ETHICS IN THE ACCOUNTING PROFESSION:

A CHALLENGE FOR THE FUTURE?

by Julie E. Gryn

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MEMORANDUM

University of North Texas **Academic Core Programs**

To: Whom it may concern

From: Gloria Cox GCox

Date: January 10, 1996

Re: Senior colloquium for Julie Gryn

Julie Gryn [redacted] has completed the requirements for the Senior Honors Colloquium in the course HCRS 4980.001, Culture, Politics, and Society, instead of through the standard course HCRS 4100.700. This arrangement was made via a former program administrator.

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INTRODUCTION

> You are asked to participate in a consulting assignment for the ACME Cigarette Company, which is about to expand its foreign production. You are vehemently anti-smoking, believing it to be a major health hazard. You are especially concerned about the exporting of cigarettes and the advertising being done in Third World countries. Should you ask to be removed from the team undertaking this job? Should you raise this "social responsibility" issue higher up in the firm?[1]

Conflicts of value, disagreements about codes and regulations, and dilemmas of loyalty are encountered every day by professionals. Among other duties, accountants are pledged to tell the truth and have clear responsibilities to exercise good judgment and honesty in their professional work. However, professional duties often come into conflict with moral principles. How is an accountant to sort out such problems and resolve them?

As a student of the accounting profession and a member of the audit staff at a local accounting firm, I have already faced my share of ethical dilemmas in both textbook and practice. What interests me is the seemingly lack of research, information and teaching provided in the area of ethics in the accounting profession. As a student, my exposure to ethics and professional responsibilities was limited to an undergraduate audit class that covered the American Institute of Certified Public Accountants' (AICPA) Code of Professional Conduct and Professional Responsibilities. As a professional, my exposure to ethical issues in the profession is limited, albeit nonexistent, as any ethical dilemmas are ultimately resolved by the partners and/or managers. However, that is not to say that I have not seen potential ethical problems in the clients that I deal with, or dealt with my own moral conflicts when working on various engagements. Like me, many accountants find themselves perplexed by these arguments because we have not been exposed to a practical method of dealing with ethical dilemmas. Cottell and Perlin (1990) stated that "no formal training and few opportunities in everyday working life have been provided for accountants on a sustained basis" (2). Therefore, accountants (known for their practicality) tend to resist ethical discussions that they perceive to be moralizing in tone and philosophical in content.

In today's business world, however, ethics is receiving wide-ranging discussion in the press as well as in accounting literature. One can expect to find discussions of ethical conflict in the Wall Street Journal or on the nightly news with increasing regularity. Also, over 90 percent of business schools in this country now offer business ethics courses. In practice, business ethics consultants are in demand by corporations and many major firms have ethics committees. The purpose of this paper is to look at the evolution of ethical issues in the accounting profession and the development of the AICPA's Code of Professional Conduct over the last century. I will also discuss professionalism and the moral dilemmas that follow, specifically in the accounting profession. Finally, I will look at the history of accounting ethics in education, where it has been, what is being done now, and where it is going in the future. While I cannot expect to resolve all of the ethical problems in the accounting profession in a single paper, I hope to raise questions in the minds of currently practicing accounting professionals, future accounting professionals and even the educators, about the importance of ethics in the accounting profession and the need for research and education.

PROFESSIONALISM

The Nature of Professions

The designation "professional" is highly desired in our society and has been for centuries. People have even been known to take courses of action that have been against their economic interest because they want to protect the privilege of being known as a professional. What is it about being a professional that makes it so desirable? One possible aspect is the notion of community. Advocates of any profession attempt to set the professional apart from a wider society. Cottell and Perlin (1990) state that "this is accomplished first through technical knowledge, then through an informal dynamics and language game that springs forth in the formative stages of professional development" (17). Therefore, professions become exclusive in nature, making the professional designation more valuable to its members. This value comes from both the economic rewards available to successful professionals and from certain privileges granted by society to professions.

All professions have high standards for those licensed to practice them. Codes, standards, and oaths are commonly encountered for various professionals ranging from doctors to social workers. To be a professional is to achieve special status, and the acquisition and maintenance of important skills is presumed for members of the profession. Finally, a professional achieves a new "identity" upon entering a profession. In accounting, they are no longer a bookkeeper, but a CPA, CMA, or CIA (Cottell and Perlin, 18).

Most authorities agree that a profession is characterized by four important elements:

- A specialized body of knowledge taught in a formal and certifiable manner.
- A commitment to <u>social</u> purposes (good ones) that justify the profession's existence
- The capacity to regulate itself, often with the sanction of the law for those who violate acceptable norms of behavior
- Status and prestige of above-average ranking in society (Cottell and Perlin, 18).

To illustrate these four elements, accountants must study long and hard, graduate from college with a minimum number of accounting and business hours, pass a lengthy and difficult exam, and be able to perform specific tasks in a thorough and efficient manner. Also, accountants are required to satisfy continuing education requirements in order to keep their professional status. However, accountants do not claim professional privileges in order to maximize fame or fortune. Instead, the profession's principal responsibility is neither to self nor to employer nor to client, but rather to the public (Cottell and Perlin, 19). Members of the profession who behave in violation of standard practice are initially disciplined by the profession itself.

