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The Graduate School of Education and Psychology

A PHENOMENOLOGICAL STUDY OF CERTIFIED PUBLIC ACCOUNTANTS'  
PERCEPTION OF ETHICS IN THE ACCOUNTING PROFESSION

A dissertation submitted in partial satisfaction  
of the requirements for the Degree of  
Doctor of Education in Organizational Leadership

by

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July, 2017

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## DEDICATION

I dedicate this research study to my mother. She has always fully supported me in all of my life's decisions.

I also dedicate this research study to my late father, and my entire family for their support.

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## ABSTRACT

Certified Public Accountants (CPAs) have been referred as the watchdogs and guardians of integrity of financial markets. The accounting profession has enjoyed a stellar reputation of professional ethics and integrity. However, the reputation of the entire accounting profession, which was once firmly grounded in ethical principles, has been somewhat sullied due to series of accounting scandals over the past two decades.

This phenomenological qualitative research study was designed to explore and understand the practicing CPAs' perception of ethics relative to the accounting profession, as well as issues with respect to the essence of their perception on ethical reasoning, mandatory continuing professional education (CPE) in ethics, and the impact of recent accounting scandals on the accounting profession. The resulting analysis of data revealed that participants viewed the ethical reputation of the profession as very strong and positive, as 70% of participants believed that 90% of CPAs consistently acted in an ethical manner. Follow-up study inquiries also revealed participants' overwhelming preference for the use of prior real case scenarios to which they could relate, based on their own knowledge and experience in learning accounting ethics. This finding was consistent with adult learner theories advanced by Malcolm Knowles. Furthermore, the study revealed a trusted CPA colleague as participants' number one source for ethical guidance when faced with an ethical dilemma. This interdependency magnifies the utmost importance of providing effective CPE courses in ethics for the entire profession.

*Keyword: Ethics, phenomenology, continuing professional education, adult learner theories*

## Chapter 1: Introduction

### Background

For the most part of the history of the United States, Certified Public Accountants (CPAs) have enjoyed a stellar reputation for professional ethics and integrity, and have been viewed as the guardians of the integrity of the securities market. In fact, in a unanimous court opinion involving the CPA firm, Arthur Young & Co., United States Supreme Court Chief Justice, Warren Burger, stated that CPAs perform a “public watchdog’s function” (p. 818) requiring “complete fidelity to the public trust” (*United States v. Arthur Young*, 1984, p. 818).

The reason behind the Court’s statement identifying CPAs as a public watchdog is based on their ability to provide audited financial statements. After performing the necessary due diligence, CPAs, serving as auditors, are the only professionals entrusted with the ability to issue their professional opinions in the form of an audit report on the financial statements presented to them by their client’s management (Rozell, 2008). Essentially a CPA’s report states whether or not audited financial statements fairly represent the balance sheet, income statement and cash flow of a company in conformity with Generally Accepted Accounting Principles (GAAP) of the United States. This financial statement opinion is rendered based on a CPA’s professional judgment, and ranges, in type, from “unqualified” (also known as “clean”), (p. 376) to “qualified” (p. 376) and, finally, “adverse” (p. 376) audit opinions (Marshall, McManus, & Viele, 2017).

Therefore, the accounting profession is the main profession generally entrusted to keep global financial markets ethically sound and reliable (Rozell, 2008).

The need for soundness in global financial markets is highly crucial, considering that Forbes Magazine recently reported the cost of annual global financial corruption and fraud

“amounting to \$2.6 trillion (USD),” (p. 2) again reinforcing the importance of the study of ethics and ethical perceptions in the accounting profession, which have an immense influence on global financial markets (Runde, 2015).

The AICPA Code of Professional Conduct, which is a CPA’s main source of professional guidance, contains specific rules in its sections entitled *Integrity* under section 0.300.040, followed by *Objectivity and Independence* under section 0.300.050, and on *Due Care* under section 0.300.060 (See Appendices A through D). These rules address the crucial need for ethical behavior in the accounting profession by asserting that CPAs must always perform all of their duties with the highest level of integrity, independence, objectivity, and due care, in order to preserve public trust and confidence in the accounting profession (AICPA Code of Professional Conduct, 2014).

### **Statement of Problem**

To provide a better understanding of the causes, as explained in Chapter 2 under the heading “Brief history of the Accounting Profession in the United States,” the reputation of the entire accounting profession, which is once firmly grounded in ethical principles, has been somewhat sullied due to certain series of events over the past couple of decades. Specifically, the collapse of corporate giants, such as Enron and WorldCom due to unethical accounting practices, have tarnished the ethical perception of the profession.

The accounting profession has experienced various milestones since the beginning of the 20<sup>th</sup> century, such as passage of the “Securities Act of 1933 and the Securities Exchange Act of 1934,” (p. 192) both in the wake of the Great Depression (Zeff, 2003a). Additional noteworthy achievements include to the Congressional approval of CPAs representing taxpayers before the Internal Revenue Service, the repeal of the ban against competitive bidding and solicitation, and

“the rise of Management Consulting Services” (p. 192) that have tested CPAs’ resolve for ethical behavior in the accounting profession (Zeff, 2003a).

Over the years there have been a number of governmental and revised AICPA Codes of Ethics, in addition to ethics pronouncements intended to guide the profession to clear its somewhat unethical reputation.

There has also been an increased emphasis on continuing education for Certified Public Accountants, especially in the realm of professional ethics, with the goal of building a more solid ethical foundation within the accounting profession (California State Board of Accountancy Continuing Education Quick Reference Guide).

### **The Subject of the Study**

The subject of this study highlights the lived-in experiences and the perception of ethics as perceived by a qualified practicing CPA within the profession. In addition, this study endeavors to present the essence of CPAs’ ethical reasoning, their perception in light of major events, such as the dissolution of Enron and WorldCom, governmental regulations, and the within-profession licensing of continuing education mandates in ethics as perceived the lived-in experiences of the practicing CPAs within the profession.

### **The Purpose of the Study**

The purpose of this qualitative phenomenological study is to explore and understand how Certified Public Accountants perceive and view ethical issues and concerns, which have gradually affected the public’s perception of the accounting profession over the past couple of decades. The main research question is followed up with dozens of questions concerning CPAs’ understanding of ethics, their moral reasoning, their source for guidance in resolving ethical dilemmas, and in applying ethical decision-making processes. Other follow-up questions include



the need for the mandatory continuing education, the ethical perception of issues involving the fall of Enron and WorldCom, and the passage of the Sarbanes-Oxley Act. The research question and finalized follow-up questions are attached (See Appendix A).

The form of issue most appropriate for a phenomenological study is the type where it is essential to comprehend common experiences of several individuals over a shared common phenomenon. The understanding of the phenomenon stemming from shared experiences by such individuals allows for a deeper appreciation of the characteristics of the phenomenon (Creswell, 2013).

According to Creswell (2013), the collection of data in a phenomenological study could be conducted utilizing “5 to 25” (p. 81) study subjects. This phenomenological study will be conducted by employing 10 practicing CPAs within Los Angeles County, which, as subsequently explained, is the venue for this research study.

The objective of the phenomenological research is to use participants’ in-depth descriptions to ascertain the meaning of shared experiences. Upon the conclusion of the study, individual descriptions are accumulated to extract a general common meaning, in order to provide the substance and essence of participants’ shared experiences (Moustakas, 1994).

Accordingly, the phenomenological study will be conducted through one-on-one interviews with qualified CPAs. Participating candidates who have lived through and actively experienced ethical issues while practicing public accounting in Los Angeles County.

### **Research Question**

1. What is a CPA’s perception of ethics in the accounting profession?

This research question intends to inquire about the CPA’s perception, source of guidance for ethical reasoning and problem solving, and perception of the accounting profession in light of

various major events, such as the fall of Enron and WorldCom. In addition, follow-up questions address issues and concerns in connection with governmental regulations, as well as within-profession licensing and renewal of continuing education mandates in ethics.

This study is designed to obtain the needed information for the research question from participants by asking the aforementioned research interview question, along with several related subheadings (See Appendix A).

### **Significance of the Study**

Research conducted for this study has revealed the lack of any prior and similar type of phenomenological study conducted to reveal the actual lived-in experiences of qualified working CPAs and their respective perceptions of ethics within the accounting profession, which serve crucial elements for the integrity of the profession.

The goal of this study is to provide meaningful information about the perception of the qualified CPAs, which, in turn, could be beneficial in providing insights in understanding new ways to improve and elevate ethical standards of the profession, as well as to guide and assist the profession to create more learner-centered future adult continuing education courses in ethics.

The study is conducted in Los Angeles County, California. The state has an estimated population of 39 million, with an estimated 10 million or 26% living in Los Angeles County (U.S. Census Bureau Quick Facts on California).

Further, the Bureau of Labor Statistics identifies California as having the highest employment level of accountants and auditors in the United States at 144,540 (U. S. Bureau of Labor Statistics on the number of accountants and auditors in California).

In addition to having the highest number of accountants and auditors in the country, California's economy is ranked as the eighth largest economy in the world (Masunaga, 2015).

Finally, if Los Angeles County was represented as an independent country, it would have ranked as the 21<sup>st</sup> largest economy in the world (Los Angeles County ranking).

Therefore, it is very beneficial to study and understand the lived-in perception of CPAs relative to ethics and its related concerns. This is especially pronounced for CPAs living in Los Angeles County, which has a thriving and prosperous economy, and is part of a state featuring the eighth largest global economy containing the highest number of accountants and auditors throughout the United States.

### **Ethics in the Accounting Profession**

Accounting is identified as a self-regulated profession, with the exception of the effects of periodic government regulation of financial markets on the profession (McMillan, 2010).

The first code of ethics was developed by the American Association of Accountants in 1886, and revised in 1973. Revised code was based on “three core pillars; of integrity, independence and objectivity” (McMillan, 2010, p. 13).

As previously noted, ethics in the accounting profession is essentially governed by a specific set of rules and regulations drafted by AICPA called the AICPA Code of Professional Conduct. This code of conduct is designed to provide guidance to CPAs and general accounting professionals on the proper handling of as to how to handle specific ethical issues encountered (AICPA Code of Professional Conduct, 2014).

It is clear, however, that no professional code, principle, regulation or law is able to fully capture and provide guidance for every possible ethical dilemma or problem that a CPA might encounter in the execution of his or her professional duties (Cheffers & Pakaluk, 2007).

Therefore, AICPA Code of Professional Conduct and its related pronouncements will not be able to provide complete and full guidance to cover all possible ethical issues to an accounting

professional. Accordingly, discussion of the moral reasoning within the literature review of this study will initially delineate the prevailing philosophical theories on ethics, in order to provide an understanding of the effect of the philosophical ethical theories on a CPA's moral reasoning. Thereafter, this study will discuss the ethical foundations in accounting, including the psychological theories of moral development, and certain provisions of the AICPA's Code of Professional Conduct. This study will conclude with a comparison of all available ideologies for a CPA's moral reasoning, and a brief discussion relating to the fall of Enron, WorldCom, and Arthur Andersen, which resulted in the U.S. Congress' passage of the Sarbanes-Oxley Act.

### **Key Definitions**

*Certified Public Accountant* means any person who has received a certificate of certified public accountant from the state board, and who holds a valid permit to practice under the provisions of the California Business and Professional Code (California Bus. & Prof. Code § 5033).

*American Institute of Certified Public Accountants (AICPA)* is the national, professional organization for Certified Public Accounts (CPAs) in the United States, with more than 412,000 members in 144 countries. It is the authoritative body for providing uniform licensing exams, and for the issuance of ethical guidance for CPAs (AICPA membership Information).

*Continuing Professional Education (CPE)*, (p. 7) refers to mandatory continuing education required by each state to maintain a valid license to practice public accounting (Garrison, Noreen, & Brewer, 2012).

*Generally Accepted Accounting Principles (GAAP)*, (p 24) refer to the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors, which constitute

appropriate accounting for various transactions used for reporting financial positions and results of operations to investors and creditors (Marshall et al., 2017).

*Financial Accounting Standard Board (FASB)*, (p. 10) is the authoritative standard-setting body within the accounting profession, and an independent arm of AICPA (Marshall et al., 2017).

*Unqualified or clean audit opinion* (p. 376) means that financial statements are presented fairly, in all material respects, and in conformity with the Generally Accepted Accounting Principles. This is the most commonly presented opinion in annual reports because most companies would prefer to make adjustments suggested by auditors, and make disclosures in order to obtain an unqualified opinion (Marshall et al., 2017).

*A qualified audit opinion* (p. 1337) is an audit opinion that contains an exception to issuing a standard unqualified opinion, due to circumstances limiting or restricting the scope of an audit or inadequate financial disclosures. Such circumstances, however, are not significant enough to invalidate financial statements (Kieso, Weygandt, & Warfield, 2010).

*An adverse audit opinion* (p. 1338) is issued when there are material issues in the fair representation of financial statements, which, upon an independent auditor's judgment, cause the financial statement, as a whole, to not be in conformity with GAAP. Adverse opinions are not very common since clients would usually change their accounting practice to conform with GAAP, in order to receive an unqualified opinion (Kieso et al., 2010).

*The Sarbanes-Oxley Act (SOX)*, (p. 498) refers to the federal statute enacted by the U.S. Congress July of 2002 to enhance corporate governance, deter fraud, and add clarity to corporate activities (Cheeseman, 2015).

*Securities and Exchange Commission (SEC)*, (p. 674) refers to the federal administrative agency created by the Securities Exchange Act of 1934 to govern over the issuance and regulation of federal securities law (Cheeseman, 2012).

### **Key Assumptions**

Since this study pertains to CPAs' perception of lived-in experiences on ethical issues, the key assumption is that a given participant is a qualified and licensed California CPA, who has actually practiced public accounting and has experienced the issues presented by the researcher (Creswell, 2013).

In addition, since the participant is the main source of information provided for the study in direct correlation with the participant's own moral thinking and reasoning, it is assumed that participant is fully aware of his or her own moral compass, and is able to properly articulate his or her own viewpoints during the interview process (Rest, Narvaez, Bebeau, & Thoma, 1999).

It is also assumed that the participant is providing honest and forthright responses when describing his or her lived-in experience and perception, without which interpretations derived from the phenomenological study would not be meaningful (Rest et al., 1999).

Therefore, the confidentiality of viewpoints will be ensured, in order to promote honest and candid responses to the interview questions. Participants will be individually invited to participate in the study. All consent and disclosure forms will be properly executed, in full compliance with Pepperdine University's Institutional Review Board (IBR), as discussed in Chapter 3. Names of all individuals and firms in the study will be kept confidential at all times. Only an individual's responses will be used to derive conclusions reached by the study.

Any and all information collected from participants will be maintained as strictly confidential, in password protected computers and in file cabinets in the researcher's office, with the researcher in possession of the sole password and key.

In addition, the researcher must and will clearly set aside the researcher's own experiences and views about the subject matter of the study and the issues interviewed, in order not to influence the result of the research study, and in order to provide an unbiased perspective of the essence of the lived-in experiences of the participants. The researcher's ability to set aside his own experience or views about the subject matter "is known as bracketing or epoche" (Creswell, 2013, p. 81).

### **Limitations of the Study**

First and foremost, the lack of validity or existence of even one of the aforementioned key assumptions will have an adverse effect on the outcome of the study, and thereby constitutes a limitation on the entire study and its outcome. Therefore, the lack of validity of each of the key limitations is neither individually referred nor listed as a separate limitation in the study.

In addition, since qualitative study, by nature, is based on the most likely interpretations of various data compiled from the participants' words and statements during their open-ended interviews, there is a possibility that conclusions reached in this study may not fully represent the essence of the researched phenomenon (Creswell, 2013).

Further, the researcher will attempt to note and interpret participants' non-verbal indications and body language to better understand participants' lived-in experience of the phenomenon. Indeed, communication is deemed incomplete if one fails to incorporate nonverbal communication (Robbins & Judge, 2013).

Consequently, a shrug of the shoulder or possible visible nervousness on the part of the participant in answering a question about his or her ethical views would offer additional insight about the participant's true lived-in experience.

Although the prevailing research authorities in the area of phenomenology is cited in the study to support the number of participants selected as sufficiently representative of the general population, some may argue that the sample is not large enough to represent the views of the general CPA population in Los Angeles County.

### **Summary**

Chapter 1 introduces the topic, statement of problem, purpose, research question, and research methodology used for this study. This is a qualitative phenomenological study of CPAs' perception of ethics in the accounting profession, as well as moral reasoning, relative to various events and issues of the past two decades.

The chapter also specifies Los Angeles County as the research venue, a venue which has the 21<sup>st</sup> largest economy in the world and is located in California, itself is ranked as the eighth largest economy in the world. The chapter then briefly discusses ethics in the accounting profession, as well as key assumptions and limitations, and provides definitions of certain critical terms.

Chapter 2 introduces a literature review, provides a brief history of the accounting profession in the United States, in order to provide background and endeavor to explain some of the issues in the accounting profession that have affected the profession throughout the past decades.



This chapter then provides a theoretical framework, which utilizes the result of the study about CPAs' perception and moral reasoning to guide and assist the profession, and to create more learner-centered adult continuing education courses in ethics.

This chapter continues by discussing the prevailing philosophical ethical theories, which are intended to provide an understanding of the effect of the philosophical ethical theories on a CPA's moral reasoning. Thereafter, this chapter it will discuss ethics relative to accounting, which includes the psychological theories of moral development, and certain provisions of the AICPA Code of Professional Conduct. This chapter will conclude by providing a comparison of all major ideologies available for a CPA's moral reasoning, in addition to brief discussion relating to the dissolution of Enron, WorldCom, and Arthur Andersen, which resulted in the passage of the Sarbanes-Oxley Act, the most comprehensive work of legislation on the financial markets since the Great Depression.

## Chapter 2: Literature Review

### Introduction

Ethics is so regularly intertwined in our daily lives that most people do not even take a moment to recognize crucial ethical components that are continuously presented for our consideration. We tend to automatically evaluate and make ethical decisions for or against an issue.

For example, ethical concerns about the trustworthiness and moral character of presidential nominees from both major political parties in the United States seem to have somewhat divided the country during the 2016 presidential campaign.

Further, ethical issues are so common that most people would not even consider or recognize that even a simple act of negotiation could have ethical ramifications, if the person is bluffing, or if the victory is achieved at a significant cost to the opposing party or to society (Lewicki, Saunders, & Barry, 2011).

It seems as if like Americans are faced with a variety of new allegations of ethical financial misconduct in the business world on a daily basis.

