

Ethics and the Profession of Accounting in a Digital Era

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ABSTRACT

This manuscript addresses the concept of ethics and the profession of accounting in a digital era. It is presented in Research Brief format and for a research presentation at the annual meeting of the American Society of Business and Behavioral Sciences and publication in the ASBBS Proceedings. The purpose of the Research Brief and ASBBS conference presentation is to receive comments and suggestions for going forward with the research and ultimate publication in a scholarly journal. The authors acknowledge the ASBBS for allowing their research to be presented at its conference in research brief format.

INTRODUCTION

In the paragraphs below the authors present their very preliminary research concerning ethics and the profession of accounting in a digital era. These paragraphs are presented in this Research Brief in order for the authors to receive comments and suggestions for going forward with the research and ultimate publication in a scholarly journal.

The profession of accounting is built upon ethics. The American Institute of Certified Public Accountants (AICPA) requires its members to adhere to a code of ethics in its Code of Profession Conduct. Specifically, the AICPA requires the following compliance in its ET Section 91 (presented here in italics to indicate that the materials below are copied pasted directly from the AICPA website at: http://www.aicpa.org/research/standards/codeofconduct/pages/et_90.aspx

ET Section 91 - Applicability (As adopted January 12, 1988, unless otherwise indicated)

*.01 The bylaws of the AICPA require that members adhere to the rules of the Code of Professional Conduct. Members must be prepared to justify departures from these rules.
.02 - Interpretation Addressing the Applicability of the AICPA Code of Professional Conduct. For purposes of the applicability section of the code, a member is a member, an associated member, or an international associate of the AICPA [sec. 92 par.21].*

- 1. The Rules of Conduct that follow apply to all professional services performed except
 - a. when the wording of the rule indicates otherwise*
 - b. that a member who is practicing outside the United States will not be subject to discipline for departing from any of the rules stated herein as long as the member's conduct is in accord with the rules of the organized accounting profession in the country in which he or she is practicing. However, when a member's name is associated with financial statements under circumstances that would entitle the reader to assume that U.S. practices were followed, the member must comply with the requirements of rules 202, Compliance With Standards [sec. 202 par. 01], and 203, Accounting Principles [sec. 203 par. 01].**

- c. *a member who is a member of a group engagement team (see the clarified SAS Special Considerations—Audits of Group Financial Statements [Including the Work of Component Auditors]) will not be subject to discipline if a foreign component auditor (accountant) departed from any of the ethics requirements stated herein with respect to the audit or review of group financial statements or other attest engagement, as long as the foreign component auditor's (accountant's) conduct, at a minimum, is in accord with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants' (IESBA's) Code of Ethics for Professional Accountants, and the members of the group engagement team are in compliance with the rules stated herein.*
- d. *a member who is a member of a network firm (as defined in paragraph .24 of section 92, Definitions) will not be subject to discipline if a firm within the network (as defined in paragraph .23 of section 92) that is located outside the United States (foreign network firm) departed from any of the ethics requirements stated herein, as long as the foreign network firm's conduct, at a minimum, is in accord with the ethics and independence requirements set forth in the IESBA's Code of Ethics for Professional Accountants.*
2. *A member shall not knowingly permit a person, whom the member has the authority or capacity to control, to carry out on his or her behalf, either with or without compensation, acts that, if carried out by the member, would place the member in violation of the rules. Further, a member may be held responsible for the acts of all persons associated with him or her in public practice whom the member has the authority or capacity to control.*
3. *A member (as defined in paragraph .21 of section 92) or a covered member (as defined in paragraph .07 of section 92) may be considered to have his or her independence impaired, with respect to a client, as the result of the actions or relationships of certain persons or entities, as described in rule 101, [sec. 101 par. 01], and its interpretations and rulings, whom the member or covered member does not have the authority or capacity to control. Therefore, nothing in this section should lead one to conclude that the member's or covered member's independence is not impaired solely because of his or her inability to control the actions or relationships of such persons or entities.*

[Paragraph added, August, 1989, effective November 30, 1989. Revised December, 1998. Revised, July 2002, to reflect conforming changes necessary due to the revision of interpretation 101-1. Revised September 2011, Effective November 30, 2011. Revised March 2013, revisions effective May 31, 2013.]

The materials above give but a glimpse of the ethical expectations of a certified public accountant. The AICPA posts on its website the complete code of profession conduct available at: <http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx>

AICPA CODE OF PROFESSIONAL CONDUCT

This is the current version of the AICPA Code of Professional Conduct. It has been updated for all Official Releases through October 31, 2013.