Those who remain members of the profession in good standing achieve many benefits from income to public recognition. These are rewards for the achievement and maintenance of high standards. The esteem that results from membership in such an elite group makes professional status desirable. Therefore, professionals are not like other people. They have a commitment to a way of life that is intellectually complex and demands constant updating of knowledge and skills. Public service is presumed and behavior is scrutinized for its ethical dimensions. Accountants, and all professionals, make difficult judgments in which technical competence is intertwined with moral values. They confront moral dilemmas continuously and are held to the high standards of professional codes (Cottell and Perlin, 19).

Professionalism in Accounting

The oldest and best developed professional group among accountants exists in public accounting. Recently, the American Institute of Certified Public Accountants celebrated its one hundredth anniversary. Only doctors and lawyers can surpass certified public accountants in the claim to professionalism based upon history and longevity of public service. Evidence of this is found in the fact that the designation CPA is recognized by all fifty states and the federal government. Also, the AICPA and state societies of CPAs wield tremendous influence over the criteria for granting a CPA certificate.

Therefore, the AICPA has the most fully developed standards of professional conduct found in accounting. Over the past two decades these standards have received considerable scrutiny from both the public and the courts. However, the AICPA has been flexible in maintaining control over standards while being willing to alter the standards themselves. Further discussion over the development of these standards will be presented later. In addition, other groups of accountants have recently taken actions designed to gain recognition as professionals. The National Association of Accountants (NAA) has recently developed the examination and certification of the certified management accountant, and the Institute of Internal Auditors (IIA) has developed the examination and certification of the certified internal auditor. Both groups have recently adopted codes of ethics.

Criticism of the Profession

Accountants are not without critics with respect to their professional responsibilities. Public accounting is finding itself increasingly in the glare of publicity surrounding several issues of professional responsibility, especially in the areas of detecting fraud and auditing the same firm for whom consulting services have been provided (Cottell and Perlin, 21). In addition, those who are not in public practice have faced skepticism about their claims to professionalism. The primary reason is that the NAA IMA and the IIA have few recourses available to enforce their codes of professional ethics. Also, the certificates they issue are not required for the practice of the profession. Many question whether the necessary elements for professionalism even exist in these groups (Cottell and Perlin, 22). Therefore, the struggle for professional recognition for management accountants and internal auditors still has a long way to go. In public accounting, the struggle will be to protect the profession's already well established professional reputation. Ethical issues will be prominent in both of these struggles, and, even if we were completely persuaded that the standards of the profession are sufficient to guarantee conformity with code requirements, we would have many other ethical dilemmas to consider. Cottell and Perlin (1990) cite various questions that professional accountants must consider. Some apply to all professionals and some apply to accountants as professionals. Among the general questions posed to all professionals are:

- Do the standards of the profession exist for good reasons? Are these reasons clearly and sufficiently articulated?
- Is the present system of internal regulation fairly and consistently applied?
- Does "who you know" matter more than "what you know" when ethical judgments are made within the professional organization?
- Can the standards of the profession be understood by its membership, and by the public, in practical ways? Or are codes and guidelines unnecessarily jargon filled and complex?
- What ethical "blinders" are imposed upon insiders in a given profession? What is lost when critical distance lessens?

Accountants in particular will have to consider these questions about professional responsibility and ethical conduct:

- To whom does the CPA owe duty? Are there conflicts between the duties owed to clients and the duties owed to third parties?

- Who are the third parties to whom the CPA owes duty? Are current reporting and auditing practices sufficient to meet duties owed to financial statement readers other than investors and owners?

- What professional responsibilities do CPAs have between and among one another? In light of recent court rulings with respect to competition and the competitive environment that has followed, have these responsibilities been met?

- What exactly is the auditor's responsibility for the detection of fraud? Will the public accept a limited responsibility in this area? How can the profession better communicate with the public on this issue?

- For the accountant not in public practice, to whom are duties owed? How many conflicts between duties owed to third parties and desires of the employer be resolved?

- Are there any differences between the ethical duties of a professional accountant and a businessperson? If so, what are they and why do they exist? (22-23).

What we call the accounting profession, like other professions, is really a community. Members defend the community by guarding the means to entry, and the profession decides and establishes criteria for continuing membership in this community. The values held by the community are moral and ethical standards that are necessarily high so the community can be recognized by society as a "profession". Because of the high ethical standards held by accountants, they find themselves on a higher ethical plane than society in general and must rise to meet the standards demanded by professional ethics. How well they do that determines whether they hold society's coveted recognition as a professional (Cottell and Perlin, 25).

THE CODE OF ETHICS

Clients served by professionals have no choice but to rely upon their doctors, lawyers or accountants for expert advice. Professionals are assumed to have a command of a complicated and changing subject matter; however, clients are rarely able to evaluate the professional's competence. The professional is expected to serve the client's interest and not his own or his firm's, and the public confidence is based upon this foundation of trust.

