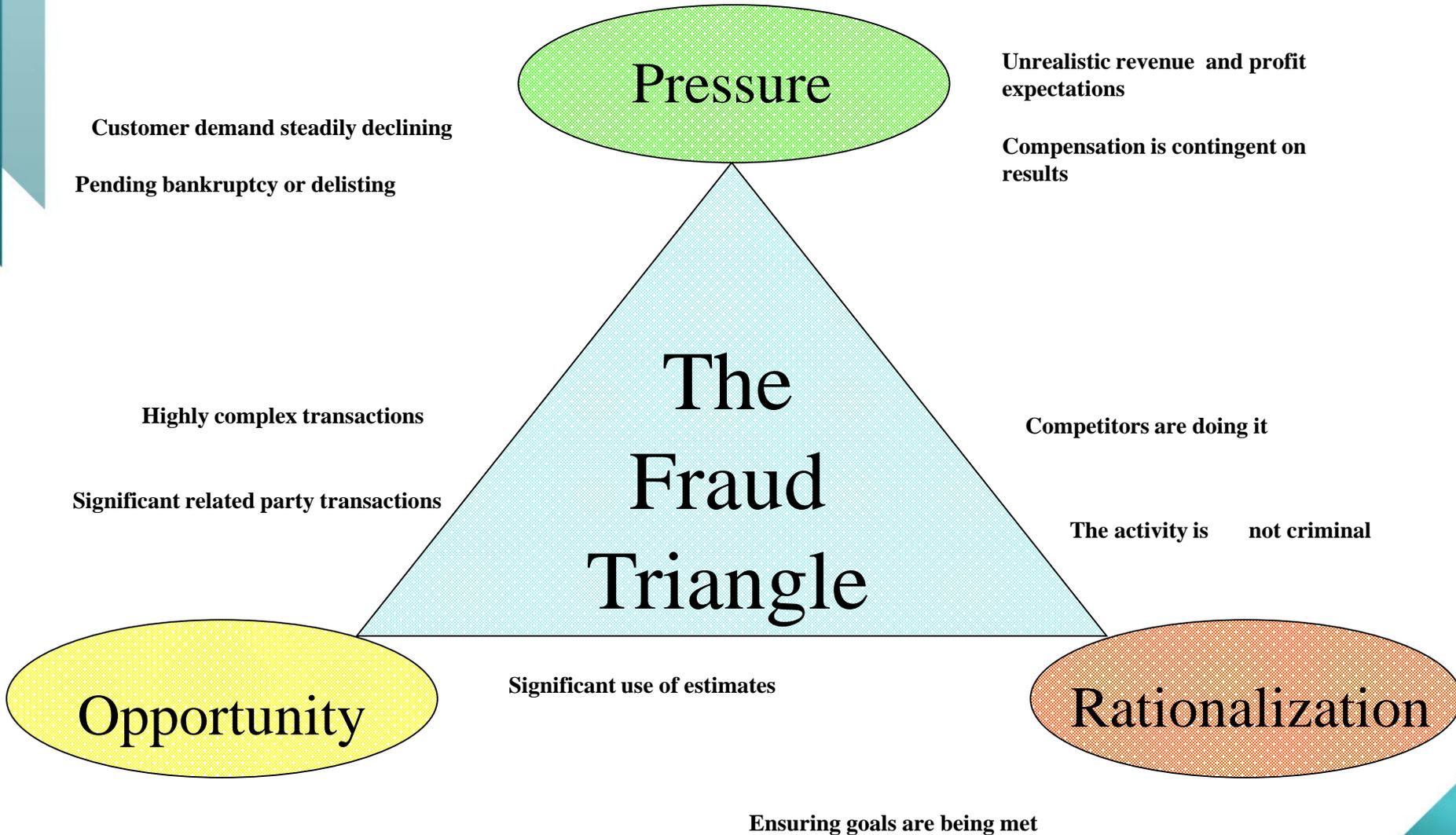
- Opportunity
 - Poor internal controls
 - Ignorance of management
- Lack of oversight
 - Accountants
 - Auditors
 - Board of directors

Fraud Overview

Reasons for Committing Fraud (continued):

- Rationalization
 - Act is justifiable
 - The company owes it to me
 - Nobody will get hurt
 - It will make the company look good
 - It's only temporary, until we get back on track

