Understanding Ethics in the Varying Segments of the Accounting Profession

Cindy Greenman
Dixie State University

Derrick Esplin
Dixie State University

Ross Johnston
Dixie State University

James Richards
Dixie State University

Key Words: ethics, accounting, ethical behavior, financial accounting, managerial accounting, taxation, auditing, forensic accounting, fraud examination

JEL Classification(s): M41, M40, M42

Abstract

This paper expounds the links between ethics and the accounting profession. It contributes to the understanding by presenting the various segments of accounting; financial; managerial; auditing; tax; and forensic along with their professional organizations, their individual Codes of Conduct and how each has its own individual statements dealing with the ethics of its members. The authors examined the differing ethical theories, the psychology of ethics, the history of ethics in accounting and related it to the separate branches of accounting.

INTRODUCTION

Ethical behavior is the foundation of modern society. Even since the beginning of civilization, ethical behavior has been an area of study. Socrates, Plato, Confucius and other philosophers looked at ethics as an important aspect of human and social existence. There

are many theories behind ethical behavior. Some believe it's all morals and values, some believe ethics are learned where others believe ethics are genetic.

Every industry carries a responsibility and is regulated by some form of ethical standards. There are some professions in the United States that have a reputation for higher ethics (nurses, doctors, pharmacists) and some professions have a reputation for lower ethical standards (car salesmen, Congressmen, telemarketers). In a survey published in Forbes Magazine, accountants were ranked seventh overall in Most Trusted Professions, but first among business professionals (McCarthy, 2019). The very nature of the tasks completed by accountants and auditors in the profession necessitate a high degree of ethical standards.

The American Association of Public Accountants (AAPA) was organized in 1887. It was the first phase in developing the profession in the United States. The group put together its first Code of Ethics in 1905. Since that time, the organization has changed its name to the American Institute of Certified Public Accountants (AICPA) and it has developed five groupings of ethical principles that all of its members should follow.

There are several branches or segments of accounting. Each segment was born out of technology, economic or industrial advances. They each have their own specialized uses and accountants tend to concentrate in one branch or segment. Each segment of accounting is also unique in the ethical decisions it must make on a daily basis.

Theories of Ethical Behavior

Ethical engagement is something that we all take part in. It is an inescapable element of the human condition. Simply understanding the basics of the ethical thought process is not enough. At times there is a necessity to comprehend the basic principles of ethics on a higher level and to be able to extract a difference between ethical reasoning and the theory of that reasoning (Greenman, 2012).

Nearly everything in and about philosophy is disputable. Naturally, different philosophers have offered different forms of ethical theory throughout the ages to attempt to explain ethical behavior. We will explore four of the more commonly studied theories including: Utilitarianism, Rights based, Virtue based and Deontology or Moral based.

Utilitarianism

Utilitarianism is grounded in the belief that if given a choice in an ethical dilemma, whichever action available that will proceed to the greater good for the most involved is the most ethical option to choose. John Stuart Mill, a 19th Century English philosopher was the most significant advocate of this theory. It is the theory that determines right from wrong by concentrating on the outcomes (Duska, Duska & Kury, 2018).

The premise behind utilitarianism is that actions are either morally right or wrong and that it depends on the results that they produce. Utilitarians believe that the intent of morality is to better lives, ours and those around us, by increasing the extent of good things (such as pleasure, happiness, and delight).

The appeal of this theory is the purpose of morality in it. That life is about increasing the good (pleasure, happiness, etc.) and decreasing the bad (pain, unhappiness, etc.). The overall ambition of diminishing harm to ourselves while increasing our own pleasure is something that every human pursues in their life. Another advantage of this method is that the process is easy. We believe we are either right or wrong and we can compare actions to decide which one is more logically beneficial for the greatest number of persons involved (Duska, Duska & Kury, 2018).

The drawback of this particular method is that it is impossible to predict the future and to know how the outcomes will actually happen. There are many examples of other difficulties of this method, such as the argument, if one person killed five innocent children, but it saved 50 children, this would be justified under this theory. The critics of this theory call this "the problem of illicit means" (Duska, Duska & Kury, 2018).

Egoism

Egoism theory is one that promotes the idea that it is always moral to further one's own good and that one should act in their own self-interest first. Famous author and philosopher, Ayn Rand felt it irrational and immoral to go against one's self-interest. She called it "Rational Egoism" (Barry, 1987). The theory argues that no one has a responsibility to advance someone else's best interest ahead of their own. The theory is clear that under Egoism one's only duty is to promote one's own interests. It does not say that one should avoid helping others. It also does not give license to do whatever one wants to do. It states that one is to do what is in their best interest (Shafer-Landau, 2012).

Arguments in defense of this theory argue that people are experts on their own desires and what makes them happy. They tend to be much more driven to work hard in order to advance their own interests. Another argument in favor of egoism is that by advancing someone else's interest it creates a sense of "charity" that is degrading that individual and deprives them of their own self-worth and dignity of caring for themselves. It could also be seen as invasive into someone's personal life (Shafer-Landau, 2012).