Codes, and their enforcement, play a strong role in maintaining such public confidence. Accountants especially desire the public support of their profession because businesses whose financial statements are audited pay for the accountant's services and those who receive and rely upon published financial information must be confident of the independence of the professionals who conducted the audit. However, do the codes themselves provide the means for a thorough enough scrutiny of professional responsibilities? Cottell and Perlin (1990) point out that while codes of ethics in business and professions have their use, they are not the "answer" to ethical issues. In fact, they can even augment an already existing problem. The authors quote Sissela Bok as stating:

> But codes of ethics function all too often as shields; their abstraction allows many to adhere to them while continuing their ordinary practices. In businesses as well as in those professions that have already developed codes, much more is needed. The codes must be but the starting point for a broad inquiry into the ethical quandaries encountered at work. Lay persons, and especially those affected by the professional practices, such as customers and patients [and clients and

> users], must be included in these efforts, and must sit on regulatory commissions. Methods of disciplining those who infringe the guidelines must be given teeth and enforced (21).

As the authors point out, many accountants will bristle at the notion of lay persons regulating the profession as Bok suggests. However, the idea behind these statements is that when fault is found, correct it. Otherwise take the risk of having outsiders do it for the profession. The following section will discuss the evolution of the AICPA Code of Ethics over the last century.

History

For almost half of the first decade of this century, little attention was devoted by the accounting profession to the formulation of standards of ethical practice. However, after the American Association of Public Accountants (the predecessor body of the AICPA) began to publish the *Journal of Accountancy* in 1905, a definite trend was evident toward the clarification of basic tenets of conduct, expressed in editorial comments and published articles (Murphy, 113).

The first code of ethics of the AICPA was adopted by the council in April, 1917. This code consisted of only eight rules, described as follows:

1. Do not describe a CPA firm as "members of the institute" if it is not in fact a partnership of which all the partners are institute members.

2. Do not express an opinion on financial statements which contain an essential misstatement of fact or omit anything which would amount to an essential misstatement.

3. Do not permit anyone to practice in a member's name who is not his partner, his employee, or a member of the institute.

4. Do not share fees with the laity or accept rebates or "kickbacks" from the laity.

5. Do not engage in any activity which is incompatible or inconsistent with the member's accounting practice.

6. Do not express an opinion on financial statements which have not been examined under the supervision of the member himself, his partner, his employee, a member of the institute or a member of a similar association abroad.

7. Do not attempt to influence legislation or governmental regulations affecting the accounting profession without advising the institute.

8. Do not solicit the clients nor encroach upon the business of another member of the institute (Murphy, 113-114).

It is interesting to note that this first code of ethics does not mention conflicts of interest, advertising, competitive bidding, contingent fees, confidential relations between a CPA and his client, certification of earnings estimates contingent upon future transactions, or of how a CPA should or should not express his unqualified or qualified opinion under certain conditions (Murphy, 114).

The business community and the public rely on sound financial reporting and advice. This reliance places on CPAs an obligation to maintain high standards of technical competence, morality, and integrity. A member or an associate of the institute must "maintain independence of thought and action, hold the affairs of his clients in strict confidence, strive continuously to improve his professional skills, observe generally accepted auditing standards, promote sound and informative financial reporting, uphold the dignity and honor of the accounting profession, and maintain high standards of professional conduct" (Murphy, 116).

In the *Yearbook* of the AICPA in 1917, there appeared, separate from the bylaws, a set of eleven rules of professional conduct. Most of these rules resulted from specific cases or situations arising in the activities of the various institute committees on professional ethics. The institute's rules served practical as well as moral purposes:

1. They show the practitioner how to maintain a professional attitude which experience indicates will help him to succeed.

2. They give clients and potential clients a basis for confidence that CPAs sincerely desire to serve them well, and place service ahead of reward.

3. They give third parties who may rely on financial statements a basis for confidence that the CPA has done his work in conformity with objective standards, and is independent in expressing his opinion (Murphy, 114).

These rules were later amended and adopted by the AICPA on March 4, 1965 to become the first Code of Professional Ethics (Murphy, 117). A summary of the March 4, 1965 Code of Professional Ethics is produced at Appendix A.

A Period of Change

Prior to the 1970s, the principal emphasis of the profession's disciplinary effort had been direct toward the restriction of what was viewed as unprofessional competitive practices. The rules prohibiting advertising, solicitation, competitive bidding, engagement in incompatible occupations simultaneously with the practice of public accounting, and encroachment on the practice of other CPAs were based on the belief that such practices would erode the independence of CPAs action as independent auditors (Olson, 109). A significant amount of emphasis was place on the independence of auditors. However, the profession had relatively few complaints with regard to compliance with accounting and auditing pronouncements. In fact, the rules of conduct did not require AICPA members to follow the opinions of the Accounting Principles Board.

Drastic changes began taking place during the 1970s. Virtually all prohibitions against competitive practices were repealed under pressure from the U.S. Department of Justice, and the enforcement of compliance with the profession's technical standards achieved paramount importance. The membership approved a proposal to allow CPAs to practice in corporate form, a revision to rule 4.06, but rejected a proposal to require compliance with opinions of the Accounting Principles Board. The latter proposal was endorsed by a majority of members, but narrowly failed to receive the necessary two-thirds vote (Olson, 110).

