

# An Ethical Culture

## WICPA- FINANCIAL INSTITUTIONS CONFERENCE

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## RULES OF ENGAGEMENT

### (The Engagement Letter)

1. No Smartphones or Computers (confidentiality)
2. Make Connections – Network
3. Ask Questions
4. Consider Takeaways for Your Practice
5. Have a Good Time



## CULTURE

- Beliefs - Implicit assumptions (What are they?)
- Values – Norms, principles, and standards (AICPA Code of Ethics) (The story)
- Behavior – What we actually do
- Comfort – Fair and equitable treatment
- Belonging - Need to feel you belong because the culture is ethical

**“It is our choices that show what we truly are, far more than our abilities.”**

*- Harry Potter and the Chamber of Secrets, by J. K. Rowling*



## PROFESSIONAL CONDUCT

### Principles and Rules

- Integrity – trust , judgment, observation
- Objectivity – influence and unbiasedness
- Confidentiality – information – personal gain
- Competency – Channel your inner Sherlock  
a questioning attitude

## Making Decisions



1. People face trade-offs.
2. What people get is the cost of what they give-up.
3. Rational people make decisions on the margin.
4. People react to incentives.

Ethical decisions include:  
observation and prediction

## **SHERLOCK HOLMES**

KNOWLEDGE

OBSERVATION

DEDUCTIVE REASONING

INQUIRY



## **Making Decisions**



Act as if everything depends on you.

Ethical people are aware and  
observant – they notice.

Influence and Accountability

## Ethical Behavior

- Rewarding ethical behavior
- Developing intrinsic ethical behavior
  - Can an ethical person have unethical behaviors?
  - Can guidelines keep people ethical?

## ETHICAL DIFFERENCE

I did **NOTHING WRONG**

VERSUS

I did the **RIGHT THING**

“While I do not believe I ever did anything illegal...I’ve done an awful, awful lot that was wrong.”

John Edwards on his acquittal/mistrial

100% legal – 10% ethical?

Is doing the right thing the same as saying, “I did nothing wrong?”

## Description Of CPA Ethics



## ICPAS's *INSIGHT* Magazine

Spring 2013 Article, "Are You Ethical?"

1. Know thyself
  - [www.lifevaluesinventory.org](http://www.lifevaluesinventory.org)
2. Anticipate questionable scenarios
  - Talk about ethics with others
3. Get the facts
  - Ethical dilemma or misunderstanding?
4. Consider the consequences
  - Think short-term and long-term
5. Evaluate the tone at the top
  - Help create the tone
6. Be proactive
  - Act immediately



## ACCOUNTING ETHICS

Accounting means financial information

Reliable financial information helps educated investors and aids in decision-making

We are the guardians of reliable financial information

Accountability – authority and responsibility



# UNETHICAL ACCOUNTING

1. Exaggerate revenue
2. Provide misleading information regarding business expenses
3. Misuse funds
4. Misappropriation



## PURPOSE

Oversight bodies, those charged with governance.

- Entities manage resources & use authority properly in compliance
- Programs are achieving objectives
- Programs are effective, efficient, and ethical
- Accountability – responsibility and authority



## PROFESSIONAL CONDUCT

Accountability

Tone from the top → Modeling, Decision-Making, Hiring

Making decisions consistent with public interest → Integrity

Auditors place priority on responsibility to public

Proper use and prudent management of resources

Transparency → What, How, Why

## ETHICAL BACKGROUND

Ethics – From the Greek ethos, meaning character.  
Ethics is the study of how we make decisions

Intent and expectations

Ethics are the values by which human beings live in relation to other human beings, themselves and/or nature.

## RULE ETHICS

Emanuel Kant would say that consequences can't make actions right or wrong.  
The key question is: "What would happen if everyone acted this way?"  
Excuse – "everyone does it"

A good rule is one that:

Becomes universal and can be applied consistently  
and  
Is respectful of the autonomy and rationality of all human beings

Trade offs:

Promotion of self interest  
vs  
Protection of rights

**Does having rules make someone ethical?**

An ethical person will want to know the rules so that he/she can make informed ethical choices.

