

**ACC 215**  
**ETHICS IN ACCOUNTING**

**COURSE DESCRIPTION:**

Perequisites: ACC 121

Corequisites: None

This course introduces students to professional codes of conduct and ethics adopted by professional associations and state licensing boards for accountants, auditors, and fraud examiners. Topics include research and discussion of selected historical and contemporary ethical cases and issues as they relate to accounting and business. Upon completion, students should be able to apply codes, interpret facts and circumstances, as they relate to accounting firms and business activities. Course Hours per Week: Class, 3. Lab, 0. Semester Credit Hours, 3.

**LEARNING OUTCOMES:**

Upon completion of this course, the student will be able to:

1. Understand the relationship between personal ethics and professional ethics
  - a) Explain the similarities between religious, classical and modern moral philosophies and the AICPA and IMA codes of conduct
  - b) Apply classical and modern moral philosophies to accounting case studies
2. Understand the cognitive approach to ethical decision making
  - a) Explain the cognitive level of ethical reasoning of specific individuals associated with accounting fraud cases
  - b) Explore the cognitive approach to ethical decision making to their personal ethical decision-making process
3. Explain the importance of the corporate ethical environment
  - a) Demonstrate an understanding of how a corporations' ethical environment affects individuals' ethical behavior
  - b) Explain governance mechanisms and the role of internal control
4. Understand the importance of the audit function in public accounting
  - a) Understand the various investigations of the profession
  - b) Compare and contrast the AICPA Code of Professional Conduct, State Boards of Accountancy role and the SEC requirements for professional conduct
  - c) Apply ethical requirements to case studies
5. Understand auditors' responsibility for detecting fraud in financial statements
  - a) Demonstrate an understanding of different types of fraud
  - b) Demonstrate an understanding between AICPA and PCAOB approaches
  - c) Understand the basic audit reports that may be issued and their limitations
6. Understand the legal and regulatory obligations of corporate officers and CPA's

- a) Explain the difference between common law and statutory law
- b) Understand other legal requirement
- 7. Explain earnings management
  - a) Explore the various definitions and ethical implications of earnings management
  - b) Apply various means of earnings management to specific cases
- 8. Compare and contrast various United States approaches to international approaches
  - a) Compare the difference between the United States approach to accounting standards and the international approach
  - b) Understand how cultural differences might affect corporate governance
  - c) Analyze international corporate frauds

## **OUTLINE OF INSTRUCTION:**

- I. Ethical reasoning and implications for accounting
  - A. Importance of integrity
  - B. Religious and philosophical foundations of ethics
    - 1) The Golden Rule
    - 2) Norms, values and the law
    - 3) Ethical relativism
    - 4) Situation ethics
    - 5) Cultural values
  - C. The six pillars of character
    - 1) Trustworthiness
    - 2) Respect
    - 3) Responsibility
    - 4) Fairness
    - 5) Caring
    - 6) Citizenship
  - D. Professional associations and codes of conduct
    - 1) AICPA Code of Conduct
    - 2) IMA Statement of Ethical Professional Practice
  - E. The public interest in accounting
    - 1) Reputation
    - 2) Virtue, character and CPA obligations
  - F. Modern moral philosophies
    - 1) Teleology
      - a) Egoism
      - b) Enlightened egoism
      - c) Utilitarianism
    - 2) Deontology
    - 3) Justice
    - 4) Virtue ethics
  - G. Application of ethical reasoning in accounting

- II. Cognitive processes and ethical decision making in accounting
  - A. Kohlberg and cognitive development approach
    - 1) Preconventional level
    - 2) Conventional level
    - 3) Postconventional level
  - B. Rest's four-component model of ethical decision making
    - 1) Moral sensitivity
    - 2) Moral judgment
    - 3) Moral motivation
    - 4) Moral character
  - C. Thorne's integrated model of ethical decision making
    - 1) Moral development - sensitivity and prescriptive reasoning
    - 2) Moral virtue - ethical motivation and ethical character
  - D. Behavioral ethics
  - E. Ethical decision-making model
  
- III. Creating an ethical organization environment and effective corporate governance systems
  - A. Seven signs of ethical collapse
  - B. A culture of conflicting interest
  - C. Individual-organization interchange
  - D. Ethical dissonance model
  - E. Business ethics
    - 1) IIA Code of Ethics
    - 2) Business versus personal ethics
    - 3) Employees' perceptions of ethics in the workplace
    - 4) Fraud in organizations
  - F. Foundations of corporate governance systems
    - 1) Executive compensation
    - 2) Corporate governance mechanisms
    - 3) Board of Directors
    - 4) Audit Committee
    - 5) Internal auditors
    - 6) Internal control
    - 7) Code of Ethics of CEO's and CFO's
    - 8) Whistleblowing
  