The council chose not to authorize a second vote on the proposal because a complete review and restatement of the code of professional ethics was underway. In 1968 a special committee was appointed to revise the code, and a final version was approved in March 1973. The new code included rules that explicitly required AICPA members to comply with the Institute's pronouncements on generally accepted auditing standards and with accounting principles set by bodies designated by the

Institute Council. The restated code also included a forepart, "Concepts of Professional Ethics," which expressed the underlying philosophy for the rules of conduct that followed. The concepts of integrity, objectivity, and competence were specifically addressed and peer reviews of professional practices were officially recognized and exempted from the restrictions relating to the confidentiality of client information (Olson, 111). Also, the new code differentiated the applicability of the rules to members within and outside public practice. However, the controversy had just begun.

Due to an ongoing battle with the Department of Justice, rule 3.03 prohibiting competitive bidding was eliminated from the restated code of professional ethics. This was the first step in the elimination of all attempts by the AICPA to restrain competitive practices within the profession. Olson states "Having conceded by implication that the profession was not exempt under the federal antitrust laws, the AICPA recognized that it would be only a matter of time before its other restrictive rules would come under attack" (113).

In 1977, the Department of Justice and the Federal Trade Commission reopened the attack on the AICPA's rules of conduct. The Federal Trade Commission began a broad investigation of the profession by issuing subpoenas to the AICPA, state societies, CPA firms and state boards of accountancy, looking for information relating to entrance requirements and other practices that might be viewed as attempts to restrict competition. The Department of Justice narrowed its investigation to information relating to rule 5.02, which prohibited advertising and solicitation. The Institute took action to repeal rule 5.02, and the board requested the professional ethics committee to prepare a proposed change in the rule. The committee proposed the following revised rule: "A member shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading or deceptive" (Olson, 114).

This and other proposals to modify rule 5.04, prohibiting incompatible occupations, and to repeal rule 4.02, prohibiting offers of employment to employees of other CPAs without prior notice were placed on the agenda of the meeting of the council on September 17, 1977. These were in response to statements by the Federal Trade Commission that it regarded these rules as restrictions on competition. After discussion, the Council added the following to revised rule 5.02: "A direct uninvited solicitation of a specific potential client is prohibited" (Olson, 114). The Council approved all three proposed rules changes and they were approved and declared effective early in 1978.

The Department of Justice was still dissatisfied with the continued prohibition of uninvited solicitation contained in the revised rule 5.02. It again filed suit against the AICPA, and included in its complaint rule 4.01, which prohibited encroachment by members on the practices of other members. By this time, the Council had lost patience with what they viewed were unreasonable demands of the federal government. This mood was enhanced by the argument that the prohibition should be legally defensible on the grounds that uninvited solicitation would destroy the independence of auditors (Olson, 115). To the astonishment of everyone, the members approved the repeal of the prohibition of uninvited solicitation and of rule 4.01 in March of 1979. The Federal Trade Commission's nonpublic investigation lasted for three more years before it finally announced on September 16, 1980 that it was closing its file without further action. Unfortunately, large portion of the restated code of professional conduct had become obsolete by the repeal of the traditional restraints on competition. As a result, the new freedom of the long-standing friction between the large international CPA firms and the rest of the practicing profession had intensified. What was failed to be taken into account was that CPAs are likely to exercise self-restraint regardless of the lack of any formal rules of enforcement.

The Current Code

Over the last decade since the turbulent and shaky period of the late 1970s, the code of professional ethics has been modified to meet the changing needs of the AICPA. The most recent major modification was the adoption of the Code of Professional Conduct published in 1988. This principles of the current code cover the following broad areas: 1). Responsibilities; 2). The Public Interest; 3). Integrity; 4). Objectivity and Independence; 5). Due Care; and 6). Scope of Nature and Services. There are eleven rules of the code to provide specificity to the principles. A summary of the Code can be found at Appendix B.

needs of the members! and the public!

While a discussion of each of these areas is beyond the scope of this paper, I would like to comment on what most professional accountants see as the most important concepts: independence, integrity and objectivity. "The public expects a number of character traits in a certified public accountant, but primarily integrity and objectivity and, in the practice of public accounting, independence" (Loeb, 138).

Independence

Independence has always been a concept fundamental to the accounting profession and the cornerstone of its philosophical structure. No matter how competent a CPA may be, his opinion on financial statements will be of little value to those who rely on him unless he maintains his independence. Traditionally, accountants have viewed independence on three ethical planes. First, an auditor must possess the virtues of honesty, objectivity, and responsibility. On this plane we are concerned with the character of the auditor and regard this as the highest form of independence. At the second level, independence refers to the relationship of the CPA and the client. The CPA must avoid any relationship that would likely tend to impair his or her ability to take and unbiased viewpoint. On the final level, independence means that the CPA should avoid any relationship that might suggest to a reasonable observer that a conflict of interest exists. Even when the professional is completely satisfied that no relationship impairs her judgment as a professional, she must look at how the public sees that relationship (Cottell and Perlin, 35).