The Origins of Fraud

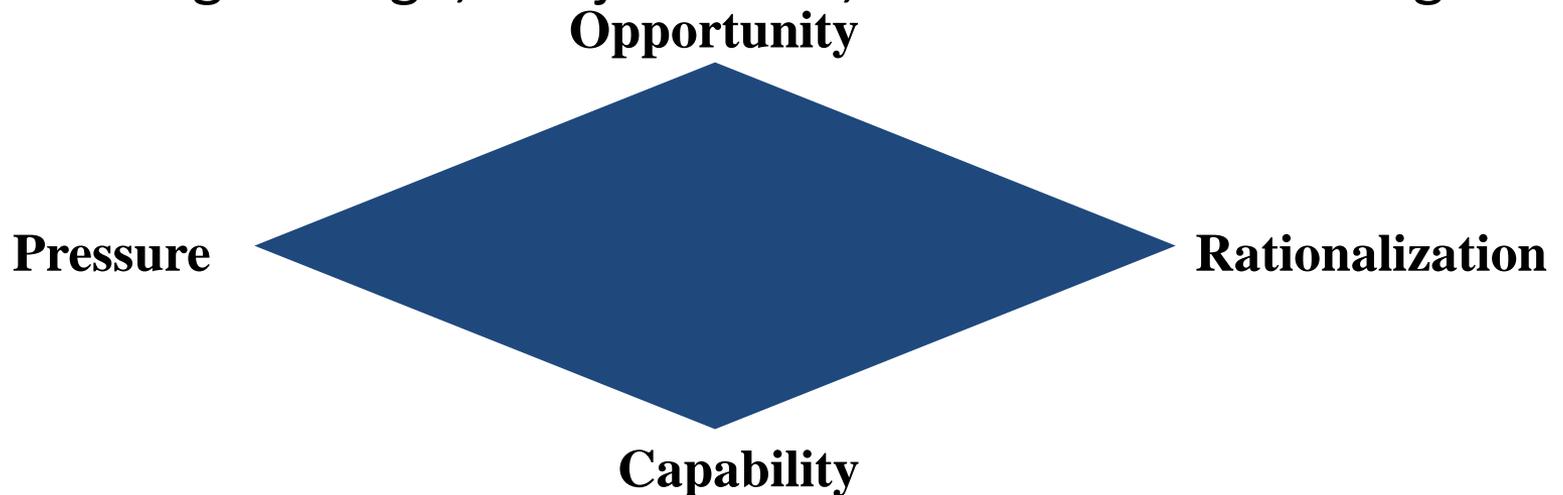


The Fraud Triangle

- Opportunity is generally provided through weaknesses in internal controls:
 - No separation of duties
 - Little supervision and review
 - Lack of management approval
 - Few system controls
- Pressure can be imposed due to:
 - Personal financial problems
 - Personal vices such as gambling, drugs, extensive debt, etc.
 - Unrealistic deadlines and performance goals
- Rationalization – justification for fraudulent activities:
 - “I really need this money and I’ll put it back when I get my paycheck...”
 - “I’d rather have the company on my back than the IRS...”
 - “I just can’t afford to lose my home, car, everything...”
 - “I need to make my numbers for this quarter...”

The Fraud Diamond

- David Wolfe and Dana Hermanson
- Incorporates the *human element* – **CAPABILITY**
- “Opportunity opens the doorway to fraud, and incentive (pressure) and rationalization can draw a person toward it; but the person must have the *capability* to recognize the open doorway as an opportunity and to take advantage of it by walking through, not just once, but time and time again.”



The Fraud Diamond, cont'd

- Six traits in the personality of the fraudster associated with the **capability** element:
 1. Positioning
 2. Intelligence and Creativity
 3. Ego
 4. Coercion
 5. Deceit
 6. Stress

CLARK ROCKEFELLER



**Christian Karl
Gerhartsreiter**
1978 INS photo



Clark Rockefeller
2008 photo



Chris Chichester
1980's photo



Ethical Considerations in Conducting Internal Investigations

What is an Internal Investigation?

