

2020 Professional Ethics

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Create Opportunities

Learning Objectives

At the end of this session, you will be able to:

- Differentiate between personal ethics and business ethics
- Recognize the need for ethics in business and the accounting profession
- Identify the ladder of ethics and how it factors into ethical decision-making
- Recognize the concepts of ethical framing and corporate social responsibility
- Describe how behavioral ethics considerations apply to real-world example scenarios and cases



Another year...more headlines

SEC fines KPMG \$50 million for cheating, calls misconduct "astonishing"

LUCKIN COFFEE MOVES TO REMOVE CHAIRMAN AFTER ACCOUNTING SCANDAL

More than 100 million Capital One credit card applications and accounts compromised

Feds take down \$1 billion Medicare fraud

Wirecard's future in doubt after revealing missing \$2.1B



Personal Ethics - Values

What are your personal values?

Simply?

The things that are important to you in life

So it should be easy to live by your “values”

Right?

NOT ALWAYS!



Let's Hear From You....

If the 2005 study we discussed was repeated in 2020, do you think the percentages of youth who approved cheating, arguing with officials, booing and faking an injury would be higher or lower?

- A) Higher
- B) Lower

Let's Hear From You....

Have you ever watched the ABC show *What Would You Do?* with John Quinones?

- A) Yes
- B) No

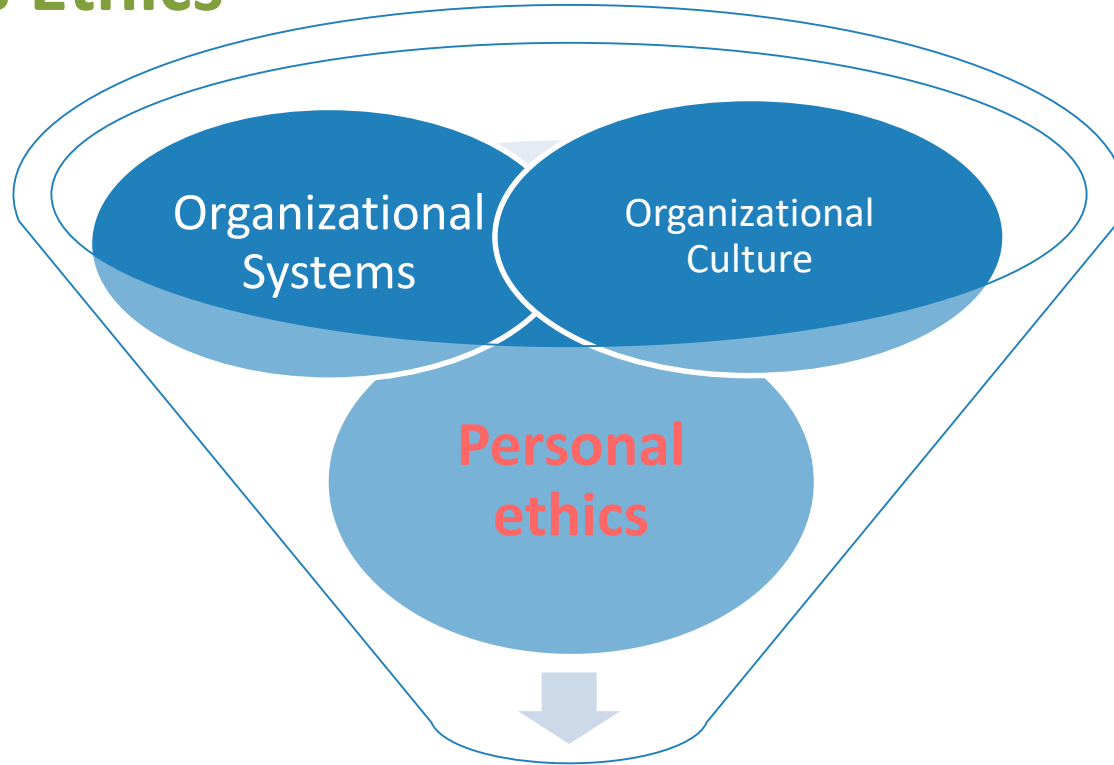
What would you do?

- Someone says or does something that you strongly disagree with. Do you speak up about it?
- You value dinner time with your family, but your boss expects you to stay late regularly. Do you sacrifice your values to please an authority figure?
- You value honesty. A close friend confides in you that they took something that was not theirs. Do you pretend not to know?

WHY DOES THIS MATTER TO BUSINESSES??



Business Ethics



Are the decisions made by a company ethical?

Let's hear from you.....

In your opinion, which of these has the most impact on whether or not a company is ethical?

- A) Organizational systems
- B) Organizational culture
- C) Personal ethics of employees

The Ethical Ladder

ETHICAL LEADERSHIP

“I encourage others to follow my lead.”

ETHICAL COURAGE

“I do what I believe is right.”

APPLICATION OF ETHICS TO BUSINESS SITUATIONS

“I do what I am told.”

PERSONAL ETHICAL UNDERSTANDING

“I know right from wrong.”



