

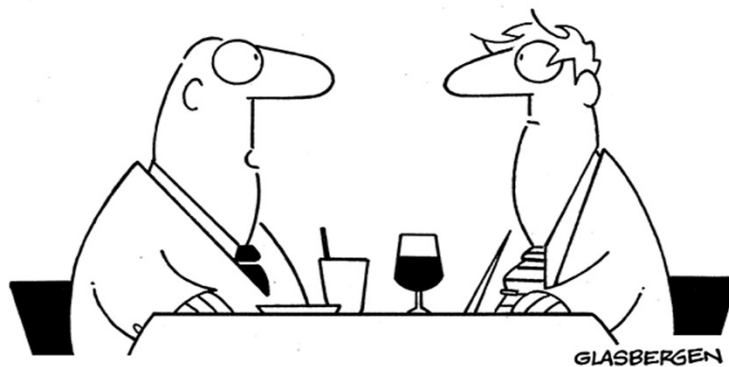
Professional Ethics Overview

December 14, 2023

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“I underpay my employees, use unethical tax strategies and pollute the environment, but it’s OK — I outsource my guilt to a firm overseas.”

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"I took a course in ethics, but everything was contradicted by the course I took in accounting."

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"We're supposed to attend a conference on business-casual ethics."

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**“You handled the audit so well, we’re promoting you
from Accounts Receivable to Accounts Deceivable.”**

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HONESTY

- Honesty refers to a facet of moral character and denotes positive, virtuous attributes such as integrity, truthfulness, and straightforwardness along with the absence of lying, cheating, or theft.

“Honesty is the best policy. If I lose mine honor, I lose myself.”

-William Shakespeare

INTEGRITY

- Integrity is a concept of consistency of actions, values, methods, measures, principles, expectations, and outcomes. Integrity can be regarded as the opposite of hypocrisy, that it regards internal consistency as a virtue.

“Integrity without knowledge is weak and useless, and knowledge without integrity is dangerous and dreadful.”

- Samuel Johnson

The son of a bookseller, he rose to become one of the greatest literary figures of the eighteenth century, most famously **compiling A Dictionary of the English Language**.

OBEDIENCE TO LAW

Law is the set of enforced rules under which a society is governed. Law is one of the most basic social institutions—and one of the most necessary. The law thus establishes the rules that define a person's rights and obligations. The law also sets penalties for people who violate these rules. In fact, laws frequently are changed to reflect changes in a society's needs and attitudes. Law is a system of rules and guidelines which are enforced through social institutions to govern behavior.

“An unjust law is itself a species of violence. Arrest for its breach is more so.”

-Mahatma Gandhi

Ethics in Government Today

*Ethics is knowing the difference
between what you have a right to do
and what is right to do.*

Potter Stewart

American lawyer and judge who served as an [Associate Justice of the United States Supreme Court](#) from 1958 to 1981.

POLLING QUESTION #1

- What food item do you like the best?
 - A. Pizza
 - B. Steak
 - C. Salad
 - D. Chicken

Ch. 1

AICPA Code of Professional Conduct

The screenshot shows the AICPA Online Professional Library interface. At the top, there is a search bar with the text "ethical conflict" and buttons for "ADVANCED SEARCH" and "RESULTS". Below the search bar is a "Table of Contents" section with a "SYNC TOC" button. The table of contents lists the following items:

- Code of Professional Conduct
 - Title Page
 - Preamble, Applicable to All Members
 - Part 1 — Members in Public Practice
 - Part 2 — Members in Business
 - Part 3 — Other Members
 - Appendix A — Council Resolution Designating Bodies to Promulgate Technical Standards
 - Appendix B — Council Resolution Concerning the Form of Organization and Name Rule
 - Appendix C — Revision History Table
 - Appendix D — Mapping Document

At the bottom of the page, there is a navigation bar with "MY LIBRARY", "DOCUMENTS", "TOOLS", and "HELP" buttons. A search bar at the bottom left shows "1,000,000 Ethical Conflicts". The footer of the slide includes "CPE" on the left, "Continuing Professional Education" in the center, and "aicpalearning.org¹³" on the right.

Ch. 1

Ways to Navigate

The screenshot shows the AICPA Online Professional Library interface with a navigation menu open. The menu lists the following items:

- Title Page
- Preamble, Applicable to All Members
- Part 1 — Members in Public Practice
- Part 2 — Members in Business
- Part 3 — Other Members
- Appendix A — Council Resolution Designating Bodies...
- Appendix B — Council Resolution Concerning the For...
- Appendix C — Revision History Table
- Appendix D — Mapping Document

The search bar at the top now shows "1,700,000 Disclosing Information to a Third-Party...". The navigation bar at the bottom shows "MY LIBRARY", "DOCUMENTS", "TOOLS", and "HELP" buttons. The footer of the slide includes "CPE" on the left, "Continuing Professional Education" in the center, and "aicpalearning.org¹⁴" on the right.

Numeric Citations

ET section X.XXX.XXX.XX

The single digit identifies the part of the code.

The double digits identify the paragraph.

These 3 digits represent the topic.

These 3 digits represent the subtopic.

*In this presentation, we will only use the numerical portion of the citation.

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Appendix A



Screenshot of the AICPA Online Professional Library showing Appendix A: Council Resolution Designating Bodies to Promulgate Technical Standards. The page includes the title, a list of amended dates, and sections for the Federal Accounting Standards Advisory Board and the Financial Accounting Standards Board. The text under the Federal Accounting Standards Advisory Board section reads: "RESOLVED: That the Federal Accounting Standards Advisory Board, with respect to its statements of federal accounting standards and concepts adopted and issued in March of 1993 and subsequently, in accordance with its rules of procedure, the memorandum of understanding, and public notice designating FASAB's standards and concepts as having substantial authoritative support, be, and hereby is, designated by the Council of the American Institute of Certified Public Accountants as the body to establish financial accounting principles for federal governmental entities pursuant to the 'Accounting Principles Rule' (AICPA, Professional Standards, ET sec. 1.320.001 (r) and 2.320.001 (r) of the Code. ¹⁵ 1".