Objections to the egoism theory are that it does not promote ethics as a whole. Ethics is about what is good, moral and right for society as a whole, the over-all good. Egoism asserts that the way to achieve this is for everyone to worry about themselves first and others last. Critics say that egoism is nothing more than selfishness excused (Greenman & Gorjidooz, 2012).

Virtue

Virtue ethics theory has been receiving growing consideration, especially over the past 25 years. This particular sect of ethical theory focuses on the value of moral, upright qualities rather than a formalized set of principles and rules. It emphasizes character rather than doing one's duty (Mayer, Warner & Siedel, 2012).

Aristotle has often been credited as the first philosopher to promote the ethical value of individual qualities in a person's character. Aristotle asserted that virtuous individuals are those who have idyllic character traits. Aristotle held that all pursuit was directed at some goal and that we must have some type of positioning or order that we accomplish or work towards those goals. He contended that happiness might be our ultimate ambition, but how is happiness defined? He rejected the idea that riches, gratification, and fame are goals, but that humans overall just want to have a purpose or reason. He believed that having a purpose leads to happiness and excellence (Mayer, Warner & Siedel, 2012).

Proponents of the virtue theory argue that it the only theory that addresses motives, virtues versus vices, moral education, moral judgment, friend and family relationships and a deep belief notion of happiness and the emotional impact on leading a moral life. Over the past 25 years, other theories have just started to address some of these issues (Internet Encyclopedia of Philosophy, 2020).

Doubts about virtue ethics focus on the idea that it is a self-centered perception of ethics because humans who are thriving and successful does not consider how it may affect other humans around them. It does not offer any guidance on the actions one needs to take,

no obvious principles for directing on how people should behave, only that people should "act as a virtuous person would act given the same situation" (Internet Encyclopedia of Philosophy, 2020).

Deontology

The theory that attracts those that are focused on fairness and rights over consequences are known as Deontologists. Deontology uses rules to differentiate right versus wrong. It is built on the idea that people should be treated with dignity and respect because we all have rights and that it is every human's duty to act accordingly and recognize the rights of others. This theory is often associated with the 18th Century philosopher Immanuel Kant and is sometimes referred to as Kantianism (Greenman & Gorjidooz, 2012).

Deon is actually a Greek word meaning "duty". The practice of Deontology involves rules or principles. If one follows the rules their actions would be considered ethical. If they do not follow the rules, they would not be considered ethical. This theoretical method requires those to follow universal rules we give to ourselves.

The appeal of this theoretical method is that it is consistent. It applies ethical duty to all humans in all situations. It focuses on intentions and puts the decisions completely within each person's control. Once cannot predict the future and control the outcome, but one can control their own intentions (Ethics Centre, 2016).

The drawback shortcoming of this theory is there tends to be disagreements about the principles encompassed in the decision making. Also, the possibility of making the "correct" choice that has a bad consequence. Another downside is the likelihood of a conflict in duties. Critics of this theory say that it is inflexible and that it ignores the consequences (Ethics Centre, 2016).

HISTORY OF ETHICS IN ACCOUNTING

There is research that indicates accounting is thousands of years old and can be traced back to ancient Mesopotamia. Others say the Greeks were the first at keeping economic records. These records were their tracking of goods and their monetary value, trades and sales. Also, credit is given to Luca Pacioli, named "The Father of Modern Accounting". Luca is often credited with the development of the double-entry form of accounting that we all know and love today, back in 1494 (Yurt & Elitas, 2013). However, it was Benedikt Kotruljevic who actually developed the double-entry system in 1458 in what is now known as Dubrovnik, Croatia.

It was Pacioli who first wrote about it and further developed the system (Mariotti, 2013).

Ethics, or moral philosophy, deals with what is morally right and wrong, or morally good and bad. Ethics and morality are often linked together. Essentially, all human societies have had some type of story or myth that explains the beginning of morality: Zeus taking pity on humans, Plato and *Plotagoras*, Moses and the *Ten Commandments* (Singer, 2020). There are many ethical categories and theories; deontology, rights, virtues and utilitarianism are the four broad categories. Ethical egoism, utilitarianism, deontology, ethics of care, rights theory, and the theory of justice are six of the proposed ethical theories (Fieser, 2020).

The American Association of Public Accountants (AAPA) was organized in 1887. It was the first phase in developing the profession in the United States. The group put together its first Code of Ethics in 1905. Since that time, the organization has changed its name to the American Institute of Certified Public Accountants (AICPA) and it has developed five groupings of ethical principles that all of its members should follow: independence, integrity, and objectivity; competence and technical standards; responsibilities to clients; responsibilities to colleagues; and other responsibilities and practices. The AICPA gives guidance in each of these areas on how CPAs should act as a professional. Failure to observe the guidelines can have serious repercussions including being barred from practicing (Burress, 2004).

