Chapter 1

Ethical Reasoning: Implications for Accounting
Ethical Reasoning

• Ethical dilemma: Penn State, a culture of indifference

• Ethical blind spots refers to the gap between who you want to be and who you actually are
  – Blind spots attributed to bounded ethicality

• Organizational goals, rewards, compliance systems, and informal pressures all contribute to ethical fading
Fraud Triangle

Opportunity
(Ex: unnecessarily complex system or subject matter)

Attitude
Rationalization

Pressure
Reason (Ex: economy, personal financial situation)
Penn State University

Penn State Defensive Coordinator Jerry Sandusky convicted of 45 counts of sexually abusing boys over a 15 year period

A janitor had told a co-worker of Sandusky’s sexual activity with a boy. Reportedly, Janitorial staff were concerned they may lose their jobs if they reported what they saw.

Ultimately, PSU was fined $60 million by the NCAA, banned from post Season for 4 years, and lost many scholarships. In addition, victims were awarded $57 million. In addition, 8.2 million was paid for investigation by Louis Freeh and $52 million in legal costs.
Penn State Continued

Ethical dilemma: Penn State, a culture of indifference as illustrated by protecting Jerry Sandusky’s child abuse.

Reasons for Unethical Actions: (Louis Freeh report)

• Avoidance of **Bad Publicity**
• Failure to have reporting mechanisms to disclose major risks
• President discouraged discussion and dissent
• **Lack of awareness of issues** (At Penn State regarding child abuse and the Clery Act)
• A “culture” where University Interests were greater than that of the victims.
• Lack of Whistle Blower policies and protections
• Reverence for **Football** program ingrained at all levels of campus
President Spanier interview with the *New Yorker* online that “honesty, integrity, and always doing what was in the best interests of the university”... What about the interests of the children, or taxpayers, students, donors, etc?

Penn State “claimed” to operate on ethical values of honesty, integrity, responsibility and accountability, the reality did not match those behavioral norms.

Ethical blind spots refers to the gap between who you want to be and who you actually are

- Blind spots attributed to bounded ethicality (Good people engage in questionable ethical behavior that conflicts with their own preferred ethical behavior).
Penn State Continued

Lessons Learned for Us:

• What if, we changed Penn State to be your university, your unit, your college, your department
• What if, we changed avoidance of “Bad Publicity” to be avoidance of “bad news”
• What if, we changed President to be Dept Head, Dean, Director, VP etc.
• What if, we changed “Lack of awareness of issues” to be lack of awareness of policies and procedures
• What if, we changed “Lack of Whistler Blower policies” to be Lack of Policies and Procedures PERIOD.
• What if, we changed “Football” to be basketball, emphasis on Research goals, emphasis on Reputation, emphasis on meeting revenue goals, etc.).
• The broader lessons learned from Penn State can apply to you. At its core, the problems at PSU were due to a lack of ethics
Auditors do have a cents of Youmor

• What do internal auditors do to liven up the office party?
  • Not show up.

• Why did the auditors cross the road?
  • It’s what they did last year.
Questions for Thought

Would you murder Someone?

Would you kill someone?

Would you take a life in order to *possibly* save a life?

Would you take a life in order to *definitely* save another life?
Ethical Challenge

Suspended Reality for a moment

- Imagine that you are standing on a footbridge spanning some trolley tracks. You see that a runaway trolley is threatening to kill five people. Standing next to you, in between the oncoming trolley and the five people, is a person wearing a large backpack. You quickly realize that the only way to save the people is to push the man off the bridge and onto the tracks below. The man will die, but his body will stop the trolley from reaching the others. (You quickly understand that you can’t jump yourself because you aren’t carrying enough weight to stop the trolley, and there’s no time to put on the man’s backpack.) Legal concerns aside, would it be ethical for you to save the five people by pushing this stranger to his death?
Additional Facts

What if,

On the way to the trolley depot, you saw a news report that this man was being sought by police as he had just escaped prison and had killed two guards during his escape. You further learned that he had told cell mates that he was on his way to murder the witnesses who put him in prison.

• Does your opinion change?
The Plot Thickens

What if,

You now learn that the reason he had been put in prison is he had tortured and murdered an 89 year old woman and mutilated her body after her death.