**The question is whether or not the rules and procedures are being applied ethically.**

## LAWRENCE KOHLBERG'S MODEL

1. Pre-conventional Level:

- People act out of fear of punishment  
There is no morality.

2. Conventional Level:

- People act to conform their behavior to the expectations of the group to which they belong.

**"I did nothing wrong."**

**"Everyone one else does it."**

3. Post-conventional Level"

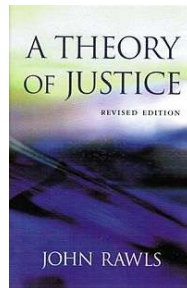
- The individual understands the reasoning behind a moral principle.

**"I did the right thing."**

## CONTRACT THEORY

John Rawls – American Philosopher 1921 – 2002

1. SOCIAL JUSTICE – All jobs should be open to talent (equal opportunity)
2. DECISIONS – Made behind a veil of ignorance
  - This "veil" blinds people to all facts about themselves and others so they cannot tailor principles to their advantage



## DISCRIMINATION

(1.400.10, 2.400.10, 3.400.10)

Violates any antidiscrimination laws

Includes sexual and other types of harassment

Is an act discreditable.

## PSYCHOLOGY

Ann Tenbrunsel – Current Notre Dame Researcher

Business professionals rationalize a “business” decision instead of an “ethical” decision; framework is everything

Business Decision

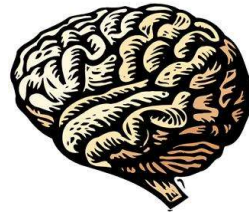
What might I gain?

How will it affect the future?

Ethical Decision

Is this decision fair?

Will people be hurt?

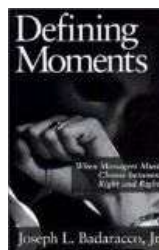


## ETHICS AND DECISION-MAKING

Ethics is not always making a decision between right and wrong

Ethics is also about making the key decisions between right and right

*Defining Moments: When Managers Must Choose Between Right and Right*



# Ethical Behavior

## GOLDEN RULE

Do unto others as you would have them do unto you.

What you want may not be what others want or need.

We would want people to ask us what we want or need so we should ask them.

Fairness is not equality. I am short if you have not noticed.

Equity and Equality. Wages.

## THE CODE OF PROFESSIONAL CONDUCT

1. Principles are ideal standards and are not enforceable. (Based in Philosophy)
2. Rules of Conduct are minimal standards of ethical conduct stated as specific rules. They are enforceable. (Ex. Independence)\*
3. Interpretations of rules of conduct. Not enforceable but you must justify departure. (Ex. Can an auditor accept a gift?)
4. Ethical rulings. Published explanations of questions asked to the AICPA. Not enforceable but you must justify departure.

## GENERAL STANDARDS

### Internal auditor's rules of conduct:

Integrity – perform with honesty, diligence and responsibility

Objectivity – appearance and fact

Confidentiality – prudent in use of information (protect it.)

Competency – necessary knowledge, skills and experience.

Professional Behavior

## GENERAL STANDARDS

- All things “technical!” When we think of ethics, rarely do we think technical standards.
  - ❖ Professional Competence
  - ❖ Due Professional Care (professional judgment & skepticism)
  - ❖ Planning and Supervision
  - ❖ Sufficient Relevant Data
  - ❖ GAAP
  - ❖ GAAS

## PROFESSIONAL CONDUCT

- The Public Interest (trust and responsibility)
- Integrity (can accommodate the inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle)
- Due Care “The **quest for excellence** is the essence of due care.” – Professional judgment and skepticism
- Prudence

