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A Proposed Structure for an Accounting Ethics Course

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Abstract. The article argues for a stand-alone ethics course in accounting and details the shortfalls and questionable approach of "teaching ethics across the curriculum", especially for those preparing for professional careers in accounting. The need for a prerequisite course in the philosophy of ethics and moral reasoning is also addressed. A proposed semester listing of course topics for an accounting ethics course is presented, with supporting reasoning for their inclusion, and a detailed semester course syllabus is provided for consideration.

Keywords: accounting ethics, discipline-specific ethics course.

1. Introduction

The authors vigorously support the notion that there is a need for ethics education for all students enrolled in institutions of higher education. In our opinion, a discipline-specific ethics course is an essential component in the education of accounting students. The need to support and promote ethical behavior is not a highly debatable issue (Loe and Weeks, 2000). Institutions of higher education are in many ways responsible for the education of our future leaders and they have a crucial role in this process. Most managers agree that being ethical is good for business and do not believe that it is necessary to compromise one's ethics in order to be competitive (Jose and Thibodeaux, 1999; Thompson, 2006).

Procario-Foley and McLaughlin (2003, p. 279) maintain that, in a general sense, "the theory and practice of ethics involves attention to the issues of human being, knowing, decision-making and development." Ethics in accounting is of major importance to the functioning of our capital markets and societal institutions and the impact of recent corporate accounting scandals underscores its necessity. For example, Brown et al. (2003, p. 28) note that:

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1. An earlier version of this paper was presented at the Twelfth Annual International Conference Promoting Business Ethics in New York City in October 2005. The authors are involved in several research projects and alternate lead author responsibilities; both authors contribute equally to all of their published work.

> Many affected individuals, institutions, and stakeholders have expressed deep concern, even outrage, at what can only be described as a severe breakdown of internal control and ethical responsibilities where billions of dollars of market capitalization have been lost.

Society has ethical expectations well beyond the norm for accounting professionals (Langenderfer and Rockness, 1989; Blank, 2003; Mintz 1995; Gaa, 1992). Yet, ethics education continues to be ignored/winked at by accounting's academic community.

The accounting academic community and individual accounting professors have been reluctant to accept ethics education and include it in the accounting curriculum (Langenderfer and Rockness, 1989). Standard economic theory has continuously denigrated the consideration of fairness and loyalty (Kahneman et al., 1986); yet, this continues to be the dominant paradigm for the accounting academy. As a consequence, Ravenscroft and Williams (2004, p. 20) maintain that:

> Assuming that all behaviour is utility maximizing renders us unable to make moral distinctions among behavior . . . [which] renders it unnecessary to consider how moral issues should be decided.

These attitudes towards ethics education appear contrary to the obligations of the accounting profession as well as society's expectations and indicative of the growing disconnect between the accounting academy and accounting professionals.

The authors do not support the concept/practice of interweaving ethics across the curriculum. In our opinion, such an approach is counterproductive and illusory. As a practical matter, many faculty members resent the inclusion of ethics in their courses as it takes away time that could be devoted to other course topics. As a result, the attention and importance attached to ethics, in courses where this practice is followed, is often minimal and the treatment and/or attention accorded to ethics is often of a cursory nature. The authors suggest that a stand alone course in accounting ethics is preferable to the questionable practice of incorporating ethics on a piecemeal basis throughout other accounting courses. This viewpoint is consistent with many business ethics professors who expressed chagrin at the failure of the Association to Advance Collegiate Schools of Business (AACSB) to require a stand-alone ethics course (Benner, 2002; Nicklaus, 2002; Swanson, 2005; Swanson and Frederick 2001-2002).

2. Background

2.1. Prior Research on Ethical Sensitivity

The events of the past few years have highlighted the need for increased ethical sensitivity to the potential ethical implications of information when auditing financial data. Consequently, the fact that many studies note that accounting majors' scores on Rest's (1979) Defining Issues Test (i.e., a measure of ethical sensitivity) are consistently below that of the general population throughout and after college should concern the profession. However, research also indicates that an accounting ethics course has the potential of increasing one's ethical sensitivity (as measured by Rest's Defining Issues Test (Armstrong, 1993). Armstrong (1993, p. 89) recommended that, for accounting:

> The ideal curriculum would offer a "sandwich" approach and contain an introduction to ethical thought (probably taught by faculty in the philosophy department), followed by ethical discussion of case studies in existing accounting courses... Finally, [an ethics and professionalism] course would tie together previous ethical training with concepts of professionalism.

While many argue that there is no evidence that taking an ethics course makes an individual more ethical, this is not the point. The purpose is to make an individual more sensitive to situations that include an ethical component. Rest (1986, p. 6) indicates that, while some individuals must "see blood flowing" before they see the ethical issues, others may be so sensitive that even a "grimace takes on momentous moral implications". Given Bernardi's (1994) finding that the probability of detecting fraud increases as an individual's score on the Defining Issues Test increases, increasing one's ethical sensitivity is sufficient justification for a discipline-specific ethics course.

2.2. Professional Accounting Organizations

Motivation for an accounting ethics course is primarily two-fold: first accounting has long been designated as a profession, and behaving ethically is the essence of meaningful professional lives (May, 1992). Secondly, the rash of recent scandals has placed enormous pressure on the profession to demonstrate its ethics. For example, Parrett (2004) called on the accounting profession to make a difference by:[2]

2. At the time of this statement, Parrett was the CEO of Deloitte & Touche (i.e., one of the Big-Four accounting firms).

> Implementing voluntary codes of behavior that set objective, quantifiable standards... This goes for my profession—the accounting profession. We have always strived to “follow the rules”, but in the wake of scandals and loss of investor confidence we obviously must do more to restore public trust.

Some aspects of the accounting profession are regulated by the state (e.g., CPA licensure procedures and requirements). In response to the growing pressure for change, the National Association of State Boards of Accountancy (NASBA) proposed a three course sequence of ethics courses for the accounting curriculum. The first course would be taught in the liberal arts area and would be a theories course. The second course would be a general business ethics course and the third would be a discipline specific accounting ethics course, which is the focus of this paper.