Did your opinion change?
What if
You also learned that the trolley is full of children from a child care center on a field trip?

Did your viewpoint change?
These are the times that try men’s soul

The very reason you are at the depot is your 4 year old daughter is on that trolley.

Repeat the question, Would you take a life in order to save a life?

Why do bad things happen to Good people?

If your opinion has changed, does it make you a bad person?
The Point

Did your view change as these various complications were added?

If your view never changed and you would never take the life of another, do you see how SOMEONE else may do it?
• What if we went through a similar ever more challenging situation with waterboarding a terrorist that ultimately where we ultimately know he will release a dirty bomb in your local elementary school? Do we hold our views of torture the same as we originally did?

• Are we TRULY so opposed to killing another person when the situation gets closer home?

• Good People SOMETIMES do bad things.
Negotiable Bonds

You are a young auditor with a CPA firm that is auditing a municipal client. Previously, $250,000 bonds in $1,000 face amounts had become due and by the city to the bondholders. Subsequently, the bonds were placed in a secure vault. As part of the audit process, you must examine the bonds to ensure they have been marked paid to confirm internal control processes had been performed so another person could not cash them again. You find the bonds have not been marked and you are alone in the vault with bonds. These bonds are easily “liquid” and are in such small individual denominations and nobody would ever know if they were taken. The odds of “being caught” are practically non-existent and it would be difficult to determine who took them and when they were taken.

What would you do?
Suppose

What if,

Your boss has discriminated against you and promoted someone instead of you that is not qualified for the position.

Would you take the bonds?
What if,
You just lost a lot of money in Las Vegas and “The Enforcer” is on your way to your home tonight to collect?

Would you take the bonds?
What if,
You are losing your job in the next few days and know you will lose the family homestead to creditors?

Would you take the bonds?
What if,

Your daughter is suffering from a fatal illness and treatment is available in Canada that is certain to save her life, but the FDA has not approved the procedure yet in the US and but your medical insurance doesn’t cover the treatment.

Would you take the bonds?
The Point, Part 2

Did your view change as these various complications were added?

If your view never changed and you would never steal under any circumstances, do you see how SOMEONE else may do it?

If we were in a room full of strangers and not work associates, would your expressed views be different?

Good People SOMETIMES do bad things.
Personal Situations

College Politics, slandered in news article before run off election. Even though innocent, embarrassed by incident.

Cash stolen during an investigation on a Fraud Case.

Controller when Burglary theft occurred.
False Accusation

• Damaged Reputation
• Costs to defend in Trial.
• Psychological damage
• Medical issues, cause heart attack?
Controls

Also exist to protect the innocent.
Enron participated in Financial Statement Fraud, and allowed conflict of interests to exist to the detriment of stockholders. Thousands of employees lost their jobs, retirement plans and stockholders were left with worthless investments.

Enron had a code of conduct in place

However, the code did not stop it from rewarding corporate officers, such as Andy Fastow, that were involved with conflicts of interest.

Purchasing agent for Enron stated “Enron had the best procedures of ANY company I that I ever worked”.

At the End of the Day
We can have strong Internal Controls, Policies and Procedures, but Ethics are needed MORE.

If we have NOT ethics we are like “Sounding brass or tinkling signal” “full of sound and fury signifying nothing”.
Fraud Triangle

Opportunity
(Ex: unnecessarily complex system or subject matter)

Pressure
Reason (Ex: economy, personal financial situation)

Attitude
Rationalization
Are Auditors In the Sales Business?