- Investigation conducted into acts or omissions that create potential liability for a company
 - Examples:
 - Accounting fraud
 - Ethical violations and dilemmas
 - Employee Misconduct
 - Foreign Corrupt Practices Act Violations
- How do companies learn of issues?
 - SEC or other regulators
 - Auditors
 - Whistleblowers
 - Internal complaints
 - Media

What is Investigated?

- Investigation may seek to determine:
 - Whether misconduct occurred
 - The nature and scope of the misconduct
 - Who is involved
 - Who is responsible
 - Why the misconduct occurred
 - How widespread the problem is

What is Investigated?

- Also investigate need for remedial actions:
 - What remedial steps should be taken to insure conduct does not recur?
 - Is public disclosure or notification required?
 - Are disciplinary actions necessary or appropriate (including terminations)?
 - How can the company remedy damage or redress injuries?
 - Is there a sufficiently robust corporate compliance program?

Why Do an Internal Investigation?

- To understand why acts/omissions occurred and prevent future occurrences
- To develop appropriate response to possible charges of wrongdoing
- To obtain more lenient treatment from regulators/ prosecutors

When To Do an Internal Investigation

- Before an investigation by regulators
- While a government investigation is “on hold” pending the outcome of the internal investigation
- Concurrent with a government investigation
- When litigation is anticipated

What Happens in an Internal Investigation?

- Document collection and review
- Witness interviews
- Analysis
- Drafting of the report (not always)

Document Collection

- Gather hard documents from employees/company
 - Review and collection may be performed by company employees, lawyers or consultants depending on concerns over:
 - Cost
 - Intrusiveness
 - Thoroughness

- Collection of electronic documents
 - Should usually be performed with a vendor
 - Usually filtered by search terms

Ethical Considerations: Who is the Client?

- Who retains the firm: the Company, the Board of Directors, the Audit Committee or a special committee of the Board of Directors
- Independence of investigation may be compromised where the company is the client
 - Can limit scope of investigation
 - Desire to please client could affect findings
 - Upper management or inside directors may be implicated
- Preferred client: Audit or Special Committee

The Investigators

- Hiring long-standing outside counsel may pose independence concerns
 - Rely on repeat business from company
 - Have relationships with individuals at company
 - Enron/Vinson & Elkins
- Advantages of hiring long-standing counsel
 - Less of a learning curve
 - Expertise in relevant area

Scope of Investigation

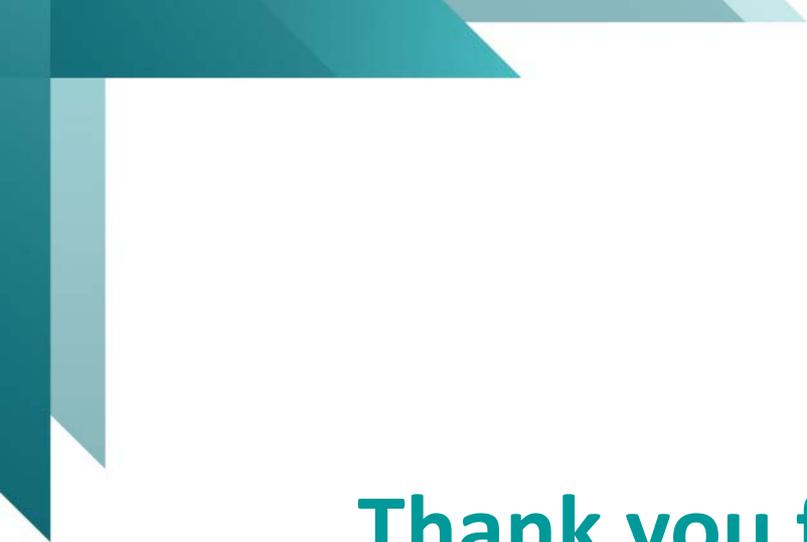
- Subject matter
 - Preferably, no limit on subject matter
 - May include investigation of ethical/compliance culture
- Time constraints
 - May be imposed by government
 - To meet reporting deadlines
 - Business reasons

Benefits of Internal Investigation

- Reduces exposure to government action
- Puts company in better position to respond to charges/lawsuits
- Prevents future wrongdoing
- Provides information that management needs to fulfill responsibilities and improve corporate compliance

Questions





Thank you for participating



Thank You
for the opportunity to present to you
today.