Concern about the issue of independence is clearly reflected in the current AICPA Code of Professional Conduct. The code consists of two sections - the principles and the rules. The concept of independence is first seen as a principle. Article 4, Objectivity and Independence, states: "A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in practice should be independent in fact and appearance where providing auditing and other attestation services" (AICPA, 4321). Independence in fact is one of the most elusive aspect of ethics in the accounting profession. This is because it is difficult to discern the virtues necessary for independence in fact. In summary, independence in fact exists when an accountant is actually able to maintain an unbiased attitude in his relationship to his client. In contrast, independence in appearance refers to the interpretation or perception of others about the accountant's independence (Cottell and Perlin, 33). The entire foundation for a profession of public accounting rests upon the foundation of independence in appearance. Otherwise, all of the functions provided by a professional accountant could be done by internal accountants working for a firm. Certified public accountants are given a special status in society as a "professional" because of the perceived role they play in society. An auditor gives an unbiased opinion on reported financial information and a tax accountant prepares a tax return based on an unbiased opinion of financial information provided. These opinion are based upon the professional judgment of the accountant providing the services. The very credibility of the profession depends upon society's perception about independence rather than the fact of independence (Cottell and Perlin, 33).

Integrity and Objectivity

Integrity is an element of character which is fundamental to reliance on the CPA. However, this quality is difficult to judge since a particular omission or commission may be the result of either honest error or a lack of integrity (Loeb, 138). Objectivity refers to a CPAs ability to maintain an impartial attitude on all matters which come under his review. According to Loeb, "since this attitude involves an individual's mental processes, the evaluation of objectivity must be based largely on actions and relationships viewed in the context of ascertainable circumstances"(138). While recognizing that the qualities of integrity and objectivity are not precisely measurable, the profession nevertheless constantly holds them up to members as imperative. This is done essentially by education and by the Rules of Conduct which the profession adopts and enforces.

CPAs cannot practice their profession without being exposed to situations that involve the possibility of pressures upon their integrity and objectivity. To define and have a solution for all such situations would be impracticable. To ignore the problem and to set no limits at all would be irresponsible (Loeb, 138). In summary, CPAs cannot avoid external pressures on their integrity and objectivity in the course of their professional work, but they are expected to resist these pressures. They must, in fact, retain their integrity and objectivity in all phases of their practice and avoid involvement in situations that would impair the credibility of their independence in the minds of those familiar with the facts. So, how does an accountant manage to live up to these expectations? That question brings this discussion to the topic of education. Accountants do not naturally become versed in maintaining their independence, integrity and objectivity; they are taught (or so we believe) how to handle those situations that would jeopardize any of these professional criteria. But how much are they actually taught? And, how much of background in ethics education do they really have? The next section discusses the issues of research and education in accounting ethics.

RESEARCH AND EDUCATION

Research

Although I have shown that ethics is a vital part of accounting decisions to the point where professional codes of ethics are necessary, ethics research has yet to proceed beyond the descriptive level (Schweikart, 471). While interest in ethics has been fairly broad in the accounting profession, ethics theory has not been introduced in any meaningful manner into accounting research. It appears that this has been mainly due to a lack of reward in accounting departments for academic research in this area. Unfortunately, ethics has become a very important area in accounting and should be given close attention. Schweikart (1992) has written a paper on using cognitive and contingency theories to gain insight into how ethical considerations enter into accounting decisions. His theories and propositions will be discussed in the following section.

Behavioral research in accounting has been studied in two independent tracks: the personal psychological level and the social psychological level. However, most of the work has been done at the personal level. This level has been largely anchored in Lens Model studies of how accounting information enters the decision process in management which focuses on the use of information. The Lens Model is essentially a behavioral theory where information is available to a decision maker and induces a response (Schweikart, 471). According to Schweikart, the primary problem with this model is that it assumes that all information is used in the decision process, and that there is no cognitive screening out of information.

Lens Model research has dominated accounting and was the primary theory for behavioral research dissertations in accounting until the late 1980s. Schweikart feels that since this model does not consider cognition heavily, ethics has been absent from behavioral research, as ethics requires "thought and cognition" (471). In the middle 1980s, cognition began to enter the field of accounting research, but for the primary purpose of explaining the selection from available accounting information for making business decisions. However, this type of decision can have ethical considerations. From an accountant's standpoint, the major ethical considerations come from the decision of what information to provide decision makers. Unfortunately, cognitive and behavioral science in accounting have left this issue alone.

However, social psychology has provided some help in this area. In accounting, contingency theory has been the primary source of social psychological explanation of both information usage and information reporting (Schweikart, 472). Contingency theory has its roots in the study of the amount and complexity of information usage in organizations that were in both stable and unstable environments. This theory has also been used to explain information usage across different countries. Most importantly, the theory has been used to explain the decision to report information within a variety of contexts. To date, the personal and psychology approaches have worked independently. Schweikart feels that this is unfortunate since most solutions to the problems they pose are in a framework which combines both fields (472). Ethics is one example. There are personal learned values which enter the decision process, as well as external or contingent forces which have an impact. Therefore, the study of ethics in accounting is rooted in a combination cognitive-contingency model.

