

Ethical Decision Making

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



Create Opportunities

Learning Objectives

- The objectives of this session are as follows:
 - Recognize the need for ethics in workplace
 - Identify the ethics decision making process
 - Apply a decision making model to ethical dilemmas

Snake Oil Salesman



Movies

- Tin Men (1987)
- Wall Street (1987)
- Glengarry Glen Ross (1992)
- Wolf of Wall Street (2013)

Business Situations

- ENRON – Fictitious Reporting
- Wells Fargo – Sales Pressure
- Madoff – Ponzi scheme, audit failure

Ethical/Honest Professions

- Gallup poll Dec 3-12, 2018 of 20 professions
- “Please tell me how you would rate honesty and ethical standards of people in these different fields – very high, high, average, low or very low?”

Ethical/Honest Professions (continued)

Accountants	Labor union leaders
Advertising practitioners	Lawyers
Bankers	Medical doctors
Building contractors	Members of Congress
Business executives	Nurses
Car salespeople	Pharmacists
Clergy	Police officers
Funeral directors	Real estate agents
High school teachers	Stockbrokers
Journalists	Telemarketers

Ethical/Honest Professions (continued)

1 Nurses	11 Bankers
2 Pharmacists	12 Lawyers
3 Medical doctors	13 Business executives
4 Accountants	14 Journalists
5 High school teachers	15 Labor union leaders
6 Police officers	16 Stockbrokers
7 Funeral directors	17 Advertising practitioners
8 Clergy	18 Car salespeople
9 Real estate agents	19 Telemarketers
10 Building contractors	20 Members of Congress



Ethics - Definition

- Theory or system of moral values
- The principles of conduct governing an individual or group
- A Guiding philosophy
- May include rules as well as principles
- Keeps people/professions in check
 - Order vs. chaos



Ethics vs. Law

- Not all unethical practices lead to violations of law
 - Severe salesperson “puffing”
 - Deceptive advertising (e.g. last room ads)
 - Tax deferral
- All violations of law result from unethical decisions
 - “Cooking the books”
 - Theft
 - Tax fraud



Situational Ethics

- Individual views the particular context of an act when evaluating it ethically, rather than judging it according to absolute standards
- Judgement based on personal ideals instead of code of conduct



Making Ethical Decisions

- Who is affected
 - You
 - Client/customer/population
 - Subordinates
 - ◇ Making vague requests
 - ◇ You are ultimately responsible for the outcome
- Not always clear cut
 - Unforeseen conflicts
 - ◇ Interests among parties
 - Each case/situation is different
 - May not make the right decision

Decision Making Models

- Awareness
 - Do you even recognize an issue?
 - ◇ How attuned are you?
- Individual Factors
 - What is your background?
 - ◇ Gender
 - ◇ Culture
 - ◇ Religion
 - ◇ Educational background
 - ◇ Life experiences
 - ◇ Age

Decision Making Model (continued)

- Organizational Factors
 - Tone at the top
 - What is acceptable
- Opportunity
 - What can I get away with

Ethical Codes

- Each profession has its own code of ethics
- Designed to protect public, members and profession
 - Medicine: Hippocratic Oath – Do no harm
 - Lawyers: Local Bar code of conduct
 - CPAs: AICPA Code of Professional Conduct
 - Stockbrokers: FINRA
 - Government: GFOA



Code of Ethic (continued)

- Companies have their own code of ethics
 - Designed to protect customers, employees and company
 - ◇ Customer – consistent quality product/service
 - ◇ Employee – Builds trust within departments, operating units and entity
 - ◇ Company – ability to ensure no “bad apple” will affect company



Accounting Codes of Ethics

- AICPA
 - All members
 - Members in public practice
 - Members in industry
- Institute of Internal Auditors
- Association of Certified Fraud Examiners
- Many others

AICPA

- Guidance for professional conduct
- Code of professional conduct
- Bylaws of the AICPA

Code of Professional Conduct (ET)

- Principles based
 - Responsibilities
 - Public Interest
 - Integrity
 - Objectivity and independence
 - Due care
 - Scope and nature of services

Responsibilities

- Professionals should exercise sensitive professional and moral judgements in all activities
- Members also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance.
- The collective efforts of all members are required to maintain and enhance the traditions of the profession



The Public Interest

- Accept obligations to act in a way that
 - Serves the public interest
 - Honors the public trust
 - Demonstrates a commitment to professionalism
- Public - clients, credit grantors, employers, investors, business community and others
- In resolving conflicting pressures, act with integrity



Integrity

- Honesty and candidness within the constraints of client confidentiality
- What is right & just
- Observe the principles of objectivity, independence and due care

Objectivity and Independence

- Impartiality, intellectually honest and free of conflicts of interest
- Independence
 - Free of relationships which impair objectivity
 - ◇ Can't serve two masters at once
 - ◇ Can't be an advocate and impartial at the same time
 - Fact
 - Appearance
 - ◇ An outsiders perspective

Due Care

- Principal
 - Observe technical and ethical standards
 - Continual improvement in competence and quality
 - Discharge responsibilities to best of ability
- Quest for excellence
- Diligence
 - Promptness, carefulness and thoroughness
 - Observance of standards – technical and ethical
- Planning and supervision

Scope and Nature of Services

- Services should be consistent with acceptable professional behavior and not subordinated to personal gain and advantage
- Provide the appropriate service in the situation
- Provide options when available in an objective manner

AICPA – Members in Business

- Conflicts of Interest
- Gifts & Entertainment
- Knowing Misrepresentations in the Preparation and Presentation of Information
- Subordination of Judgement
- Obligation to External Accountant
- Competence
- Submission of Financial Statements (relationship disclosure)
- Acts Discreditable



Ethical Decision Making Framework Example

- Rotary International – 4 Way Test
 - Is it the truth?
 - Is it fair to all concerned
 - Will it build goodwill and better friendships?
 - Will it be beneficial to all concerned?

Case Study #1

- You are the controller for a private business with multiple owners. As one of your “side” jobs you prepare the individual tax return for one of the owners. During your current year preparation you become aware of issues that have an impact on the corporation which you were unaware of and you are unsure if the other owners are aware.



Case Study #1 (continued)

- What ethical dilemma do you find yourself in?
- What should you do?
- What are your responsibilities to:
 - Corporation
 - Owner you prepared return for
 - Other owners



Case Study #2

- An enterprising public works employee (entrepreneur) has identified an opportunity to make additional money from scrap metal disposed of at the landfill they work at. They know that once the metal is delivered to the landfill it becomes the property of the government and would be considered stealing, so when they see a vehicle with valuable scrap metal (e.g. copper), they take a break, go off the premises and approach the driver to unload copper for them so they would not have to wait in line. A co-worker becomes aware of this.

Case Study #2 (continued)

- What are the ethical implications of this to the entrepreneur?
- What are the ethical implications of this to the co-worker?

Case Study #3

You are the auditor and tax preparer for XYZ Corporation. During the audit you are requested to provide an additional service of an Agreed Upon Procedures (AUP) engagement. Unbeknown to you, XYZ is in a minor legal dispute and that they intend to use the results of the AUP in order to support their legal position. You complete the AUP and issue your report. XYZ then submits the report as part of their evidence in the lawsuit and informs you that they may need you to testify about your results.

Case Study #3 (continued)

- What should you do?
- What are the ethical ramifications for the audit?
- What are the ramifications of your relationship with XYZ?