Every industry carries a responsibility and is regulated by some form of ethical standards. There is a contract of trust that permits the industry to work with others in a mutually beneficial realm. The very nature of ethics in business is controversial as the idea of what is good or bad, right or wrong is different for everyone. What one person finds acceptable, another would not. There is no universally acceptable approach for tackling these issues. Because there is no universally accepted approach to ethics, there are those in every profession who choose to manipulate words, meanings, explanations, to their own way of thinking in order to justify what others consider to be unethical practices (Onyebuchi, 2011).

There are some professions in the United States that have a reputation for higher ethics (nurses, doctors, pharmacists) and some professions have a reputation for lower ethical standards (car salesmen, Congressmen, telemarketers). The very nature of the tasks completed by accountants and auditors in the profession necessitate a high degree of ethical standards. The users who rely and make decisions based on the information provided by accountants are

trusting that the information is accurate and was prepared fairly and ethically. Decisions are being made based on the information provided by accountants and those decisions affect the process of the economy.

The International Accounting Education Standards Board (IAESB) of the International Federation of Accountants (IFAC) published a framework in 2009 for the international education standards that it suggested to all professional accountants to follow. Its objective was to develop and educate skilled, professional accountants that possess not only the knowledge and expertise of the profession, but for them to understand the ethics and aptitude needed to exercise professional judgement (Greenman & Gorjidooz, 2014).

PSYCHOLOGY OF ETHICS

Ethics is a part of the daily routine; ethics teaches individuals how to think and operate in a social setting rather than what to think. "The interaction between ethics and psychology has resulted in valuable insights into human behavior and decision-making" (Woollard, 2019). Every decision that is made has an ethical component, by understanding both ethical and unethical decisions it allows businesses to understand human behavior and create better processes.

The field of behavioral ethics has emerged as a way to understand how people deal with ethical dilemmas and make decisions in morally challenging contexts. Furthermore, this emerging field of social scientific research has shed light on the countless benefits of ethical behaviours (Woollard, 2019).

The earliest link of psychology and ethics stemmed from Stanely Milgram in the 1960's.

He set up his first experiment in July 1961, a year after the trial of Adolf Eichmann in Jerusalem. At first, he wanted to investigate whether Germans were particularly obedient to authority figures, as this was a common explanation for the Nazi killings in World War II. But he soon discovered all people responded the same way (Dobson, 2018).

Milgram discovered people were being obedient and following orders of their superiors. This experiment showed people are willing to act in many ways in order to be seen in a good light and move up in the professional realm whether the decisions are ethical or unethical.

People want to not only view themselves as ethical and moral, but want to be viewed the same by other individuals.

However, when encountering an opportunity to act dishonestly and benefit from it, studies have shown that we often choose to diverge from our moral compass and cheat (M. Kouchaki and F. Gino, 2016). Social psychology coins a term moral disengagement, which can also translate to ethics. Moral disengagement is the process of convincing the self that ethical standards do not apply to oneself in a particular context (Dobson, 2018). For example, people will justify their unethical decisions as being socially acceptable or even ethical without realizing it is unacceptable behavior. This type of behavior can be seen in many work places that have poor management, are not properly taking care of their employees and/or under extreme pressure. If an employee feels management does not care or if they are under an immense amount of pressure, they will make poor decisions that are ultimately unethical. However, if leadership creates an ethical and healthy environment, it is more likely for employees to follow ethical code since everybody follows the same code.

When there's no justice within a workgroup, employees tend to engage in unethical behaviors more frequently merely because there are no negative consequences for breaking the rules. If an organization's activity is coordinated by ethical leaders who cultivate a climate based on justice, employees are less likely to engage in unethical behaviors (Woollard, 2019).

Additionally, Baron & Zhao found that personal motives, mainly financial gain, impact our moral disengagement. This explains how entrepreneurs sometimes make unethical decisions that have devastating effects on their companies, stakeholders, and themselves (Dobson,2018).

Three psychology terms that encompass human decisions in ethics are omnipotence, cultural numbness, and justified neglect.

The same dynamics come into play when much bigger lines get crossed in the corporate arena: allegations of corruption at Nissan, sexual harassment charges the media sector, privacy breaches at Facebook, money laundering the financial sector, and pharmaceutical's role in the opioid crisis (Wedell-Wedellsborg, 2019).

Omnipotence is when someone is feeling beyond angry and entitled, they believe the rules of morality and ethics no longer apply to them. For example, if a line worker disagrees with an order, the manager in charge may get so irritated they say to move forward which may be an unethical decision. "Cultural numbness is when others play along and gradually begin to accept and embody deviant norms" (Wedell-Wedellsborg, 2019). Justified neglect is when

people play bystander and do not speak up for the unethical issues at hand because they are more worried about how they are viewed by not only their counterparts but also their supervisor. For example, when a supervisor is clearly making an unethical decision, and the line workers are moving forward with that decision without saying anything. This is how major scandals start within companies.