Not surprisingly, ethics research in accounting has been descriptive and without theoretical grounding and has been limited to surveys and descriptive measures. The major areas of accounting are external reporting and auditing, taxation and the selection of information for presentation and use of that information for internal decisions (management accounting). All three of these areas are served by different types of accountants and each have their distinct set of ethical dilemmas (Schweikart provides a more detailed description of these areas and their ethical dilemmas which I feel is beyond the scope of this paper). However, there are two critical areas that need to be discussed: 1) what is the level of accounting ethics today? and 2) how can we determine prescriptively accounting ethical behavior? (Schweikart, 475).

Ethics can be viewed in a hierarchical pyramid. The lowest level of ethics is that where all decisions are governed by legally binding rules or statues. The next level is where decisions are made within a professional code of conduct but not necessarily either binding or all encompassing. The highest level of ethics is that where decisions are made within a highly defined sense of right and wrong developed through moral and philosophical deduction. Accounting is placed in the middle level. The code of ethics is influenced by legal rules in some cases and augmented by interpretations of right and wrong. On balance, however, the area of auditing is in the middle tier, while the area of taxation borders legal rules interpreted through the spirit of those rules (Schweikart, 475). In internal accounting, ethics is still primarily governed by legal rules, although the code of ethics can be expected to make more influence over time. According to Schweikart, the development of a sense of right and wrong and used of that sense in decisions is constrained by the profit motive and it will probably be a while before it can be the dominant factor in ethical decisions (475). The proof of this assertion lies in the very need to have a professional code of ethics. Even if the sense of right and wrong is in place, there is a potential for a wide array of ethical behavior. Therefore, there are two types of influences on ethical decisions which need to be governed; the personal ethics of the accountant and the external influences which alter or intercede in the ethical process. At the present time, the professional code, with occasional legal constraint, appears to be the effective and necessary form of governance.

Schweikart's cognitive-contingency theory lists several propositions that are examined to predict the use of ethics in the accounting profession. In general these propositions are:

1). There is no difference in accounting decisions with the same data from country to country.

2). There is no institutional effect on ethical decisions

3). There is no difference in attention to external influences regardless of type of accounting problem

4). Value systems among accountants do not vary

5). There is no affect on accounting decisions from personal values

6). The personal values of accountants are not congruent with ethical decisions

Schweikart explains in great detail these propositions (some are cognitive and some are contingency) and how both external and internal influences affect these propositions. He then puts together the cognitive and contingency models to form the framework for understanding ethical influences on decisions in accounting. The key to understanding the ethical decision making process is to "hold as many of the influences as possible constant while studying the others"(Schweikart, 477). If this is done, insight can be gained into how value systems and outside influences affect eventual decisions in accounting.

In the past, behavioral research in accounting has not seriously included ethics in the accounting decision making process. However, ethical considerations in accounting are extremely important, as accounting information develops under ethical conflict. Recently, the first center in the United States devoted to the study of ethics in the accounting profession launched major programs at Binghamton University and the State University of New York. The director of the Center for the Study of Ethics and Behavior in Accounting (CEBA) Lawrence Poneman asserted that the CEBA is needed because the "ethical core" of the accounting profession has come under close scrutiny in recent times ("First Center to Study Accounting Ethics", 19). The AICPA and other professional bodies strongly support efforts to integrate ethics education throughout the accounting curriculum and has encouraged training programs that foster staff members' and partners' ethical reasoning skills. However, the study of ethics in accounting curriculum has been slow in coming, as the next section discusses.

Education

In recent years, several events in the business world have caused the academic community to re-examine the need to increase the coverage of ethics in the accounting curriculum. In 1987, the National Commission on Fraudulent Financial Reporting (Treadway Commission) noted in its "Report" that the inclusion of ethics in accounting programs at colleges and universities was at a minimum and recommended increased coverage of accounting ethics in such programs (Loeb and Rockness, 485). In 1964, C.R. Grimstad suggested that accounting ethics could be taught in each accounting course in an accounting program or possibly in a separate course. Teaching ethics in each accounting course in an accounting program is perhaps the quickest way to expose the maximum number of accounting students to ethics and was the preference of the Treadway Commission. However, there are some indications that independent course in accounting ethics are being developed at some institutions of higher education.

Loeb and Rockness (1992) feel that the teaching of accounting ethics should not be limited to accounting courses in degree programs on institutions of higher education (487). The commission has indicated that continuing education for professional accountants should include fraudulent financial reporting and related ethical issues. CPA firms, corporations, and professional associations should consider including ethics and ethics-related material into existing continued professional education (CPE) programs that are designed for professional accountants. In addition, authors of new CPE programs under development should consider including ethics in their programs or designing CPE courses specifically on accounting ethics.