Furthermore, accountants working in industry and government are also expected to perform their duties in an ethical manner. Managers, stockholders, taxpayers, etc. are dependent upon accountants for the provision of meaningful and accurate information and data for the purposes of decision making and evaluation. Thus, accountants are unique in the sense that society, in general, and individuals, in particular, place significant trust in them. Given this reliance, ethics education should play a major role in the education of accounting professionals. An ethics course specifically oriented towards the discipline/ profession of accounting is, in fact, essential to the education of those desiring to enter the accounting profession.

Both the American Institute of Certified Public Accountants (AICPA) and Institute of Management Accountants (IMA) have expressed concerns about ethics. The AICPA and IMA have codes of conduct that members are expected to be familiar with and comply with. Those working in the upper tiers of the accounting profession, both public and private, tend to be certified and typically are members of either one or both of these professional organizations.

Among other things, certification requires the passing of examinations administered by these organizations. In contrast to the Certified Management Accountant (CMA) examination, the requirements to sit for the Certified Public Accountant (CPA) examination are determined by individual states and requirements vary on a state by state basis. At the time this study is being written, 45 out of the 50 states require or will require in the near future 150 hours of education in order to sit for the CPA examination.[3] States requiring special examinations or courses in professional ethics are detailed in Table 1. In terms of CPA certification, 16 states require completion of the AICPA continuing professional education (CPE) course “Professional Ethics for CPAs” and 13 states require ongoing CPE credits in ethics which range from two-to-four hours for varying reporting cycles. The preceding is indicative of a very surface and

3. The authors wish to thank the AICPA for their assistance and cooperation in gathering this information.

unsystematic approach to an ethics crisis that has the potential to severely damage and, at an extreme, obliterate the accounting profession.

Table 1: States requiring special examinations or courses in professional ethics

Alabama (A) (1) (2)	District of Columbia (5)	Maine (3)	Nevada	South Dakota (B) (1)
Alaska (A) (1)	Florida (A) (6)	Maryland (1) (18)	New Mexico (9)	Tennessee (1)
Arizona (A) (1) (17)	Hawaii - 1/1/06 (16)	Michigan (7)	North Carolina (A) (10)	Texas (A) (13)
Arkansas (3)	Idaho (A) (1)	Minnesota	North Dakota (1)	Utah (1) (14)
California (A) (4)	Illinois (B) (3)	Mississippi (8)	Ohio (A) (11)	Vermont (A)
Colorado (A) (1)	Iowa (1)	Missouri	Oklahoma (12)	Virginia (A) (1)
Connecticut (1)	Kansas (A)	Montana (A)	Oregon (A)	Washington (15)
Delaware (1)	Louisiana (7)	Nebraska (A) (1) (18)	Rhode Island (1)	Wisconsin
				Wyoming (A)

A *Required at the time of certification, not at the time of examination.*
B *Required for both the permit to practice and the CPA certificate.*
1 *Jurisdictions requiring completion of the AICPA CPE course "Professional Ethics for CPAs".*
2 *Only required of those who did not pass LPR portion.*
3 *Four-hour course in ethics each 3-year reporting cycle.*
4 *California does not currently accept the AICPA ethics course; California course must be taken.*
5 *Effective January 1, 2005, licensees shall be required to complete four (4) hours of Professional Ethics per renewal.*
6 *Open-book exam on state's Accountancy Law and Rules of Professional Conduct, and 4 hrs of CPE Ethics prior to license renewal.*
7 *An ethics course of at least 2 hours is required for each CPE reporting cycle.*
8 *3 hours ethics CPE triennially. Minimum 1 of 3 must be in MS Laws/Rules & Regulations.*
9 *The New Mexico Board uses the AICPA ethics exam.*
10 *Course is on North Carolina Accountancy Law including Ethics Rules. 8-hour CPE credit given upon completion.*
11 *Ohio accepts the AICPA Comprehensive Ethics Course as well as the course Professional Ethics for CPAs.*
12 *On 7/1/3, 2 hrs of ethics/year is required for CPE. Effective 7/1/5, an ethics exam is required for CPA certification or PA Licensure.*
13 *Texas licensees must complete a 4 hr ethics course approved by the Board prior to certification, then 2 hrs every 3 yrs thereafter. Starting January 1, 2005 all licensees must take a Board approved 4 hr ethics course every 2 yrs.*
14 *Also requires passing a Utah Laws and Rules Examination.*
15 *Required at the time of licensure, not examination: Completion of the AICPA CPE course "Professional Ethics for CPAs." Washington CPAS must complete a 4 hr course in ethics applicable to practicing public accounting during each 3-yr reporting cycle.*
16 *Effective January 1, 2006, 4 hours of Ethics CPE are required per biennium for permit to practice.*
17 *On 1/1/05, must complete 4 hrs of Professional Ethics/renewal. 1 hr in AZ statutes and rules and 1 hr in AICPA Code of Prof Conduct.*
18 *2002 Information.*

Additional motivation comes from the AACSB that includes 450 accredited business schools. AACSB's Ethics Task Force's (2004, p. 14) recommends that:

> [M]ember schools and their faculties to renew and revitalize their commitment to ethical responsibility... Schools should be encouraged to demonstrate this commitment throughout their academic programs, assessment processes, research agendas, and outreach activities. [Emphasis added]

2.3. Course Prerequisites

Students should be exposed to different disciplines in business, the social sciences, and the humanities in order to be competent in meeting the ethical challenges of contemporary business practice (DeConinck et al., 2000 and Pava, 2001). Procario-Foley and McLaughlin, (2003, p. 280) maintain that:

> Students being trained in fields of business would benefit from sustained formal exposure to the epistemological and anthropological perspectives of ethical systems. Without such exposure, the ethics case studies [materials] presented... will not be as effective in achieving their goal of training undergraduate students to be ethical professionals. Students need a substantive introduction to ethical reasoning before they can fully appreciate the ethical ramifications in a case study [or other materials].

Thus, we suggest that a prerequisite(s) for taking an accounting ethics course should include an ethics course(s) grounded in philosophy. Ethics in accounting should build on a strong liberal arts background, including philosophy and ethical reasoning (Langenderfer and Rockness, 1989; Rest, 1986). Furthermore, in order to fully appreciate the role of and importance of ethics to the accounting profession, students should have either senior or graduate level academic standing (see Loeb, 1988; Pamental, 1989). In our view, philosophical aspects and ethical reasoning concepts are best addressed by a liberal arts course taught by liberal arts faculty, while professional aspects of ethics is best addressed by accounting faculty, preferably those actively engaged in accounting ethics research.