For example, Reuters recently reported that Wells Fargo Bank's employees had taken money out of hundreds of thousands of customers' bank accounts without their permission over the several past years, while opening new bank and credit card accounts under the customers' names, again, without their knowledge or permission. In turn Wells Fargo Bank employees received commission payments, and charged fees to customers for maintaining the new unauthorized bank and credit card accounts (Rucker & Freed, 2016).

Wells Fargo CEO, John Stumpf, testifying before Congress declared: "I accept full responsibility for all unethical sales practices. We will make it right" (Rucker & Freed, 2016, p.

1). He subsequently stepped down from his position in an attempt to restore the bank's integrity and reputation. The bank has agreed to pay "\$190 million (USD) in fines, but only \$5 million (USD) of which will be paid directly to customers" (Rucker & Freed, 2016, p. 1).

As part of the U.S. Congress' investigation into allegations of Wells Fargo Bank employees' fraudulent activities, U.S. Senators, Elizabeth Warren and Bernie Sanders, submitted a letter to the global CPA firm, KPMG, which is the auditor of Wells Fargo Bank's financial statements for the period 2011 to 2015. In the letter, the Senators inquire about KPMG's failure to discover company-wide illegal activities at Wells Fargo Bank, especially since KPMG approved Wells Fargo Bank's internal controls and their effectiveness. Indeed, an outside CPA firm's approval is required pursuant to SOX's provision, prior to the aforementioned CPA firm's issuance of audit opinions for the five-year period in question (Egan, 2016).

The senators also urged the "Public Company Accounting Oversight Board (PCAOB)," (p. 1) to consider taking disciplinary actions against KPMG. PCAOB is a private sector, non-profit corporation, created pursuant to provisions of SOX, tasked to oversee audits of public companies and ensure latter's compliance with SOX mandates (Egan, 2016).

Certain provisions of SOX are discussed in this literature review under the heading "Passage of the Sarbanes-Oxley Act by Congress."

With respect to ethical issues relative to CPAs, this literature review will first provide a brief history of the accounting profession in the United States, in order to provide background and help explain some of the issues that have affected the accounting profession throughout the past several decades.

It will then endeavor to provide a theoretical framework, which aims at utilizing the results of the study based on CPAs' perception, moral reasoning and related issues guiding and

assisting the profession to create more learner-centered adult continuing education courses in ethics.

The literature review will then discuss various major ideologies available for CPAs' moral reasoning. It will begin with the prevailing philosophical ethical theories, which provide an understanding of the effect of the philosophical ethical theories on CPAs' moral reasoning. Thereafter, it will discuss the ethics relative to accounting, which includes the psychological theories of moral development and certain provisions of AICPA's Code of Professional Conduct. It will conclude with a comparison of all ideologies available from which CPAs can choose as a basis for their moral reasoning. The literature review will end with a brief discussion relating to the dissolution of corporate giants Enron and WorldCom, which, in turn, led to the fall of Arthur Andersen, one of oldest global CPA firms. The combined effect of the collapse of Enron, WorldCom and Arthur Andersen resulted in the passage of the Sarbanes-Oxley Act by U.S. Congress.

### **Brief History of the Growth of the Accounting Profession in the United States**

The need to keep records of economic transactions has existed for thousands of years as evidenced by discovered "clay tablets dating back to the Mesopotamian era in 3,000 B.C." (Marshall et al., 2017, p. 9).

In the early years of the United States, businesses were mostly funded by business owners and did not create a need for audited financial statements. However, as businesses grew during the industrial revolution, business owners started looking at outside sources, such as investors and banks, in their quest for additional capital. Such environment, in turn, created a need to obtain audited financial statements (Goldwasser, Arnold, & Eickemeyer, 2013).

The need for independent outside auditors around the mid to late 19<sup>th</sup> century grew exponentially as the booming U.S. economy created a need for large amounts of British capital. This, in turn, brought with it its own British chartered-accountants to provide independent financial audit reports for British investors (Marshall et al., 2017).

**Regulations affecting the accounting profession.** As the financial center for the company, New York listed “Veysey & Veysey” (p. 190) as the first American CPA firm, founded in 1866, with its principals based in England (Zeff, 2003a).

New York is also the birthplace of The Institute of Accountants and Bookkeepers, which was formed on July 28, 1882. This entity is the first professional accounting society in the United States. New York is also the first state to have acknowledged the accounting profession, and to have issued a professional license for the practice of accountancy (Goldwasser et al., 2013).

There were no significant regulations of the accounting profession by the government or the profession until the devastating financial stock market crash of 1929, which caused the sudden collapse of the United States’ economy during the Great Depression. The depression also created a need for governmental regulations of businesses and financial markets to prevent similar devastating occurrences in the future (Kieso et al., 2010).

Government intervention resulted in passage of two significant regulations mandated upon securities registrants. The first is known as the Securities Act of 1933, which mandates the filing of financial statements certified by CPAs, in addition to important business-related disclosures during the initial public offering stage of securities (Roger, 2015).

The second significant market regulation is the Securities Exchange Act of 1934, which regulates the secondary sale of public securities, and contains periodic filing requirements, including the filing of specific “annual (10-K) and periodic (8K) reports” (p. 974) by companies.

Such filings contain updated financial statements certified by CPAs, along with disclosure of all the significant information relative to a company's operations (Mann & Roberts, 2015).

The 1934 Securities Exchange Act also created the Securities and Exchange Commission (SEC), an independent agency whose five-members are appointed by the U. S. President. The SEC is responsible for the enforcement, interpretation, and regulation of financial and securities markets (Kubasek, Browne, Herron, Dhooge, & Barkacs, 2016).

Aforementioned government regulations on businesses, with their mandated initial and continuous periodic filings of audited (or certified) financial statements, created significant demand for auditing services for the only profession permitted to certify financial statements (Rozell, 2008).

Within the profession, "the American Society of Certified Public Accountants was formed in New York" (p. 192), and was later named the American Institute of Certified Public Accountants (AICPAs) (Zeff, 2003a). This body was entrusted with the task of providing authoritative guidance for accounting and auditing services, upon which the SEC relied in certifying registrants' financial statements.

By the end of World War II, all states had passed laws for the licensure and regulation of the accounting profession, as well as for the recognition of AICPA's Uniform CPA examination requirement necessary for the issuance of CPA licenses in all states (Zeff, 2003a).

**Changes within the accounting profession.** The use of computers in the accounting profession, pioneered by Arthur Andersen in the mid- 1950s, was followed in the 1960s by the Congressional approval of CPAs representing taxpayers before the Internal Revenue Service. The latter created a financial boost for the profession, since it established CPAs as tax practitioners (Zeff, 2003a).

As accounting firms grew, a December 1960 Fortune Magazine article used the term *Big Eight* (p. 1) for the first time, in reference to the eight largest accounting firms in the United States. The article also declared its partners as some of the most powerful individuals in the business world (Wise, 1960).

At the time, the Big Eight ranking was based on the gross revenue, number of partners, and office locations. According to the article, the Big Eight consisted of “Peat, Marwick, Mitchell & Co.; Arthur Andersen & Co.; Ernst & Ernst; Price Waterhouse & Co.; Haskins & Sells; Lybrand, Ross Bros. & Montgomery; Arthur Young & Co.; and Touche, Ross, Bailey & Smart” (Wise, 1960, p. 3).

**The repeal of the ban against CPAs' competitive bidding and solicitation.** During the 1970s the U.S. Department of Justice forced AICPA to remove the ban contained in its Professional Codes of Ethics against competitive bidding, advertising and solicitation, which were deemed as a restraint on trade. The resulting new-found freedom allowed some large CPA firms to begin to aggressively solicit and “underbid new audit engagements by 25 to 50 percent of the fees charged” (p. 202) by an entity’s existing CPA firm (Zeff, 2003a). This practice also undermined decades-old ethical values that had existed within the profession, while providing growth for the firm at any price (Zeff, 2003a).

The fiercely competitive environment led some Big Eight CPA firm partners to do everything possible to retain profitable clients, including incorporating the use of marginal and doubtful accounting practices when modifying a transaction, and rationalizing it by analogy, in order to accept the accounting method or theory chosen by the client (Zeff, 2003a).

Such circumstance gave rise to *opinion shopping* (p. 80), which occurred when an audit client pursued other CPA firms to replace its existing auditors in the hope of a clean audit opinion by a rival CPA firm (Chen, Ping, Xue, Yang, & Ye, 2016).

As later discussed in the literature review section, opinion shopping creates the possibility for unethical behavior, as financial incentives interfere with AICPA’s Rules of Professional Conduct on Integrity, Objectivity, Independence and Due Care. Financial incentives might cause a CPA to compromise his or her professional and ethical judgment and standards to either maintain an existing client or to retain a new client.

In this fiercely competitive environment, one frustrated managing partner of a medium-sized CPA New York CPA firm wrote a journal article in 1994 criticizing the newly permitted



occurrences of competitive price cutting, as a means to change the nature of the public accounting profession to any other type of business-driven industry (Mason, 1994).

**The rise of management consulting services by CPA firms.** The Big Eight CPA firms also started providing billions of dollars in management consulting services as early as the mid-1970s, as six of the eight quickly elevated to secure positions within the top ten consulting firms in the country by the end of the decade. By the 1990s, Arthur Andersen & Co. was leading the *Big Six* CPA firms with “consulting services constituting 44% of its total gross revenue” (Zeff, 2003b, p. 269). During that era, corporate mergers of CPA firms had reduced the number of global CPA firms from the initial *Big Eight* to the *Big Six* (Zeff, 2003b, p. 269).

The growth of management consulting services allowed the Big Six CPA firms to employ many new non-CPA partners, which had a goal of providing businesses with full-service accounting and management consulting services. This new, mainly profit-motivated, full-service approach of large CPA firms with their non-CPA partners gradually transferred the ethics-bound objectives of CPAs and business auditors into business advisors (Zeff, 2003b).

In fact, SEC Chief Accountant Walter Schuetze wrote an article in 1994, in which he criticized some large CPA firms for their lack of objectivity in not standing up against their clients’ improper choice of financial reporting. On the contrary, many large CPA firms supported and cheered on their clients (Schuetze, 1994).

Such was the accounting profession at the beginning of the new millennium when the world witnessed the dissolution of energy giant, Enron, and, the telecommunications conglomerate, WorldCom, which led to the downfall of one of the country’s largest global CPA firms Arthur Andersen. Approximately one year after the fall of Enron and WorldCom, public

outrage led to the passage of the Sarbanes-Oxley Act by the U.S. Congress in July 2002 (Donaldson & Werhane, 2008).

### **Theoretical Framework**

This study aims to understand and reveal the perceptions of practicing CPAs about ethics in the accounting profession, with follow-up questions about their ethical reasoning and current CPE courses, as well as other ethics related questions, in order to provide better guidance to the accounting profession, in general. This study also endeavors to guide and assist the profession in creating its future adult continuing education courses in ethics.

A continuing education course in ethics that is designed by utilizing practicing CPAs' perception of ethics will be more interesting and consistent with practicing CPAs' perception of ethics and ethical reasoning while simultaneously, teaching the subject matter. This would create a more fulfilling learning environment, which, in turn, would provide a more positive learning outcome and crucial element for CPAs, in their professional advancement.

This study is based on learner-centered theoretical framework principles for adult learner advanced by (Knowles, Holton, & Swanson, 2012), as further described below.

**Certified Public Accountants' continuing professional education (CPE).** Mandatory professional education is the standard method for many professions to instill a sense of trust and confidence in that profession. However, emphasis has been mainly placed on course completion as an indicator of the interest of attending professionals (Abeyta, 2009).

Consistent with many licensed professionals, CPAs need to commit to continued learning, in order to keep up with the steady stream of inevitable changes that occur in the accounting profession (Dearie & Geduldig, 2013).

Providing continuing education, along with continued dialogue reminding CPAs about the importance of ethics, is essential to improving CPAs' ethical behavior (Hagel, 2015).

To accomplish that task, to ensure the protection of the public's interest in the profession, and to maintain professional integrity as the cornerstone of the accounting profession, each state has enacted its own laws under its Business and Professional Code. Such laws allow each state's Board of Accountancy to set licensing and mandatory continuing education guidelines to maintain a valid CPA license. The California Board of Accountancy has enacted the rules governing licensing and continuing education requirements for CPAs practicing in California (California State Board of Accountancy License Renewal and Continuing Education).

Mandatory Continuing Professional Education (CPE) in California consists of a minimum of 80 hours in various accounting-related topics, includes 4 hours of CPE in ethics required for the biennial renewal of a CPA's license (California State Board of Accountancy License Renewal and Continuing Education).

Continuing adult education is usually viewed as a suitable method to facilitate the resolution of goals, which is consistent with satisfying the need for the fulfilling of ethics training requirements (Merriam & Caffarella, 1999).

Knowles et al., (2012) explain that a continuing education course in ethics for adult learners should be designed to: (a) Motivate CPAs to learn to fulfill the need for ethical education, which the CPAs feel the course would satisfy; (b) Teach CPAs about ethical issues that deal with their own professional career; (c) Teach by using their own experiences, as CPAs learn best by relating to their own experiences; (d) Allow CPAs to govern themselves during the process of reviewing issues, and learning about professional ethics; and (e) Provide CPAs with

means to attend various CPE courses in ethics that differ with age, manner, time, and course location.

Consistent with the aforementioned approach (Knowles et al., 2012), facilitating the learning of ethics by CPAs would not merely encompass the teaching of ethics by utilizing the so-called *banking institution* (p. 76) method (Freire, 2012). This method analogizes teaching a course to banking, whereby the course information provided via lecture is later withdrawn by the instructor by means of a test at the end of the CPE seminar (Freire, 2012).

Therefore, a learner-centered continuing education program in ethics, based on the lived-in experiences of the CPAs as provided by the outcome of this study, would enable practicing CPAs to better relate to the lives and professional experiences of their peers and colleagues practicing in the field (Abeyta, 2009).

The remainder of this literature review will discuss traditional philosophical theories on ethics, followed by ethics relative to the accounting profession, which includes psychological-based moral reasoning. The literature review will also include a discussion of AICPA's Code of Professional Conduct, and conclude with a comparison of various moral reasoning ideologies available to CPAs, in addition to a discussion about the fall of Enron, WorldCom, and Arthur Andersen, and the passage of the Sarbanes-Oxley Act by Congress.

### **Philosophical Framework for Ethical Reasoning**

Ethical issues in the accounting profession are essentially governed by a specific set of rules and regulations drafted by AICPA. These rules are known as the AICPA Code of Professional Conduct. They are designed to provide guidance to CPAs and general accounting professionals on properly handling specific ethical issues encountered.

However, it is clear that no professional code, principle, regulation or law is able to fully capture and provide guidance to every possible moral dilemma that a CPA might encounter in the performance of his or her professional duties (Cheffers & Pakaluk, 2007).

The AICPA Code of Professional Conduct and its related pronouncements, however, will not be able to provide complete guidance to cover all possible ethical issues for an accounting professional. Accordingly, the literature review section for this study, pertaining to moral reasoning and ethics, will first contain a general discussion of ethics and certain universal ethical theories before discussing the Code, as well as the ethics and moral reasoning specifically related to the accounting profession.

Accountants are able to resort to philosophical ethical principles, in conjunction with the subsequently discussed Kohlberg's and Rest's stages of moral reasoning, when faced with an ethical dilemma (Fiolleau, 2013).

**Normative ethics principles.** For centuries, “dating back to the era of Plato (347 B.C.) and Aristotle (322 B.C.),” (p. 424) human beings wondered about philosophical concepts, such as “good or bad and right or wrong,” (p. 424) to explore and comprehend the essence of becoming morally honorable (Northouse, 2013).

As the name suggests, a normative approach to ethics examines the dominant philosophical norms and standards that have been developed-some several centuries old- to help guide individual's moral and ethical decision-making. Such theories are either dominantly centered on the consequences of a person's moral actions, with the general category referred to as consequentialism, or do not evaluate the consequences of the moral action. This second category is called the non-consequentialist view, and originates from a set of universal ethical principles, such as deontology and virtue ethics (Baker, 1999).

Therefore, normative ethics sets the standard to provide guidance to an individual as to how to act morally in the future through the enactment of various rules and regulations, as opposed to describing and analyzing a past event. The Securities Exchange Acts of 1933 and 1934, Business and Professional statutes, as well as the AICPA Code of Professional Conduct, and the Sarbanes-Oxley Act are all examples of the application of the normative ethics approach (Stanwick & Stanwick, 2014).

Below is a discussion of various pertinent normative theories.

**Consequentialism based moral reasoning.** Consequentialist moral theory evaluates the soundness of moral decision-making and, by evaluating as described in the name, the consequences of the person's actions. This is different from the deontological or duty-based approach to ethical reasoning, which is based on the premise that a person is duty-bound to behave in an ethical and moral manner (Weiss, 2009).

Consequentialist ethical reasoning is divided into two separate theories of ethical egoism and utilitarianism. Although moral reasoning under both theories is made by considering the consequences of the pending moral decision, both theories give importance to different interests in evaluating the consequences of an action (Thiroux & Krasemann, 2009).

**Ethical egoism.** Under the ethical egoism track of consequentialist theory, moral and ethical decisions are made by aiming to create the greatest outcome or benefit for a person or entity making the decision (Northouse, 2013).

Therefore, self-interest is an important factor under the reasoning pursuant to the ethical egoism theory. Followers of this theory believe that they also benefit society following their own self-interest. Their logic is based on the view that nobody is really motivated to attain a positive outcome for society, without first considering a person's own interest. Therefore, based on their

logic, society is the ultimate winner, as they first give importance to their self-interest (Stanwick & Stanwick, 2014).

An example of such selfish profit-motivation in the accounting profession is a new, mainly profit-motivated, full-service approach of large CPA firms with their non-CPA partners gradually transferring ethics-bound objective business auditors to business advisors. This inclusion of non-CPAs as business consultant partners in accounting firms has, at times reduced a firm's general emphasis on strict ethical compliance with AICPA's professional Code of Conduct (Zeff, 2003b).

Consistent with the aforementioned example, a recent study also revealed that accountants are more likely to act in an unethical manner when they focus on meeting certain earnings goals (Fiolleau, 2013).

**Utilitarianism theory.** The fundamental premise of the utilitarian view is that the best ethical decision is the one that creates the greatest benefit to the greatest number of individuals. It is a consequentialist theory, since the person is considering the consequences of a pending decision prior to its finalization (Weiss, 2009).