• **What is Selling?**
  - Selling is a process by which one person guides other people's behavior along a path in a desired direction, culminating in the purchase of a product, service, idea or process (Steve LaFever).
• Selling is NOT a manipulative process
• Used to help "clients" solve problems.
• **Selling is fulfilling a real or perceived need. (LaFever)**
• **The Most Important Principle of Selling Is ...**
• Success in selling is primarily a function of establishing and managing relationships with customers.
• To accomplish this you must:
  • Always be sure you have a positive answer to the question: "what's in it for me?"
• [http://web.missouri.edu/~frisbyc/J318/what_is_selling_.html](http://web.missouri.edu/~frisbyc/J318/what_is_selling_.html)
Wanted: Person to handle cash transactions for large business office operation. We are seeking someone that has a demonstrated history of being able to handle three sets of books. One set for the shareholders and another for the audited statements for our bankers, and another for the Internal Revenue Service. Person must appear to be honest, creative, personable, hard working, willing to help others, and never willing to take a vacation. It is recognized that in order to hide revenues from the IRS, a certain amount of cash is likely to be borrowed by the successful candidate, unfortunately, this is a cost of doing business in finding someone willing to help the owners successfully evade income taxes as that is the ultimate objective.
The successful candidate must demonstrate the ability to stay one step ahead of the law and has successfully avoided conviction of any charges of impropriety. Living a lifestyle that exceeds the supposed income of the successful candidate is a requirement. The person should be able to live in a million dollar home, drive a luxury sports car, take lavish vacations, and wear designer clothes on the meager salary we will allow. The candidate must be able to create falsified documentation at a moment’s notice and can easily explain any discrepancy to satisfy all auditors, both foreign and domestic, external, internal and the IRS. References will not be checked in order to expedite our hiring process.
Integrity
The Basis for Ethics in Accounting

Integrity:
• Means acting on principle
• Traces back to Socrates, Plato and Aristotle
• Is the foundational virtue of the ancient Greek philosophy of virtue
• Helps withstand pressures to subordinate judgment
• Is a “must have” for accountants
Religious and Philosophical Foundations of Ethics

• A version of the Golden Rule appears in each of the world’s religions

• Ethics can be traced back to ancient Greek philosophy
  – “What is the best sort of life for human beings to live?”
  – Greeks believed the ultimate goal of happiness was to attain some objectively good status: the life of excellence
What is Ethics?

• Accepted standards of behavior
• Practices of those in a profession
• Laws
• Expectations of society
Ethics, Morals, Values

• Ethics, derived from the Greek word *ethikos* (character), deals with the concepts of right and wrong; standards of how people ought to act.

• Morals, derived from the Latin word *moralis*, deals with manners, morals, character.

• Ethics and morals are essentially the same.

• Values are basic and fundamental beliefs that guide or motivate attitudes or actions.
Ethics: Norms, Values, and Law

Norms:
- Ethical decision-making entails following certain well established norms of behavior
- Does not describe the way people do act
- Deals with the way people should act
- Prescriptive (normative) not descriptive

Values:
- Basic beliefs that guide or motivate attitudes or actions
- Values of a profession (i.e. Accounting) are embedded in its codes of ethics
  - “Golden Rule” prescribes that we should treat others the way we want to be treated

The Law:
- Being ethical is not the same as following the law
- Existence of specific laws prohibiting certain behaviors will not stop a person who is unethical from violating those laws
- Laws create a minimum set of standards that ethical people usually go beyond
Norms, Values and the Law: The Gray Area

• When facts are unclear and legal issues are uncertain:
  • Established standards of ethical behavior.
  • Moral philosophies.

• Gray Area/Unclear Rules
  • Willingness to take action not in one’s best interests.
  • Look beyond self-interest and consider all perspectives involved.
  • Process followed to decide on a course of action is more important than achieving the end goal
Ethical Relativism

- Theory that holds that morality is relative to the norms of one’s culture
- If correct, there can be no common framework to resolve any moral disputes between different societies
- Theory is rejected by most ethicists
- Societies may differ in their application of fundamental moral principles but agree on the principles.
Situation Ethics

• Theory that recognizes the existence of certain principles but questions whether they should be strictly applied or used as guidelines

• Circumstances around ethical dilemma should influence decision making process

• Problem: it can be used to rationalize actions such as cheating and the Penn State scandal
Cultural values

• Cultural dimensions that can explain similarities and differences in cultures worldwide, include:
  – Individualism
  – Power distance
  – Uncertainty avoidance
  – Masculinity

• Long term orientation recently added to this list
Six Pillars of Character

• Trustworthiness
• Respect
• Responsibility
• Fairness
• Caring
• Citizenship
Trustworthiness

**Trustworthiness**: being honest, acting with integrity, being reliable, and exercising loyalty in dealing with others.

- **Honesty**: is the most basic ethical value and means that we should express the truth as we know it and without deception.
- **Integrity**: strength and courage of one's convictions.
- **Reliability**: following through with one's promises/commitments.
- **Loyalty**: not violating confidence placed in us.
A Word about Whistleblowing

• Loyalty is the one value that should NEVER take precedence over other values.
• “Dogs are loyal to their master while cats are loyal to the house.”
Respect and Responsibility

• **Respect**: treating every individual with dignity. The golden rule encompasses respect for others through notions such as civility, courtesy, decency, dignity, autonomy, tolerance and acceptance.