Why do we need to teach ethics in the accounting curriculum? Ethics can be defined as the philosophical study of morality, and accordingly, morality is clearly identified as the characteristic subject matter of ethics. A profession is a moral community of shared norms, values and definitions of appropriate behavior. Consideration of a set of basic moral values is a necessary part of ethics research and education and impacts the goals of ethics education as specifically applied to the accounting profession (Huss and Patterson, 236). Ethics education in accounting is based on the premise that moral development can be enhanced through the educational process. Also, ethics training might affect the process by which accounting students and accountants resolve ethical dilemmas. Students should become aware that situations will arise when one party may be harmed by the accounting choices made. As professionals, they will be faced with the task of avoiding or resolving these undesirable situations (Huss and Patterson, 236). Providing students an opportunity to discuss ethical situations encountered by professionals will enable them to more readily identify ethical predicaments. Ethics education should help students learn to deal with the uncertainties of the accounting profession. However, traditional accounting education does not contribute to the moral development of students to the extent of other college programs, which suggest the need for additional efforts by accounting teachers and researchers (Huss and Patterson, 235).

Researchers have argued that educators have a responsibility to contribute to the moral development of their students. However, expectations that educational system should teach values are often met with resistance from educators. This is due, in part, to the uncertainty as to what, or whose values, if any, should be taught (Huss and Patterson, 238). Values are personal to each individual. However, values presented to accounting students should reflect the ideals and principles intrinsically valuable to society and the profession. The role of the accounting educator in teaching values is a controversial issue, and educators are concerned about the potential for the indoctrination of students.

Indoctrination occurs when one impresses upon students a particular viewpoint without allowing the students to subject the idea to objective reasoning (Huss and Patterson, 239). However, a successful educator should train students to be in the position of evaluating the educator's own moral arguments. Loeb (1991) noted that "the teaching of accounting ethics should be congruent with the curriculum goals of an accounting program and not be an attempt at indoctrinating students in a particular type of morality" (Huss and Patterson, 239). The educator must realize that a reasoned view precisely opposite to that held by the educator is also a correct answer. Thus, the professor can assure that education, rather than indoctrination, occurs. Rather than attempting to be a "role model", the professor should express his/her values and subject them to the same analysis as those expressed by others. Such analysis is consistent with the goals of ethics education.

Little research has been done in recent years to discover the extent, type of coverage, and methods used to cover ethics in the accounting curriculum (McNair and Milam, 797). A 1972 study conducted by Loeb and Bedingfield investigated how and in which accounting courses ethics was being taught. Their study revealed that there was very little ethics coverage except in auditing, and a majority of their respondents said they spent three hours or less even in auditing on the subject of ethics. One problem that is particularly crucial is that most accounting instructors usually do not have the training or preparation to teach ethics (Loeb and Rockness, 485). Recently, a study of accounting faculty was performed to 1) examine perceptions about ethics coverage in the undergraduate accounting courses; 2) identify teaching methods used to include ethics in the undergraduate accounting courses, the perceived effectiveness of those methods and the amount of time spent on ethics coverage; and 3) to identify problems encountered in including ethics in accounting courses (McNair and Milam, 797). The results of this study are very informative about the nature of teaching ethics in accounting courses. The majority of respondents felt that the most appropriate place to expose ethics to undergraduate accounting students is in one or more of the core accounting courses rather than in a separate course. This indicates that faculty members believe that ethics can be more successfully taught by integrating it within the various accounting courses. However, a large majority felt that there was a definite need for more coverage. The study also determine that the most common method of teaching ethics was lecture rather than short cases. The reason for the popularity of the lecture method may be the relative ease in adding ethics to many types of discussions across a variety of accounting classes, which is typically done with less preparation or grading time. However, the most effective method chosen was that of using short, written cases. Unfortunately, this method is not widely used due to a lack of case material and proper training in using the case method in the classroom. Not surprisingly, the study indicated that faculty spend on average a little over four hours covering ethics in both the auditing and systems courses. While this is more time than the Loeb and Bedingfield study indicated, it is apparent that educators need to make an effort to spend more time dealing with ethical issues. However, an awareness of the need for more coverage along with training and material should increase the time devoted to such topics (McNair and Milam, 799-805).

With all of the information available on the need and importance of ethics education in accounting courses, why is there still a lack of it in the curriculum? McNair and Milam determined from this study that there are some significant problems of including ethics in the courses. Time and appropriate materials not available were the number one reasons for not including ethics materials in accounting courses. Another problem is the lack of encouragement from administrators. Solutions to the former are being addressed by several accounting organizations and accounting firms who are developing ethics materials to supply to accounting faculty. The problem of time to include ethics materials is being addressed with education and training for faculty. Increasing the awareness of the need for ethics coverage along with training faculty to use techniques that integrate ethics with the topical material could increase ethics coverage. Integrating ethics with topical coverage enhances the material coverage and brings a new dimension to the various accounting topics (McNair and Milam, 806). Solutions to the lack of encouragement from administrators can include increasing the awareness of the need for ethics coverage at the administrative level and revising the reward structure to emphasize the necessity for improving teaching (McNair and Milam, 806). Hopefully, these solutions with improve the coverage of ethics in accounting education.