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Ch. 1

Appendix B

Appendix B
Council Resolution Concerning the Form of Organization and Name Rule

[As adopted May 23, 1994; revised May 7, 1997, May 15, 2000, May 22, 2008 August 2011, and October 19, 2014.]

A. RESOLVED: That with respect to a member engaged in public practice in a firm or organization which performs (1) any audit or other engagement performed in accordance with the Statements on Auditing Standards, (2) any review of a financial statement performed in accordance with the Statements on Standards for Accounting and Review Services, (3) any examination of prospective financial information performed in accordance with the Statements on Standards for Attestation Engagements, (4) any engagement to be performed in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), or (5) any examination, review, or agreed upon procedures engagement to be performed in accordance with the SSAE, other than an examination described in subsection (A) (3), or which holds itself out as a firm of certified public accountants or uses the term "certified public accountants" or the designation "CPA" in connection with its name, the characteristics of such a firm or organization under the "Form of Organization and Name Rule" of (AICPA, Professional Standards, ET sec. 1.800.001) of the Code of Professional Conduct are as set forth below:

1. A majority of the ownership of the member's firm in terms of financial interests and voting rights must belong to CPAs. Any non-CPA owner would have to be actively engaged as a member of the firm or its affiliates. Ownership by investors or commercial enterprises not actively engaged as members of the firm or its affiliates is against the public interest and continues to be prohibited.
2. There must be a CPA who has ultimate responsibility for all the services described in A above, compilation services and other engagements governed by Statements

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Ch. 1

Appendix C—Revision Table

1.700.050 Disclosing Client Information in Connection With a Review of the Member's Practice

- 01 For purposes of the "Confidential Client Information Rule" [1.700.001], a review of a member's professional practice includes a review performed in conjunction with a prospective purchase, sale, or merger of all or part of a member's practice. Such reviews may threaten a member's compliance with the "Confidential Client Information Rule". To reduce the threat to an acceptable level, a member must take appropriate precautions (for example, through a written confidentiality agreement with the prospective purchaser) to help ensure that the prospective purchaser does not disclose any confidential client information obtained in the course of the review.
- 02 Members who perform such reviews should not use to their advantage or disclose any confidential client information that comes to their attention during the review. [Prior reference: paragraph .04 of ET section 301]
- 03 Members who obtain client files as the result of acquiring all or part of another member's professional practice should not disclose any confidential client information contained in such files. Members should refer to the "Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice" interpretation under the "Acts Discreditable Rule" [1.403.205] for guidance related to client files obtained through acquiring a practice.

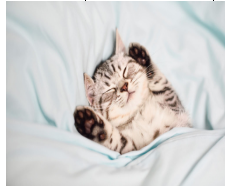
[See Revision History Table 5.]

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Appendix C—Revision Table (continued)

Ch. 1

<i>Appendix C Revision History</i>			
Citation	Action	Effective Date	Official Release
1.110.010.04n, o, p	Technical Correction, August 2016	Effective Upon Revision	www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/DownloadableDocuments/2015/2016OctoberOfficialRelease.pdf
1.700.050	Revision	October 31, 2016	www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/DownloadableDocuments/2015/2016OctoberOfficialRelease.pdf
1.520.080	Addition	Effective for commission or referral fee arrangements entered into on or after January 31, 2017.	www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/DownloadableDocuments/2015/2016OctoberOfficialRelease.pdf



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Appendix D—Mapping Document

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<i>Prior Code Citations</i>	<i>Title in Prior Code</i>	<i>New Citation</i>	<i>New Title</i>
		0.100	Overview of the Code of Professional Conduct
Introduction	Composition, Applicability, and Compliance	0.100.010	Principles and Rules of Conduct
Introduction	Other Guidance	0.100.020	Interpretations and Other Guidance
		0.200.010	Structure of the AICPA Code
		0.200.020.01	Application of the AICPA Code
ET section 91	Applicability	0.200.020.02-.05	Application of the AICPA Code
		0.200.030	Citations
		0.200.040	Transition Provisions
		0.200.050	Drafting Conventions
ET section 51	Preamble	0.300.010	Preamble
ET section 52	Article I — Responsibilities	0.300.020	Responsibilities

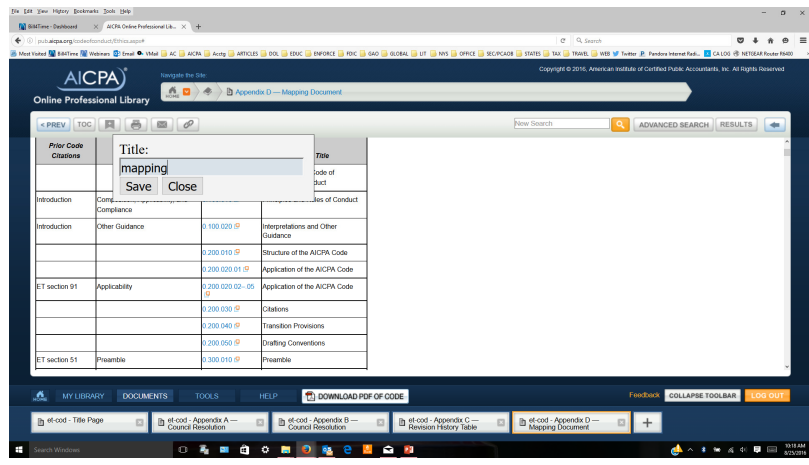
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Add Bookmark



The screenshot shows the AICPA Online Professional Library interface. A modal window is open for adding a bookmark. The modal has a 'Title' field containing 'Mapping' and buttons for 'Save' and 'Close'. Below the modal is a table of contents for 'Appendix D - Mapping Document'.