3. Topic Recommendations

Ultimately the topic selection is determined by the faculty member responsible for the course. Our rationale for each of the individual topical areas that we propose is addressed in the following sections. Note that the course is structured around the professional aspects of ethics. Philosophical aspects are addressed within the course prerequisite taught by liberal arts faculty. This delineation may alleviate and perhaps remove much of the resistance and trepidations of accounting faculty to an accounting ethics course. A topical listing of subjects that should be considered for inclusion in an accounting ethics course include: (1) rules versus principles based accounting standards; (2) AICPA/IMA codes of ethics; (3) tone at the top; (4) selected studies/papers in journals; (5) topical current accounting events; (6) ethical dimensions of current proposals in progress at the Financial Accounting Standards Board; and, (7) case studies. We propose that these topics be covered over what we refer to as four blocks: codes of ethics, tone at the top and independence, accounting firms and ethical sensitivity, and international and gender issues.

The intent of the course is to challenge students' notions of ethics as rules, introduce students to a more sophisticated view of ethics and the dimensions of ethical issues/behavior, and the presence and role of ethical issues/behavior in the profession of accounting. Both authors have been in the classroom for a number of years. We also utilize different pedagogical techniques and learning strategies in our courses. Although we can recommend a pedagogical approach for each of the accounting ethics course topics, we do not believe that our particular pedagogical views/preferences should be imposed on others. We instead concentrate on issues that should be addressed and currently available source materials, as opposed to detailed pedagogical instructions for in and out of the classroom. By omitting pedagogical instructions, we are acknowledging that educators at higher education institutions often teach in unique environments and that each of us has our own particular strengths, weaknesses and preferences. Thus we consciously made a decision not to impose a particular pedagogical strategy for individual topics within the accounting ethics course.

For each of the topics, one could utilize actual real time events occurring on campus as an introduction and explanatory vehicle. The topics lend themselves to a variety of pedagogical approaches. For example, a code of ethics could be introduced via a lecture approach. A lecture could address the need for a set of rules in society and society's needs for ethical behavior on the part of professional accountants. Role playing could be used to demonstrate the impact of cheating, favoritism on the part of the instructor, failure of students and perhaps professors to be prepared for class.

4. Syllabus and Pedagogy

4.1. Overview of the Course

As an example of how one might integrate some of the topics we have just presented into a semester long accounting ethics course, we provide a detailed sample course syllabus for consideration by active and potential professors teaching accounting ethics course (Appendix C). The course uses Duska and Duska (2003) and the *Codification of Statements on Auditing Standards* (CSAS) as texts. Additional and/or alternative journal articles (e.g. see Appendix B) should be incorporated based on the interests of the professor and students. The ideal situation would be to offer an accounting ethics course in the same semester that auditing is offered for the purpose of creating a synergy of ideas.

The initial three weeks are spent examining professional codes of conduct both in the US and international arenas. During the following three to four weeks, the material contrasts what the auditing standards state auditors are required to do and what research indicates auditors actually do. During week four, a case study developed by Pincus (1990) to simulate an actual audit task involving the verification of an inventory account is utilized to emphasize concepts that have been considered to date. The course then goes into tone at the top areas and whistle blowing. During weeks eight and nine, students are required to watch the movie "*The Insider*", which portrays the fate of a whistle blower and "*Enron: The Smartest Guys in the Room*". Weeks 11 through 14 should address the ethical judgments of auditors, diversity in the workplace, and international issues.

Accounting issues, successes, transgressions, etc. normally find their way into the local newspapers at some point. These news-items may be international, national or local in nature. Focusing on current accounting events and some of the ethical dimensions and dilemmas inherent in them brings a sense of reality, immediacy and importance of ethics to the accounting profession. The *Journal of Accountancy* publishes the status of various proposals and exposure drafts that are currently being examined by various committees and agencies associated with the accounting profession. The authors suggest that the instructor review these items and select those that would be of particular interest to both the class and the instructor. The purpose of this process is to ensure students understand that many issues confronting the accounting profession have an ethical dimension that should be considered in their resolution.

In recent years, there has been considerable growth, both in terms of quantity and quality, of case studies. Preferences differ among faculty members and we suggest that individual accounting faculty review this ever increasing resource and select those that appear most appropriate for the course objectives. Instructors who are so inclined should visit the "*Harvard Business Online*" for a user friendly website with abstracts of their case studies. For example, the authors found cases on auditor independence, WorldCom and Ann Hopkins to cite a few that could easily be woven into the course.

During the course, students are required to propose a group project dealing with ethics and/or accounting that they will research. The project should focus on what the ethical issue(s) is, why it is of importance, and develop a methodology to investigate the ethical issue(s). Alternatively, instructors may require students to do an entire empirical study. Having used the latter approach, the second author found that the semester does not provide students with sufficient time to do a "from scratch" project. Consequently, the latter approach requires some planning by gathering potential topics to use as projects or as a basis for the students suggesting their own ideas for projects. The second author usually has a number of available studies that are over ten years old that the students could adopt as their project (i.e., replicating existing research) or extend by gathering data from several countries using study-abroad classmates. The key point here is to get the students to make a decision so that the approval of the institution's human-subjects research board (HSRB) is obtained for any empirical work requiring participants. This implies that the required forms for this process are available and that the instructor coordinates a sense of timeliness for processing these forms with the members of the HSRB.

4.2. Block 1: Codes of Ethics

In this part of the course, we propose to include six chapters of Duska and Duska's (2003) book on *Accounting Ethics* to cover topics on defining ethics in the profession and difficulties facing the accounting profession. We introduce Rest's Defining Issues Test (1979) in the first session as a way to discuss rules versus principles accounting standards and codes. Here we suggest having the students take the Defining Issues Test in the first class, which provides the instructor sufficient time to score the test both for its P score (i.e., principled reasoning) and Stage Four reasoning (i.e., reasoning based on following the rules).[4]

Based on the authors' experiences and discussions with other accounting faculty, many, if not most, accounting students have primarily experienced rules-based accounting pedagogy and/or standards both in textbooks and in classrooms. However, a principles-based accounting methodology is followed in many other countries. This accounting oriented topic provides a bridge that enables students to experience the limitations of and difficulties encountered in a "rules-oriented" approach to issues and decision-making. This conflict is what makes the two chapters in Duska and Duska (hereafter referred to as D&D) so timely—especially when one considers the events leading up to the demise of Arthur Andersen.