• **Responsibility**: the ability to reflect on alternative courses of action, persevere and carry out moral action diligently.
Fairness

- **Fairness**: treating others equally, impartially, and openly. Michael Josephson points out, “fairness implies adherence to a balanced standard of justice without relevance to one’s own feelings or inclinations.”
Caring

- **Caring:** The essence of caring is empathy. Empathy is the ability to understand, be sensitive to, and care about the feelings of others. Caring and empathy support each other and enable a person to put herself in the position of another. This is essential to ethical decision making.
Citizenship

• **Citizenship**: Josephson points out that “citizenship includes civic virtues and duties that prescribe how we ought to behave as part of a community.” An important part of good citizenship is to obey the laws, be informed of the issues, volunteer in your community, and vote in elections.
Reputation

• **Reputation**: overall quality or character in the opinion of the public towards a person or group or organization. It is an important factor in many professional fields, including accounting.

• Takes a long time to build a reputation of trust but not long at all to tear it down.
Accounting and the Public Interest

• Honoring public trust
• Acting with integrity in performance of professional services
• Being independent of clients
• Making decisions objectively
• Exercising due care in the performance of services
AICPA Code of Conduct

The code is divided into two sections:

1) **Principles**: are Aspirational statements that form the foundation for the Code’s enforceable Rules of Professional Conduct. Principles are expectations but are not legally binding. The principles of professional conduct include:
   - Responsibilities
   - Public Interest
   - Integrity
   - Objectivity and Independence
   - Due Care
   - Nature and Scope of Services

2) **Rules**: enforceable applications of the Principles
Overriding responsibility of CPAs

• Exercise sensitive professional and moral judgments in all activities.

• Recognize the primacy of a CPA’s responsibility to the public as the way to best serve the clients’ and employers’ interest.

• Continued improvement in the level of competency and quality of services
Virtue and Ethical Obligations of CPAs

- **Aristotle’s Virtues**
  - Trustworthiness, benevolence, altruism
  - Honesty, **integrity**
  - Impartiality, open-mindedness
  - Reliability, dependability, faithfulness
  - Trustworthiness

- **Ethical Standards for CPAs**
  - **Integrity**
    - Truthfulness, non-deception
    - Objectivity, independence
    - Loyalty (confidentiality)
    - **Due care (competence and prudence)**
Modern Moral Philosophies
A few of the philosophies applicable to the study of accounting ethics include:

- Teleology
  - Egoism
  - Enlightened Egoism
  - Utilitarianism
- Deontology
  - Rights Theory
  - Justice
- Virtue
- Justice
Egoism and Enlightened Egoism

• Consequences for individual
• “Do act that promotes the greatest good for oneself.”

• Enlightened egoists
  – Allow for the well-being of others
  – Help achieve some ultimate goal for self
  – Self-interest remains paramount
Utilitarianism

• Bentham and Mill
• Consider impartially the interests of all persons affected by an action and pick the greater benefit
• “Greatest good to greatest number”
• Difficulties
  – Impossible to foresee all consequences
  – Consequences difficult to measure
Utilitarian Types

• Act-Utilitarian
  – Examines the specific action itself versus rule
  – Sets aside the rule only if increase in net utility to all stakeholders

• Rule-Utilitarian
  – Bases behavior on rules designed to promote the greatest utility
  – Maximizes intrinsic value
Deontology

• Derived from Greek *deon* meaning duty
• Moral norms establish basis for action
• Based on rights of individuals and motivation rather than consequences
• Concerned with means rather than end result
• Rights
• Justice
Rights Principles

• Hobbes and Locke
• Kant
• Categorical Imperative
  – Motivated by sense of obligation
  – Universality of moral actions
  – People should never be a means only
• Difficulties
  – Moral Absolutes
  – No clear way to resolve conflicts between moral duties
Justice