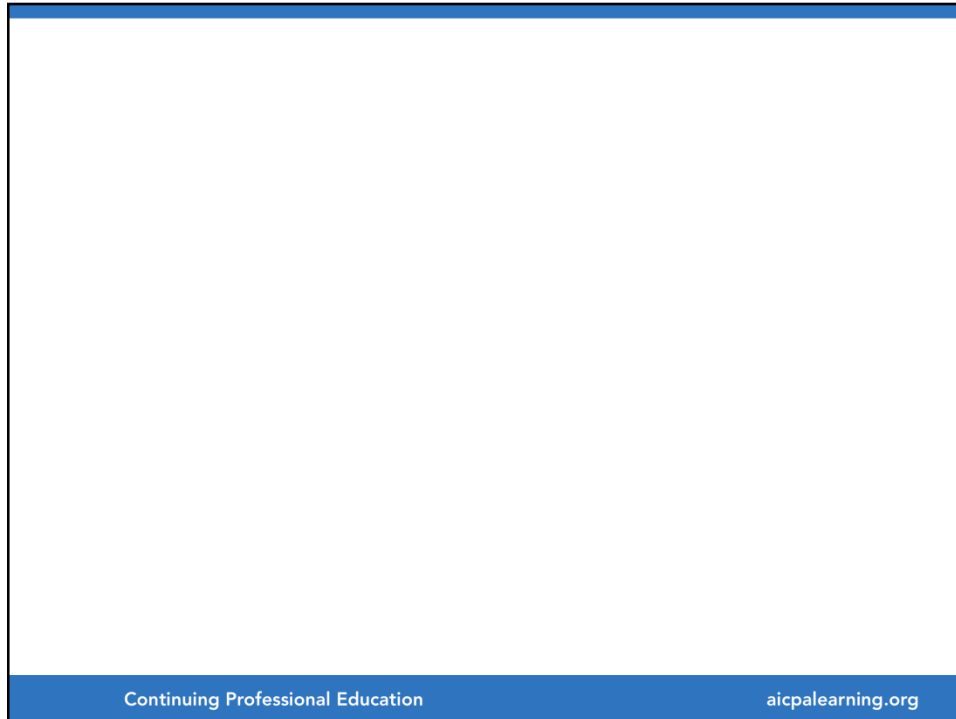
Chapter	Title
Introduction	Introduction
Other Guidance	Other Guidance
FT section 91	Applicability
FT section 51	Preamble

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POLLING QUESTION #2

- What is the best vacation spot?
- A. Beach
 - B. Mountains
 - C. Large City
 - D. In-State location (state park, lake, etc.)



Ch. 1

Code Principles

- 0.300 Principles of Professional Conduct
 - 0.300.010 Preamble
 - 0.300.020 Responsibilities
 - 0.300.030 The Public Interest
 - 0.300.040 Integrity
 - 0.300.050 Objectivity and Independence
 - 0.300.060 Due Care
 - 0.300.070 Scope and Nature of Services

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Ch. 1

Code Principles (continued)

▶ .02 These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unwavering *commitment* to honorable behavior, ***even at the sacrifice of personal advantage.***

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Ch. 1

Code Principles (continued)

1. *Exercise sensitive professional and moral judgments in carrying out professional responsibilities.*
2. *Accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism.*
3. *Perform professional responsibilities with the highest sense of integrity.*
4. *Maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. When providing attest services, be independent in fact and in appearance.*

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Ch. 1

Code Principles (continued)

5. *Observe the profession's technical and ethical standards and **strive continually to improve competence and the quality of services.***
6. *Each of these Principles should be considered by members in determining whether or not to provide specific services in individual circumstances.*

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CAN ETHICS BE TAUGHT/LEARNED?

Yes –but it is difficult--you need a common basis.

At a minimum, professionals should:

- Be able to recognize an ethical situation*
- Be able to identify the issues involved**
- Be able to identify ALL the stakeholders***
- Reach a reasoned ethical position AND be able to defend it****

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What Ethics Training **Can** DO

1. Help individuals understand rationales (essentially, how to stay away from bad ones) ideas and vocabulary
2. Help individuals make sense of their own ethical environment
3. Provide **intellectual ammunition** to do battle with improper behavior and others who violate ethical standards.

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What Ethics Training **Can** DO

continued

4. Enable employees to **recognize** and **expose** potentially unethical choices within a firm.
5. Enhance moral reflectiveness and **strengthen moral courage**.
6. Help one handle an **unethical directive** from a boss

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VIEWS OF BUSINESS ETHICS

- Ethical Relativism
 - “When in Rome”
- Fundamentalism
 - Self-Righteousness
- Universal-Particularism (popular)
 - “Who am I to say...”

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ATTITUDES TOWARD ETHICS

- *Amoral*
 - Business is business and the law = ethics (think John Calipari)
 - Ethically unaware (naïve)
 - Business exists only to make money
- *Immoral*
 - If you don't get caught it isn't wrong
 - Unethical for the firm / Unethical against the firm
- *The Moral Employee*
 - Ethically aware
 - Proactive
 - Code of conduct

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UNIVERSAL ETHICAL VALUES

- *Honesty*
- *Integrity*
- *Promise-keeping*
- *Fidelity*
- *Fairness*
- *Caring*
- *Respect*
- *Responsibility*
- *Striving for Excellence*
- *Accountability*

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ETHICS IS A **PERSONAL** RESPONSIBILITY

“But **who is responsible** for increasing our ethical sensitivity – and how can they accomplish this?”