Psychology has shown that the human mind starts developing the concept of ethics at an early age. During childhood, the mind is faced with many important life lessons that require making tough decisions. The mind slowly starts gaining an understanding of the basics of ethics that will continue to develop and influence future decisions. By understanding an employee's childhood, it gives insight into the decisions they make in a business setting. Psychology is important while looking at ethics; it gives businesses an understanding on how their employees think, but also how to create an ethical workforce. Without understanding and utilizing the psychology of ethics, businesses will eventually create a workforce that doesn't fully care about ethics.

BRANCHES OF ACCOUNTING

There are several branches or segments of accounting. Each segment was born out of technology, economic or industrial advances. They each have their own specialized uses and accountants tend to concentrate in one branch or segment.

Financial accounting

Financial accounting is a segment of accounting that deals with a company's financial transactions. It is the practice of recording, summarizing and communicating the fiscal relationship of the company with its shareholders. The transactions are summarized and communicated through financial statements. Financial accountants follow standardized guidelines such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). Financial accounting follows the accrual basis versus the cash basis of accounting (Kenton, 2019).

The importance of ethics in financial accounting is fairly obvious. As stated before, financial accounting deals with communicating the financial results of an organization. Honesty and accuracy are not just ethical issues here, but financial ones as well. Financial accountants have the responsibility of presenting the financial information in a way that truly represents the organization (Gartenstein, 2019). Businesses that focus on conducting business

ethically tend to do better; they are typically viewed by its customers and stockholders more favorably. We can take Enron and WorldCom as examples of what characteristically happens to unethical companies and the importance of ethical financial accountants. When an organization is found to have been dishonest in its reporting it can have far reaching ramifications. They lose the trust of their employees, vendors, current customers and future customers. The opposite is true of organizations that are seen as honest and ethical. They tend to have a positive image. Their vendors and employees trust them. Their customers have faith in them and therefore, tell others, building their customer base.

Those financial accountants who have become Certified Public Accountants (CPA) are regulated by their individual state boards of accountancy. If they have also joined the American Institute of Certified Public Accountants (AICPA), they are required to follow an arduous Code of Professional Conduct. The Code of Conduct is a 164-page document that spells out how all of the AICPA members should comply with differing ethical decisions.

The International Ethics Standards Board for Accountants (IESBA) is an independent organization that has created a code of ethics for professional accountants around the world. It has formed as set of principles that comprise many requirements of ethical behavior for member accountants. It worked directly with the International Federation of Accountants (IFAC) in contributing to the development and implementation of superior standards for accounting and to build a strong professional accounting organization worldwide (IESBA, 2020).

When looking at ethics through the lens of different theories it can give it a different approach. Such as, if one uses the utilitarian theory that argues the greatest good for the greatest number of individuals, financial statements that inflate net income would further the interests of those employees and other shareholders within the company, however, it would be deceiving the stockholders by not producing an honest and accurate financial statement to be analyzed. While there are some individuals who would benefit from this immoral act, the greater good to the greatest amount of people would be to accurately portray the net income of the company.

If this same situation was studied under the deontology approach it would focus on the idea that the accountant has a “duty” to act ethically and honestly and report an accurate amount for the net income. Even if there is a ruinous consequence for the company, the accountant in this example must follow the rules and principles

and act ethically by giving a true representation of the company's financials.

The dilemma in financial accounting when it comes to ethical situations is that not everything is always framed in black-and-white answers. The moral choices are not simple and distinct. Ethical decision making is often complex and uncertain, forcing accountants to make professional judgment evaluations.

Managerial accounting

In management accounting the objective is more toward identification, measurement, analyzing, interpreting and reporting the financial information to the management team in assisting them with reaching the organizational goals. Cost accounting is considered a category of managerial accounting. This type of accounting concerns itself with the fixed and variable costs and how they affect a business and how they can be better utilized. Where financial accounting is reporting fiscal information from the past, managerial accounting has a more future oriented emphasis.

With the decision makers and business owners depending on this information from the managerial accountants, it is critical that ethical standards are followed. In 1919 the Institute of Management Accountants (IMA) was founded (originally as the National Association of Cost Accountants) and one of its core values includes a pledge to maintaining the "highest standards of integrity and trust" (Lohrey, 2019). It purposely placed the Code of Ethics in the forefront of its organization realizing the magnitude of the standards put into place.

Ethical dilemmas are not atypical, unfortunately. In both large and small organizations managerial accountants are confronting ethical issues frequently and must be prepared to deal with them sensibly. This can be a difficult position to be in as often the perpetrators are colleagues and other known business professionals.