Codes of ethics should challenge corporations to behavior that go beyond just adhering to the law (White and Montgomery, 1980; Cressey and Moore, 1983). In the wake of scandals and loss of investor confidence, the accounting profession must be doing more than just "following the rules" to restore public trust (Parrett, 2004). PricewaterhouseCoopers (2003, p. 3) also believes that restoring investor trust demands more than just following the "letter of the law". However, while Americans tend to provide very specific guidelines, other countries tend to provide implicit forms of guidelines (Weaver, 2001, p. 2). For example, while regulations in the US tend to follow a rules-based approach, European legislation uses a concepts-based approach (Enderle, 1996). KPMG's report (2003, p 13) indicates that firms must "prevent a 'compliance mentality' from becoming the driving force."

The need for codes of ethics in business is generally accepted, even if the effectiveness of codes is somewhat questionable (see Loe, Ferrell and Mansfield (2000) and Schwartz (2001) for reviews of empirical research on code effectiveness). Generally, a code of ethics can be thought of as "... a written, distinct, and formal document which consists of moral standards used to guide employee or corporate behavior" (Schwartz 2001, p 248). The functions of ethics

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4. We suggest the 1979 version of the Defining Issues Test, because instructors can hand score the tests for stage four reasoning, which is not provided by the center. To maintain students' anonymity, the authors have attached playing cards to the test. We ask the students to tear off and keep the lower half of the card for identification purposes.

codes include educating employees about the values of the organization, creating decision making efficiencies, serving as a foundation to build an ethical culture to govern or manage corporate behavior (see D'Aquila and Bean (2003); Benson (1989); Brooks (2000) and others for detailed discussions). Wotruba et al. (2001, p. 59) list three major purposes that codes of ethics can serve in organizations: "demonstrating a concern for ethics by the organization, transmitting ethical values of the organization to its members, and impacting the ethical behavior of those members."

While the Institute of Management Accountants' (IMA) and American Institute of CPAs (AICPA) codes of ethics are not the only codes that exist in the accounting profession, they are the codes of the two professional accounting organizations that accounting students are familiar with. The authors' are of the opinion that an accounting ethics course is not the place to learn specific professional codes or analyze them in a detailed sense. This should take place in other accounting courses and/or in continuing professional education. The intent in our proposed course is to expose students to actual codes that accounting students can relate to. Certainly, accounting codes would be the most salient codes for accounting majors and ones that they can readily identify with in both a professional and technical sense. In fact, codes can be used as a basis for evaluating how well corporate behavior measures up to the public's expectations (Kaptein and Wempe, 1998). Schwartz (2002, p. 34) suggests that placing a corporation's "code of ethics on the internet is one means of ensuring accessibility to the code by the outside public."

However, Cohen and Pant (1989, p. 208) believe that "the objective of teaching ethics to accountants must... go beyond the mere passing on of the profession's ethical code and guidelines." There are a number of different avenues that can be pursued within this topic. The authors suggest that the following issues be considered:

1. Is there in fact a need for a code of ethics?
2. Who should determine the content of the code?
3. What is the purpose of the code?
4. What can be achieved by the code?
5. Should the code be enforced and by whom?
6. Should there be penalties for noncompliance?
7. What happens if the code does not address a particular item that most would consider to be an unethical act?

One could easily devote an entire course to codes of ethics. However, we suggest that the time allotted to this topic, within an accounting ethics course, be limited to approximately 20-to-25 percent, as many other topics/issues need to be considered and addressed. Codes provide a basis for evaluating how well an organization is meeting the public's expectations (Kaptein and Wempe, 1998). Consequently, an organization's code must be available to stakeholders in order to access an entity's accountability (Schwartz, 2002).

4.3. Block 2: Tone at the Top and Auditor Independence

In this part of the course, we propose including two chapters of Duska and Duska's (2003) book on *Accounting Ethics* covering topics of ethics in auditing, financial and managerial accounting. Consequently, we are effectively covering all of the courses in most undergraduate accounting programs except for the taxes. Without this broad overview, the implications of accounting for various events and management's proposals for accounting are overlooked. We believe that students need to become more sensitive to these implications and how various groups of stakeholders are affected by the selected treatment.

For example, we include the Commission on Sponsoring Organizations of the Treadway Commission (COSO, 1992) report along with a comparison of international and US accounting standards on materiality and audit risk at the beginning of this block to make students aware of the tradeoffs in auditing (i.e., higher materiality suggests a less precise audit if all other things are equal). The COSO report specifically addressed the tone and actions of management as a contributing factor to fraudulent financial reporting. The essence of the report and subsequent research is that codes are limited in what they can accomplish. Codes and management philosophy have integrity and meaning to employees only when the observed behavior of upper management is consistent with the communicated organizational values (Harshnan and Harshnan, 1999; McDonald, 2000). Organizational norms (observed behavioral mores) are more influential than written rules or regulation (Akaah, 1993). Then, in week five, we suggest using either the Kingston State (Appendix D) or El Tiovivo (Appendix E) case studies as classroom exercises. In both cases, management has manipulated the reporting of the data for their own benefit.

In the El Tiovivo case study, we are looking to make students aware of the evidential matter within the financial statements of any organization that could indicate misleading stakeholders. Ponemon and Gabhart (1993) studied the process by which audit partners and managers judge the integrity of a client's management and assess the degree of audit risk using Rest's (1979) Defining Issues Test. These authors conclude that (p. 102):

> [B]y virtue of their cognitive capacity, certain auditors may be unable to frame reliable judgments regarding the ethical characteristics of client management.