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>>> The responsibility rests first and foremost with us as individuals.

>>> Ethics is a personal matter, and we cannot pass the buck to others. The individual must consciously focus on ethical concerns.

He or she must “go beyond the rules”, thinking about why the rules are necessary and written as they are – in other words, “the substance behind the form.”

POLLING QUESTION #3

- Do you enjoy rainy days?

A. Yes

B. No

EVALUATING ETHICAL CHOICES

- Is the action you have arrived at one that lives up to your sense of moral integrity?
[Could I do this and still look at myself in the mirror?]
- Would it be the action chosen by someone you consider a moral model?
[Could I feel good about telling my mother (father, minister, spiritual advisor, spouse, etc.) I took this action?]
- Would you be comfortable if the action or its results were made public?
[What if this became headline news?]

Other Evaluative Helps

- Is it **Right?**
- Is it **Fair?**
- Who Gets **Hurt, if anyone?**
- What would you tell your child to do?
- Is this action or decision I'm getting ready to take compatible with my concept of myself **at my BEST?** (does not apply if you are a sorry dog!!)

ETHICAL CHOICES WITHIN ORGANIZATIONS.....

START AND END AT THE TOP

- “The tone at the top MATTERS”

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“The tone at the top”

- FIRM/CORPORATE ENVIRONMENT
- ATTITUDE
- LEADING BY EXAMPLE
- FOLLOWING THROUGH

- CODE OF CONDUCT??? Do you have one?

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ASKING KEY QUESTIONS

- What are the core values and beliefs of my organization?
- Whose values, beliefs and interests may be at risk in this decision?
- Who will be harmed or helped by my decision or by the decision of my organization?
- How will my own or my organization's core values and beliefs be affected or changed by this decision?
- How will I and my organization be affected by this decision.

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WHERE
ACCOUNTANTS
SHOULD BE
IN THE ETHICAL
SCHEME OF
THINGS...

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SERVICE IN THE PUBLIC INTEREST

- INTEGRITY
- ACCEPTABLE PROFESSIONAL BEHAVIOR
- OBJECTIVITY AND INDEPENDENCE
- DUE CARE

- Independent in substance **and**
in appearance

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ACCOUNTANT'S ADDITION TO THE LIST OF UNIVERSAL VALUES

- Professional Personal Attributes
 - Independent
 - Unbiased
 - Objective
 - Neutral

- Our work should be
 - Relevant
 - Reliable
 - Verifiability
 - Representationally faithful

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Stated Expectations for Professional Accountants

- Objectivity and Independence
 - In Fact – In Appearance – In Mental Attitude

- Due Care – The Quest for Excellence
 - Competent technically and ethically
 - ❖ And ever improving
 - Ever increasing Quality of Service
 - **Constant** in professional responsibility

When is independence required?

Independence in **FACT** and **APPEARANCE**

- Period of the professional engagement
- Period covered by the financial statements

Financial Interests — Independence required during the professional engagement

Non-attest services, business, and employment relationships — Independence required during the professional engagement and period covered by financial statements

Nonattest services

- Advisory services
- Appraisal, valuation, or actuarial services
- Benefit plan administration services
- Bookkeeping, payroll, and other disbursement services
- Business risk consulting services
- Corporate finance consulting services
- Executive or employee recruiting services

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POLLING QUESTION #4

- Which of these movies would you consider the best?
 - A. Elf
 - B. The Christmas Story
 - C. Christmas Vacation
 - D. Polar Express

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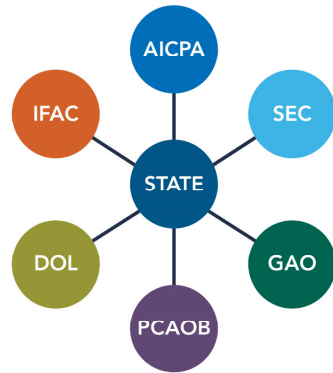


**Nonattest services
(continued)**

- Forensic accounting services
- Hosting services
- Information systems design, installation, or integration services
- Internal audit services
- Investment advisory or management services
- Tax services

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Independence standards-setters



It must be important!!

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Which independence rules apply? (there are a lot of rules depending upon industry, etc.)

FDIC or other banking agencies — Policy statements on independence including internal audit, SOX, and indemnification

NAIC — Model Audit Rule incorporates several aspects of the SEC's independence requirements

IESBA (Int'l Ethics Standards Board for Accountants — Global code that serves as the foundation for member body codes throughout the world

EC — Audit and independence rules for European Union

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Which independence rules apply? (continued)

CFTC — Audits of futures commission merchants comply with independence requirements applicable to non-issuer broker-dealer audits

GAO — Attest services under government auditing standards

DOL — Audits of employee benefit plans subject to ERISA

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ETHICS and Professionalism

- Principles
 - RESPONSIBILITIES
 - Exercise sensitive professional and moral judgment in their professional activities
 - ☐ Public Interest
 - Serve the public interest
 - Honor the public trust
 - Demonstrate commitment to professionalism
 - ☐ Integrity
 - Maintain and broaden public confidence
 - Do what is right and just in **the absence of rules**
 - With **highest** sense of integrity

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WHY ACCOUNTING STANDARDS??

- Accounting Standards
 - IASC
 - FASB
 - PCOAB and Congress
- SEC Oversight

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Why do we have accounting standards?

- Accounting Standards
 - IASC
 - FASB
 - PCOAB and Congress
 - SEC Oversight
- 
- Comparability, Consistency, Reliability
 - GOAL: to present fairly, clearly and completely the financial condition of the firm (do we sometimes fall short of our goal of clearly and completely the financial condition of the firm?)