The Institute of Management Accountants (IMA) was founded in 1919 and one of its core values includes a pledge to maintaining the "highest standards of integrity and trust" (Lohrey, 2019). The IMA has a global network of more than 85,000 members, in 140 countries, and over 300 professional and student chapters (IMA, 2017). In the early 1980's, the IMA developed its first written code of ethics, titled "*Standards of Ethical Conduct of Management Accountants."* In 2005, during the aftermath of the global financial scandals, the IMA recognized the need to issue more direct ethical

guidelines, and issued the "*IMA Statement of Ethical Professional Practice*", which required each IMA member to be committed to the highest ethical behavior. After considering the many changes that had taken place in both business and the regulatory environment, as well as the global score of management accounting, in 2017 the IMA issued a revised "*IMA Statement of Ethical Professional Practice" (IMA, 2017).*

The revised 2017 statement is more concise, easier to understand and apply, and more accurately reflects the global scope of management accounting. The statement also requires IMA members to contribute to a positive ethical culture in its organization, and to place integrity of the profession above personal interests. The statement consists of four overarching ethical principles. Those principles are: Honesty, Fairness, Objectivity and Responsibility (IMA, 2017). In addition, IMA members have a responsibility to comply with, and uphold the standards of Competence, Confidentiality, Integrity, and Credibility (IMA, 2017).

The IMA recognizes that while applying the Standards of Ethical Professional Practice, its members may encounter unethical activities or behavior, and as such, includes directives on how to resolved ethical issues. As noted in the 2017 statement, when faced with unethical issues, IMA members should follow the established policies of his or her organization, including the use of an anonymous reporting system if available (IMA, 2017).

If the organization does not have an established policy to report unethical issues, it is recommended that the IMA member should consider the following courses of action (IMA, 2017):

- The resolution process could involve a discussion with the member's immediate supervisor. If the supervisor appears to be involved, the issue could be presented to the next level of management.

- IMA offers and anonymous helpline that the member may call to request how key elements of the *IMA Statement of Ethical Professional Practice* could be applied to the ethical issue. The IMA Ethics Hotline Number is 800-245-1383.

- The member should consider consulting his or her own attorney to learn of any legal obligations, rights, and risks concerning the issue.

Finally, the 2017 statement notes that if after following the above course(s) of action, and the ethical dilemma is not resolved,

the member may wish to consider disassociating from the organization (IMA, 2017).

Auditing

Auditing is the thorough examination of the financial reports and records of an organization in order to determine if they are accurate and in accordance with the applicable laws, regulations and accepted accounting standards. There are two types of auditors; external and internal. External auditors work independently of the organization and come in to inspect the accounting records in order to offer and independent opinion. Internal auditors work within the organization, examining its records and processes in an effort to improve the internal procedures, operations, internal controls and risk management.

There are no current guidelines that make clear to audit staff how to report unethical behavior, or blow the whistle, on an audit senior, staffers tend to keep the reporting internally. This is thought to be the case due to inexperienced and unsure staffers, as well as trying to keep the wrongdoing internal to lessen the reputational risk of the audit firm (Ferri, 2017).

The American Institute of Certified Public Accountants (AICPA) Professional Ethics Executive Committee (PEEC) monitors the International Ethics Standards Board for Accountant's (IESBA) standard-setting activities and may propose updates to the AICPA *Code of Professional Conduct* accordingly. In addition, when performing services under the International Standards on Auditing (ISAs), auditors must apply the IESBA Code plus any national ethical requirements. Lastly, members of the International Federation of Accountants (IFAC) Forum of Firms, an association of larger global audit firm networks, agree to adopt policies and methodologies that conform to the IESBA Code. The code emphasizes three key messages to the "professional accountant."

1. Comply with the fundamental principles;
   - Integrity;
   - Objectivity;
   - Professional competence and due care;
   - Confidentiality; and
   - Professional behavior.
2. Be independent, when required
   - The code consistently reminds professional accountants to be independent when performing audit, review, or other assurance services.

3. Apply the conceptual framework to identify, evaluate, and address threats to compliance with the fundamental principles.

- The code consistently reminds professional accountants to identify, evaluate, and address threats to compliance with the fundamental principles using the conceptual framework, which requires the professional accountant to:

i. Apply professional judgment;

ii. Understand facts and circumstances and be alert to changing circumstances and new information; and

iii. Apply a "reasonable and informed third-party test" so that appearance concerns are fully considered (Allen, 2018).

The Sarbanes-Oxley Act of 2002, as amended, directs the Public Company Accounting Oversight Board (PCAOB) to establish, by rule, auditing and related professional practice standards for registered public accounting firms to follow in the preparation of audit reports for public companies and other issuers, and broker-dealers. Rule 3500T. Interim Ethics and Independence Standards states the following:

(a) In connection with the preparation or issuance of any audit report, a registered public accounting firm, and its associated persons, shall comply with ethics standards, as described in the AICPA's Code of Professional Conduct (PCAOB Ethics and Independence).

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Institute of Internal Auditor’s (IIA) Code of Ethics extends beyond the definition of Internal Auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing.

2. Rules of Conduct that describe behavior norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

This Code of Ethics applies to both entities and individuals that perform internal audit services.

Internal auditors are expected to apply and uphold the following principles:

1. Integrity: The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
2. Objectivity: Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. Confidentiality: Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. Competency: Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services. (Institute of Internal Auditors, 2020).