- IV. The AICPA Code of Professional Conduct
  - A. An international perspective
  - B. Investigations of the profession
    - 1) Metcalf Committee and Cohen Commission (1977-1978)
    - 2) House Subcommittee on Oversight and Investigations (1986)
    - 3) Savings and loan industry failures (late 1980s-early 1990s)
    - 4) Treadway Commission Report (1985 and 1992)
    - 5) Enterprise risk management (2004)

- C. The role of accounting profession in the financial crisis of 2007-2008
- D. Professional standards
  - 1) AICPA Code of Professional Conduct and state board requirements
  - 2) Professional services of CPAs
  - 3) AICPA and IFAC principles of professional conduct
  - 4) AICPA conceptual framework
  - 5) AICPA independence standards
    - a) Threats to independence
    - b) Safeguards to counteract threats
    - c) Financial relationships that impair independence
    - d) Nonattest services to attest clients
  - 6) SEC position on auditor independence
  - 7) SOX provisions
  - 8) Concept of due professional care
  - 9) Responsibilities to clients
    - a) Confidentiality
    - b) Contingent fees
  - 10) Other responsibilities
    - a) Commissions and referral fees
    - b) Advertising and solicitation
    - c) Form of organization and name
    - d) Acts discreditable
  - 11) Ethics and tax services
  - 12) PCAOB rules

V. Fraud in financial statements and auditor responsibility

A. Fraud and the audit function

B. Nature and causes of misstatements

- 1) Errors
- 2) Fraud
- 3) Illegal acts

Reporting of illegal act

Private Securities Litigation Reform Act of 1995

SEC Form 8-K

C. Auditor's responsibility of fraud prevention, detection, and reporting

D. The fraud triangle

- 1) Incentive/Pressure
- 2) Opportunity
- 3) Rationalization

E. Fraud considerations in the audit

- 1) Fraud risk assessment
- 2) Fraud associated with management override of controls
- 3) Communicating possible fraud to management and those charged with governance
- 4) Management representations and financial statement certifications

- F. The audit report
    - 1) Introductory paragraph
    - 2) Management responsibility
    - 3) Auditor's responsibility
    - 4) Opinion
    - 5) Types of audit opinions
      - i. Unmodified
      - ii. Modified
        - a. Qualified
        - b. Adverse
        - c. Disclaimer
    - 6) Generally accepted auditing standards (GAAS)
      - i. General standards
      - ii. Standards of fieldwork
      - iii. Standards of reporting
    - 7) Other issues
      - i. Audit evidence
      - ii. Limitations of the audit report
      - iii. Reasonable assurance
      - iv. Materiality
      - v. Meaning of "present fairly"
      - vi. Audit risk assessment
      - vii. Internal control assessment
      - viii. Internal control - an integrated framework
  - G. PCAOB standards and enforcement
- VI. Legal, regulatory and professional obligations
- A. Client confidentiality, fraud and whistleblowing
  - B. Ethical and legal responsibility of officers and directors
    - 1) Duty of care
    - 2) Duty of loyalty
    - 3) Duty of good faith
    - 4) Business judgment rule
    - 5) Clawback of incentive compensation for executive officers
  - C. Legal liability of auditors
    - 1) Common-law liability
      - i. Clients in privity relationship
      - ii. Liability to third parties - foreseen and reasonably foreseeable users
    - 2) Statutory liability
      - i. Securities Act of 1933
      - ii. Securities Exchange Act of 1934
  - D. Interaction of ethics and legal liability
  - E. Court decisions
  - F. Insider trading
  - G. Private Securities Litigation Report Act and proportional liability
  - H. Sarbanes Oxley legal liabilities
  - I. Foreign Corrupt Practices Act

- VII. Earnings management and the quality of financial reporting
  - A. Motivation for earnings management
  - B. Analysis of earnings management from a financial reporting perspective
    - 1) Definition of earnings management
    - 2) Ethics of earnings management
    - 3) Managers and accountants perception of earnings management
    - 4) Accruals and earnings management
    - 5) Earnings management from a materiality perspective
  - C. Financial statement restatements
  - D. Earnings management techniques and financial shenanigans
  
- VIII. International financial reporting: ethics and corporate governance considerations
  - A. The influence of culture on internal financial reporting
  - B. International financial reporting environment
    - 1) Move toward IFRS
    - 2) Comparability of financial statements
    - 3) Convergence versus condorsement
    - 4) “True and fair view” versus “present fairly”
    - 5) IFRS for Small and Medium-Sized Entities (SMEs)
  - C. Principles based standards versus rules-based standards
    - 1) Ethical considerations
    - 2) Earnings management concerns
  - D. Certified Institute of Management Accountants (CIMA) Code of Ethics
  - E. IFAC Code (2012)
  - F. Global fraud, bribery and suspected illegal acts
  - G. Comparative corporate governance
    - 1) Legal and cultural considerations
    - 2) Comply or explain principle

**REQUIRED TEXTBOOKS:**

To be announced by the instructor.