> Hence, inability rather than gullibility may explain why certain auditors fail to detect obvious warning signs of the client organization and its management. (Emphasis in original text)

As part of the second author's dissertation that focused on fraud detection using the El Tiovivo case study, he debriefed his participating auditors. Few indicated they had detected fraud. Those who had detected fraud said they were significantly more skeptical of any client's work papers after the experience. One of the benefits of this exercise is exposing students to fraud in a no-risk environment. Additionally, both Pincus' (1990) and Bernardi's (1994) research found that auditor cognitive style played a significant role in detecting the fraud in the El Tiovivo case study. While Pincus found that more field-independent seniors detected fraud at a higher rate, Bernardi found that the significant cognitive style was ethical sensitivity as measured by the Defining Issues Test.

If ethical behavior is desired in an organization, then managers must become active advocates for such behavior, however, managers must also communicate consistent and appropriate messages to organizational members (Dobni et al., 2000). A significant body of ethics research suggests that the organizational environment is a major determinant in the ethical decision making of employees (Bonczek, 1992; Dean, 1992; Fritzche, 1987; Reidenbach and Robin, 1991). At the end of the day, ethical behavior is, in fact, every person's responsibility and such behavior should be observable in actions as well as in words (Minkes et al., 1999).

In the final week of the second block of instruction, we examine auditor independence, and the Sarbanes-Oxley Act. Donaldson (2003) maintains that the primary goal of the Sarbanes-Oxley Act (U.S. Congress, 2002) was restoring the public's confidence in the accounting profession. PricewaterhouseCoopers (2003, p. 3) indicates that investors' faith:

> [W]ill be restored more quickly and fully if all participants not only comply with the letter of the law, but also commit to the core business values investors want to see driving corporate reporting and governance: transparency, accountability, and integrity.

As part of the third block of instruction, students will be watching the movie "*The Insider*" about the individual who blew the whistle on the tobacco industry and the documentary "*Enron, the Smartest Guys in the Room*" about the events leading up to the collapse of Enron.

At the conclusion of this block, we also include readings from the supplement to *Auditing: A Journal of Practice & Theory* (1999); the 1999 supplement is entirely devoted to auditor independence. The first six pages of this issue include "Practice Summaries" of these articles that were specifically tailored to the needs of the practice community. Another interesting point about the supplementary articles, which came from the 1999 Auditing Symposium, is that they include the remarks of the reviewers of each paper; each paper has an academic reviewer and a reviewer from practice, who is usually at the partner level. One way of conducting this class is to have each of the groups provide the class with the methodology and key findings of these papers. However, Bazerman et al. (1997) suggest that auditor independence is not possible because of psychological factors. These authors note that, when auditors are asked to make judgments, "those judgments are likely to be unconsciously and powerfully biased in a manner that is commensurate with the judge's self interest" (p. 91).

An interesting reading to conclude this block is Bernardi and LaCross' (2005) article in the CPA Journal dealing with how quickly *Fortune*'s top 100, which were headquartered in the United States, put their codes of ethics on their corporate websites. These authors found that the clients of Arthur Andersen were slower in this process than the clients of the four surviving firms; they also found that, after redistributing Andersen's former clients to their new auditors, Ernst & Young's clients were slower than the clients of the other three firms. This article allows instructors to integrate the readings of the first two blocks.

4.4. Block 3: Accounting Firms and Ethical Sensitivity

Students often have an ill-informed and distorted view of how public accounting firms and other organizations operate on a day to day basis. They are unfamiliar with the environments confronting organization as well as the intensity present in ethical choices. This block addresses the factors that lead organizations and individuals to behave in an ethical/unethical manner. The block examines the moral development/regression of organizations and individuals. It also explores the very real ramifications associated with behaving ethically (e.g. whistle-blowing) as well as behaving unethically (e.g. "*Enron: The Smartest Guys in the Room*").

After examining auditor independence and the Sarbanes-Oxley Act in the second block of the course, this block examines how to create an ethical environment and impediments to creating an ethical environment. We start off with Duska and Duska's chapter on the "accounting profession in crisis". This helps to set the stage for the following weeks of study in the block. An interesting feature of Duska and Duska's book is that the preface includes a 35-page timeline of the Enron crisis, which should highlight the problems that were evident and not so evident.

The Arnold et al. (1997) reading on understanding the factors underlying ethical organizations uses Rest's four-component model as its foundation: recognizing an ethical issue, reviewing the alternatives available to solve the dilemma, deciding on a course of action and taking action. Arnold et al. indicate the four stages of creating an ethical environment are: (1) the absence of intention, (2) passive support, (3) active pursuit, and (4) total integration. In stage one, the firm lacks any intent to encourage ethical behavior; in stage two, the firm wants to encourage ethical behavior but has not developed a structure to support this behavior. As its name implies, a stage-three firm is actively pursuing ethical behavior, while a stage-four firm consistently integrates ethics in their decision-making processes.

At this point in the course, we have already developed the concept of auditor sensitivity to problems (Block 2); in this block, we review the Bernardi and Arnold (1997) article on auditor moral development and differences among firms. The research on the Defining Issues Test, which we suggested you have your students take in the first week of the course, indicates that auditor sensitivity to ethical dilemmas and scores on the Defining Issues Test are associated. Consequently, the accounting profession should be concerned with research indicating how to increase one's level of moral development. At this point in the course, it makes sense to hand back the results of the Defining Issues Test tests to the students. Instructors could compile group averages and compare the scores of male students with those of female students. This would be a nice transition into the Bernardi and Arnold paper, which finds that female managers and senior managers score significantly higher on the Defining Issues Test than their male counterparts. The research also finds significant differences among the five participating Big-Six accounting firms. Finally, Ponemon and Gabhart (1993) provide a tie-in with the earlier material on ethical sensitivity using the Defining Issues Test (DIT) in their study on auditor independence (p. 48):

1. The authors found a systematic relationship between auditors' ethical reasoning and their resolution of the independence conflict, where auditors with relatively low DIT P scores were more likely to violate independence rules than those with higher DITs.

2. They found that the existence of penalty, or the likelihood of losing a job, has a much stronger effect on the independence judgment than the existence of affiliation, defined as the likelihood of hurting others. Further, interaction effects suggest that penalty is most salient for low DIT auditors.