Chapter two of the revised Yellow Book sets forth ethical principles to provide a foundation, discipline, and structure for an audit/review entity in applying Generally Accepted Government Auditing Standards (GAGAS). It notes that "ethical principles apply in preserving auditor independence, taking on only work that the auditor is competent to perform, performing high-quality work, and following the applicable standards cited in the audit report."

Further, "integrity and objectivity are maintained when auditors perform their work and make decisions that are consistent with the broader interest of those relying on the auditors' report, including the public." The following list of ethics are specified as guiding the work of reviewers and auditors and need to be both considered and addressed by an organization serving as an IRO:

- The public interest;
- Integrity;
- Objectivity;
- Proper use of government information, resources, and position; and
- Professional behavior (Hermann, 2020).

Tax accounting

The specialty area of accounting that focuses on the tax reporting requirements and preparing tax returns is known as tax accounting. There are two sub-specialties that break down the issues between corporate tax and individual tax. This segment of accounting involves planning for tax time and preparing the returns in compliance with regulations of the Internal Revenue Service (IRS).

Tax is law. As legislation is passed by congress and signed by the President of the United States, tax legislation becomes federal law as it is codified in Title 26 of the United States Code. Furthermore, the Treasury Department of the United States is tasked with enforcing these laws through the delegation of a vast amount of authority to both interpret and legislate tax issues, as necessary. The Treasury Department further delegates portions of these responsibilities to the Internal Revenue Service.

Although the relationship between law and ethics may at times appear clouded or conflicting, tax law provides a standard to guide tax practitioners as they navigate the expanse of decisions involved in planning, preparing, and filing tax returns. To guide these decisions the Treasury Department has issued Circular No. 230, *Regulations Governing Practice Before the Internal Revenue Service.* Circular 230 is a 44 page, readily available document that defines who can practice before the IRS, the duties, and responsibilities for those authorized to practice, and sanctions for violating those duties and responsibilities (U.S. Department of the Treasury, 2014). The clear guidance in Circular 230 helps to build an ethical framework for tax practitioners through enumeration of duties, responsibilities, and expectations.

The American Institute of Certified Public Accountants (AICPA) is the governing body that sets ethical standards for the accounting profession in the United States (AICPA, 2020). The AICPA provides guidance on ethical responsibility in its *Statements on Standards for Tax Services* (SSTS). Specifically, the SSTS provide a framework on how to evaluate and make ethical decisions relating to tax return positions, questions on tax returns, proper tax preparation procedures, using estimates, deviating from previously held conclusions and decisions, knowledge of errors, and finally guidance on appropriate advice to taxpayers (AICPA, 2010).

The AICPA's SSTS provide insight into ethical evaluation of tax positions through its list of relevant terms and its associated definition, listed below.

Will	Generally, 90% or greater probability of success if challenged by IRS
Should	Generally, 70-80% probability of success if challenged by the IRS
More Likely than Not (MLTN)	Greater than 50% probability of success if challenged by IRS
Substantial Authority	Weight of authorities in support of a position is substantial in relation to the weight of authorities in opposition to the position (40%)
Realistic Possibility of Success	1 in 3 possibility of success if challenged by IRS
Reasonable Basis	Significantly higher than not frivolous and lower than realistic possibility of success (20% likelihood
Not Frivolous	Not patently improper; some merit to position
Frivolous	Patently improper

(AICPA, 2010)

It should be noted that any reported tax position with a Realistic Possibility of Success, or 33% likelihood that a tax position would be successful if challenge by the IRS, can be reported without any disclosure to the IRS. Additionally, a reported tax position with merely a Reasonable Basis must be disclosed in the tax return (IRS, 2010). Taxpayers may not rely upon Frivolous or Not Frivolous tax positions to avoid or evade federal taxes (IRS, 2018). In summary, it can be inferred that it is ethically appropriate to report a tax position to the IRS if there is even a 1 in 3 chance that the position will be successfully defended if challenged by the IRS, and if properly disclosed, it is ethically appropriate to report a tax position to the IRS if there is even a Reasonable Basis, or 20% likelihood that the position will be upheld if challenged by the IRS (AICPA, 2012).

Ethical dilemmas are commonplace in tax accounting. The Treasury Department's Circular 230 builds a framework for how a tax practitioner should act in relation to their client, the law, and the

Internal Revenue Service. The AICPA's Statements on Standards for Tax Services provide additional standards upon which an ethical framework can be built. As previously noted in the discussion of relevant terms, the SSTS allow for broad interpretation of federal tax law. Once a tax practitioner builds the framework in which they will ethically operate from Circular 230 and the SSTSs, utilitarianism, rights, virtue, and deontology based ethical theories can be appropriately implemented to specific circumstances and fact patterns. Clear standards from the Treasury Department and AICPA provide a clear path for ethical behavior in tax accounting.