The final decision under either of the utilitarian-based moral reasoning approaches is generally reached after following four specific steps. First, the moral issue must be clearly identified. Next, all parties and entities, which that are likely to be impacted by the outcome of the decision must be clearly identified. Third, the impact of the decision on those involved must be fully and carefully analyzed. The final moral decision is made after balancing sides, and in favor of the side with net benefits exceeding costs or burdens (Johnson, 2015).

**Comments on the comparison of the two consequentialism views.** The utilitarian approach appears as a significant improvement over the egoism theory, which only revolves around the self-interest of a decisionmaker. However, as the utilitarian approach methodically analyzes, the interests of various parties are involved to determine the greatest good in comparing all costs and benefits. The gravity of the cost on the minority may become quite burdensome. Since the main goal under any utilitarian moral-reasoning's cost-benefit analysis is to decide in favor the side with a net positive outcome, it is often possible for a moral decision to cause harm to the minority, or losing, side. This means that an end that presents a net positive result would justify any approach taken to achieve it, irrespective of individual motive (Thiroux & Krasemann, 2009).

In addition, it is not always possible to properly and fully identify all parties and the possible consequences of a future decision, which is an essential factor for the utilitarian approach. Therefore, at times, a moral decision that is based on intentions may be argued as a utilitarian decision, although it might be impossible to properly identify all impacted parties and resulting consequences. For example, investments in non-renewable energy, in lieu of continuing the present reliance on fossil fuels may present such a dilemma (Desjardins, 2009).

**Non-consequentialist (deontological) theories.** Non-consequentialist, also known as deontological, theories, are the second of two main philosophical approaches under normative ethics, which “prescribe duty-based norms or standards” (p. 116) to be followed upon making a moral decision (Baker, 1999).

The most crucial concept that all non-consequentialist theories share is their belief that the morality of a person, or his or her behavior, is entirely based on a person's character or action. Therefore, an individual either has a moral character, and conducts himself or herself in a



moral and ethical manner, or does not, irrespective of any consideration for the consequences of an action. People and their actions are evaluated and judged as good or bad, or as moral or immoral (Thiroux & Krasemann, 2009).

**Kant's Categorical Imperative.** The German philosopher, Immanuel Kant, is known for his *Categorical Imperative theory* (p. 119) of moral reasoning, which is very much the opposite of the utilitarian approach to ethics (Baker, 1999).

Kant believed that the foundation of moral reasoning is grounded in individual human self-governance, and in the freedom to think and logically arrive at the best moral decision. Kant believed that a person must always act in a manner that he or she thinks is moral under the circumstances. As every person reasonably and logically takes the same action under the same set of circumstances, then such a moral action can be universally established as a reliable moral act to follow. In essence, every person becomes his or her own moral agent (Shaw, 2012).

In addition, Kant believed that people must be treated as equals and with respect as an end in and of themselves, and not just as a tool towards reaching another objective, or to increase overall net happiness (Desjardins, 2009).

**Virtue Ethics.** Founded by Aristotle and Plato, virtue ethics places an importance on the moral character of an individual, in lieu of a need to follow a set of moral rules, as in deontology, or in always considering the consequences of actions, as in consequentialism (Weiss, 2009).

Aristotle believed that the ultimate goal of human beings is happiness, and that every person must do good and act in a virtuous manner at all times towards achieving overall happiness for all. He was concerned with the righteousness and integrity of a person's character, and also believed that human beings are naturally rooted with virtuous ethical tendencies.

Aristotle further argued that, after comparing different alternatives, human beings will end up making moral decisions to live in harmony (Thiroux & Krasemann, 2009).

Aristotle's virtue ethics are rooted in his belief that human beings can achieve greatness in life by promoting a good moral character. He believed that virtues are learned through education and exposure to life circumstances. He describes morality as "doing the right thing, at the right time, in the right way" (Shaw, 2012, p. 10).

One of the central themes of Aristotle's virtue ethics is sometimes referred to as the *doctrine of mean* (Jasso, 2006, p. 17). This theme centers on the centuries-old expression that everything should be done in moderation. Aristotle believed that individuals should attempt to reach the mean between various extremes in their lives, which would then allow them to morally reason the appropriate amount of emotions to find and achieve their own mean in life (Jasso, 2006).

The importance of the principle of virtuous character becomes more clear when a person considers the motivation behind someone's moral reasoning. A person may have a virtuous, altruistic, charitable, compassionate, sympathetic, kind, caring, unselfish, modest humble motive for his or her moral decision. On the other hand, a person may act out of vices, such as selfishness, self-interest, egoism, arrogance and pride. A person with a virtuous character and values would always choose virtue over vice, and have a virtuous motive for his or her conduct (Desjardins, 2009).

Lawrence Kohlberg, a German philosopher discussed further below under The Psychological Theories of Moral Development heading, believed that under his *Conventional Level* (p. 25), which constitutes the sixth and highest stage of his moral decision-making structure, individuals fully understand fundamental human virtues such as justice, equality,

freedom, dignity and respect, and are able to freely select universal ethical principles to solve ethical dilemmas (Thiroux & Krasemann, 2009).

Finally, some theorists have argued that Aristotle's virtue ethics should also be categorized under the consequentialist utilitarian category, since Aristotle's view of moral behavior was mainly concerned with maximizing happiness, thus defining moral behavior by focusing on the consequences of the utility of a person's behavior. However, Aristotle's virtue ethics theory is centered on the notion that maximizing happiness is only reached by a person acting in a virtuous manner at times, as part of his or her societal duty. Therefore, Aristotle's imposition of a strict duty to act in a virtuous manner supersedes any consequentialist-based analysis of the theory, thus making its inclusion under the deontological approach appropriate (Baker, 1999).

**Comments on the deontological approach to ethics.** Deontological ethics is in sharp contrast to the utilitarian approach in evaluating the morality of a conduct by merely conducting a detailed analysis of its positive and negative consequences. It also rejects utilitarian ethical reasoning whereby a net positive end-result justifies any and all means to reach it. It further insists that individuals take certain actions while refraining from taking other actions as a matter of principle, without considering the consequences, since, at times, consequentialist-based moral reasoning might result in a lack of individual respect to certain individuals (Desjardins, 2009).

### **Ethics Related to the Accounting Profession**

As previously stated, ethics is a crucial part of the Accounting Profession. Therefore, a CPA's perception of ethics, as well as the process of ethical and moral reasoning utilized in resolving ethical and moral dilemmas, is equally important to the profession (Cheffers & Pakaluk, 2007).

This section will begin with the discussion of the psychological theories of moral development by Lawrence Kohlberg, and further developed by James Rest, utilizing latter's DIT (Define Issue Testing) to reveal a person's moral schemas pursuant to his *Schema Theory* (Barnes, 2013, p. 60).

Thereafter, this section will discuss certain provisions of the AICPA's Code of Professional Conduct. This section will conclude with a discussion about the fall of Enron, WorldCom and Arthur Andersen, and the subsequent passage of the Sarbanes-Oxley Act.

**The psychological theories of moral development (Kohlberg, Rest).** The study of moral development was initially pioneered by the Swiss child psychologist, Jean Piaget. He found that the accumulation of knowledge occurs in the brain by a system of sound structure, which starts at a lower level early in life, and is further developed into a more advanced reasoning processing system of moral development upon reaching adulthood (Bonawitz, 2002).

Lawrence Kohlberg further developed Piaget's theories to what is now viewed by many as the most influential theory on moral development during the past century. He categorized the process of *Cognitive Moral Development (CMD)*, (p. 225) and ethical judgment into three separate levels, namely *Pre-Conventional, Conventional and Post-Conventional* (p. 225), with each level having two separate stages for a total of six stages (Bolman & Deal, 2008).

Kohlberg's stages theory of moral judgment and reasoning, as further explored by James Rest and his DIT research tool, have served as the fundamental framework for the study and analysis of ethics and moral reasoning in the accounting profession (Douglas & Schwartz, 1999).

During the initial stage of Pre- Conventional Level of moral reasoning, decision-making about right or wrong is characterized by an individual's need to acknowledge authority in his or her attempt to evade possible punishment. During the second stage of Pre-Conventional Level,

all moral reasoning is rooted on self-protection, while only considering the needs of others upon receiving a mutual benefit, in return (Thiroux & Krasemann, 2009).

The Conventional Level of moral decision-making involves moral decisions that are made in conformity with that which is anticipated by other members of a group, society or family. In a business environment, Kohlberg's moral reasoning, at this stage, would be consistent with and conform to a company's ethical policies and the general corporate culture of a business (Thiroux & Krasemann, 2009).

Accordingly, individuals at stage three are nice and pleasant people, as they try to behave as expected, in order to receive the approval of others. Moral reasoning at the fourth stage is higher than mere respect for the law to avoid punishment, as noted in the first stage of Pre-Conventional Level (Thiroux & Krasemann, 2009). At the fourth stage of moral reasoning, laws are obeyed as a societal obligation to maintain law and order (Thiroux & Krasemann, 2009).

The initial stage Post-Conventional Level of moral reasoning, which is the fifth stage of moral reasoning, is characterized by understanding that laws are enacted to serve society and, therefore, could be modified upon showing of a good cause (Thiroux & Krasemann, 2009). At stage five individuals would not merely acknowledge laws to avoid punishment, as in the first stage of Pre-Conventional Level, or obey them as a show of respect towards authority, as in the fourth stage of moral reasoning at the Conventional Level, but would view them as a "social contract" (p. 24) established to accomplish a positive societal good (Thiroux & Krasemann, 2009).

The second stage of Post-Conventional Level is the sixth and final stage of Kohlberg's moral decision-making structure and reflects the highest stage of moral development in decision-making. At the sixth stage, individuals understand various ethical and moral views, as well as the

law. They also fully understand the fundamental human virtues, such as justice, equality, integrity, freedom, dignity and respect, and are able to freely select universal ethical principles to solve ethical dilemmas (Thiroux & Krasemann, 2009).

Kohlberg aimed at illustrating an inherent system that could be universally applied to various stages of an individual's moral reasoning in order to explain the rationale for certain moral choices. Further, Kohlberg believed that, in the process of moral reasoning, an individual moves to a higher level of reasoning to seek help in solving moral dilemmas faced at the lower levels (Thiroux & Krasemann, 2009).

Therefore, through cognitive development, a person can improve his or her moral reasoning abilities, by moving from the lower stages of strictly avoiding punishment and perusing self-interest, to pleasing others in following rules and regulations, and ultimately, appreciating societal standards and developing a moral character (Flanagan & Clarke, 2007).

Thereafter, a student of Kohlberg, James Rest, developed *Defining Issue Testing (DIT)*, (p. 55) as a tool intended to study, measure, determine and define a person's moral development, and as a substitute for Kohlberg's traditional interview method of assessing moral reasoning (Thoma & Dong, 2014).

Rest has been the authoritative force in empirical research for ethics in accounting (Sweeney & Fischer, 1999) due to his development of the Schema Theory in conducting his DIT research (Barnes, 2013).

Pursuant to the Schema Theory, schemas are created in the mind each time that a person experiences an event. Thereafter, every time that a person encounters a similar event, a schema of the prior similar event and its related knowledge is retrieved for guidance to help understand,

process, evaluate, and solve the newly encountered issue, accumulating and building on the previously-created schema (Rest et al., 1999).

Therefore, Rest relied on moral schemas in evaluating a person's moral reasoning by utilizing the DIT method, instead of the six stages utilized by Kohlberg, which Rest believed are similar (Rest et al., 1999).

Rest created stories centering on a moral dilemma. Specifically, Rest provided 12 statements as guidance to the person challenged with a moral dilemma in the story, while ranking the responses on a 5-level, scale with 0 having no importance, in contrast to the traditional Kohlberg-style narrative responses. Each of the 12 issue statements per story relate to different aspects of the moral dilemma as the person's moral schema is viewed from different angles. Rest believed that DIT results would reflect a participant's preferred schemas, which, in turn, would reveal a participant's universal approach to moral reasoning (Thoma & Dong, 2014).

Further, Rest believed that moral reasoning revolves around four main mental stages: (a) "Moral sensitivity," (p. 97) in being conscious that there is a moral component present, and that the situation involves the well-being of others; (b) "Moral reasoning," (p. 97) in deciding on the selection of the most moral course of action towards that which needs to be done; (c) "Moral decision-making," (p. 97) in choosing the final disposition of the issue, while evaluating both moral and non-moral considerations. This step also involves moral motivation in realizing how an individual might be motivated to place his or her own concerns ahead of others; and (d) "Implementing," (p. 97) and persevering with the person's own principle-based moral decision despite resistance and obstructions. Rest believed that the interaction between the aforementioned mental stages involved "a non-linear process" (Fisher 1999, p. 97).

In addition, Rest's DIT system presumed that individuals make their moral decisions based on three specific schemas, relative to their Personal Interests, Maintaining Norms, or at the highest level of Postconventional thinking. The highest level of moral reasoning under Rest's DIT system, however, was not based on the moral reasoning of any specific moral philosophy, but, instead, was based on the common group-based ideals founded on shared liberties and societal obligations (Rest et al., 1999).

As a student of Kohlberg, each of Rest's moral schemas correspond, in some aspect, to the Kohlberg's six stages. For example, the Personal Interests Schema has features similar to Kohlberg's Stages 2 and 3 as previously discussed. Rest's Maintaining Norms schema resembles features similar to Kohlberg's Stage 4, while Rest's Postconventional schema contains features similar to Kohlberg's Stages 5 and 6. However, Rest believed that laws and regulations were just societal arrangements that indicated previously accepted moral preferences, which are not universal and, therefore, are subject to review and scrutiny (Rest et al., 1999).

### **AICPA on Ethical Conduct (Integrity, Objectivity, Independence, and Due Care)**

As previously stated, the AICPA Code of Professional Conduct (the "Code") governs over and provides guidance to practicing CPAs.

Specific relevant sections of the Code, consisting of *Integrity* (Rule 0.300.040), *Objectivity and Independence* (Rule 0.300.050), and *Due Care* (Rule 0.300.060), are discussed below (AICPA Code of Professional Conduct, 2014).

However, researcher will refer to, discuss, and analyze certain relevant sections provisions of The Code, in light of the aforementioned general ethical principles, as well as established legal authorities, in an attempt to describe the possible rationale behind a drafters' inclusion of those provisions in the Code.



**Integrity (rule 0.300.050).** The Code defines the term integrity, in part, as “the element of character fundamental to professional recognition, ” and “the benchmark against which a member must ultimately test all decisions ” (See Appendix B).

Sub-section 0.300.50.03 of the Code further clarifies integrity by stating that it requires a CPA “to be, among other things, honest and candid within the constraints of client confidentiality ” (See Appendix B).

The aforementioned clarification of the term, integrity, in terms of honesty and candidness, appears to define integrity in term of a virtue, as discussed above, dating back to the era of Aristotle and Plato.

Under the subject of Virtue ethics previously discussed, virtue is defined as morally good character and behavior, which, although subjective, does provide some ethical guidance to the practicing CPA.

In an accounting-related moral reasoning dilemma, a CPA might, at times, need to rank various virtues based on their importance, similar to a utilitarian analysis, in order to assure trust in the profession (Barnes, 2013).

Stanwick & Stanwick (2014) explains integrity as being the most crucial characteristic of a moral person, since it incorporates honesty and truthfulness.

Johnson (2015) refers to the term, integrity, as being honest in dealing with others, and deems it as an important virtue possessed and shared by ethical leaders.

Therefore, the Code’s definition of the term, integrity, seems to mirror the definition of integrity provided by Johnson (2015).

Wheatley (2006) believes that having integrity in one’s words and conduct creates a deeper and more profound impact, since such a person does what he or she urges others to do.

Northouse (2013) explains that the importance of being honest and telling the truth becomes clearly evident when one considers contrary actions such as lying, misrepresentation, and dishonesty.

Integrity is also described as having a guilt-free conscience and being in harmony with one's actions (Stanwick & Stanwick, 2014). Such an analysis, based on telling the truth by considering the consequences of contrary action, appears analogous to consequentialism, as previously discussed.

Kouzes & Posner (2007) explain that honesty has been selected in nearly all of the surveys that they have conducted as the single most significant influence upon leader-follower relationships. They further explain that people often use the words "integrity and character" (p. 32) in relation to describing honesty (Kouzes & Posner, 2007).

Kotter (1996) emphasizes that honest communication allows a person to create the trust needed as an essential element towards of building a coalition in his theoretical model of implementing major organizational change.

George (2007) believes that an ethical and moral person must live with integrity, be true to oneself, and incorporate it into the fabric of his or life. He describes a person's life as his home, containing various rooms, such as a bedroom, living room, or family room. He then explains that if, by analogy, all of the home's walls are simultaneously knocked down, they should reveal the same consistent virtuous ethical and moral behavior for the person living with integrity.

Thiroux & Krasemann (2009) describe telling the truth and honesty as crucial and necessary elements of any moral communication between two individuals, and a "basic cornerstone of morality" (Thiroux & Krasemann, 2009, p. 168).

Finally, understanding and applying universal virtues, such as honesty and telling the truth, as previously discussed, signify the highest level of moral reasoning within Kohlberg's six stages of moral reasoning.

The aforementioned examples provide the foundations for the universal and undisputed significance of integrity as the fundamental element essential to moral character.

Adherence to this provision of the Code alone by CPAs employed by the management teams at Enron and WorldCom would have prevented the fall of both corporations.

The second part of sub-section 0.300.40.03 of the Code, intended to further clarifying integrity in terms of honesty and candidness "within the constraints of confidentiality" appears to engage in utilitarian style balancing of CPAs' virtue of honesty against the need to maintain confidentiality over a client's communications (See Appendix B).

The need to maintain confidentiality over a client's financial information is also mandated by the law, in order to deter and prevent insider trading activities under the Securities and Exchange Act of 1934, among other related issues (Bagley & Dauchy, 2008).

In addition, a majority of states also provide a privilege for communications between an accountant and his or her client. The information subject to this accountant-client privilege is balanced, pursuant to a utilitarian balancing approach against a sufficient legal justification, and, as such, must be revealed if subpoenaed by a court order (Miller, 2015).

The researcher notes that, as a member of the California bar, such is not the case for communications between an attorney and his or her client. In the utilitarian balancing of interests, the need to establish total confidence and trust in the client, in order for the latter to tell the whole truth to his or her attorney, with complete immunity from prosecution, when seeking legal assistance is much stronger for the legal profession. Therefore, with respect to the balance

of interests, the need for total confidence far outweighs the need to comply with a court order. Therefore, this would prevent an attorney from disclosing attorney-client communications, even if ordered by a court, unless specifically permitted by the client (Miller, 2015).