3. DIT P scores explain a priority ranking of independence attributes, wherein auditors with lower DITs assigned greater importance to economic factors, such as client profitability and litigation than auditors with higher DIT results.

The next two weeks focus on the movie "*The Insider*" and the documentary "*Enron: The Smartest Guys in the Room*". The introduction to these two features is Finn's (1995) article on whistleblowing.[5] "*The Insider*" provides students with

5. The second author has personal copies of these two videos that he keeps in his office for students to sign out—students' preferred media is DVD.

an insight into the plight of a whistle blower and how they are typical treated more harshly than the individuals who perpetrate the crime. "*Enron: The Smartest Guys in the Room*" indicates the level of deceit that went on and how all-encompassing the level of dishonesty was at Enron—a classic stage one firm in Arnold et al.'s model. Here we also include the reading on auditor's consideration of an entity's ability to continue as a going concern.

Coverage of ethical issues related to tax practice is also relevant for the course; consequently, the last week in block three is on ethical issues in tax accounting (Duska & Duska, Chapter 9). This area could be enhanced by asking a colleague who teaches tax accounting to be a guest lecturer. In this area, the distinction between tax avoidance and tax evasion should be made. The current news should continue to provide many interesting examples particularly in view of the ongoing saga of KPMG and its tax shelters, which some thought would result in KPMG's demise. Finally, one can also discuss the linkage between moral development, which was introduced earlier in the course, and taxpayer behavior (Fisher, 1997).

Classroom discussion during this phase should be lively and instructors could show how a person's integrity could be compromised (i.e., they would not whistleblow) by factors such as: mortgages, children in college, debt, social pressures etc. Here the connection to Arnold et al.'s and Finn's models would help students develop their own ethical framework for the future. We conclude the third block with a discussion of the responsibilities of independent auditors and the course project.

4.5. Block 4: International and Gender Issues

This is essentially a theme section that should be driven by the interests of the professor and students. For purposes of developing the syllabus in Appendix C, we selected the theme of international and gender issues. The authors suggest that published classical and topical papers appearing in journals serve as the primary source materials for an accounting ethics course. Appendix A presents a listing of journals specifically citing ethics as the main journal topic, and faculty may wish to peruse these journals when selecting the articles they wish to utilize in the accounting ethics course. Appendix B details by subject/topic a partial listing of journal articles that faculty may wish to consider for analysis and discussion in their accounting ethics course. References cited within this article are also worthy of consideration. Additional resources are enumerated in Thomas (2004). The final decision of what is to be included should be determined by the individual faculty member responsible for teaching the accounting ethics course and the table is a brief listing of some of the items and issues appearing in the ethics literature.

The Hooks and Tyson (1995) reading on gender diversity in the workplace is as timely now as it was over ten years ago when it was published. Despite the claims of shortening the work week by the large public accounting firms, the authors still are told that typical work weeks are from 65-to-70 hours for these firms. Consequently, the turnover rate is still very high and women are still exiting public accounting because of role conflicts. This exodus is also documented by Bernardi and Hooks' (2001) three-year longitudinal study; these authors found that family-oriented women exited public accounting at a significantly higher rate than career-oriented women.

The "*Wealth, Culture and Corruption*" reading (Husted, 1999) introduces Transparency International's (2002) Corruption Index and Hofstede's (2001) cultural constructs, which might not be familiar to all instructors. We caution first users of the corruption index and those reading Husted's work that Transparency International's index is reverse coded; that is, the highest (lowest) values are for the least (most corrupt) corrupt countries. For those unfamiliar with Hofstede's (2001) cultural constructs, the Husted reading provides a short overview of Individualism, Uncertainty Avoidance, Power Distance, and Masculinity. Husted's various findings include two of Hofstede's cultural constructs (Individualism and Power Distance) that associate with corruption. The instructor can also refer back to the Arnold et al. (1999) paper on auditor independence from the supplemental issue of *Auditing: A Journal of Practice & Theory* that found differences in Western European countries that associated with Hofstede's constructs. Consequently, the suggested readings in the first two weeks of the final block provide the students with the concept that, while international standards might be in agreement, their implementation may differ because of culture.

Depending on the type of project used in the course, the final two weeks of the course is also spent assisting the groups. The students may require some statistical assistance in analyzing the data they gathered for their projects. The instructor should encourage the students to compile their data throughout the course and assist them with organizing it into a format for analysis. The second author's experience indicates that students typically chose to replicate an existing study; consequently, they already have a format for the project and need to update and/or extend the literature especially if they have chosen to include international participants. At this point, the instructor should reserve a larger classroom so that the final presentations can be an open forum for anyone interested in ethics research.

5. Summary

The intent of this paper is to propose a structured course in accounting ethics. Within the introduction, we explain why a separate course in accounting ethics is superior to the current highly questionable practice of teaching ethics across the curriculum. Additional insights into this issue are available in Swanson and Frederick (2001-2002). Our recommendation of a course prerequisite on philosophy and ethical reasoning being taught within liberal arts and by liberal arts faculty is rooted in the belief that liberal arts faculty are more qualified in this area. However, we also maintain that an accounting ethics course must be taught by faculty with expertise in accounting. This is necessary in order to bring life to real world issues that will be confronted by accounting graduates as they practice in their profession. Liberal arts faculty are ill equipped to provide the accounting expertise and few accounting faculty are adequately prepared to address philosophical issues.

The American Accounting Association's Committee on the Future Structure, Content, and Scope of Accounting Education (The Bedford Committee, 1986, p. 179) recommended that "accounting education must not only emphasize the needed skills and knowledge, it must also instill the ethical standards and the commitment of a professional." It is incredulous that 20 years later the accounting academy is still in disarray on this issue. How long will it take?

The academic community's recent response to the NASBA proposal for ethics courses in the accounting curriculum was at best non-supportive. Some would describe the response as "hostile". There are few rewards to accounting faculty for developing ethics courses or incorporating ethics into their courses (Cohen and Pant, 1989). Additionally, recognition of research efforts in ethics and their subsequent publication in research journals do not appear to be valued by either accounting department chairs or deans of business schools (Bernardi, 2004; Ayres and Ghosh, 1999). Although a recent survey of business school deans indicates that ethics education should be improved and that a concerted effort to teach ethics will have a long term positive impact on the behavior of business executives (Evans and Marcal, 2005) little positive progress has been made to achieve these objectives. Ingram and Petersen (1989) referred to the cosmetic coverage of ethics in accredited business schools and questioned whether many schools truly met AACSB requirements.