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Where Accounting Standards Come From


- Congress
 - SEC
 - FASB [Funded by the FAF (Fin Acctg Found.)
other sources/organizations CAP APB GASB AAA IMA FEI]
 - IASC (Int'l Accounting Standards Board)
-
- CONGRESS
Sarbanes Oxley Act -> PCAOB
 - SEC (Securities & Exchange Comm)

CAN WE GET SOME COLLABORATION?!?!

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Other Accounting Standard Issues

- Political Process
- Economic Consequences
- Expectations Gap 

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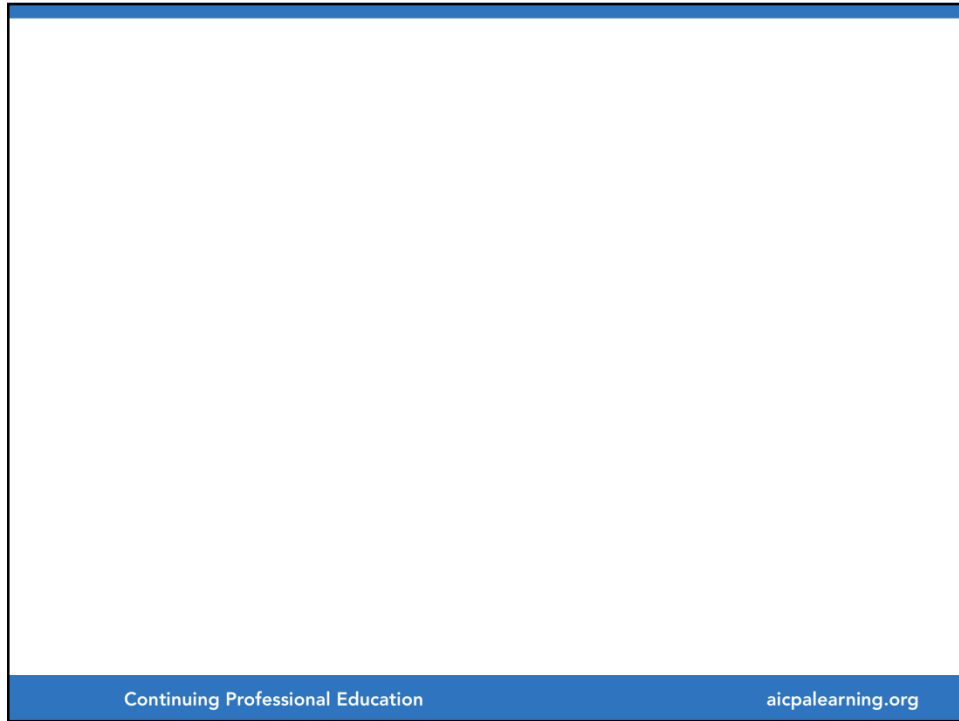
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Which independence rules apply?

- AICPA — All AICPA members and others performing audits under generally accepted auditing standards (GAAS) or other attest services
- State Accountancy Boards — All licensees practicing under a state board's jurisdiction
- SEC and PCAOB
 - public companies filing reports with the SEC
 - SEC registered broker-dealers, hedge funds, investment advisers

POLLING QUESTION #5

- Are you traveling for the Holidays?
 - A. Yes
 - B. No

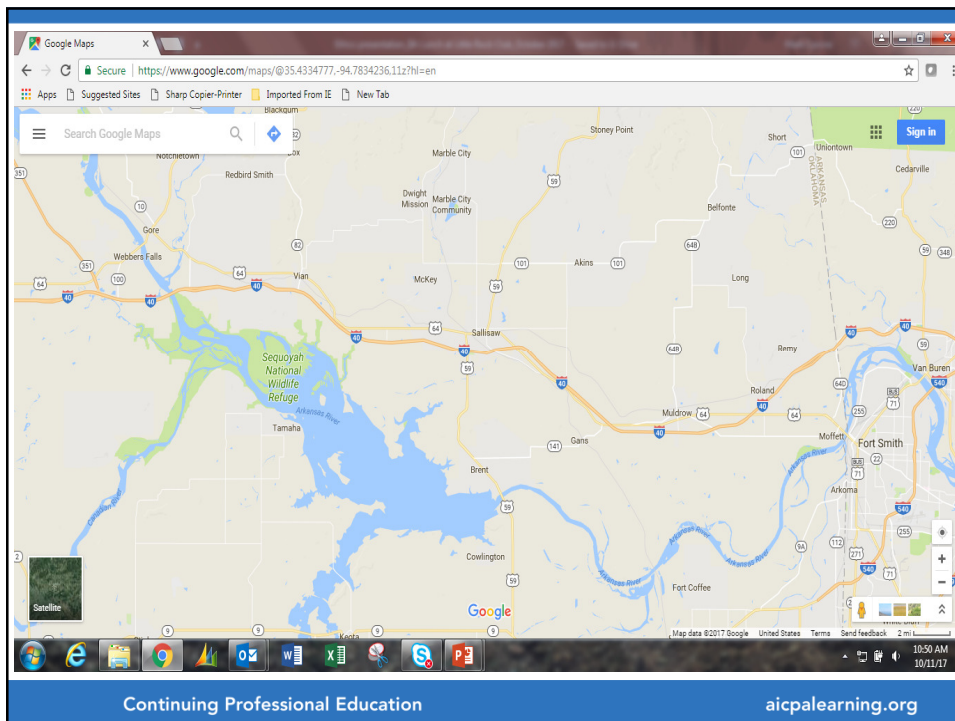


85/10/5

<https://www.google.com/maps/place/Vian,+OK+74962/@35.4865471,-94.9730311,5653m/data=!3m1!1e3!4m5!3m4!1s0x87ca0c42253555db:0xffa3148f01ca2f3a!8m2!3d35.4984281!4d-94.9696749?hl=en>