• John Rawls (1921-2002)
• “Original Position” – behind the “veil of ignorance”

1. Each permitted the maximum amount of basic liberty compatible with others.

2. Social and economic inequalities are allowed only if benefit all.
Virtue Ethics

- Greek philosophers, Plato and Aristotle
- Less emphasis on learning rules
- Stress importance of developing good habits of character
- Cardinal virtues
  - Wisdom
  - Courage
  - Temperance
  - Justice
Virtue Ethics

• Other Important Virtues
  – Fortitude
  – Generosity
  – Self-respect
  – Good temper
  – Sincerity

• Bad Character Traits, also known as Vices
  – Cowardice
  – Insensibility
  – Injustice
  – Vanity
Virtues in Accounting Practice

• Ethical obligations to clients, employers, government, and public at large

• Perform services
  – Without bias
  – Avoid conflicts of interests
  – Independence
  – Integrity
Acting with Integrity

• Act out of moral principle, not expediency
• Never let loyalty cloud good judgment and ethical decision-making
Moral Point of View

• Emphasizes practical reason and rational choice

• Deliberation precede choice of action
  – Reason
  – Thought
  – Voluntary

• Ends do not justify the means
Personal Integrity

• Essential characteristic for CPA
• Learn to be ethical
  – By practice
  – Exercising virtues
  – Enable to lead life of excellence
Institute of Management Accountants (IMA)

• Principles
  ▪ Honesty
  ▪ Fairness
  ▪ Objectivity
  ▪ Responsibility

• Standards
  ▪ Confidence
  ▪ Confidentiality
  ▪ Integrity
  ▪ Credibility

• Resolution of Ethical Conduct
  ▪ Discuss issue with immediate supervisor or higher authority.
  ▪ Clarify ethical issues with an IMA Ethics Counselor or other impartial advisor.
  ▪ Consult attorney.
Part 2

Cognitive Processes and Ethical Decision Making in Accounting
Questions for Consideration

1. What is the role of virtue in auditors’ ethical decision making?

2. What would you do if your attitudes and beliefs conflict with your intended behavior?
Ethical Judgment

“Every act is to be judged by the intention of the agent.”

~ (Unknown author)

Ethical judgment is not enough, the decision maker must carry through with the ethical action.
Kohlberg and Cognitive Development

• Psychologist
• 20 years of research
• Moral reasoning processes becomes more complex and sophisticated with development
• Higher stages are consistent with philosophical theories of rights and justice
Heinz and the Drug

• Heinz’s wife has a rare cancer
• A radium drug could help
• Druggist charged 10 times what drug cost ($200 cost; $2,000 for small dose of drug)
• Heinz could only get together $1,000
• Druggist would make no exceptions to price of drug
• What should Heinz do?
Sample Responses to the Heinz Dilemma

• [Egoism] Steal the drug, depending on how much Heinz likes his wife and how much risk to stealing

• [Ends justify the means] Steal the drug, due to loving the wife so much and cannot watch her die

• [Rule Utilitarianism; justice] Do not steal the drug, since stealing is against the law
Gilligan’s Ethics of Care

• Care-and-response orientation that characterizes female moral judgment
• Females look for ways of resolving a dilemma where no one will experience pain
• Criticism: Implication that men lack a caring response when compared to females
Moral Intent

• Critical component of ethical decision making
• Internalization of virtues
• Acting in accordance with principles
• One must want to make the ethical decision
Cognitive Development Approach

- Cognitive development refers to the thought process followed in one’s moral development.
- An individual’s ability to make reasoned judgments about moral matters develops in stages.
- These stages characterize the way people think about ethical dilemmas.
Kohlberg’s Stages of Moral Development

• Lawrence Kohlberg’s six stages of moral development are divided into three levels of moral reasoning
  – Level 1 – Preconventional
  – Level 2 – Conventional
  – Level 3 - Postconventional
Kohlberg’s Model

- Suggests that people continue to change their decision priorities over time and with additional education and experience.
- Individual’s moral development can be influenced by corporate culture, especially ethics training.
- Stage sequence is universal, same in all cultures (counter to Hofstede’s cultural dimensions).
Level 1 - Preconventional