Will accounting professionals follow the lead of Texas? If the accounting academy is unwilling to address the needs of the accounting professionals, it is unlikely that the need will continue to go unfilled. It seems that the two most likely courses of actions in ethics education for accountants in the United States are:

1. academia will take the lead and develop an appropriate ethics curriculum for those desiring to enter the accounting profession;

2. practicing professionals will mandate and dictate the content of ethics courses that will be a requirement to sit for professional accounting certification examinations.

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APPENDIX A

ETHICS JOURNALS

Active Journals

1. *Business and Professional Ethics Journal*
2. *Business and Society*
3. *Business and Society Review*
4. *Business Ethics Quarterly*
5. *Business Ethics: A European Review*
6. *Electronic Journal of Business Ethics and Organizational Studies*
7. *Ethical Theology and Moral Practice*
8. *Ethics and Behavior*
9. *Ethics and Critical Thinking*
10. *Ethics and Information Technology*
11. *Ethikos*
12. *Global Virtue Ethics Review*
13. *International Business Ethics Review*
14. *Journal of Accounting Ethics and Public Policy*
15. *Journal of Business Ethics*
16. *Journal of Business Ethics Education*
17. *Markets and Morality*
18. *Organizational Ethics: Healthcare, Business and Policy*
19. *Research on Ethical Issues in Organizations*
20. *Research Professional Responsibility and Ethics in Accounting**

Inactive Journals

1. *Online Journal of Ethics*
2. *Journal of Power and Ethics*
3. *International Journal of Value Based Management*
4. *Teaching Business Ethics*
5. *Professional Ethics Journal*

The *Online Journal of Ethics* ceased publication in the summer of 2000. The *Journal of Power and Ethics* has not been published since 2002. The *International Journal of Value Based Management* and *Teaching Business Ethics* ceased publication at the end of 2003 and are now part of the *Journal of Business Ethics*. The *Professional Ethics Journal* ceased publication at the end of 2003 and is now part of *Business & Professional Ethics Journal*.

* Formerly titled *Research on Accounting Ethics* (1995-2003)

Adapted from Bernardi and Bean (2006)

APPENDIX B

A PARTIAL LISTING OF TOPICS AND RELATED JOURNAL ARTICLES

Ethics Codes:

Boo, E. H. Y. and Koh, H. C. (2001), "The influence of organizational and code-supporting variables on the effectiveness of a code of ethics", *Teaching Business Ethics* 5 (4): pp. 357-373.

Miller, W. (2004), "Implementing an organizational code of ethics", *International Business Ethics Review* 7 (1).

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Velayutham, S. (2003), "The accounting profession's code of ethics: is it a code of ethics or a code of quality assurance", *Critical Perspectives on Accounting* 14 (4): pp. 483-503.

Professionalism:

Mulig, E. V., Phillips, T. J. Jr. and Smith, L. M. (2004), "Ethical considerations in CPA attitudes regarding the acceptance of commissions and contingency fees", *Research on Professional Responsibility and Ethics in Accounting* 9: pp. 215-239.

Rogers, R. K., Dillard, J. and Yuthas, K. (2005), "The accounting profession: substantive change and/or image management", *Journal of Business Ethics* 58 (1-3): pp. 159-176.

Rogers, V. and Smith, A. (2001), "Ethics, moral development and accountants in training, *Teaching Business Ethics* 5 (1): pp. 1-20.

Other:

Baucus, M. S. and Beck-Dudley, C. L. (2005), "Designing ethical organizations: avoiding the long-term negative effects of rewards and punishment", *Journal of Business Ethics* 56 (4): pp. 355-376.

Garcia-Marza, D. (2005), "Trust and dialogue: theoretical approaches to ethics auditing", *Journal of Business Ethics* 57 (3): pp. 209-219.

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Reisch, J. T. and Seese, L. P. (2005), “Compliance with Title IX at Kingston State University: a case study on cost allocation and ethical decision making”, *Issues in Accounting Education* 20 (1): pp. 81-97.

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APPENDIX C

SYLLABUS FOR AN ACCOUNTING ETHICS COURSE

TEXTBOOKS:

Codification of Statements on Auditing Standards (CSAS)
Accounting Ethics, (2005) Duska, R. F. and Duska, B. S., Blackwell: Oxford, UK
Abbreviations: HO stands for Handout
A:JP&T - Auditing: A Journal of Practice & Theory
BE:ER - Business Ethics: A European Review
RoAE - Research on Accounting Ethics

BLOCK 1 CODES OF ETHICS

Week	Reading	
1	None	Introduction and DIT testing Discuss Group Projects
2	Duska & Duska	Chapter 1: Nature of Accounting and Chief Ethical Difficulty Chapter 2: Ethical Behavior in Accounting: What is Ethics?
	Duska & Duska	Chapter 3: Ethical Behavior in Accounting: Ethical Theory
3	Duska & Duska	Chapter 4: Accounting as a Profession Chapter 6: Accounting Codes of Ethics: The Rules
	BE:ER	A Content Analysis of Codes of Ethics from Fifty-Seven National Accounting Organisations
	Duska & Duska	Chapter 5: Accounting Codes of Ethics: The Principles

BLOCK 2 TONE AT THE TOP AND AUDITOR INDEPENDENCE

Week	Reading	
4	COSO	Treadway Commission Report
	Duska & Duska	Chapter 7: Ethics in Auditing: The Auditing Function
	CSAS	Audit Risk and Materiality
	HO-1	International and US standards - audit risk and materiality Group Project Proposals due including HSRB forms
5	Audit Case	Special project - arrive ahead of time
	CSAS	Consideration of Internal Control in Financial Statement Audits
	CSAS	Evidential Matter
	In Class	El Tiovivo OR Kingston State Case Study (Appendix D & E)
6	Duska & Duska	Chapter 8: The Ethics of Managerial and Financial Accounting
	CSAS	Consideration of Fraud in a Financial Statement Audit
	A:JP&T	Auditor independence (entire issue of A:JP&T) and Sarbanes Oxley