## CODE OF CONDUCT UPDATE

- Reorganize the Code of Conduct
  - Part 1: Public practice
  - Part 2: Industry
  - Part 3: Between jobs, retired, other
- Topics and Subtopics
  - Non-authoritative guidance issued by the AICPA will appear next to authoritative standards



Public – Ethical Conflicts

Business – Conflicts of Interest

Others – Acts Discreditable

## INDEPENDENCE

- Conceptual Framework
  - ❖ Independence of Mind
  - ❖ Independence of Appearance
- The most detailed section of our Code of Conduct



## Ethical Conflicts - Threats to Independence

- Obstacles created by internal or external pressures
- Conflicts in applying relevant professional and/or legal standards. (Fraud and confidentiality).
- Response: relevant facts and circumstances (including rules), issues, established internal procedures

ethical

## Public & Business – Ethical Conflicts Threats to Independence

- Adverse Interest – members interest opposed to employer (ex. Lawsuit against client)
- Advocacy – promote employer interest or position (IPO, expert witness, tax)
- Familiarity – too accepting of a person's word or sympathetic to a person (Close relationship)

### **Warning Unconscious biasness**

(Initial reaction - You can not tell me what to do! OR Don't tell me what to do.)

- Self-interest – benefit financially or otherwise (Loan)

## **Public – Ethical Conflicts Threats to Independence (2)**

- Self-review – will not evaluate work appropriately (previously made judgments)
- Undue influence – a member will subordinate his/her judgment and integrity to an individual due to that individual's position, reputation, or aggressive (dominating) personality
- Management Participation (old 101-3) – Directorship, client employees, responsible for client internal control

## **Client and Customer Acceptance and Retention**

1. Set expectations from the beginning
2. Client meetings should be two way interviews
3. Bullying



# Discussion

Your boss says to you...

“I am not telling you to do anything illegal. I am just telling you what I want done. It is up to you to figure out how to do it.”

Friend in Government

## Safeguards

- Legislative
- Training
- Culture – Expectations
- How and by whom the safeguard is applied – internal control
- Policies and procedures against discrimination and harassment
- Tone from the top
- Skepticism

## ETHICAL CASE FOR CONSIDERATION

Role → You are Mayor and as such, Liquor Commissioner...

Decision → Do you accept a gift from a tavern or not?



## Gifts – Judgement Concerning Relevant Facts

- Nature of the gift or entertainment
- The occasion of giving rise to the gift
- The cost or value of the gift or entertainment (Cubs vs. Sox)
- The nature frequency, and value of other gifts or entertainment
- A designated person in your firm to ask about any gift.

## **ETHICAL BACKGROUND**

Ethics –adherence to applicable regulations, laws, and professional standards

Be proactive – Hasbro and lead

Communication – policies and procedures

Documentation – who, what, when, how and why

Accountability – responsibility and authority

## **Ethical Challenges**

- Conflicts of interest
- Disagreement over a tax/accounting position
- Integrity
- Due diligence
- Reckless or intentional disregard of rules, laws, or regulations
- Client acceptance – Knowledge of client's error
- Confidentiality

# The Job

- Do it right the first time (saves time fixing issues later)
- Provide higher level of uniform quality\*
- Experience less conflict
- Keeping reputation intact leads to new and repeat business

\*W. Edwards Deming



# The Aura

1. Take accountability from the top-down
2. Make the message consistent
3. Encourage skepticism
4. Facilitate ethical behavior
5. Don't create a home for the 'Fraud Diamond'

## Accountability from Top-down

- Common vision and mission
- Prevent, detect, and correct with internal controls
- Prevent, detect, and respond to compliance and fraud issues

## Consistent Message

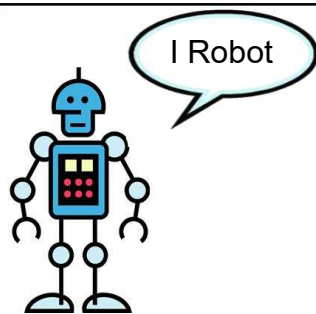
- Ask employees to repeat the mission to ensure consistency within the company
- Ensure employees know what is expected of them and where the **boundaries** are
- Let clients and customers know what your message is  
(Ex. Engagement letter, contracts, website, marketing materials)

# AI and CHATGPT

They can make useful suggestions.