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YOUR ETHICS DRIVE YOUR REPUTATION

- the beliefs or opinions that are generally held about someone or something
- a widespread belief that someone or something has a particular habit or characteristic

https://www.youtube.com/watch?v=LeYn_W14zTU

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Types of Economic Crimes

Ch. 1

Type of Economic Crime	% of Reported Frauds 2022	% of Reported Frauds 2020	% of Reported Frauds 2018	% of Reported Frauds 2016
Asset misappropriation	69%	72%	67%	70%
Accounting fraud	22%	24%	28%	37%
Bribery and corruption	27%	24%	27%	30%

Always #1, always will be

Three major types of economic crime are presented. Other types of fraud included cybercrime, procurement fraud, human resources fraud, mortgage fraud, IP infringement, money laundering, tax fraud, insider trading, marketing cartels to fix prices, and espionage. **Cybercrime has grown in its ranking during the recent two studies** and data was not available for the prior studies.

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Factors That Enable Fraud and Misconduct

Factor	% of Respondents
Inadequate internal controls or compliance programs	66%
Management override of internal controls	47%
Inadequate oversight by directors over management	44%
Collusion between employees and third parties	43%
Collusion between management and third parties	32%
Collusion between employees and management	27%
Other factors	4%

Do you think oversight is adequate when directors/board members are normally personal friends/political allies and close business acquaintances?!

Pressure or Greed most common

#1 in any study you look at

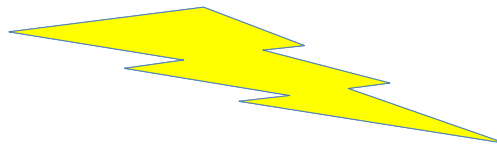
Private/Gov't/Not-for-Profit

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INTERNAL CONTROLS

- I know you auditors are getting excited now.....talking about I/Cs!!



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- Internal Control is affected by those charged with Governance—an Entity's Board of Directors, Management, & Other key personnel.



- *The Establishment of Internal Control is MANAGEMENT'S*



Note: But they don't know that! They think it is YOURS.

When you think you have the perfect mouse trap.....

- <http://www.youtube.com/watch?v=-L6UWk6-Hg8>

- THAT'S WHY AN ETHICAL ENVIRONMENT AND ETHICAL PEOPLE ARE SO IMPORTANT...

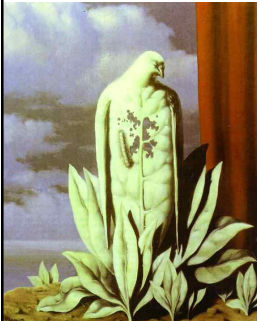
Internal Control, No Matter How Well Designed and Operated (**mouse traps are well designed!!**), Can Only Provide **REASONABLE ASSURANCE** to Management and the Board of Directors Regarding Achievement of an Entity's Control Objectives.

POLLING QUESTION #6

- What is your favorite morning drink?
 - A. Tea
 - B. Soft drink
 - C. Coffee
 - D. Juice

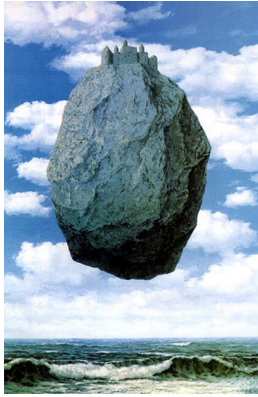


Common Misconduct in Organizations (private, public, gov't, NFP)



- Misrepresenting hours worked
- Employees lying to supervisors
- Management lying to employees, customers, vendors or the public
- Misuse of organizational assets
- Lying on reports/falsifying records
- Sexual harassment
- Stealing/theft
- Accepting or giving bribes or kickbacks
- Withholding needed information from employees, customers, vendors or public

Common Causes of Unethical Behavior



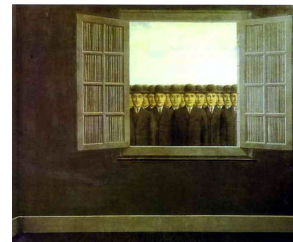
- Pressure (#1)
- Greed (#1A)
- Fear
- Convenience

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Causes of Unethical Behavior (cont'd)

- Following boss's directives
- Meeting overly aggressive business/financial objectives
- Helping the organization survive (economic declines)
- Meeting schedule pressures
- Be a team player (group think)
- Rationalizing that others do it
- Resisting competitive threats
- Advancing own career



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Bad Ethics lead to...

FRAUD

In *criminal law*, **fraud** is the crime or offense of deliberately deceiving another in order to damage them—usually, to obtain property or services unjustly.

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AND FRAUD

COSTS MUN-EE!

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The Cost of Unethical Decisions



The typical organization loses an estimated 3-5% of its annual revenues to fraud and unethical decisions causing financial harm on the organization.

©2017 Association of Certified Fraud Examiners, Inc.

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Lawsuit

Ching, Ching!! \$\$\$\$\$ Expensive



"Remember, there's nothing to fear, except fear itself and costly litigation."

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Case Results



Research indicates that 40–50% of victim organizations do not recover any of their fraud losses. **“Cut and run”**. Too costly.

Pressures that lead to Fraud

Financial targets more difficult to achieve	47%
Fear of losing job	37%
Desire to earn personal performance bonuses	27%
For senior executives to achieve desired financial results	25%
Bonuses not paid this year	23%
Maintain financial performance to ensure lenders do not cancel debt facilities	18%
There is a belief that competitors are paying bribes to win contracts	13%
Other factors	14%

Month over month, quarter over quarter, year over year.....when does it stop??!! The word “Realistic” seems to have been lost.