Forensic Accounting and Fraud Examination

Forensic accounting is a specialized area of accounting that combines accounting and investigation techniques in investigating financial crimes and other accounting matters that might end up in the court system. The forensic accountant is not just an accountant. They have to be a legal investigator, interviewing witnesses and suspects. They must also be an expert witness that testifies in the court system. Forensic accountants must possess a mixture of skill and knowledge, along with interpersonal skills, excellent communication abilities, and strong ethical values.

Forensic accountants and fraud examiners have the responsibility of following ethical codes of conduct, depending upon the organizations to which they may belong. These standards set up by the Security and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB), the American Board of Forensic Accountants (ABFA), the Forensic CPA Society (FCPA) and the Association of Certified Fraud Examiners (ACFE) provide groundwork for ethical activities. Most ethical codes of conduct are very similar in its requirements, dealing with honesty and integrity;

- Members shall not engage in any illegal or unethical activities
- Members shall demonstrate professionalism
- Members shall exhibit the highest level of integrity
- Members shall obey and comply with the rules of the court and testify to the truth
- Members shall not reveal any confidential information obtained during a professional engagement (ACFE Code of Ethics, 2020).

The very nature of forensic accounting indicates the importance of ethics. The need for this specialization within the field of accounting is because humans can be unethical. The definition of

the word 'forensic' refers to the application of the scientific methods to the investigations of crimes, meaning that the results of the investigation could ultimately be used in a court (Yadav, 2017). When the profession deals with the law and legal aspects that may ascertain the guilt or innocence of an accused, the principles of ethics must be followed.

CONCLUSION

Ethics are the core of any vocation. Without ethics, the very definition of professional would be unclear and abstract. Ethics helps in creating an environment of validity, dependability, and excellence to the profession. The challenge comes in that what is ethical to one individual may be unethical to another. Certain codes of ethical behavior must be obeyed.

Within each profession there is a self-imposed code of ethical behavior. These codes of conduct are not legally binding or imposed by a government agency. Each profession voluntarily agrees to obey such codes of conduct. The accounting profession is one such vocation that has several different organizations that impose its ethical codes upon its members.

Accounting is a profession where its associates are expected to act ethically due to the nature of their work. Ethical beliefs and values vary from individual to individual and can vary from one accounting segment to another. Each segment of accounting and its focus brings about differing challenges and ethical situations. However, the constant throughout the entire profession of accounting is the need and expectation of ethical conduct.

REFERENCES

About the AICPA. 2020. *AICPA.org.* Retrieved December 7, 2020, from https://www.aicpa.org/about.html

Association of Certified Fraud Examiners. 2020. Code of Ethics. https://www.acfe.com/code-of-ethics.aspx. Accessed 12/08/2020.

AICPA Tax Ethics & Professional Responsibilities Resource Center. 2012. *AICPA Interpretations of Statement on Standards for Tax Services No. 1, Tax Return Positions.* Retrieved December 7, 2020, from https://www.aicpa.org/content/dam/aicpa/interestareas/tax/resources/standardsethics/statementsonstandardsfortaxservices/downloadabledocuments/ssts-interpretations-no-1-tax-return-positions.pdf

AICPA Tax Ethics & Professional Responsibilities Resource Center. 2010. *AICPA Statements on Standards for Tax Services 1-7*. Retrieved December 7, 2020, from https://www.aicpa.org/content/dam/aicpa/interestareas/tax/resources/standardsethics/statementsonstandardsfortaxservices/downloadabledocuments/ssts-effective-january-1-2010.pdf

Allen, Catherine. 2018. A New Take on Ethics and Independence. *Journal of Accountancy*. (December): 44-47, 50-51. Retrieved December 7, 2020. https://www.journalofaccountancy.com/issues/2018/dec/accounting-code-of-ethics-and-independence.html

Burress, J.P. 2004. Ethics Regulation by the Accounting Profession. *Journal of Business and Economics Research.* 2(9): https://doi.org/10.19030/jber.v2i9.2919. Accessed 05/13/2020.

Barry, Norman. 1987. Ayn Rand and Egoism. In: On Classical Liberalism and Libertarianism. Palgrave Macmillan, London. https://doi.org/10.1007/978-1-349-18727-0_7

Dobson, Andrea. 2018. Ethics, a Psychological Perspective. InfoQ. https://www.infoq.com/articles/ethics-psychological-perspective/. Accessed 12/8/2020

Duska, R. F., Duska, B. S., & Kury, K. W. 2018. *Accounting ethics* (3rd ed.). John Wiley & Sons.

The Ethics Centre, et al. *"Ethics Explainer: Deontology" The Ethics Centre*, 18 Feb 2016 https://ethics.org.au/ethics-explainer-deontology/. Accessed 11/4/2020.

Fabrizio, Loredana. 2017. The pattern of fraudulent accounting: Ethics, external auditing and internal whistle-blowing process. *Journal of governance & regulation*, 6(1): 12-25.