However, pursuant to the provisions of the law governing agency, the disclosure of confidential information by a CPA, who is employed as an agent, would constitute a cause of action for breach of the duty of loyalty (Miller, 2014).

The first part of sub-section 0.300.40.04 of the Code further clarifies integrity by stating that it is “measured in terms of what is right and just,” and that when a CPA is faced by a moral dilemma, he or she should ask: “Am I doing what a person of integrity would do? Have I retained my integrity?” The Code then that explains that “the circumvention of technical and ethical standards constitutes subordination of judgment” (See Appendix B).

The AICPA’s publication, Journal of Accountancy, provides certain guidelines for CPAs in providing structure when approaching possible circumstances that may cause a threat ultimately leading to a violation of AICPA rules, as follows:

1. Identify threats to compliance with the rules;
2. Evaluate the significance of those threats to determine whether the threat is at an acceptable level;
3. In cases where users conclude that threats are not at an acceptable level, “apply safeguards to eliminate threats or reduce them to an acceptable level” (Goria, 2014, p. 45)

Note that, in some cases, an identified threat may be so significant that no safeguards will eliminate or reduce it to an acceptable level. In addition, there are cases where no CPA is able to implement effective safeguards. Under such circumstances, providing specific services would

compromise compliance with the rules, and a member, i.e. CPA, “would need to determine whether or not to decline or discontinue the professional services, or resign from the engagement” (Goria, 2014, p. 45).

The first part of this section is a basic reference to the fundamental core of moral and ethical reasoning based on Aristotelian Virtue ethics, which endeavors to look inside to answer that which is right. As previously stated in the literature review, Aristotle believed that everyone learns how to have a virtuous character through education and life experiences, and should be able to decide the right thing to do.

The aforementioned structural framework seems to utilize a combination of consequential, specifically utilitarian cost-benefit analysis, the outcome of which is evaluated from a deontological, strict compliance viewpoint.

The analysis contained in the aforementioned section, in evaluating the significance of the threats to determine whether the threat is at an acceptable level, seems to employ a traditional cost-benefit analysis, where the costs or “threats ” associated with a circumstance are evaluated against a circumstance-based tolerance level of benefits, in order to determine whether the net is at an “acceptable level” (Goria, 2014, p. 45). This implies that the threat could produce some benefits that would allow the net result of the evaluation to be acceptable.

However, the reminder, starting with the third instruction of the structural framework, seems to follow a deontological approach as it states that if a CPA concludes that “threats are not at an acceptable level,” or that threats are such that applying safeguards will not eliminate it or reduce it to an acceptable level, then, “under such circumstances, providing specific professional services would compromise compliance with the rule, and a member would need to determine to decline or discontinue professional services or resign from engagement ” (Goria, 2014, p. 45).

Pursuant to these structural framework, if the threat cannot be eliminated or reduced to a level that is tolerable under the circumstances, then the CPA has a duty to discontinue services and resign from a task.

The decision, however, as to whether a threat is eliminated or sufficiently reduced to a tolerable level, continues to remain the chief moral dilemma that the CPA will need to address, by using his or her philosophical and professional ethical and moral guidelines as previously discussed.

Subordination of judgment is an example of such a threat that may lead a CPA to violate AICPA rules on ethical conduct. “Subordination of judgment,” (p. 304) refers to situations, such as in the case of Arthur Andersen, whereby the CPA compromised his professional and ethical standards for financial gain (Stanwick & Stanwick, 2014).

Opinion shopping, as previously discussed, is also a type of subordination of a CPA’s judgment, which occurs when an audit client pursues other CPA firms to replace its existing auditors in the hope of a clean audit opinion by another CPA firm, which does not harbor rigid views of the accounting controversy at issue (Chen et al., 2016).

**Objectivity and independence (Rule 0.300.050).** Objectivity and Independence (Rule 0.300.050) elements of integrity are defined as independence, in fact, and also in appearance (See Appendix C).

The term objectivity in accounting means “impartiality and freedom from conflict of interest” (Marshall et al., 2017, p. 15).

Independence requires a CPA to continuously monitor its business relationship with a client in order to ensure that situations not arise that may create conflict between the CPA and

his or her client's interests. Ultimately, this could jeopardize a CPA's independence, and must be prevented in both fact and appearance (Cheffers & Pakaluk, 2007).

A CPA's Independence must be both actual and perceived as such by third parties, since a CPA provides credibility to his or her client's financial statements (Agacer, 1987).

The same rationale discusses subordination of judgment as a catalyst in creating an environment, which lacks Objectivity and Independence. For example, Arthur Andersen received "\$25 million (USD) in 2000 from Enron," (p. 314) for consulting, while receiving "another \$26 million (USD) from Enron," (p. 314) for auditing services during the same year (Donaldson & Werhane, 2008).

The fear of the likelihood that an unfavorable audit could jeopardize annual "consulting revenues of \$25 million (USD)," (p. 35) would have certainly interfered with Arthur Andersen's independence in rendering its audit services (Schilit & Perler, 2010).

The Sarbanes-Oxley Act, discussed later in this literature review, was essentially tailored to prevent similar occurrences resulting from a CPA firm's lack of independence (Jasso, 2006).

**Due care (Rule 0.300.060).** The Due Care element is defined in terms of professional competence "derived from a synthesis of education and experience" to provide "the highest level of professionalism required" (See Appendix D).

Due Care also requires a CPA to ensure his or her professional competence by "assessing his or her own competence of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed" (See Appendix D).

Furthermore, due care is a fundamental legal principle in negligence. The principles governing tort law impose a duty on every person to always act as a reasonable person, in order to prevent any type of foreseeable harm to others. The failure to exercise due care, in order to act

as a reasonable person and in a reasonable manner under the circumstances, would result in liability for the caused harm (Feinman, 2010).

The duty owed by reasonable person standards is elevated to a higher level when a reasonable person is a professional, and specifically to the level of a reasonable professional possessing s specific degrees of expertise. Violation of duty care by a professional is called *professional malpractice* (Miller, 2014, p. 117).

A CPA is also obligated to perform his or her duties in a competent manner pursuant to agency laws, as an agent of the client (Bagley & Dauchy, 2008).

Countless accounting malpractice lawsuits are filed against CPAs every year. For example, the California State Board of Accountancy informs all California CPAs about fellow CPAs who have been found in violation of professional codes of conduct, including professional negligence, by sending a periodic listing to all members.

Below is a summary of major moral reasoning ideologies discussed in this literature review, which may be relied upon and utilized by a qualified CPA in resolving his or her moral dilemmas.

Table 1.

*Summary of Moral Reasoning Ideologies*

Moral Reasoning Ideology	Source or Criteria	Basis for Outcome
Philosophical Framework		
Consequentialism: 1. Ethical Egoism 2. Utilitarianism (Mills)	Egoism: Action evaluation Based on Self-interest.	Greatest benefit or outcome to the decisionmaker.  Greatest net good to greatest number of individuals, after



Moral Reasoning Ideology	Source or Criteria	Basis for Outcome
	Utilitarianism: Greatest net good or benefit to the greatest number of individuals.	applying a 4 part balancing of interest test.
Non - Consequentialist (Deontological)  Two categories:	Duty-based decision making, based on moral character, consequences ignored.	Focus on person or conduct as judged as moral or immoral, regardless of consequences of action.
1) Kant's Categorical Imperative.	Individual as own moral agent.	Moral behavior consistent with universally acceptable moral behavior.
2) Virtue Ethics	Virtuous character, with the goal of creating happiness.	Virtuous moral character in doing the right thing.
Ethics Related to Accounting		
Psychological Moral Dev't.		
1. Lawrence Kohlberg	Six Stages of Cognitive Moral Development (CMD), 2 at each stages of Pre-Conventional, Conventional and Post-Conventional.	Individual resolves ethical dilemmas at sixth stage by understanding and applying universal virtues, such as Justice and Integrity.
2. James Rest	Schema Theory – 3 Main Schemas: Personal Interests, Maintaining Norms, and	Individual's action at the highest level is based on the balancing of moral

Moral Reasoning Ideology	Source or Criteria	Basis for Outcome
	Post-conventional, all developed using DIT.	reciprocity and understanding of shared societal ideals.
3. AICPA Code of Professional Conduct	AICPA Rules on Integrity, Objectivity and Independence	Integrity, based on virtuous character; Also, certain provisions using Deontological, and Utilitarian Balancing of Interests approaches.
Non-Philosophical Basis		
1. Religion	Individual's religious beliefs	Based on strict application of individual's religious beliefs.
2. Family	Parental or family teaching within the family unit.	Based on the moral teachings within the family unit.

### **Fall of Enron, WorldCom, and Arthur Andersen, and Passage of Sarbanes-Oxley**

As previously noted, this section will briefly discuss the fall of Enron, WorldCom, and Arthur Andersen, which, in turn, led to the passage of Sarbanes-Oxley Act, which is the most comprehensive regulation of the financial market since 1934, and contains certain provisions affecting the accounting profession (Marshall et al., 2017).

**Dissolution of the corporate giant, Enron, due to accounting fraud.** Founded in 1985 by Kenneth Lay, at the beginning of the millennium, Enron was ranked as the seventh biggest company in the United States, employing 25,000 employees globally. It was “voted as one of the most admired companies,” (p. 294) by Fortune Magazine (Donaldson & Werhane, 2008). Taking advantage of the energy deregulations, Enron grew into a global giant.

Enron’s unethical and fraudulent financial position, however, was publicly revealed when employee and CPA, Sherron Watkins, encountered various fraudulent accounting activities upon replacing Enron’s Chief Financial Officer (CFO), Andrew Fastow, also a CPA, who resigned from Enron (Donaldson & Werhane, 2008).

A brief interview conducted with Time Magazine is discussed later in this section, in order to provide insight into Sherron Watkins’ moral reasoning upon deciding to reveal the truth about Enron.

Many companies establish standards for excellence in ethical conduct, inform all employees about such standards, and expect employees to adhere to such standards (Bragg, 2006).

Similarly, Enron, itself had “a 63-page employee code of ethics” (Stanwick & Stanwick, 2014, p. 304). However, contrary to its employee code of ethics, Enron had a completely fraudulent and unethical corporate culture, whereby any type of unethical or illegal action was tolerated by the company’s top management in its pursuit of higher profits. Eventually, as Sherron Watkins revealed, Enron was forced into involuntary bankruptcy, as all of its top key management, including founder Kenneth Lay, CEO Jeff Skilling, its CFO Andrew Fastow, and many others were arrested and eventually brought to justice. Of course, as a result of Enron’s

bankruptcy, “25,000 employees worldwide,” (p. 304) also lost their livelihood (Stanwick & Stanwick, 2014).

In 2006, several top key executives of Enron, including Kenneth Lay and Jeff Skilling, were found guilty of several counts of fraud, conspiracy to commit fraud and insider trading.

Kenneth Lay died of a heart attack at the age of 64, after receiving a sentence amounting to “45 years in prison and \$139.3 million (USD) in restitution” (Schilit & Perler, 2010, p. 7). After his death, pursuant to a federal common law, he was cleared of all charges, which occurs whenever a person dies before he or she is able to exhaust all remedies through appeals. His estate agreed to pay “\$12 million (USD) to settle claims,” (p. 7) by employees for their lost pension plans (Schilit & Perler, 2010).

Jeff Skilling was charged with “35 counts of fraud,” (p. 177) insider trading, making false statements financial reports, and securities fraud, and received a “24-year prison sentence” (Weiss, 2009, p. 177).

**Fall of Arthur Andersen due to unethical professional conduct.** Arthur Andersen was one of the oldest global CPA firms, with office locations in all major cities throughout the world. It had been an early leader in ethical behavior (Jasso, 2006). However, Arthur Andersen’s unethical activities and involvement in the collapse of such corporate giants such as Enron and WorldCom, were the main contributors in the fall of this global CPA firm, which “employed 85,000 employees and generated revenues in excess of \$9.3 billion (USD)” (Ali, 2011, p. 47). Ultimately, Arthur Andersen was charged with obstruction of justice in shredding Enron’s work-papers.

Arthur Andersen had been Enron’s auditor since latter’s inception. Arthur Andersen’s partner in charge of retaining Enron, David Duncan, had a reputation of being a fierce client

advocate. In addition, in 2000, Arthur Andersen received “\$51 million (USD) from Enron consisting of \$26 million (USD) in auditing fees and another \$25 million (USD) for consulting services” (Donaldson & Werhane, 2008, p. 314).

As Arthur Andersen’s partner in charge of Enron, Duncan, received over a million dollars per year in compensation. In turn, Arthur Andersen “received \$46.8 million, \$58 million, and \$55 million respectively,” (p. 1) from Enron for auditing, business consulting, and tax services “during the three years between 1999 and 2001” (Raghavan, 2002, p. 1).

Arthur Andersen’s lead auditor and partner in charge of Enron, Duncan, was charged with violating SEC rules and regulations as a result of signing false audit reports, and was eventually barred from practice (Stanwick & Stanwick, 2014).

Duncan’s pastor in Beaumont, Texas, stated in a Wall Street Journal interview that he believed that Duncan was “a good person,” (p. 1) but that had ended up getting involved in a bad situation (Raghavan, 2002).

Duncan and Arthur Andersen’s employees had also destroyed volumes of accounting work-papers and information related to Enron, even after the government had issued subpoenas to obtain them. In addition, Duncan, along with Arthur Andersen’s Houston partners, were ridiculed as having been “caught with their hands in the accounting cookie jar,” (p. 89) and, shortly thereafter, a major professional accounting magazine wrote: “The name Arthur Andersen, once held in high regard, is now a joke ” (Weiss, 2009, p. 89).

As previously discussed under AICPA’s Due Care provision, the failure to exercise due care to act as a reasonable person and in a reasonable manner under the circumstances results in liability for the resulting harm (Feinman, 2010). The violation of the due care by a professional is called professional malpractice (Miller, 2014).

The proof of a professional malpractice allegation is essentially accomplished by providing evidence indicating the lack of exercise of professional due care and diligence in direct violation previously discussed AICPA Rules of Professional Conduct 0.300.060.03. Such proof would have been a much easier task to accomplish, by simply referencing a set of work-papers showing Arthur Andersen's utter failure to follow AICPA's industry-wide professional auditing guidelines, prior to the issuance of audit opinions for Enron for several consecutive years. However, as explained above, Arthur Andersen had quickly shredded tons of work-papers related to the services that it had rendered to Enron.

The importance of ethics and integrity in the accounting profession is clearly evident by the fall of the global CPA firm, Arthur Andersen, due its unethical services rendered to Enron. Having been one of the most prominent, reputable, and largest global CPA firms, it lost its integrity and reputation, and consequently, its ability to practice accounting. It ultimately and filed for bankruptcy protection (Cheffers & Pakaluk, 2007).

**The fall of global giant WorldCom due to accounting fraud.** WorldCom had a similarly devastating financial collapse due to an unethical accounting environment. Purchasing a series of smaller telecommunication companies from the late 1980s until 2001, WorldCom's founder and Chief Executive Officer (CEO), Bernie Ebbers, was able to grow the company into a global telecommunications giant, competing with AT&T as the second largest telecommunications company in the country (Stanwick & Stanwick, 2014).

However, due to Ebber's unethical leadership, and the resulting organizational culture, the company entered into involuntary bankruptcy when the company's Vice-President of Internal Audits, a CPA named Cynthia Cooper, discovered and publicly revealed the company's unethical and fraudulent accounting scheme, which had been intentionally ignored by

WorldCom's outside CPA firm, Arthur Andersen. At its highest market point, WorldCom's outstanding shares were "valued at \$175 billion (USD)" (Donaldson & Werhane 2008, p. 109). More than 70,000 employees lost their jobs, in addition to shareholders' loss of capital (Donaldson & Werhane 2008).

WorldCom's CEO, Bernie Ebbers, the mastermind behind the company's "\$11 billion (USD) fraud," (p. 2) was sentenced to federal prison at the age of 65 (Jasso, 2006).

There is usually a social arrangement between a CPA firm, its client, and the society, which is built on mutual trust. This trust is based on the understanding that CPAs will follow their Professional Rules within the Code of Conduct. A CPA's disregard for such trust produces unethical results such as Enron, WorldCom, and Arthur Andersen (Flanagan & Clarke, 2007).

**The Passage of the Sarbanes-Oxley Act by congress.** Public criticism and outcry from the financial reporting and related accounting issues of the aforementioned global companies, Enron and WorldCom, at the beginning of the new millennium prompted the U.S. Congress to initiate hearings in order to find ways to eliminate, or at least, diminish the possibility of occurrence of such fraudulent manipulations in the reporting of financial statements (Marshall et al., 2017).

Consequently, in July 2002, a bipartisan Congress, led by Senator Paul Sarbanes, a Democrat from Maryland, and U.S. Representative Michael Oxley, a Republican from Ohio, passed the most consequential law regulating public companies and the accounting profession since the Securities and Exchange Acts of 1933 and 1934. The law became known as the Sarbanes-Oxley Act (SOX) of 2002, which specifically addressed a number of issues that had led or contributed to various financial shenanigans (Marshall et al., 2017).

The following represents a brief summary of some of the major financial compliance provisions contained in SOX, in connection to companies with publicly traded stock:

1) Section 302, Corporate Responsibility for Financial Reporting, requires the CEO and CFO to review and certify, under penalty of perjury, that financial statements presented to an accounting firm do not contain any financial misrepresentation. They are also responsible for the effectiveness of the company's internal controls, and must report any deficiencies or changes in the controls to an audit committee (Donaldson & Werhane, 2008).

2) Section 404 mandates the inclusion of a management report on "the adequacy and effectiveness of a company's internal controls," (p. 353) and imposes an affirmative duty to report any deficiencies in the system (Donaldson & Werhane, 2008). This information must be verified by a company's outside CPA firm.

3) Section 409 requires a "real-time reporting and disclosure," ( 606) to the SEC of any material changes in a company's financial position or operations (Cheeseman, 2012).

4) Section 806 provides for "whistleblower employee protection," (p. 606) by imposing criminal penalties against employers resorting to retaliatory conduct (Cheeseman, 2012). Also, Section 802 requires a "mandatory 7-year retention period for work-papers," (p. 606) and documents relating to a CPA firm's audit or review engagements (Cheeseman, 2012).

5) Section 902 imposes "enhanced criminal charges," (p. 606) in the form of attempt conspiracy, for anyone who violates any of the provisions of SOX (Cheeseman, 2012).

6) Section 906 imposes criminal penalties, "up to \$5 million (USD) and 20 years of prison," (p. 349) for certifying misleading and / or fraudulent financial information (Donaldson & Werhane, 2008).