You need to make the decisions. They do not incorporate your personality or organizational culture.

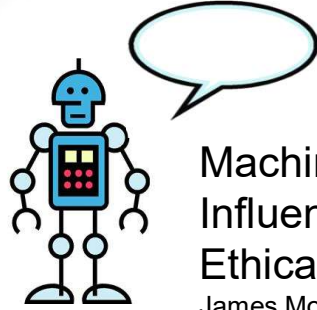
A questioning attitude using complex problem solving, critical thinking, creativity and emotional intelligence is needed more than ever.



## Asimov Rules!

1. A robot may not injure a human being or, through inaction, allow a human being to come to harm.
2. A robot must obey the orders given to it by human beings, except where such orders would conflict with the First Law.
3. A robot must protect its own existence as long as such protection does not conflict with the First or Second Laws.





## Machines with Ethical Influences Ethical Agents

James Moor

1. Impact Agents: influence-intended or not – clock on time.
2. Implicit Agents: designed to avoid unethical and negative outcomes-security or safety-"the door is ajar."
3. Explicit Agents: algorithms to act ethically-drone to destroy military targets but must avoid nearby humans.
4. Full Agents: AI-machine that can make moral decisions and And can understand why it makes those decisions.

## REMOTE WORK

Confidentiality - passwords, public places, apartments

Productivity – clear goals and expectations

Equipment usage – business only?

Wellness – a mentor or someone to run ideas by

Fraud – segregation of duties

# Navy Commander

About mission commander on two boats  
accidentally entering Iran's waters

"He lacked a questioning attitude, failed to  
promote a culture of safety, and disregarded  
appropriate backup from his staff and  
subordinate commands."

July 1, 2016

- What HAS Changed?
- What SHOULD HAVE Changed?
- Does it cause a Risk?
- **What is going to be your RESPONSE?**

## Danger, Accountant, Danger

It is most dangerous not to know  
what you do not know!!!!



## How do we know we are acting ethically?

***"Judge a man by the questions he asks –  
not by the answers he gives."***

Voltaire

**Ask yourself:**

Who will the decision help?  
Who will the decision harm?  
Why is the decision appropriate for the  
situation/time?

Sometimes the choice is between right and right!

## MORE QUESTIONS

Who am I? (Psychological)

How does it work? (Physical)

How do I make decisions? (Ethical)

People make bad decisions because they are pressured to do something that may be wrong.

They may have a bad attitude because they may feel things are not fair.

Also, they may have the opportunity.

How do I relate to other people? (Sociological)

## Four step ethical decision framework

**Step 1: Identify the dilemma and assess the potential risk to the organization, others and yourself.**

- What is the dilemma?
- What is the potential risk to others (clients, coworkers, your family, etc.)?
- What is the potential risk to the organization?
- What is the potential risk to you?

## **MORAL HAZARDS**

- 1. SEAT BELTS**
- 2. BLOCK CHAIN**
- 3. INTERNAL CONTROL**
- 4. DRIVERLESS CARS – TESLA**



## **ETHICS OF DRIVING**

- 1. Don't hit anything**
- 2. Be aware – notice things (Bus)**
- 3. Don't get hit by anything**
- 4. Stay out of other peoples' way**
- 5. Know what others expect you to do**
- 6. Let others know what you are doing- Be Transparent!**
- 7. Your decisions impact others**
- 8. For backseat driving...**



## PRACTICAL BEHAVIOR

An Ethical Person:

I messed up.

It won't happen again.

## ETHICAL PEOPLE

Can an ethical person have unethical behaviors?

Can guidelines keep people ethical?



Being ethical is doing the right thing...  
Even when no one else knows.



**Do the Right Thing!**