Fieser, James. Ethics. *Internet Encyclopedia of Philosophy.* 2020,https://www.iep.utm.edu/ethics/. Accessed 05/11/2020.

Gartenstein, Devra. "Importance of Ethics in Accounting & Financial Decision Making." *Your Business*, Arizona Republic, 29 Sept. 2016, https://yourbusiness.azcentral.com/importance-ethics-accounting-financial-decision-making-4394.html. Accessed 05/21/2020.

Greenman, Cindy. 2012. *Marital status, religiosity, and experience as a predictor of ethical awareness among accounting professionals*. Doctoral Dissertation, Northcentral University. ProQuest Dissertations & Theses Global.

Greenman, Cindy, Gorjidooz, Javad. 2014. Marital status, religiosity, and experience among accounting professionals and how it is used as a predictor of ethics. *Journal of Business & Economics (JBER), 12(2), 125-136.*

Herrmann, Thomas, GAO Yellow Book Standards and Independent Review Organizations. *Strategic Management Services, LLC*, 4 Dec. 2020, www.compliance.com/resources/gao-yellow-book-standards-and-independent-review-organizations/.

The Institute of Internal Auditors' Code of Ethics. The Institute of Internal Auditors, 2020, na.theiia.org/special-promotion/PublicDocuments/Code%20of%20Ethics.pdf.

IRS National Tax Forum: General Information on SSTSs. . Internal Revenue Service, 2010, www.irs.gov/pub/irs-utl/statements_on_standards_for_tax_services.pdf.

Internal Revenue Service. 2018. *IRS: The Truth About Frivolous Tax Arguments.* Retrieved from https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-introduction

International Ethics Standards Board for Accountants (IESBA). 2020. About IESBA. https://www.ethicsboard.org/about-iesba. Accessed 11/10/2020.

Internet Encyclopedia of Philosophy, 2020. Virtue Ethics. https://iep.utm.edu/virtue/. Accessed 11/10/2020.

Kenton, Will. 2020. Financial Accounting. *Investopedia.* https://www.investopedia.com/terms/f/financialaccounting.asp. Accessed 5/21/2020.

Lohrey, Jackie. Sept. 20, 2019. Summarizing the role of ethics in managerial accounting. *Arizona Republic.* https://yourbusiness.azcentral.com/summarizing-role-ethics-managerial-accounting-27684.html. Accessed 05/21/2020.

Marriotti, Steve. 2013. *So, Who invented double entry bookkeeping? Luca Pacioli or Benedikt Kotruljevic?* Huffpost. Accessed April, 2021. https://www.huffpost.com/entry/so-who-invented-double-en_b_3588941

Mayer, Don, Warner, Daniel, & Siedel, George. 2012. *Introduction to the Law of Property, Estate Planning and Insurance*. Open Textbook Library. The Saylor Foundation.

McCarthy, Niall. Jan. 11, 2019. America's Most and Least Trusted Professions. *Forbes Magazine.* https://www.forbes.com/sites/niallmccarthy/2019/01/11/americas-most-least-trusted-professions-infographic/#772488277e94. Accessed 5/13/2020.

Onyebuchi, Vencent. June, 2011. *Ethics in Accounting.* International Journal of Business and Social Science Vol. 2 No. 10; pp. 275. Retrieved from: http://ijbssnet.com/journals/Vol.%202_No._10;_June_2011/29.pdf

PCAOB Ethics and Independence. 2020. Retrieved from **https://pcaobus.org/Standards/EI/Pages/default.aspx**

Shafer-Landau, Russ. 2012. *Ethical theory: an anthology, 2nd ed.* John Wiley & Sons.

Singer, Peter. Jan. 13, 2020. Ethics. *Encyclopedia Britannica.* https://www.britannica.com/topic/ethics-philosophy. Accessed 05/11/2020.

U.S. Department of the Treasury. 2014. *Treasury Department Circular No. 230: Regulations Governing Practice before the Internal Revenue Service.* Retrieved from https://www.irs.gov/pub/irs-pdf/pcir230.pdf

Weddell-Wedellsborg, Merete. 2019. The Psychology behind Unethical Behavior. Harvard Business Review. https://hbr.org/2019/04/the-psychology-behind-unethical-behavior. Accessed 12/08/2020.

Woollard, Tyler. 2019. Conduct Risk – The Psychology of Ethical Behaviours. *Compliance Tyler Blog*. https://tyler-woollard.medium.com/the-psychology-of-ethical-behaviours-ec9501bdad89. Accessed 12/08/2020.

Yadav, Praveen. 2017. Ethical Issues Across Different Fields of Forensic Science. *Egyptian Journal of Forensic Sciences.* Retrieved 12/7/2020.

https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5514178/#:~:text=Ethics%20also%20help%20in%20establishing,guilt%20or%20exonerating%20the%20accused.

Yurt, Çetin & Elitas, Cemal. 2013. Morality and Ethics of Accounting. International Conference on Economic and Social Studies, Sarajevo.