7) SOX also creates “the Public Company Accounting Oversight Board (PCAOB),” (p. 903) consisting of five members appointed by the SEC. (Cheeseman, 2012). PCAOB has authority to enact rules and regulations concerning auditing, ethics, public accountants and public companies.

The intensity of the resentment against and blame upon the accounting profession within the entire nation was best evident by the fact that SOX passed the U.S. House of Representatives by a “vote of 423-3,” (p. 348), and the U.S. Senate by a “vote of 99-0” (Donaldson & Werhane, 2008, p. 348).

In the imposition of an automatic 20-year prison term for fraudulent financial reporting, whether by a company executive or a member of a CPA firm, for conduct which essentially constitutes white-collar crime, the U.S. Congress voted by a 99% margin to send a clear message that the country would no longer tolerate such fraudulent behavior.

The inclusion of Section 302, for example, mandating the certification of financial statements by a company’s CEO and CFO, under penalty of perjury, was specifically designed to prevent future claims of ignorance of accounting and financial affairs, as was articulated by Enron CEO Jeff Skilling, and the company’s founder Kenneth Lay, after the fall of Enron.

Another example, the mandatory automatic document retention period of documents and work-papers, contained in Section 802, was designed to prevent the future destruction of work-papers, as occurred in the hands of employees of Arthur Andersen after the fall of Enron.

The next section endeavors to provide insight into the moral reasoning of CPA Sherron Watkins, the Enron employee, who revealed the truth about the company’s financial fraud, along with CPA Cynthia Cooper, the WorldCom employee, who revealed the truth about WorldCom’s

financial fraud. Both were selected as the Time Magazine's persons of the year for 2002, due to their role as whistleblowers (The Interview, 2002).

**Ethical reasoning (Sherron Watkins of Enron and Cynthia Cooper of WorldCom).**

CPA Sherron Watkins of Enron, along with CPA Cynthia Cooper of WorldCom and FBI agent Coleen Rowley were chosen as Time Magazine's persons of the year for 2002 due to their role as the whistleblowers. They participated in an interview with Time Magazine (The Interview, 2002).

CPA Cynthia Cooper, the whistleblower of WorldCom, was asked by Time Magazine's about her ethical and moral reasoning, and her decision to insist on revealing the truth about WorldCom's financial manipulations upon being exposed to them. She replied by stating:

I think it comes back to values and ethics that you learn through your life. My mother has been a tremendous influence on me. She told me never allow yourself to be intimidated. Always think about the consequences of your actions. I think that this is a wake-up call for all Americans – teachers, mothers, fathers, college professors, corporate world, to help and make sure the moral and ethical fabric of our country is strong (The Interview, 2002, p. 160).

Based on Cynthia Cooper's statement, it appears that her mother's ethical and moral reasoning was at least partly based on the consequentialism theory of ethical reasoning, as previously.

CPA Sherron Watkins, whistleblower for the corporate giant Enron, responded to Time Magazine's inquiry by explaining:

Certainly my mother is still setting the example for me to follow. My parents divorced when I was 14. Divorce wasn't that common back then, especially in the Lutheran

Church. My mother said I am going up there and kneeling, and I dare them not to give me Communion (The Interview, 2002, p. 161).

Based on Sherron Watkins' above-referenced interview it appears that her mother's ethical values were, at least partly, based on her religious beliefs.

This researcher has been an adjunct instructor of approximately eighty-five (85) graduate and undergraduate business law, and accounting courses, as well as specific graduate courses in ethics. This researcher's unscientific poll of thousands of university students for over a decade has identified two primary universal sources for reasoning as: (a) The person's religious beliefs, mainly based on the Golden Rule, followed by, (b) The family influences of either one or both parents, or sometimes grandparents or other caretakers.

In support of this researcher's unscientific research, a qualitative study of 300 business school students enrolled at regional universities throughout Southern California also found family as the first source and religion as the second source for students' learning about ethics (Jasso, 2006).

Family teaching of ethical values, which has also been discussed above, is also a very influential part of an individual's moral and ethical decision-making process.

### **Summary**

This chapter attempts to address various ethical concepts and theories, to help explain a CPA's source for understanding ethics, as well as his or her ethical reasoning process.

The chapter provides a brief history of the accounting profession in the United States, in order to provide background and endeavor to explain some of the issues in the accounting profession that have affected the profession throughout the past decades.

This chapter then provides a theoretical framework, which utilizes the result of the study about CPAs' perception and moral reasoning to guide and assist the profession, and to create more learner-centered adult continuing education courses in ethics.

This chapter continues by discussing the prevailing philosophical ethical theories, which are intended to provide an understanding of the effect of the philosophical ethical theories on a CPA's moral reasoning. These views include the consequential approaches, such as the ethical egoism and the utilitarian approach, non-consequentialist or deontological approaches, such as Kant's Categorical Imperative, followed by Virtue ethics.

Thereafter, this chapter discusses ethics relative to accounting, which includes the psychological theories of moral development by Kohlberg and Rest. Thereafter the chapter discusses certain provisions of the AICPA Rules of Professional Conduct. This chapter concludes by providing a comparison of all major ideologies available for a CPA's moral reasoning, in addition to brief discussion relating to the dissolution of Enron, WorldCom, and Arthur Andersen, which resulted in the passage of the Sarbanes-Oxley Act, the most comprehensive work of legislation on the financial markets since the Great Depression.

Ethics has been debated and discussed for centuries. Every year, there are various new books and papers written, which offer new perspectives. It is interesting to note that the world renowned scholar and management consultant, Peter Drucker, declared, prior to his death, his belief that there was "no ethics in business" (Jasso, 2006, p. 85).

The next chapter on methodology begins with the introduction of the issue, then restates the research question, and describes the method as a qualitative phenomenological study.

Thereafter, it discusses the concept of phenomenological reduction and bracketing, continues with the description of the data gathering instrument, the process of selecting data

sources, establishing validity, and data gathering procedures and coding. The final section provides this researcher's procedure for compliance with the Institutional Review Board (IRB).

## Chapter 3: Study Methodology

### Introduction

As noted in chapter 1, Chief Justice, of the U.S. Supreme Court, Warren Burger, in a recent decision, referred to CPAs as “performing a watchdog function,” (p. 818) to ensure and maintain public trust in the financial markets, as they constitute a very crucial part of the global economy (*United States v. Arthur Young*, 1984). CPAs are the only profession in the world entrusted with the power to provide the necessary certification of financial statement of any nonprofit or for-profit entity, as a form of a CPA firm’s assurance stamp of the financial health of an entity (Rozell, 2008).

Although ethical decision-making in the accounting profession, to a very large extent, is governed by AICPA’s Code of Professional Conduct, it is clear that no set of code or law can possibly provide complete guidance for each and every possible ethical dilemma or situation that a CPA might encounter in the course of the performance of his or her duties. Consequently, there are many situations or circumstances when CPAs are called upon to make a professional judgment that would have ethical or moral ramifications (Cheffers & Pakaluk, 2007). Therefore, the ability to recognize, as well as make, the proper ethical and moral judgment and decisions is an absolute necessity for any CPA.

### Restatement of Research Question

The purpose of this qualitative phenomenological study is to explore and understand how Certified Public Accountants perceive and view ethical issues and concerns which have gradually affected public perception of the accounting profession over the past couple of decades. Stated in a question format,

1. What is a CPA’s perception of ethics in the accounting profession?

The CPA's perception of ethics, as perceived by a qualified practicing CPA in Los Angeles County, his or her understanding of ethics, source of guidance for ethical and moral reasoning and problem solving and perception of the industry in light of various recent major events, such as the fall of Enron and WorldCom, issues and concerns in connection with governmental regulations, as well as the within-profession licensing of continuing education mandates in ethics, as perceived by lived-in experiences of qualified CPA working within the profession.

### **Description of General Research Methodology – Qualitative**

This researcher reviewed the main differences between qualitative and quantitative research methodologies in order to determine the appropriateness of the final selected methodology in achieving the objective of the study.

This researcher's main consideration was the merits of the selection of the research method for this study, and its ability to extract the appropriate type of information in the selected goal of exploring and understand lived-in experiences, and feelings and experiences shared by several individuals of a phenomenon, in order to develop a deeper understanding about the common characteristics of the situation or the phenomenon.

According to Creswell (2014), quantitative research tends to be formulated in a research environment, whereby the researcher is more interested in an outcome in terms of numbers while using close-ended hypotheses. However, qualitative research is more often used in a research environment whereby the researcher is interested in extracting information by submitting open-ended questions to obtain information from research participants to interpret and develop general themes and understanding.

Considering the crucial importance of ethics to the accounting profession, this researcher's main goal is to explore and understand how a qualified practicing CPA perceives ethics in the accounting profession, continuing education, practice, and general life, the sources for their ethical and moral guidance, as well as their general perception of ethics as it relates to the fall of Enron, WorldCom and Arthur Andersen, and the passage of the Sarbanes-Oxley Act.

In interviewing participants in a qualitative research study, this researcher allows participants to voice their stories and opinions, thus empowering them to have their voices heard, to provide a more in-depth understanding, and a better interpretation of participants' thoughts and feelings (Creswell, 2013).

Qualitative research can be used when there is not much known about a phenomenon, as this researcher is attempting to understand it by capturing a comprehensive overview from research participants (Gray, 2009).

### **Specific Research Methodology – Phenomenological Qualitative Study**

This researcher's next task was to choose the most appropriate qualitative approach from among five available qualitative approaches, including "narrative, phenomenology, grounded theory, ethnography and case design" (Creswell, 2013, p. 104).

This researcher chose phenomenological study as the most appropriate method to comprehend common experiences of several individuals of a shared common phenomenon. The understanding of shared experiences of these individuals allows a more in-depth appreciation of the characteristics of the phenomenon (Creswell, 2013).

The word phenomenology is the combination of "two Greek words namely, *phainomenon* which means an appearance, and the word *logos* which means a reason inquiry" (Stewart &



Mickunus, 1990, p. 26). Therefore “the literal meaning of phenomenology is to uncover the essence of an appearance” (Stewart & Mickunus, 1990, p. 26).

### **Phenomenological Reduction and Bracketing**

The term *Phenomenological reduction* (p. 26) is the method whereby this researcher attempts to reduce a complicated phenomenon or issue into its main components (Stewart & Mickunus, 1990). The focus is placed on crucial elements, while the nonessential elements are discounted, thereby disregarding the researcher’s pre-existing bias, and allowing the comprehension of the researched phenomenon (Stewart & Mickunus, 1990).

Phenomenological reduction promotes the concept of bracketing, which was first introduced by Edmund Husserl, a pioneering German psychologist in the field of phenomenology. Bracketing separates the researcher from any preconceived ideas or beliefs about a phenomenon under study. Bracketing is also referred to as *epoché* (Giorgi, 2009, p. 91).

### **Data Gathering Instrument – the Research Question**

The research question was developed by this researcher. Follow-up questions were modified after expert feedback was received in the process of expert checking, as explained further under the heading expert checking in this chapter.

As previously stated, the study was designed to obtain the needed information for the research question from participants by asking the following research interview question, along with its related subsections and dozens of follow-up questions (See Appendix A):

1. What is a CPA’s perception of ethics in the accounting profession?

### **Process of Selecting Data Source – Study Participants, Population and Sample**

The research question is intended to understand the perception and the lived-in experiences of ten CPAs practicing within Los Angeles County, California, which serves as research venue.

The completion of a minimum of 80 hours of Continuing Professional Education (CPE) every two years is mandatory in California. In addition, there are required numbers of hours in technical and non-technical areas, including minimum hours in ethics (California State Board of Accountancy License Renewal and Continuing Education).

As with many professional associations, the California Society of Certified Public Accountants (CalCPAs) provides their members with opportunities to attend various continuing education courses, in order to assist them in their maintenance of professional competencies (Bologna & Lindquist, 1995).

This researcher, having attended CalCPA's CPE seminars, may attempt to utilize this forum in seeking possible participants for this study. Therefore, while attending various CalCPA continuing education seminars in diverse areas, such as the San Fernando Valley and West Los Angeles regions, this researcher, subsequent to obtaining IRB approval as stated further in this chapter, and with the prior permission of onsite CalCPA seminar organizers, will make a general announcement of this researcher's intention to conduct a doctoral research study at Pepperdine University on a topic covering the perception of CPAs on ethics relative to the accounting profession (See CalCPA Grant of Approval for Recruitment of Volunteers attached as Appendix E). Thereafter this researcher will ask any CPA interested in participating in the study to provide this researcher with his or her contact information.

This researcher will also utilize the *snowball sampling method* (p. 153) of obtaining referrals to likely CPA participants from the existing volunteer participants (Gray, 2009).

As an additional possible source of research participants, this researcher may contact CPAs met through 27 years of practice in public accounting in various CPE or general meetings, or in past employment shared offices, again asking for any interested participants to provide their contact information.

This researcher will utilize the *maximum variation sampling method* (p. 156) available within the purposeful sampling strategies, in order to select qualified participants with different criteria to expand the possibility of encountering participants with different perceptions (Creswell, 2013).

The pertinent literature on phenomenology provides for the collection of research data “from 5-25 participants” (Creswell, 2013, p. 81). This researcher will utilize 10 participants for this phenomenological study.

Therefore, this researcher will gather information for up to 20 qualified participants, which this researcher has encountered during the past 27 years of practice throughout Los Angeles County region at various past educational meetings and seminars, shared offices, or via introductions to through snow-ball sampling, and ultimately select and interview 10 participants, pursuant to the maximum variation methodology approach.

This researcher anticipates witnessing a certain amount of reluctance on the part of practicing CPAs to provide this researcher time for an interview. This researcher believes that CPAs are much more comfortable talking about financial statement facts and figures, as opposed to their feelings and emotions.

Additionally, as a CPA in the profession for more than quarter of a century, and as a member of the California State Bar, this researcher understands another CPA’s reluctance to participate in a research activity, which he or she might view as a non-billable activity.

However, this researcher will aim to obtain 10 research candidates in Los Angeles County, who will volunteer to participate in this phenomenological study.

Los Angeles County currently contains a total of 14,969 CPAs practicing with an active CPA license, according to researcher's personal inquiry from a legislative analyst employed by the California Board of Accountancy (N. Movassaghi, personal communication, November 15, 2016).

### **Validity of Data Gathering Instrument – the Interview Questions**

The individual descriptions are accumulated to extract a general common meaning in order to provide “the essential substance and essence of participants’ shared experiences” (Moustakas, 1994, p.13). Validity refers to the degree and extent to which the research instrument is designed to capture and measure the existence of objectives of the study (Gray, 2009).

The main data gathering instruments utilized in this study are all the interview questions designed to obtain the information needed to explore and understanding the CPAs perception of ethics in the accounting profession.

This researcher utilized the following diverse methods to promote validity of the research instruments.

### **Researcher’s Knowledge of Ethics**

This researcher has used his knowledge of ethics, in general, as an adjunct instructor of undergraduate business courses, which contain ethics assignments at a local university for more than a decade with, and happens to be a California CPA for 27 years and a California attorney for 23 years. This is one of the foundations for the researcher’s attempt to formulate interview

questions, with sufficient nexus and relevance, to extract credible information in connection with CPAs' perception of ethics in the accounting profession.

### **Expert Checking**

Expert checking refers to seeking the participation of experts in the field to validate certain aspects of research (Gray, 2009).

This researcher submitted his research interview questions to two experts who are both graduates of Pepperdine University's Doctorate of Education in Organizational Leadership program, and who having obtained their respective doctorate degrees over a decade ago.

In addition, both of the aforementioned graduates have published several books and articles, and have previously conducted qualitative research using the phenomenological method.

Further, both experts have continued their education and have obtained Doctorate of Psychology degrees, respectively, subsequent to obtaining their Doctorates of Education in Organizational Leadership from Pepperdine University.

All of the research interview questions were submitted to each of the experts, along with all pertinent research information, such as the type of study, the phenomenon being studied, and the research question.

The experts were asked to review each question and to submit their feedback in the form of suggested modifications (See for letter and study information in Appendixes F and G).

This researcher also met in person, and provided five pages of the researcher's interview questions, to a full-time professor of accounting, who has earned a Doctorate in Philosophy in Accounting from Texas A&M University, and has had many published journal articles in subject areas of Business Ethics and Accounting.

Any suggestions and modifications received from the two experts, as well as feedback received from the subsequent expert with whom the researcher met with in person, were incorporated to generate the final format of the research interview questions (See Appendix A).

**Additional expert checking.** The interview research questions are then submitted to the dissertation committee, consisting of all doctorate level instructors, each holding a doctorate degree for further expert evaluation, comments, suggestions and modifications (Gray, 2009).

Any additional comments, suggestions, or modifications by the additional expert dissertation committee panel members will be incorporated in the final version of the research interview questionnaire, as the final version of the main source of a data collection instrument (See Appendix A).

#### **Clarification of Researcher's Possible Bias**

The thought process and behavior of every single person is influenced by a series of past circumstances or events. Bill Gorge (2007) refers to these past experiences and events as the person's life story and believes that it governs all of the person's thoughts and beliefs in his or her daily life.

Senge (2006) states that the accumulation of past events and circumstances create what he refers to as *mental models* (p. 8), which subconsciously dictate a person's every action. They also influence a person's actions, and effect his or her decisions and behavior.

As a California CPA, attorney, and adjunct professor for law, accounting and ethics courses, this researcher has also created mental models, which have been formed through years and decades of personal and professional lived-experiences.

As previously stated, the concept of bracketing, requires this researcher to separate himself from any preconceived ideas or beliefs about the phenomenon being studied.

Although this researcher uses lived-experiences and mental models of perception of ethics in the accounting profession in formulating and drafting interview questions to extract participants' lived-in experiences in connection with the phenomenon being researched, this researcher will remain mindful of researcher's feelings and emotions which could affect researcher's mental models and judgment.

Further, aware of the importance of emotions and the need for emotional intelligence at all times through the Pepperdine University's doctorate program, this researcher took time to identify and form an emotional blueprint of his own emotions through self-reflection in order to understand how they might affect his perception of ethics in accounting (Caruso & Salovey, 2004).

### **Data Gathering Procedure**

One-on-one interviews are this researcher's main source for the collection of data for this study. In the interviews, this researcher will have one-on-one interactions with participants, and will ask certain previously-drafted interview questions in a relaxed setting, while carefully listening and recording participants' responses. This researcher will also view and note participants' body language, as the latter is a compelling tool in obtaining reliable and meaningful information (Gray, 2009).