• Rules are seen as something external imposed on one’s self

• Individual is very self-centered
  – Stage 1 – Obedience to rules; avoidance of punishment
  – Stage 2 – Satisfying one’s own needs (egoism); follow rules only if they satisfy one’s needs
Level 2 - Conventional

• Individual becomes aware of the interests of others and one’s duty to society
• Personal responsibility is an important consideration in decision-making.
  – Stage 3 – Fairness to others; commitment to loyalty in the relationship
  – Stage 4 – Law and order; one’s duty to society, respect for authority, maintaining social order
Level 3 - Postconventional

- Individual recognizes there must be a society wide basis for cooperation
- Orientation to principles that shape whatever laws and role systems a society may have
  - Stage 5 – Social contracts; upholding the basic rights, values, and legal contracts of society
  - Stage 6 – Universal ethical principles that everyone should follow, Kohlberg believed this stage rarely existed; Kant’s categorical imperative fits right in
Ethical Domain in Accounting and Auditing

Four key constituent groups of accountants and auditors’ domain are the:

• Client organization that hires and pays for accounting services
• Accounting firm that employs the practitioner
• Accounting profession including various regulatory bodies
• General public who rely on the attestation and representation of the accounting firm
Accountants Ethical Behavior

• Accounting profession has professional standards to encourage ethical behavior
• These standards, an individual’s attitudes and beliefs, and ethical reasoning capacity influence professional judgment and ethical decision making
• Post conventional reasoning is the ethical position to take even though it may go against corporate culture of, “go along to get along”
Empirical Studies

Studies have shown that:

• Ethical reasoning may be an important determinant of professional judgment

• Unethical and dysfunctional audit behavior may be systematically related to the auditor’s level of ethical reasoning

• Ethical reasoning may be an important cognitive characteristic that may affect individual judgment and behavior under a wide array of conditions and events in extant professional practice
Rest’s Model of Morality

James Rest’s model of ethical action is based upon the presumption that an individual’s behavior is related to her/his level of moral development. He breaks down the ethical decision making process into four major components.
Components of Rest’s Model

• Moral Sensitivity – ability to identify what is moral and amoral.
• Moral Judgment – ability to reason through several courses of actions and making the right decision when forced with an ethical dilemma.
• Moral Motivation – influences that affect an individual’s willingness to place ethical values ahead of nonethical values.
• Moral Character – having one’s ethical intentions match actions taken.
Components Interact

• All processes must take place for moral behavior to occur.
• This framework is not a linear decision making model, the processes instead work through sequence of “feed-back” and “feed-forward” loops.
• Individual accuracy at one level does not necessarily mean accuracy at all levels
• Moral failure can occur when there is a deficiency in any one component.
Cognitive Dissonance

• Inconsistency between our thoughts, beliefs, or attitudes and behavior creates the need to resolve contradictory or conflicting beliefs, values, and perceptions.

• Only occurs when we are “attached” to our attitudes and beliefs.

• How we think we should behave is different from how we decide to behave.
Rest’s Model and Sherron Watkins
Enron Failure

Watkins wrote a memo to Lay pointing out that accounting maneuvers jeopardized ability to remain in business

– Clearly identified the ethical issues
– Judgment seemed to consider the interest of Enron employees but may have been motivated by self-interest (enlightened egoism)
– Just motivation
– Character to internal whistle-blow
Supporting Courage to Act

• Courage to withstand pressures that challenge one’s commitment to act in an ethical manner
• Supportive environment in the organization
• Ethical top must be set by top management
Professional Judgment in Auditing

• Judgment exercised with due care, objectivity, and integrity within the framework provided by applicable professional standards, by experienced and knowledgeable people.

• Application of professional standards.