- *Introduction*
- *Section 50 - Principles of Professional Conduct*
- *Section 90 - Rules: Applicability and Definitions*
- *Section 100 - Independence, Integrity and Objectivity*

- *Section 200 - General Standards Accounting Principles*
- *Section 300 - Responsibilities to Clients*
- *Section 400 - Responsibilities to Colleagues*
- *Section 500 - Other Responsibilities and Practices*
- *ET Appendixes*
- *ET Topical Index*

INTEGRITY IN THE PROFESSION OF ACCOUNTING

Under Section 50 is subsection 54, article 3 that addresses specifically the concept of integrity, a concept arguably that is at the core of ethics in the profession of accounting. Presented below, again in italics to indicate that these materials are copied and pasted directly from the AICPA website, integrity in the profession of accounting is elucidated as follows:

http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/et_54.aspx

.01 - Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions.

.02 - Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle.

.03 - Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance, or in the face of conflicting opinions, a member should test decisions and deeds by asking: "Am I doing what a person of integrity would do? Have I retained my integrity?" Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment.

.04 - Integrity also requires a member to observe the principles of objectivity and independence and of due care.

WHEN ETHICS FAIL

A recent article in *The New York Times* (Norris, 2013), raises the issue of the failure of ethics in the accounting profession. That article, titled "Accounting World, Still Resisting Sunlight," reports on a recent action by the Public Company Accounting Oversight Board to censure Deloitte & Touche and fine the firm \$2 million for allegedly allowing questionable accounting practices at a client firm. As the article reports, ethics are in question in both the alleged practice as well as the fact that the partner charged with the allegation still is employed by the firm.

In another recent article in the *The Wall Street Journal* (Ackerman, Patterson and Bunge, 2013), is discussion of a recent call by the Security and Exchange Commission to review its self-regulatory system. The article speaks of ethical lapses and notes that the persistence of such lapses "can undermine the confidence of investors and public companies in the integrity of the U.S. equity market."

AN ETHICAL LAPSE

In a most polite content, one might argue that when ethics fail an ethical lapse has occurred. An ethical lapse has been defined (Frenz, 2014) as "a mistake or error in judgment that produces a harmful outcome. A lapse in ethics doesn't show a complete lack of integrity, just an oversight or an ethical blind spot. Routinely producing harmful results is not considered a "lapse", that's just

considered unethical. Ethical lapses can be large or small scale, kept private or publicized and be illegal or within the realm of the law, but immoral.”

ETHICS IN A DIGITAL ERA

What of accounting ethics in a digital era? Does a digital era make accounting ethics better or worse? What a metrics that might be utilized to determine the state of accounting ethics in a digital era? What is it about a digital era that might compromise accounting ethics? What might the accounting profession do, particularly through the AICPA, to detect and prevent things that might compromise accounting ethics in a digital era? What is the role of education, both pre-professional as well as career-long education in fostering ethical behavior in the profession of accounting? These and other questions concerning the profession of accounting and ethics in a digital era will be addressed as our research goes forward.

GOING FORWARD WITH RESEARCH

This manuscript addressed the concept of ethics and the profession of accounting in a digital era. It was presented in Research Brief format and for a research presentation at the annual meeting of the American Society of Business and Behavioral Sciences and publication in the ASBBS Proceedings. The purpose of the Research Brief and ASBBS conference presentation was to receive comments and suggestions for going forward with the research and ultimate publication in a scholarly journal.

As our research moves forward, the concept of ethics will be elucidated and examined from the perspective of the profession of accounting. An ethical framework for use in accounting decision making and practice will be proposed. The ethical framework will be applied to several recent cases of questionable ethics in the accounting profession, cases typified by the examples mentioned above in this research brief. The end product of our research is expected to be a set of guidelines for managers in accounting and regulators of the accounting profession.

REFERENCES

Ackerman, Andrew, Scott Patterson and Jacob Bunge (2013), “SEC Pulls Over the Exchange Police,” *The Wall Street Journal*, October 3, 2013, C1 and C2.

AICPA, <http://www.aicpa.org>

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<http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx>

AICPA, Principles of Professional Conduct

http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/et_54.aspx

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Frenz, Roslyn (2014), “What are Ethical Lapses?” eHow.com,

http://www.ehow.com/info_7755222_ethical-lapses.html

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