#2 I've got to do it or else I'll get fired. There's no good jobs out there. I'll do it just this one time.....

Opportunities to commit Fraud

Staff reductions resulting in fewer resources being deployed on internal controls	62%
Shift of management's focus to survival of business	49%
Increased workload of internal audit staff	34%
Weakening of IT controls resulting in increased vulnerability of external penetration	22%
Transfer of operations to new territories	22%
Diversification of product portfolio	15%
Reduced regulatory oversight	12%
Other factors	6%

They'll miss it, they're too busy!

The public always thinks this is the #1 opportunity. It's all they talk about. "If we would have regulated more, they wouldn't have had the opportunity." (mortgage crisis) Regulations are the dog chasing the car.

The Function Most Likely to Uncover Fraud

Function	% of Respondents
Internal Audit/Legal/Compliance Function	47%
Employee Whistleblower	20%
Line Mangers	13%
External Auditors	9%
Customers/Suppliers	4%
Government Regulators/Law Enforcement	3%
Other	2%

On the decline (all studies)

After the fact. Doesn't deter/prevent fraud.

More regulation has not helped going back to the Great Depression (another course.....)

Perpetrators



More than 3/4 of the frauds in our study were committed by individuals in (6) departments: accounting, operations, sales, executive/upper management, customer service and purchasing (are we worse than the sales people?! ;)).

Perpetrators

Duration of Fraud Based on Position

Position	Median Months to Detect
Employee	12
Manager	24
Owner/Executive	24
Other	10

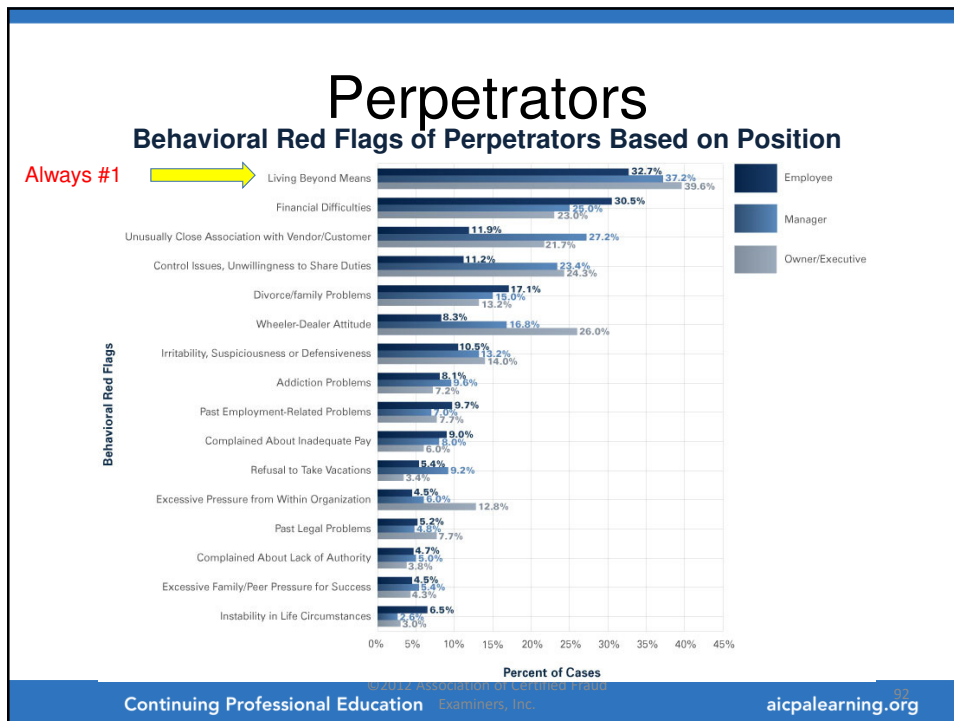
} ?

POLLING QUESTION #7

- Do you eat traditional food or specialty food (Mexican, Italian, Chinese, etc.) for Christmas?

- A. Traditional
- B. Specialty

- “Three people can keep a secret if two are dead.”—Ben Franklin



Ethics is “wide-reaching”

- Although the **legal** definition of fraud is very specific, for most people — anti-fraud professionals, regulators, the media and the general public alike — the **common usage** is much broader and generally covers any **attempt to deceive another party to gain a benefit**.
- Health care fraud, **identity theft**, **padding expense reports**, mortgage fraud, **theft of inventory by employees**, **manipulated financial statements**, **insider trading**, Ponzi schemes — the range of possible fraud schemes is large, but at their core, ***all of these acts involve a violation of trust and an unethical decision!***
- It is this violation, perhaps **even more than the resulting financial loss** (interesting??!!), that makes such crimes so harmful. **“I cannot believe they did this!”**

3 things to remember today!!

#1

- The #1 deterrent to fraud is....
 - The **perception of detection**
 - Raise **PERCEPTION** and you lower your risk of fraud (people **must** be ***afraid*** that they WILL get caught)

#2

Controls matter in **detering fraud** and **achieving success**. Put controls in place NOW! Your people are not as good as you think they are. They just have not been put in “that” position yet. ☹️

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#3

...the tone at the “**Tone at the Top**” really does matter, but **what you do matters more** than what you say or a written policy.

(tell your HR people their “manual” is not working!)

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POLLING QUESTION #8

- What is your favorite NFL team?
 - A. Cowboys
 - B. Steelers
 - C. Chiefs
 - D. Do not watch NFL

Most Common Reason Fraud Occurs

- **Blind Trust...One person** is given complete control of the financial process without any oversight or monitoring from the supervisor or department head. *THIS PERSON BETTER HAVE STRONG ETHICAL CHARACTER!!*
- This Is Why Losses Are Bigger (%-wise) At Small Places

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Level of **Knowledge** by Function of How Fraud Can Occur

Function	High	Moderate	Low
Internal Audit	67%	22%	11%
Legal/Compliance Function	63%	25%	12%
Audit Committee	59%	27%	13%
Employees	21%	58%	21%
Management	50%	39%	10%

Employees don't understand and don't know what to look for. This is where organizations need to spend their time and resources—informing their employees. They are the best "eyes".