The following is a list of additional steps that this researcher plans to take in compiling and sorting the research interview compiled from multiple sources, including Gray, (2009), Creswell (2013), Creswell (2014), as well as certain mandated provisions contained in Pepperdine University's IRB approval procedure.

- First and foremost, as a federally mandated legal prerequisite to any study or research about human subjects, this researcher will ensure full compliance with the

university's IRB mandates, as explained in a subsequent section entitled Institutional Review Board and Concerns.

- This researcher will prepare a list of all participants' relevant contact information, including their telephone number, business address, and e-mail address in order to verify through the California Board of Accountancy's website that each participant holds a California CPA license, as per Table 2.

Table 2.

*Initial List of Research Participants and their Contact Information*

Name	Firm	Office Address	Tel Number	Email	Years in Practice
Joe Smith	Smith & Doe	123 Main St	(213) 555 5555	js@sd.com	10

- This researcher will ask participants to create the most comfortable environment for the interview, in order to put each participant at ease.
- This researcher will use multiple digital recording devices to ensure the proper recording and documentation of each participant's responses.
- This researcher will start by building rapport, and by thanking each participant for his or her time, and for their willingness to participate in the study.
- This researcher will inform each participant that the interview will last 20-25 minutes and must be recorded, in order for the researcher to have the interview transcribed, analyzed, and coded for the research study. Therefore, if the participant is not comfortable with being recorded, he or she has the right to leave the interview, without potential ramifications.



- The participant will be provided a detailed informed consent form, with specific information about data collection, confidentiality, and other issues in connection with the interview.
- To ensure an unbroken chain of custody for proper capture, control, documentation, analysis, safe-keeping and disposition of any and all information, this researcher will implement a chain of custody for the information participant's identity and study related information. The procedure will not only maintain confidentiality, but will also increase the reliability of the information.
- This researcher will personally and solely handle and transport any and all interview data, including each participant's identification information, as well as the digital and recording devices, in the researcher's combination-lock briefcase.
- One copy of each participant's digitally recorded statement will be hand-delivered for transcription. This researcher will maintain two duplicate originals in a locked office cabinet as back-up copies.
- Upon the return of the transcribed interview from a professional service, this researcher will randomly select an interview, then read and compare, word-for-word the content of the corresponding transcription received, in order to verify it and ensure the accuracy and reliability of the source data, as transcribed by the professional transcription service.
- Thereafter, this researcher will follow the procedure contained in the IRB consent form in connection with the destruction of any and all participant-related transcriptions and files. Any study-related computer files will be maintained in a password-protected computer, and will be destroyed after three years.

- Once all of the information is collected, this researcher will develop a master list of the information gathered in the study.
- The transcription data of each participant will then only be identified by a number. The information on the correlation between each participant's name and the number assigned to the transcription data will be maintained on a Microsoft Excel worksheet, and kept on this researcher's password-protected computer, with a password known only to this researcher.

### **Proposed Data Analysis Procedure – Qualitative Phenomenological Coding**

Once the study information is received in the form of a transcription of each participant's interview, and its reliability and accuracy has been verified as per the aforementioned section, the information will be coded to deduce the essence of themes of participants' lived-in experiences of the phenomenon being studied (Giorgi, 2009).

Qualitative analysis of the research data must be conducted in a rational, meticulous and analytical manner in order to give meaning to the data. Therefore, although qualitative analysis does not have a mandatory set of specific rules and procedures, it is generally accomplished by deriving a meaningful interpretation based on the process of logical reasoning and sorting of data through a coding process (Gray, 2009).

The specific steps applied in the coding of the transcripts are listed below in detail:

The researcher will utilize the *Inductive Coding* (Saldana, 2013, p. 91) for the first cycle coding of interviews “to honor the participant's voice” (2013, p. 91) in “identifying and developing themes from data” (2013, p. 91).

Next, for the initial coding, the researcher will utilize *Values Coding*, (Saldana 2013, p. 111) to reflect “a participant's values, attitudes, and beliefs,” (p111). These *Value Codes* (p. 111)

could be formed during the coding process, based on each participant's responses in the transcripts (Saldana, 2013).

This researcher will then apply *Axial Coding* (Saldana, 2013, p. 218) to “determine which of the dominant codes from the research are less important ones, and to reorganize the data set...as synonyms are crossed out, redundant codes are removed and the best representative codes are selected” (Saldana, 2013, p. 218).

*Codeweaving*, (Saldana, 2013, p. 248) is the final stage and most important step in qualitative data analysis, which incorporates all key concepts, words and themes into narrative form in order to explain essential findings of a qualitative study.

More specifically, this researcher will follow steps listed below in the coding of transcriptions of each participant's interview, in accordance with Saldana (2013) and Creswell (2013). This researcher:

- Will modify a duplicate copy of the interview transcripts, creating a very wide right-hand margin for making notes, comments and observations.
- Will place all research questions and concerns on a stand, visible at all times, while engaging in the coding process in order to maximize the focus on research questions and minimize any possible researcher bias.
- Will read each transcript to get a general impression of the main themes that exist in the interviews, while documenting first impressions.
- Will read every line of each transcription very carefully.
- Will re-read the transcripts, in order to reach the larger fundamental meanings and essence of each response, and to understand each participant's lived-in experience and perception relative to each question.

- Will utilize different colors, instruments and methods, in order to distinguish emerging ideas, themes and concepts. This will be done repeatedly.
- Will code or label each word, impression, thought, idea, opinion, concept, and other issues that may appear relevant to the study.
- Coding of an item could be due to the repetition of a concept, or its uniqueness, or to the impression of its importance given to an item by each participant by words or conduct. It could also occur due to its familiarity or appearance in the researcher's philosophical, psychological, AICPA code-related, or other issues or concepts discussed in the researcher's literature review.
- Will code and re-code each transcription.
- Will determine which code emerges as important, and incorporate various codes together into groups.
- Will create new codes by combining previous codes or groups together, while discarding prior codes that appear insignificant.
- Will combine the remaining codes and groups into new categories or themes.
- Will keep categories that appear relevant and discard others.
- Will identify categories and explain any connections that appear between categories.
- Will look for order of importance in emerged in the categories.
- Will categorize codes, and analyze ideas and themes in order to develop main themes of each participant's perception on various important issues.
- Will report findings and their relevance to the concepts introduced in the literature review of the study in Chapter 4.

## **Institutional Review Board and Ethical Concerns**

The Office of Human Research Protection of the U.S. Department of Health and Human Services governs over any research or study involving human subjects (Creswell, 2014).

The Title 45 Code of Federal Regulation, Part 46 protects all human subjects from any possible research, physical, or mental harm, in this study by requiring prior examination and approval of any research or study procedure by a related university “Institutional Review Board (IRB) division” (Creswell, 2014, p. 95).

As the researcher intends to ensure IRB approval of his research study, this researcher will follow Pepperdine University’s current guidelines. Certain provisions of the Informed Consent For Participation in Research Activities are stated below (See Appendix I).

- In an introductory letter, this researcher will be identified to the participant as a doctorate student at Pepperdine University, conducting a research study about CPAs’ perception of ethics and related questions. The letter will note that participation is voluntary, and that it will be recorded and last approximately 20-25 minutes.
- The letter will further state that the information will remain confidential during, as well as after, the study. To achieve confidentiality, each participant’s interview will be numbered and a recording carried from the interview personally by this researcher in a locked briefcase, with a combination code only known to this researcher.
- The participant will also receive a six-page IRB consent form, as previously discussed.
- Therefore this research study and the interviewing process will commence after obtaining the mandatory IRB approval letter from Pepperdine University.

## Summary

This chapter begins with the introduction of the issue, then restates the research question and then describes the method as a qualitative phenomenological study.

Thereafter, it discusses the concept of phenomenological reduction and bracketing, continues with the description of the data gathering instrument, and the process of selecting the data source, establishing validity, the data gathering procedures, and coding. The final section concludes with this researcher's procedure for compliance with the Institutional Review Board (IRB).

## Chapter 4: Research Findings and Implications

### **Recruitment and Selection of Participants**

The data for the study was collected by conducting one-on-one interviews and interaction with study participants. This researcher first obtained a written recruitment authorization (see Appendix E) from the California Society of Public Accountants (CalCPAs), and then obtained the Institutional Review Board's (IRB) approval (See Appendix J), providing authorization for conducting research involving human subjects. Thereafter, this researcher attended Continuing Professional Education (CPE) events held by CalCPAs in locations in the San Fernando Valley and Los Angeles, soliciting CPAs to volunteer for the study. Solicitation for volunteer CPAs was made by a general announcement at the beginning of CPE events, upon obtaining the event organizer's oral approval, with this researcher informing the CPE attendees of the researcher's pending study at Pepperdine University on the topic of CPAs' perception of ethics in the accounting profession and its related issues. This researcher also asked for volunteer's contact information. The main criteria for inclusion was for the participant to have lived and practiced as a CPA in the research venue, Los Angeles County, for more than a decade.

Not every person, who initially volunteered for the study, chose to subsequently participate. However, this researcher was able to gather information relating to 20 qualified participants, utilizing the remaining volunteers, and snowball sampling to obtain additional referrals from existing volunteers. In addition, this researcher had encountered CPAs during the past 27 years of practice, throughout Los Angeles County, at various meetings and seminars, and in their respective offices. Thereafter, 10 participants were selected from the initial 20 qualified participants, in accordance with the maximum variation methodology discussed in chapter 3 of this study.

This researcher initially encountered some resistance on the part of practicing CPAs to provide this researcher time for an interview, as many CPAs likely deemed talking about perceptions, feelings and emotions as non-billable activity.

However, 10 volunteers were selected and agreed to be interviewed. Each interview was initially scheduled for approximately a 25-minute duration. However, the interviews lasted a total of nearly 7 hours instead, as this researcher encouraged participants to speak freely during the interview. As a result, some participants, at times, deviated from the question with their stories, and were politely invited to return to the specific inquiry.

The demographics of the 10 study participants consisted of 6 men and 4 women, with an estimated average of 28 years of experience in public accounting per participant.

Study participants ranged from CPAs, who conduct financial statement audits, to tax preparers, a forensic CPA, as well as a CPA who was formerly employed by the Internal Revenue Service. In addition, one of the participants happened to have received initial training by and had worked for Arthur Andersen in a span of several years in the 1990s.

### **Data Collection and Analysis**

For their respective interviews, the final 10 selected participants were contacted by e-mail and via a phone call, per their preference for time and location convenient to each participant.

Upon arrival at the interview site, each participant was provided a copy of Pepperdine University's Informed Consent form (see Appendix I), which each participant signed after a careful review of the document. Each interview was recorded using three digital recorders.



Digital audio files were duly transcribed, and respective participants were listed by their contact information, years of practice, and the date of their interviews. Thereafter, they were assigned a number from 01 to 10. In the final version of the transcribed files, the files were de-identified, with files only labeled as study participants, SP01 to SP10, along with the date of each participant's interview for reporting purposes.

The following steps were taken subsequently in the analysis of data:

- Frequently appearing keywords were highlighted.
- An initial verbatim list of keywords was generated from each participant's response to each question.
- The transcribed interview data was reviewed a second time, searching for synonyms to keywords and phrases, ideas, themes and concepts that were identified for each question in the first phase of the review.
- The transcripts were reviewed again for synonyms, phrases, ideas, themes, and concepts to reach the larger fundamental meanings and essence of each response, and to understand each participant's lived-in experience and perception relative to each question and topic in the category.
- Different colors, instruments, and methods were repeatedly utilized, in order to distinguish emerging ideas, themes, and concepts.
- Each word, impression, thought, idea, opinion, concept, theme, and other issues, that appeared relevant to the study, was coded and labeled.

- Coding was sometimes due to the repetition of a concept, its uniqueness, or to impress its importance to an item by each participant, either orally or through one's conduct. Coding also occurred due to its familiarity or appearance in the issues or concepts discussed in the researcher's literature review.
- Each transcription was coded and recoded.
- Those codes, which emerged as important, were incorporated together into groups.
- New codes were created by combing codes and groups into new categories or themes.
- Remaining codes and groups were combined into new categories or themes.
- Categories that appeared relevant were retained, while others were discarded.
- Categories were identified to seek an explanation of connections that appeared between them.
- Categories were analyzed by looking for order of importance within emerged categories.
- Codes were categorized, ideas were analyzed, and themes were developed, as main themes for each participant's perception of various important issues in connection with each main category.
- No data analysis software other than Microsoft Excel was utilized in compilation, interpretation, or reporting of the findings of this study.

The general findings and their relevance to the concepts introduced in the literature review, as applicable, are reported for the primary research question, and the remaining four series of follow-up questions.

### **Specific Findings**

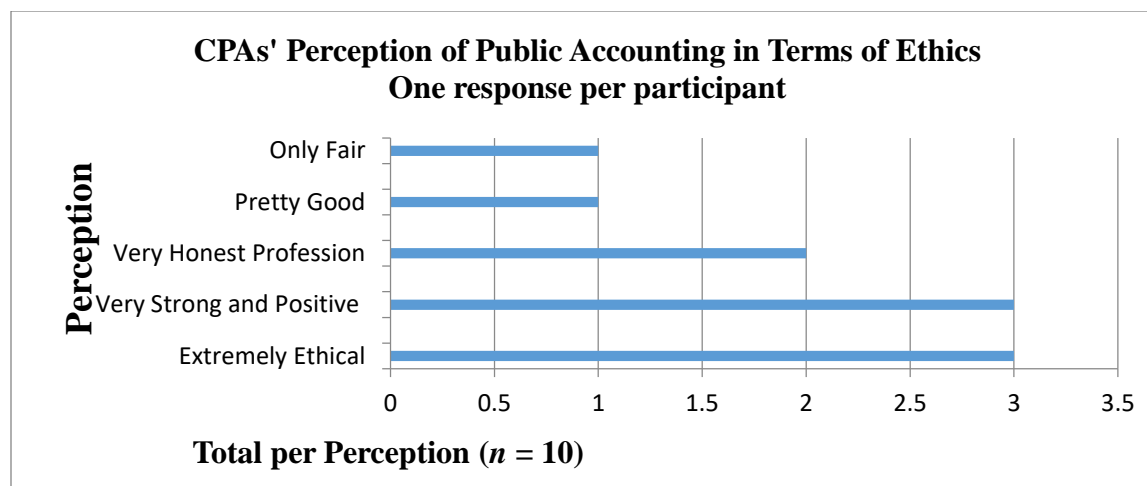
The underlying purpose of this qualitative phenomenological study was to explore and understand how Certified Public Accountants (CPAs) perceived and viewed certain ethical issues and concerns over the past decade. This study utilized one primary research interview question: How do you perceive the public accounting reputation in terms of ethics? The primary research question was supplemented by several follow-up questions (See Appendix A), grouped in four main series, including 1) Inquiry into participants' views relative to issues, such the meaning of the term "ethics" to participants, the percentage of CPAs that participants believed consistently acted in an ethical manner, and, finally, the number one factor perceived by participants as the cause of CPAs' unethical conduct; 2) Influential factors and other sources in participants' ethical decision-making; 3) Mandatory Continuing Professional Education (CPE) courses in ethics, their experience with prior ethics courses, as well as recommendations for improving future CPE courses in ethics; 4) And finally, their views on the impact of the fall of Enron, WorldCom, Arthur Andersen, and the subsequent its related passage of the Sarbanes-Oxley Act, on the accounting profession.

### **Findings for the Research Question and Follow-up Questions**

Participants were asked a specific research question: How do you perceive the public accounting's reputation in terms of ethics? Additional follow-up questions, were grouped in four series. Each of the four series of follow-up questions is discussed separately, along with its related follow-up questions, and are addressed subsequent to the discussion relative to the primary question.

#### **Primary Research Question**

The summary results of the primary research question, "How do you perceive the public accounting's reputation in terms of ethics?" are presented in Figure 1.



*Figure 1.* How do you perceive the public accounting's reputation in terms of ethics?

The result of the study indicated that 90% of participants perceived public accounting reputation in terms of ethics as very favorable, with their perceptions ranging from “pretty good” to “very strong and positive,” and the highest “extremely ethical.” To illustrate the need for a high ethical standard for the profession, SP02 explained:

Our business itself is based on honesty and integrity and as an accountant being in that business, if we do not act in the most ethical manner, with the highest regard for integrity, I think we lose the trust that the public places in us. So, yes, it is absolutely paramount to our business that accountants are viewed with 100% integrity and honesty (personal communication, December 8, 2016).

SP09 also provided a similar view on the need for a public accounting's high ethical standards, explaining:

Basically, in my view I think that the public looks up to us for certain standards, which are kind of at a higher standard than any other profession...so they're expecting us to provide our services at higher standards, and for us to abide by the code of ethics set by the AICPA and different bodies, for example, also meeting the ethical standards for the

U.S. Treasury when you're dealing with the IRS (personal communication, December 21, 2016).

On the other hand, one participant, SP06, did not have a very favorable perception of the public accounting in terms of ethics, the cause for which an unfavorable perception, SP06, clarified by explaining:

I view the public accounting's reputation in terms of ethics as only fair, mainly because of the scandals that came out in the news, like Enron and Arthur Andersen...I think the biggest thing is what they hear on TV and radio...they don't report the good things that happen (personal communication, December 12, 2016).

It is interesting to this researcher that, at least, one participant, SP06, still viewed the reputation of public accounting as "only fair," while specifically referencing the scandals surrounding Enron, Arthur Andersen and WorldCom. Additional findings relating to the participants' perceptions concerning Enron and Arthur Andersen will be further discussed in the fourth series of follow-up questions within this chapter.

### **First Series of Follow-up Questions**

The first series of follow-up questions, inquiring into participants' perception of ethics in accounting, relates to issues such the meaning of the term "ethics" to participants, the percentage of CPAs, that participants believed consistently acted in an ethical manner, and, finally, the number one factor that participants perceived as the cause for CPAs' unethical conduct. Each of the follow-up questions in the first series is discussed separately.

**First follow-up question in the first series.** Figure 2 provides a summary of the participants' responses to the first follow-up question in the first series, asked as: "What word(s) would you use to describe what ethics means to you?"