• Some professional standards include:
  – Principles of AICPA Code
  – Ethical Standards of the IMA
  – GAAS (Generally Accepted Auditing Standards)
Libby and Thorne: Virtues Important for Auditing

• Intellectual virtues: indirectly influence individual’s intentions to exercise professional judgment
  – Most important: integrity, truthful, independent, objective, dependable, principled, and healthily skeptical

• Instrumental virtues: directly influence individual’s actions
  – Most important: diligent, alert, careful, resourceful, consultative, persistent, and courageous
Linda Thorne’s Integrated Model of Ethical Decision Making

Perception

Moral Development

Understanding

Moral Virtue

Virtue

Instrumental Virtue

Sensitivity

Prescriptive Reasoning

Ethical Motivation

Ethical Character

Identification of Dilemma

Ethical Judgment

Ethical Intention

Ethical Behavior

Ethical Intention

Ethical Behavior

Moral Development

Understanding

Moral Virtue

Virtue

Instrumental Virtue

Perception

Sensitivity

Prescriptive Reasoning

Ethical Motivation

Ethical Character

Identification of Dilemma

Ethical Judgment

Ethical Intention

Ethical Behavior

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Moral Virtue

Virtue

Instrumental Virtue

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Sensitivity

Prescriptive Reasoning

Ethical Motivation

Ethical Character

Identification of Dilemma

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Ethical Motivation

Ethical Character

Identification of Dilemma

Ethical Judgment

Ethical Intention

Ethical Behavior

Ethical Intention

Ethical Behavior

Moral Development

Understanding

Moral Virtue

Virtue

Instrumental Virtue

Perception

Sensitivity

Prescriptive Reasoning

Ethical Motivation

Ethical Character

Identification of Dilemma

Ethical Judgment

Ethical Intention

Ethical Behavior
Behavioral Ethics

• Considers how individuals make decisions in the real world versus how they would make decisions in an ideal world.

• Kahneman’s two distinct modes of decision making:
  – System 1: intuitive system of processing info; fast, automatic, effortless, and emotional decision processes
  – System 2: slower, conscious, effortful, explicit, and a more reasoned decision process
Ethical Reflection and Decision Making

• Consciously thinking about and analyzing what one has done (or is doing).

• A process to organize the various elements of ethical reasoning and professional judgment.
  – Evaluate stakeholder interests
  – Analyze the relevant operational and accounting issues
  – Identify alternative courses of action.
Comprehensive Ethical Decision-Making Model

1. Frame the ethical issue
2. Gather all the facts
3. Identify the stakeholders and obligations
4. Identify the accounting and auditing issues
5. Identify the operational issues
Model (cont’d)

6. Identify the relevant accounting ethics standards in the situation
7. List all the possible alternatives of what you can or cannot do
8. Compare and weigh the alternatives
9. Decide on a course of action
10. Reflect on your decision
An Ethical Decision Making Model

1. Frame the ethical issue
2. List the relevant accounting ethics standards
3. Identify operational issues
4. Identify technical accounting issues
5. List all possible alternatives
6. Compare and weigh alternatives
7. Decide on a course of action
8. Gather all the facts
9. Identify stakeholders and obligations
10. Reflect on how alternative courses of action affect others
11. Reflect on your decision
Integrated Decision-Making Model

1. Identify the ethical and professional issues (ethical sensitivity)
   • What are the ethical and professional issues in this case (i.e., GAAP and GAAS)?
   • Who are the stakeholders?
   • Which ethical standards apply (i.e., AICPA Code Principles, IMA Ethical Standards, and IFAC standards)

2. Identify and evaluate alternative courses of action (ethical judgment)
   • What can and cannot be done in resolving the conflict under professional standards?
   • Which ethical reasoning methods apply to help reason through alternatives (i.e., rights theory, utilitarianism, justice, and virtue)?

3. Reflect on the core professional values, ethics, and attitudes to help carry through with ethical action (ethical intent)
   • Consider how virtue considerations (i.e., moral virtues: intellectual and instrumental) motivate ethical actions.
   • Consider how IES 446 standards (i.e., independence, objectivity, integrity, professional skepticism) motivate ethical actions and behaviors.

4. Take action (ethical behavior)
   • Decide on a course of action consistent with one’s professional obligations.
   • How can virtue considerations support turning ethical intent into ethical action?
   • What steps can I take to strengthen my position and argument?
Concluding Thoughts

Requirements of Ethical Decision Making:

• Ethical intent
• Moral reasoning skills
• Decision making process
  – Identifying issues
  – Analyze ethical issues
  – Affects of alternative courses of action
  – Courage to act