It has been indicated that both college students and practicing accounting professionals are interested in accounting ethics education that moves beyond the rules of a code of ethics and the code's corresponding official interpretations. It has also been stated by employers that some accounting graduates are not as strong as the employers would like at thinking through issues (Loeb and Rockness, 488). Ethics education, especially with case analysis, provides an opportunity for accounting students to refine their thinking skills. Accountancy students should be provided with reasoning skills which they can employ to make better reasoned decisions when confronted with moral choices. Students must be aware of their role in society and thus will have a better understanding of their professional duties. The teaching of ethics would equip students with behavior patterns of good moral decisions, which are essential in a profession that now demands more management advisory services and social contracts to provide expertise to society as a whole (Helps, 46). Integrating ethics into the already packed accounting curriculum may not be easy, but may be essential. Today's students will become tomorrow's corporate officers and directors, bankers, financial consultants, and accountants. Integrity is essential to the character of persons assuming these positions.

CONCLUSION

The discussions in this paper have hopefully given the reader a better understanding of the evolution of ethics in accounting over the last century and an understanding of the importance of ethics in the accounting profession. Every day, professional accountants are faced with ethical issues that they must analyze and make a decision on. Since everyone has different values, it makes that decision all the more difficult. Yes, as professional accountants we are governed by our Code of Professional Conduct and hopefully adhere to the standards that the profession has set for us. Unfortunately, the code is just a guideline for us to follow that does not resolve conflicts with our own internal moral standards and obligations. As a rule, there is no "right" answer to an ethical conflict and we must sometimes look at other influences on which to base our ethical decisions. However, I feel that the accounting profession as a whole still has a lot of work to do to make accountants feel more comfortable with the ethical decisions they make. Having the code and standards is a step in the right direction, but all important is education.

This paper has shown not only what is being done in accounting ethics education, but what *needs* to be done. In my opinion, the ethics education for accounting students and professionals is still seriously lacking. Not enough time is being devoted to teaching ethics and not enough materials are being prepared to help faculty teach ethics in their courses. Most importantly, the administration needs to understand the importance of incorporating ethics into accounting curriculums so that students and future accounting professionals can get the ethical background they need to make sound decisions when they enter or continue in the profession. As the accounting profession is continually being thrown into the media spotlight, society needs to feel secure that the accounting profession can be relied upon to serve their clients' and the public's best interests. The only way to do this is to provide the proper education and training for those entering and practicing in the accounting profession.

Excellent job of tracing the history of
ethics in the accounting profession. I would
have liked a bit more of your thoughts integrated
in the paper. I believe you have pointed out a
need for the academic community to further
address ethics in the classroom - but the
manner in which the subject should be addressed
is lacking. I believe academics can enlighten one
as to appropriate ethical thinking, but I don't
know that we can teach ethics. We provide an
appreciation for the subject and its impact on the
profession - but the individual is still responsible
for what is "right" or "wrong".

A

NOTES

[1]Taken from Cottell, Philip G. and Terry M. Perlin. Accounting Ethics New York: Quorum Books, 1990, pg.1.

APPENDIX A

APPENDIX A
The AICPA Code of Professional Ethics
as Amended March 4, 1965

Article 1 - Relations with Clients and Public
- Rule 1.01 - Independence
- Rule 1.02 - Discreditable Acts
- Rule 1.03 - Confidential Relationship
- Rule 1.04 - Contingent Fees

Article 2 - Technical Standards
- Rule 2.01 - Use of Work of Others
- Rule 2.02 - Reports-Responsibility and Disclosure
- Rule 2.03 - Reports-Opinion and Disclaimers

Article 3 - Promotional Practices
- Rule 3.01 - Advertising
- Rule 3.02 - Solicitation
- Rule 3.03 - Competitive Bidding
- Rule 3.04 - Commissions

Article 4 - Operating Practices
- Rule 4.01 - Membership Designation
- Rule 4.02 - Use of Name by Others
- Rule 4.03 - Services Performed by Employees
- Rule 4.04 - Incompatible Occupations
- Rule 4.05 - Application of By-laws and Code
- Rule 4.06 - Corporate Practice

Article 5 - Relations with Fellow Members
- Rule 5.01 - Encroachment
- Rule 5.02 - Referrals
- Rule 5.03 - Employees of Other Accountants

Taken from Mary E. Murphy's Advanced Public Accounting Practice.
Homewood, Illinois: Richard D. Irwin, Inc. 1966, p. 117.

APPENDIX B

APPENDIX B

The AICPA Code of Professional Conduct
As adopted January 12, 1988, amended January 14, 1992

Article 1 - Responsibilities
Article 2 - The Public Interest
Article 3 - Integrity
Article 4 - Objectivity and Independence
Article 5 - Due Care
Article 6 - Scope and Nature of Services

Rule 101 - Independence
Rule 102 - Integrity and Objectivity
Rule 201 - General Standards
Rule 202 - Compliance with Standards
Rule 201 - Accounting Principles
Rule 301 - Confidential Client Information
Rule 302 - Contingent Fees
Rule 501 - Acts Discreditable
Rule 502 - Advertising and Other Forms of Solicitation
Rule 503 - Commissions and Referral Fees
Rule 505 - Form of Organization and Name

Taken from the AICPA Professional Standards, June 1994.

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