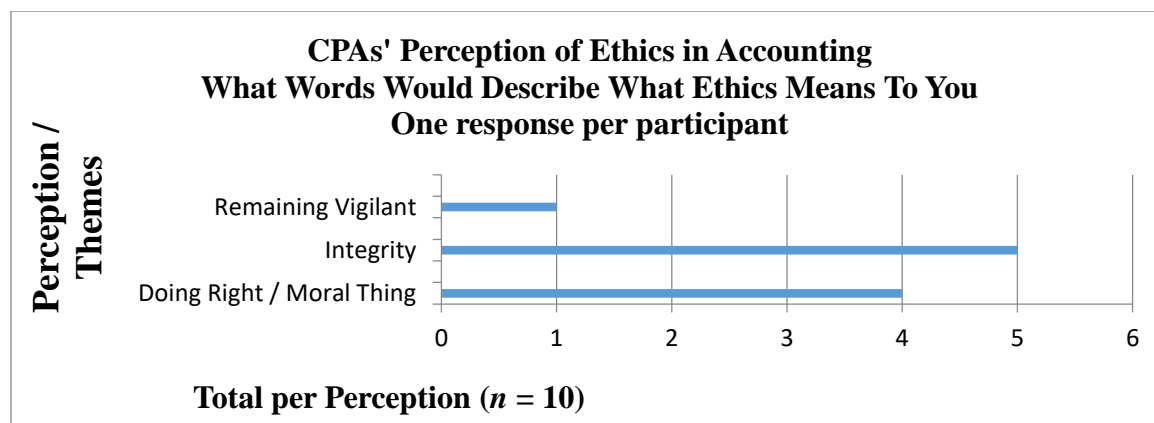


Figure 2. What words would you use to describe what “ethics” means to you?

The data in Figure 2 reveal that 50% of participants responding to this inquiry equated ethics with the term “integrity.” This point is illustrated by SP03 declaring:

Ethics to me means following the rules, integrity, and compliance with the code of professional conduct (personal communication, December 9, 2016).

The second highest category of the participants’ responses to this question consisted of 40%, who defined ethics as “doing the right thing” or sometimes “acting morally.” This response appeared somewhat differently than merely following professional rules. This definition of ethics was equally impressive and highly ethical, as illustrated by SP02:

Ethics to me means that you do the right thing, even if it means that you get the outcome that you and your client do not want. If you follow the correct path and the correct interpretation of the law and best practices, I think that ethics means giving that advice and following it, as opposed to just making sure that your client stays happy (personal communication, December 8, 2016).

**Second follow-up question in the first series.** Figure 3 provides a summary of the participants' responses to the second follow-up question in the first series, asked as: What percentage of CPAs do you believe consistently act in an ethical manner?

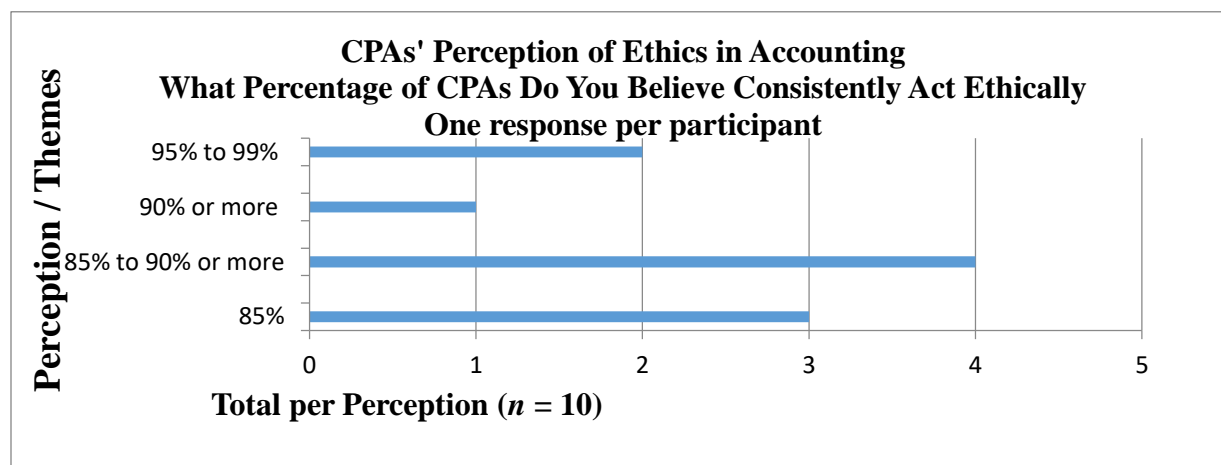


Figure 3. What Percentage of CPAs do you believe consistently act in an ethical manner?

As the data from Figure 3 reveals, 70% of participants responding to this question believed that CPAs consistently act in an ethical manner more than 90% of the time. Also, two participants, SP02 and SP09, within this 70%, believed that CPAs consistently act in an ethical manner at an even higher 95% - 99% percentage rate. However, the data from Figure 3 also indicates that the remaining 30% of CPAs believed that CPAs consistently act in an ethical manner only 85% of the time.

A sample response from SP02 indicates a very high perception of ethics, stating:

I think a very high percentage, like 99% (personal communication, December 8, 2006).

This view, shared by 30% of the participants, that CPAs act in ethical manner only 85% of the time, is unfortunate. However, this result appears somewhat consistent with the results of the participants' study previously provided in Figure 1, which indicates that only about 88% of participants perceived public accounting's reputation in terms of ethics as very favorable.

A sample response from SP05 provides a not very high perception of ethics, stating,

I would say 85%. (personal communication, December 11, 2016)

This perception, shared by 30% of the participants, that only 85% of CPAs consistently act in an ethical manner, is certainly an area that should be emphasized for future improvement.

**Third follow-up question in the first series.** The third follow-up question in the first series was an attempt to elicit the participants' perception as to the number one factor or reason, which leads CPAs to act in an unethical manner, asked as: What do you believe is the number one factor or reason for a CPA to act in an unethical manner in his or her accounting practice?

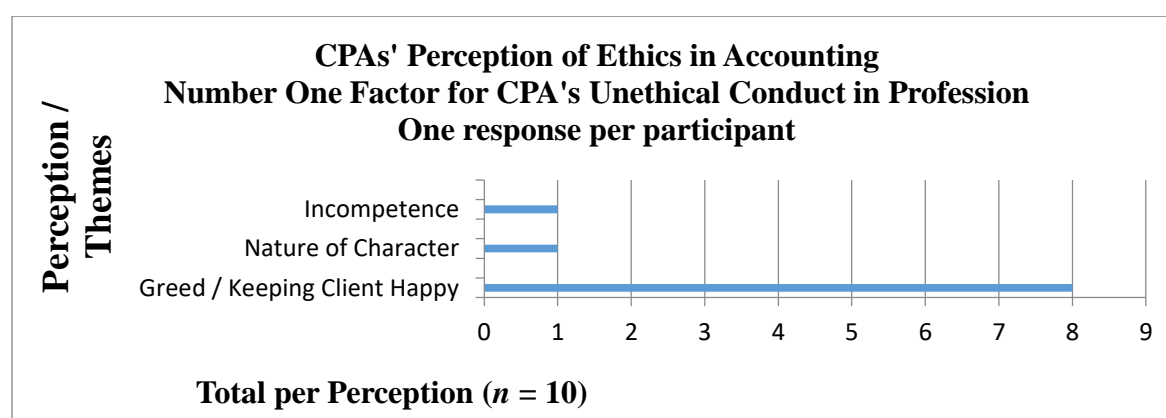


Figure 4. What do you believe is the number one factor for a CPA's unethical conduct?

The result of the inquiry in Figure 4 indicated that 80% of participants believed that greed, whose definition as described by participants also included a CPA's attempt to keep the client happy, constituted the number one factor in a CPA's unethical conduct. The participants' definition of greed further included a CPA's unethical efforts to not lose a client. This point is illustrated consistently by various participants, such as SP03 stating:

Greed...in keeping the client happy (personal communication, December 9, 2016).

SP06, also similarly stated:

I think greed is the number one reason (personal communication, December 12, 2016).



Furthermore, one of the participants, SP08, perceived the “nature of a person’s character” as the number one cause for a CPA’s unethical conduct, stating:

I think the number one reason would be the nature of the person’s character. If the accountant is a crook, then that is the way that person would behave... its based on the value system that the person has (personal communication, December 19, 2016).

Finally, another participant, SP10, perceived “incompetence” as the number one reason for a CPA’s unethical conduct, by stating:

I think lack of competence generally leads to ethical problems (personal communication, January 3, 2017).

### **Second Series of Follow-up Questions**

The second series of follow-up questions, relative to CPAs’ perception of ethics in the accounting profession, revolved around participants’ perception of their ethical decision-making and ethical reasoning, and consisted of a question about the most influential factor in the participants’ ethical decision-making, as well as another follow-up question inquiring into other sources that the participants utilized in their ethical decision-making process.

**First follow-up questions in the second series.** The first follow-up question under the second series of follow-up questions pertained to the factors that participants viewed as the most influential in participants’ ethical decision-making process, asked as: What factor do you view as the most influential factors in a CPA’s ethical decision-making process?

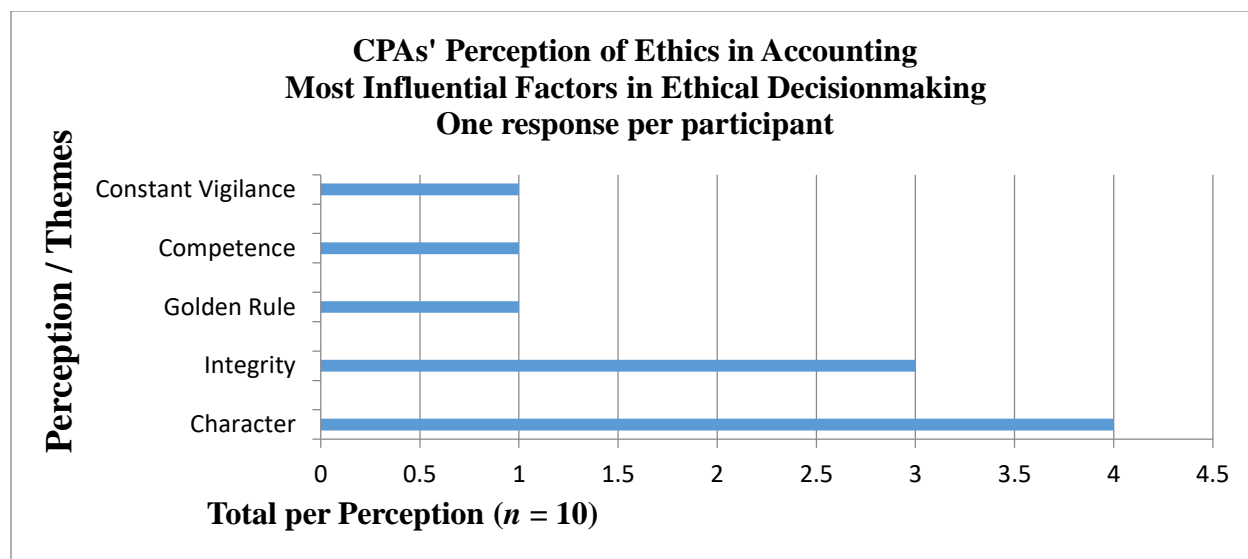


Figure 5. Most influential factor in ethical decision-making.

The resulting data in Figure 5 indicates that 40% of participants viewed an individual's character as the most influential factor in a person's ethical decision-making process.

SP06 described the importance of an individual's character in ethical decision-making, by explaining:

I think my training and my upbringing make me the person who I am...but I think who I am is more affected by my training than it is by my upbringing, because we all come from different families. The training will teach you right from wrong in this profession (personal communication, December 12, 2016).

Another 30% of participants viewed integrity as the most influential factor in a person's ethical decision-making process. SP03 described integrity as the most influential factor by stating:

The most influential factor in my ethical decision-making is to maintain my integrity throughout the process (personal communication, December 9, 2016).

One participant, SP05, identified the elements associated with the Golden Rule as the most influential factor in ethical decision-making, by explaining:

You have to have empathy and place yourself in the place of the person with whom you are dealing (personal communication, December 11, 2016).

The view expressed by one participant, SP08, identified on Figure 5 as constant vigilance, is also an insightful approach to describing the most influential factor in ethical decision-making, stated by SP08 as:

I think the most influential factor in a CPA's ethical decision-making process is that you are always aware of it...and you know how important it is...that is a constant reminder ...it is always there on your mind... it doesn't go away...anytime you are performing any type of accounting work, or accepting a new client, or continuing an engagement (personal communication, December 19, 2016).

**Second follow-up questions in the second series.** The second follow-up question in the second series inquired into other sources that participants rely on in their ethical decision-making process. It asks: What other sources do you use as guidance in your ethical decision-making?

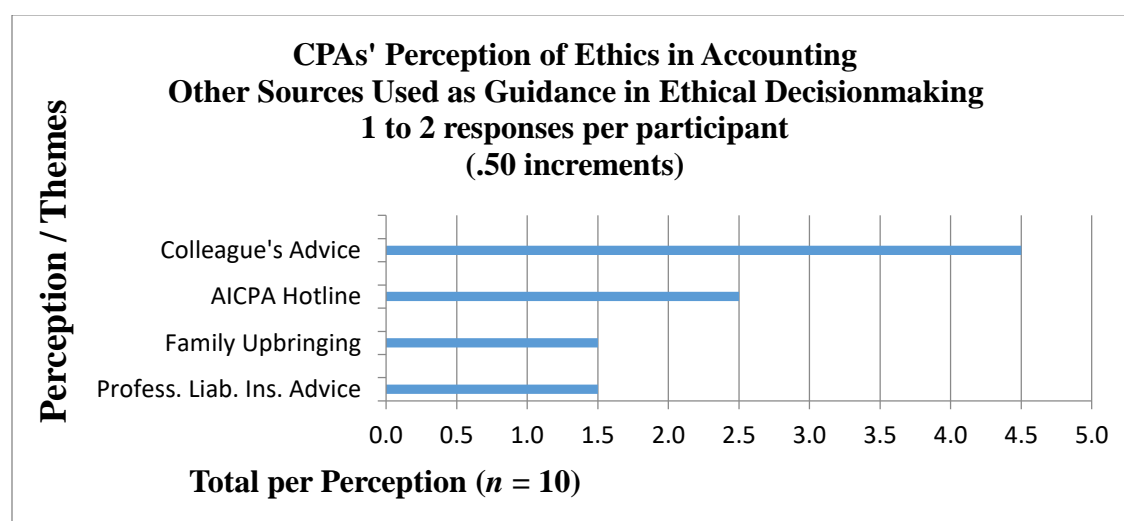


Figure 6. Other sources used as guidance in ethical decision-making.

The results, provided in Figure 6, identify trusted colleagues or other respected professionals in the field as that the most frequently cited other source, as selected by 45% of participants for their ethical guidance. This point was illustrated by SP06, stating:

I would have discussions with other CPAs as to how they would handle it...I pick CPAs that I respect or have worked with...or leaders in the profession...or that I have met through continuing education seminars (personal communication, December 12, 2016).

It is worth noting that participants' reliance on the advice of a trusted CPA colleague, when faced with an ethical dilemma, exceeds the combined total of the next two guidance sources in Figure 6. The two other sources include the AICPA ethics hotline at 25%, and the participants' malpractice carrier's ethics experts, at 15%.

This result emphasizes the importance of the need for continuous training of professionals in accounting profession.

The results shown are at .50 increments. For example, the response from SP02 indicates a preference in seeking ethical guidance from colleagues (0.50 allocation on Figure 6) as well as reliance on SP02's upbringing (.50 allocation on Figure 6). This result explained in the following manner:

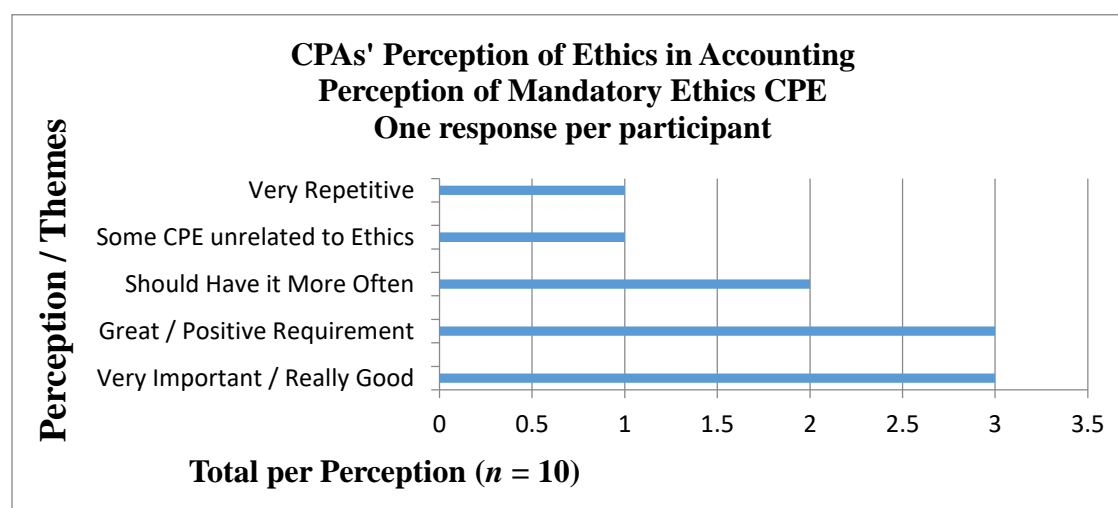
I seek advice from my colleagues and peers for their ethical guidance...But I also think that it has a lot to do with your upbringing...I really believe that a lot of your moral compass is developed during your childhood (personal communication, December 8, 2016).

### **Third Series of Follow-up Questions**

The third series of follow-up questions, relative to CPAs' perception of ethics in the accounting profession, revolved around participants' perception of the mandatory Continuing

Professional Education (CPE) courses in the area of ethics. Another question inquired into words describing participants' perception of their previously attended CPE courses and, finally, the third sought participants' recommendations for improving future CPE courses in ethics.

**First follow-up question in the third series.** The first follow-up question in the third series, relative to participants' CPE, inquired specifically into participants' perception of the mandatory Continuing Professional Education (CPE) course in ethics, asking: What is your perception of the mandatory Continuing Professional Education (CPE) course in the area of ethics, as regularly required by the California Board of Accountancy?



*Figure 7.* Perception of mandatory Continuing Professional Education (CPE) course in ethics.

The data from Figure 7 indicates a very positive perception by participants of the California Board of Accountancy's mandatory CPE requirement in ethics at each biennial license renewal deadline. This very positive perception about the mandatory nature of the CPE in ethics, held by a total of 80% of the participants, ranged from "should have it more often," held by 20%, to "great, positive requirement," held by 30%, to finally "very important, really good," held by 30%.

This perception was described by SP06, along with a perception for the need for more:

I think it is very good, otherwise people get lapse and not keep up with changes.. its just human nature...in fact, I think ethics should be required more often (personal communication, December 12, 2016).