“I Do What I’m Told”

- Legal requirements are often the minimum standard of ethics (i.e., forced morality).
- However.....what if you are given “legal” instructions that you believe are unethical ?
- Does your answer depend on your experience level or role in the company? Personal circumstances?
- As a CPA, is our responsibility greater than someone outside of our profession?



“I Do What I Believe is Right”

Rationalization is the thief of ethical courage:

“At least I’m not as bad as...”

“I’m not hurting anyone”

“I am actually doing good”

“I have no choice if I want to keep my job”

“Everyone does it”

“I won’t get caught”

“I Encourage Others to Follow My Lead”



Corporate Social Responsibility

The commitment by business to behave ethically while improving the lives of the workforce, their families, the community in which it operates and society at large

- Protecting the interests of ALL STAKEHOLDERS, not just SHAREHOLDERS



CORPORATE
SOCIAL
RESPONSIBILITY

Corporate Responsibility Trends to Watch

Employee engagement in the workplace

Ending workplace harassment and inequality

Greater standards for potential suppliers

Data protection and privacy

Actively addressing societal concerns

Let's hear from you....

Which of the corporate responsibility “trends to watch” do you think is the most important issue companies need to address?

- A) Employment engagement in the workplace
- B) Ending workplace harassment and inequality
- C) Greater standards for potential suppliers
- D) Data protection and privacy
- E) Actively addressing societal concerns


CSR – COVID: Long Term Impacts

- Need to crackdown on profiteering
- Potential reduction by companies in long term CSR investment
- Opportunity to engage CSR strategies and build stronger bond with their consumers
- Companies will look at HOW to invest in CSR to achieve the mutually beneficial and interdependent social/environmental and economic goals
- New opportunities for companies to focus on social CSR
- Potential changes in consumer ethical decision making re: consumption

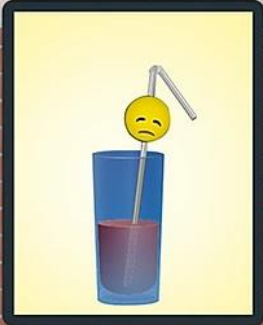
Ethical Framing

Framing Effect

Glass is **half-full**.



Glass is **half-empty**.



Our choices are influenced by the *'frames'*.

Buzzle.com

The point of view, or the way we look at any given situation.

Ethical Framing – Context Counts

75% FAT FREE



25% FAT



Let's hear from you....

Can you think of a situation where you made a decision that you regret and probably would have chosen differently had you looked at the choice in a different way?

- A) Yes
- B) No

Ethical Framing – The Challenger Disaster



Ethical Framing – Lance Armstrong



Let's hear from you.....

When you think of Lance Armstrong which of these best fits your opinion?

- A) He was treated more harshly and paid a higher price than other cheaters in sports
- B) Everyone was doping...he did what he had to do in order to be competitive
- C) He got what he deserved
- D) The good he did with the Livestrong Foundation and for cancer patients and survivors outweighs the scandal

2020 Professional Ethics & Conduct- Case Discussions



Case #1

As a CPA and the Controller of a small distributor, you are closing the books for the year. The owner, who is well past retirement age, has announced that a buyer for the business has been secured. Once the sale transaction has been completed, the members of senior management, including you, the controller, will receive a significant bonus - equivalent to 150% of one year's salary.

While reviewing the balance sheet, you notice that there are a number of expensive inventory items that are aged. Usually, inventory turns about once every 90 days, and these have been on the books for almost a year.

You approach the VP of Operations with your concern. He tells you that a competitor had devised a better product at a much lower cost. This product was unsalable at any price. However, due to the cost of this product, writing it off would be a material adjustment and would certainly impact the purchase price and may put the entire sale in jeopardy. He says that it would be in everyone's best interest to ignore it. "The buyer did their due diligence. If they missed it, it's their problem, not ours."



Case #1, cont'd

You bring the situation up to the owner. He says, “Don’t screw this up. I’ve worked a lifetime for this deal and I’m paying you a lot of money to make this happen.”

You know that everyone will be upset if the sale is not consummated or the bonus amount is reduced. Personally, you want the bonus. While you can always find another job, the bonus will buy a new car and pay off your student loans. But, you also know that inventory is not properly stated and this will be determined at some point in time. You can always say you just missed it. After all, you are just the Controller, not the Operations guy.

- What should the Controller do?



Case #2

Conversation between company President and the corporate accountant:

President: We are awfully close to hitting our numbers and getting to the 20 percent target. With two weeks remaining, projections show we will come in at 18 percent for the year. What can we do on the accounting side to increase current year profits?

Accountant: Well, I'm not sure there is anything we can do. Our accounting is squeaky clean, as confirmed by our independent auditors. Perhaps our sales will improve next year.

President: There has to be something we can do—I could sure use the bonus money, and our investors would appreciate an increase in their investment! I know we have a large customer order to be filled the first week of next year. Why not include that sale in this year's numbers?

Accountant: I'm not comfortable recording sales in the wrong fiscal year.

President: We're only talking about moving sales by a few days! I would like you to consider this carefully. If you can't do this, I may have to find an accountant who can! Let's talk about our options later this week.





Doing the right thing doesn't
always bring success. But
compromising ethics almost
always leads to failure.

~Vivek Wadhwa