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Other	2%

This is why we need to focus on it.

After the fact. Doesn't deter/prevent fraud.

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Why are ethics so important?



Business operations require trust. Consider the millions of business transactions that take place daily that require mutual trust. Would you go to a job if you didn't trust your employer to compensate you? How many people would shop on the Web if they didn't trust that their financial information would be secure?

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The classical economists such as Adam Smith considered economics a branch of ethics. Business activity would grind to a halt without trust, fair dealings, and honest communication.

In his 1995 book, *Trust: The Social Virtues and the Creation of Prosperity*, Francis Fukuyama writes: "One of the most important lessons we can learn from an examination of economic life is that a nation's well being as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in the society."

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In a recent Wall Street Journal article, Psychology professor Steven Davis says that cheating by high school students has increased from about 20 percent in the 1940's to 75 percent today.

“Students say cheating in high school is for grades, cheating in college is for a career.”

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If students lack ethics in high school and college, then there should be little surprise that they lack ethics in their careers. Greed and over-reaching ambition often end in disastrous personal consequences. Convicted inside trader, Dennis Levine, in a Fortune magazine article wrote:

“I have painful memories of Sarah learning to walk in a prison visiting room, and of Adam pleading with a guard who wouldn’t let him bring in a Mickey Mouse coloring book.”



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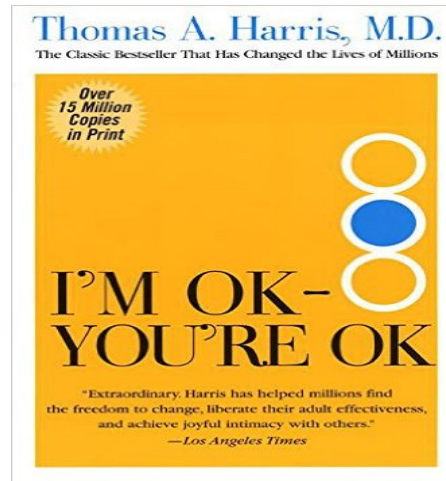
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In an issue of Management Accounting, James Brackner stated: The universities are responding with an increased emphasis on ethical training for decision making. For the most part, however, they ignore the teaching of values. For moral or ethical education to have meaning there must be agreement on the values that are considered “right.”

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“You do you and I’ll do me” is a common ethics comment these days. It is dangerous. It means “I do not want any accountability and do not care what you do or if you are accountable either”

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People learn about ethics from various sources. Upon what do you base your personal code of ethics?

- Study of history and literature
- USAF Honor Code
- Personal experiences and observations
- Religious beliefs
- Something else



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Academic Institutions have established ethics codes for their students, e.g. the U.S. Air Force Academy Honor Code:

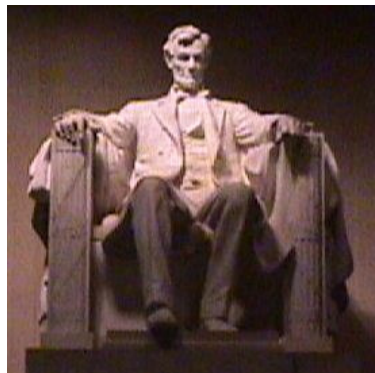
**“We Will Not Lie, Steal Or Cheat,
Nor Tolerate Among Us Anyone Who Does.”**

What do you think is the harder part?

- a. Line 1
- b. Line 2

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Why is it often so hard to do what's right?
“To sin by silence when they should protest makes cowards of men.” -
Abraham Lincoln

Do you think this relates to line 2 of the USAF Honor Code?

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For what reason do people most often sacrifice their integrity and act unethically?

- a. Need for popularity
- b. Greed for money
- c. Desire for power
- d. Ambition to be famous
- e. Something else

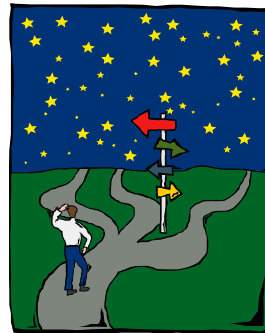


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POLLING QUESTION #9

- Which do you prefer for a Birthday gift?
 - A. Gift card
 - B. Cash
 - C. A gift to open
 - D. Dinner



Questions to Consider for Ethical Decision Making

- Are there legal concerns?
- Is it right? (If you know it's wrong, don't do it!)
- Does it comply with company values?
- Does it comply with the principles of your profession (GAAP, etc.)?
- Would you be embarrassed by your decision if others knew about it?

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Questions to Consider for Ethical Decision Making

- Are you willing to take sole responsibility for this decision?
- Is there another course of action that does not create an ethical dilemma?
- How will it look in the newspaper/Facebook/Twitter/Instagram?
- Do you think a reasonable person would agree with your decision?

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Key to making Ethical Decisions

- “After the fact” explanations/excuses/etc.:
 - How did I let that happen?
 - I needed the money!
 - My friends were doing it
 - Things spiraled out of control
 - I was in *Luuuv*

“Keys”...continued

- I was drunk or high
- I felt the pressure of losing my job/my boss pressured me (find another job like this?)
- I was trying to fit in

BOTTOM LINE....

Make your decision of
how you are going to
react **BEFORE** you have
to make the **REAL**
decision

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**Thank you for attending
today! I enjoyed it!!**

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