BLOCK 3 ACCOUNTING FIRMS AND ETHICAL SENSITIVITY

Week	**Reading**	
7	**Exam 1**	**Handout Examination One**
	Duska & Duska	Chapter 10: Ethics of the Accounting Firm: The Accounting Profession in Crisis
	HO-2	Understanding the Factors Underlying Ethical Organizations: Enabling Continuous Ethical Improvement
	HO-3	An Examination of Moral Development within Public Accounting by Gender, Staff Level, and Firm [Hand back scored DITs]
8	**Hand in**	**Examination One**
	HO-4	Ethical Decision Making in Organizations: A Management Employee-Organization Whistle-Blowing Model
	Movie	Have students watch movie "The Insider" outside class time
9	**Critique**	**Hand back Examination One**
	CSAS	The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern
	Documentary	Have students watch documentary "Enron: The Smartest Guys in the Room" outside class time
10	CSAS	Responsibilities and Functions of the Independent Auditor. Discuss progress on group projects
11	Duska & Duska	Chapter 9: The Ethics of Tax Accounting Timely reading out of the Wall Street Journal

BLOCK 4 INTERNATIONAL AND GENDER ISSUES

Week	**Reading**	
12	CSAS	Reporting on Financial Statements Prepared for use in other Countries
	JoBE	Wealth Culture and Corruption
13	**Exam 2**	**Handout Examination Two**
	RoAE	Gender Diversity Driven Changes in the Public Accounting Workplace: A Moral Intensity Analysis
14	**Hand in**	**Examination Two**
	HO-5	Supply and Demand Figures in Public Accounting
	Group	Hand in Group Projects
15	**Critique**	**Examination Two**
	Group	Group Presentations

Reading List:

Week 3

Farrell, B. J. and Cobbin, D. M. (2000), "A Content Analysis of Codes of Ethics from Fifty-Seven National Accounting Organisations", *Business Ethics: A European Review* 9:3, pp. 180-191.

Week 4

Colbert, J. L. (1996), "International and US standards - audit risk and materiality", *Managerial Auditing Journal* 11 (8): pp. 31-35.

Week 5

Bernardi, R. A. (1994), "Fraud Detection: The Effect of Client Integrity and Competence and Auditor Cognitive Style", *Auditing: A Journal of Practice & Theory* 14 (4): pp. 653-668.

Pincus, K. V. (1990), "Auditor Individual Differences and Fairness of Presentation Judgments", *Auditing: A Journal of Practice & Theory* 10 (3): pp. 150-166.

Week 7

Arnold, V., Lampe, J. C. and Sutton, S. G. (1997), "Understanding the Factors Underlying Ethical Organizations: Enabling Continuous Improvement", *Journal of Applied Business Research* 15 (3): pp. 1-18.

Bernardi, R. A. and Arnold, D. F., Sr. (1997), "An Examination of Moral Development within Public Accounting by Gender, Staff Level and Firms", *Contemporary Accounting Research* 14 (4): pp. 653-668.

Week 8

Finn, D. W. (1995), "Ethical Decision Making in Organizations: A Management Employee-Organization Whistle-Blowing Model", *Research on Accounting Ethics* 1: pp. 291-313.

Week 11

Hofstede, G.: (2001), *Culture's Consequences*, 2nd Edition, Sage: Thousand Oaks, CA.

Husted, B.: (1999), "Wealth, culture, and corruption", *Journal of International Business Studies* 30 (2), pp. 233-242.

Week 12

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APPENDIX D

KINGSTON STATE OVERVIEW

The Kingston State case study is very rich and concerned with the college's athletic department meeting federal guidelines with respect to gender equity (Title IX). Most students are familiar with Title IX and have strong feelings about it. Thus, there is a strong interest in the case and students normally approach it with preformed opinions. The primary issue under consideration in the case is the allocation of indirect costs to male and female athletic teams to get the athletic department in compliance with Title IX. The indirect cost allocations are basic and the technical issues should already be mastered by the students as part of the introductory managerial accounting course and the accounting major cost/managerial accounting course. However, the ethical dimensions involved in the indirect cost allocation decision enable the professor to take a variety of approaches and to address a number of ethical issues.

The case can readily be completed in class. A standard approach to the case would be to use the Socratic method. Alternatively, one could have students take on the various roles (three) in the case. The personal intensity in the case could be varied by: (1) having the current athletic director be the students' former coach and they remain close, (2) note that the athletic director will retire at the end of the year and will be replaced with a female, (3) note that the current president is indifferent (strongly favors/opposes) gender equity at all levels in the college's administration, faculty and athletics.

APPENDIX E

EL TIOVIVO OVERVIEW

The El Tiovivo Restaurant is an actual case of fraud set in the food service industry. In the case, upper management overstates ending inventory to meet their projected EPS projections that are to be released just prior to a major stock offering, which will be used to pay down a substantial portion of long term debt. The case is rich with information as it contains not only the data on inventory but a complete set of work papers. This can be given to the students in packages of data. While the lead author has used the case in a Tuesday-Thursday classroom setting, it could also be given to the students as a take-home exercise.

This case study was used in Pincus' (1984) and Bernardi's (1991) dissertations; the main differences were that, while Pincus' sample came from one Big-8 firm at the senior level, Bernardi's sample included seniors, managers and senior managers from five Big-6 firms. Bernardi also introduced a biasing by giving a third of his sample data indicating that their client was rated as a high integrity client; another third of his sample received data indicating that their client was rated as a low integrity client; and the remaining third were not provided with any integrity data (i.e., functioned as a control group). An interesting comparison in the data for the two dissertations was that even though they were separated by seven years and the 'Expectation Gap Auditing Standards', the detection rates were identical for Pincus' seniors and Bernardi's seniors who were not given integrity data. The results of these dissertations were published in *Auditing: A Journal of Practice & Theory* (Pincus, 1990; Bernardi, 1994).

Note: Dr. Karen Pincus has agreed to provide the case study materials in a file on request. Individuals who wish to include this in their auditing and/or ethics classes should contact Dr. Pincus at kpincus@walton.uark.edu.