The preference for even more mandatory continuing education is ethics, as expressed by SP 06 and SP09, is somewhat surprising to this researcher, considering the fact that accounting CPE courses in ethics are generally expensive, and their mandatory nature may also create additional challenges for compliance due to a CPA's busy professional schedule.

Figure 7 also indicates disapproval of some prior CPE courses taken in ethics, identified in Figure 7 as "CPE unrelated to ethics," as described by SP07:

Some of the CPE classes in ethics that I have taken when I had to renew my license, I think have had nothing to do with ethics...but others did...so I had to take the class (personal communication, December 13, 2016).

**Second follow-up question in the third series.** The second follow-up research question in the third series, in connection with CPAs' perception of ethics relative to CPE, inquired into the words that participants chose to describe their perception of previously attended CPE courses in ethics. It specifically asked: What words would you use to best describe your perception of the CPE courses in ethics that you have attended? The results of the participants' responses to this question are illustrated in Figure 8.

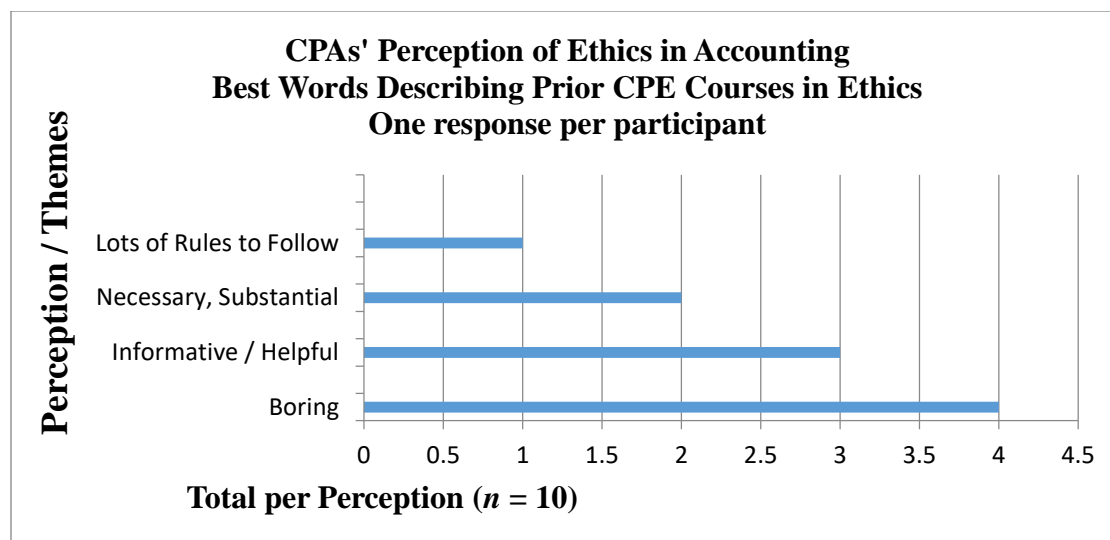


Figure 8. Best words describing prior CPE courses in ethics.

The results indicate that only 50% of participants described the previously attended CPE courses cumulatively, as “informative,” “helpful,” “necessary,” or “substantial.” The remaining 50% of participants had a very unfavorable view of their previously attended CPE courses attended, as reflected by their choice of words, describing them as “boring,” or “just rules to follow.”

The 50% unfavorable view of the previously attended CPE ethics courses is very alarming, considering the vital importance of continuing education in ethics within the profession. The following excerpt from SP08 describes the view shared by 50% of participants, who viewed previously attended CPE courses in ethics as helpful, stating:

They definitely have been very helpful in reminding you of situations that you might get involved in, especially when the instructors talk about real life examples (personal communication, December 19, 2016).

The opposite side of the perception spectrum, describing their previously attended CPE courses as long and boring, is illustrated by a sample opinion by SP07, explaining:

They were mostly long and boring, but a few courses got real interesting when we were discussing ethical issues about real accounting cases (personal communication, December 13, 2016).

It is interesting to note the lack of correlation of perceptions illustrated in Figure 7, wherein participants indicated an 80% approval for the existence of the mandatory CPE courses in ethics, with words such as “very important,” “positive requirement,” and even “should have it more often,” with results contained in Figure 8, wherein 50% of participants had a highly unfavorable view of CPE courses attended.

The comparison of the data between Figure 8 and the data reflected in Figure 7, suggests that, although participants acknowledge the importance of ethics as an integral part of the accounting profession pursuant to Figure 7, with some even seeking more CPE courses more often, there were also at least 50% of participants, as reflected in Figure 8, who were completely bored and dissatisfied with the content of their previously attended CPE courses in ethics.

This signifies the importance of the next follow-up question which inquired into participants’ recommendations in improving future CPE courses in ethics.

**Third follow-up question in the third series.** The third follow-up question, relative to the CPA’s perception of ethics in the third category relating to CPE, specifically inquired into participants’ recommendations for improving future courses in ethics, asked as: What recommendations do you have for improving continuing education courses in ethics for the future?

The data revealed in response to this inquiry, as illustrated in Figure 9, is extremely invaluable for improving future courses in ethics. It provided a rare insight into the minds of



practicing CPAs, providing their very candid, honest, yet confidential recommendations for improving the content of future CPE courses in ethics.

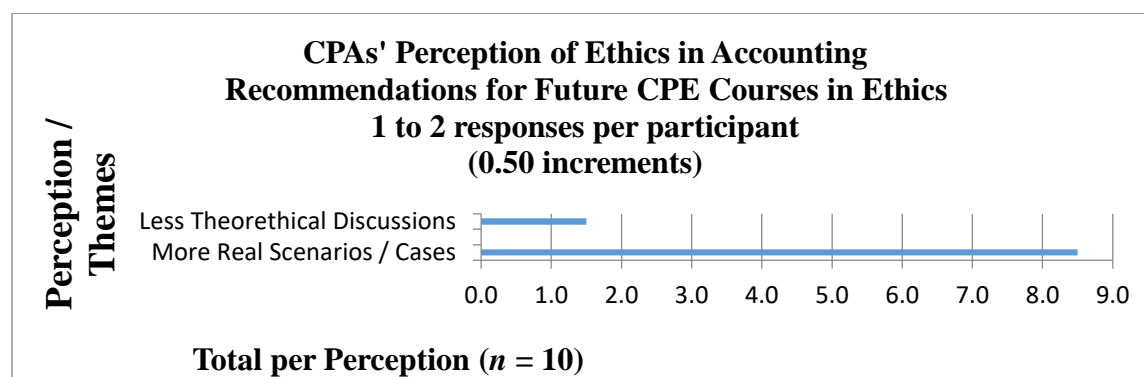


Figure 9. What recommendations do you have for improving future CPE courses in ethics?

Figure 9 indicates that an astonishing 85% of participants consistently recommended adding more real accounting scenarios, which deal with possible violations of ethical rules.

SP04's response illustrates one such recommendation, as:

I think a huge improvement could be made by adding more live examples of violations of ethics...and, consequently, there is the publication that lists the CPAs who have been disciplined and have had their licenses revoked. In a CPA course for ethics, they should include some of those cases to show that even small ethical violations could put you in danger of losing your license and your right to practice (personal communication, December 9, 2016).

The recommendation of the remaining 15%, stated as "less theoretical discussions," also indicates a participant's disfavor of theoretical discussions which do not relate to their profession, in favor of real case scenarios that CPAs could relate to. This is illustrated by SP10 as:

There ought to be some database of unethical situations that become case studies..and I think that's the type of thing that would be more valuable for discussion. ..I mean there were these two guys that once gave a class in ethics and some of the examples were like, there are four people on a lifeboat and there are only three life jackets, so we had to go through and discuss that process (personal communication, January 3, 2017).

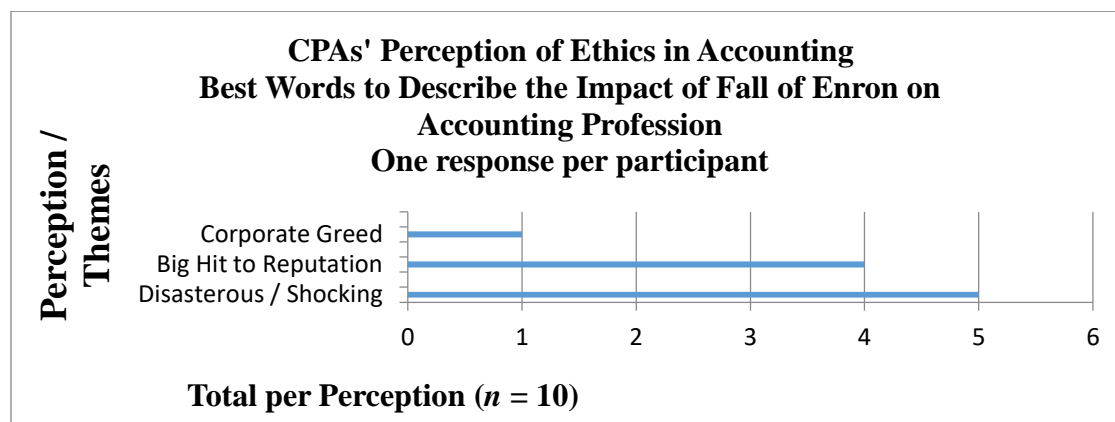
The results presented in Figure 9 were allocated at 0.50 increments. For example, the aforementioned view presented by SP10 was classified as 0.50 as “more real case” and “scenarios” and 0.50 as a “less theoretical discussion.”

#### **Fourth Series of Follow-up Questions**

The fourth and final series of follow-up questions related to participants' perception of the impact of the fall of Enron, and WorldCom, Arthur Andersen, and the resulting passage of the Sarbanes-Oxley Act on the accounting profession.

**First follow-up question in the fourth series.** The first follow-up question in the fourth series was relative to the words that participants believed best described their perception of the impact of the fall of Enron on the accounting profession, stated as: What word(s) do you believe best describe your perception of the impact of the fall of Enron on the accounting profession? As indicated in Figure 10, results indicate that 90% of participants believed that the fall of Enron had either a “disastrous, shocking” impact, or was “a direct hit to the reputation of the accounting profession.” This perception was described by SP08 as:

It had a very big negative impact on the reputation of the accounting profession and it kind of ruined it for a while (personal communication, December 19, 2016).



*Figure 10.* Best words to describe the impact of the fall of Enron on the accounting profession.

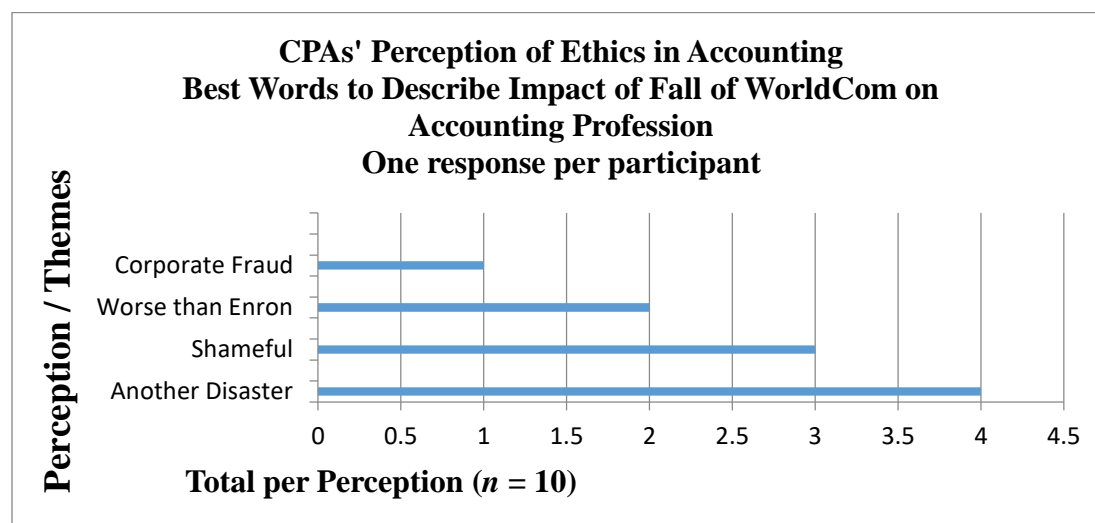
The perception of a direct hit to the profession was expressed by SP02, as:

It was like a direct hit to the reputation of the accounting profession (personal communication, December 8, 2016).

**Second follow-up question in the fourth series.** The second follow-up question in this fourth series of follow-up questions related to words participants believed best described their perception on the impact of the fall of WorldCom on the accounting profession, stated as: What word(s) do you believe best describe your perception of the impact of the fall of telecommunication giant WorldCom on the accounting profession?

The data from Figure 11 indicates that most participants perceived the impact of the fall of the telecommunications giant, WorldCom, as “another disaster,” “shameful,” or “worse than Enron,” since it occurred shortly after the fall of Enron, as the public was still hearing about Enron, as explained by SP06:

It was worse than Enron, because it was right after... and repetition is how you learn and the public hears once, then hears twice... then they become more skeptical of the accounting profession...as they become skeptical of the things they read in the paper and hear on TV (personal communication, December 12, 2016).

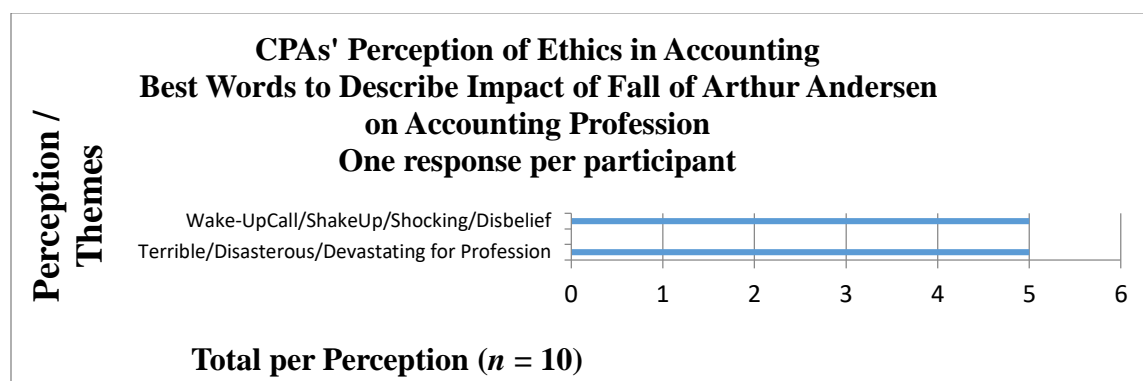


*Figure 11.* Best words to describe the impact of the fall of WorldCom on the accounting profession.

The minority opinion is indicated in the chart as “corporate fraud,” although the opinion only expressed by one person, SP10, is worth noting, as it attributes the fall of WorldCom mainly to “corporate fraud,” by its founder, and is explained as:

I think it made the fact of corporate fraud, by people like Bernie Ebbers, seem more like a probability than a possibility ...that it can happen and it does happen...and it can happen again (personal communication, January 3, 2017).

**Third follow-up question in the fourth series.** The third follow-up study question in the fourth series was relative to the best words participants would use to describe their perception of the impact of the fall of the global CPA firm, Arthur Andersen, on the accounting profession, asked as: What words would you use to describe the impact of the fall of Arthur Andersen on the accounting profession? The results of the participants’ responses to this question were equally divided. On the one hand, 50% using words such as “terrible,” disastrous,” and “devastating for the profession,” and on the other hand the remaining 50% used words such as “wake-up call,” “shake-up,” “shocking,” and “disbelief.”



*Figure 12.* Words to describe the impact of the fall of Arthur Andersen on the accounting Profession.

A sample of the results provided in Figure 12, stating disbelief, is illustrated by SP09, as: It was difficult to believe that an international CPA firm would fall apart so easily...but I think people have a short memory and some outside the profession may have already forgotten Arthur Andersen...I think that, overall, people treat CPAs a little friendlier than they treat most other professionals...they treat us as a confidant and that's why we need to be more ethical, and be more honest, and perform our duties morally and in the right way (personal communication, December 21, 2016).

SP02, stating an opinion illustrating the second 50% category, viewed as “devastating for the profession,” stated as:

It had a devastating effect on the profession. I felt a degree of shame to say that I was a CPA after those scandals, and it took a long time to wipe the slate clean and for people to forget those scandals (personal communication, December 12, 2016).

It is worth noting that many participants viewed the fall of one of the global CPA firms as a shocking possibility that could occur to any size firm, should the firm conduct itself in an unethical manner. However, there was also a glimmer of optimism expressed in the belief that the public, but not the accounting profession, gradually forgets accounting scandals after about a decade.

**Fourth follow-up question in the fourth series.** A related fourth follow-up question in the fourth series inquired into participants' choice of words to describe the cause(s) of the fall of Arthur Andersen. The inquiry asked: What specific words would you use to describe the cause(s) of the fall of Arthur Andersen on the accounting profession? The results of this inquiry, as to participants' perceived causes, is provided in Figure 13, and illustrated and explained by SP04, as:

A few partners trying to keep the money coming in (personal communication, December 9, 2016).

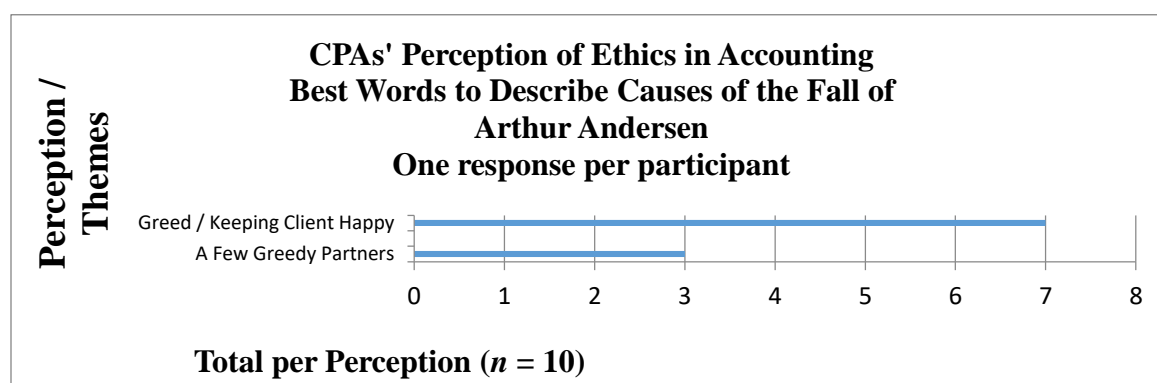


Figure 13. What words would you use to describe the causes of the fall of Arthur Andersen?

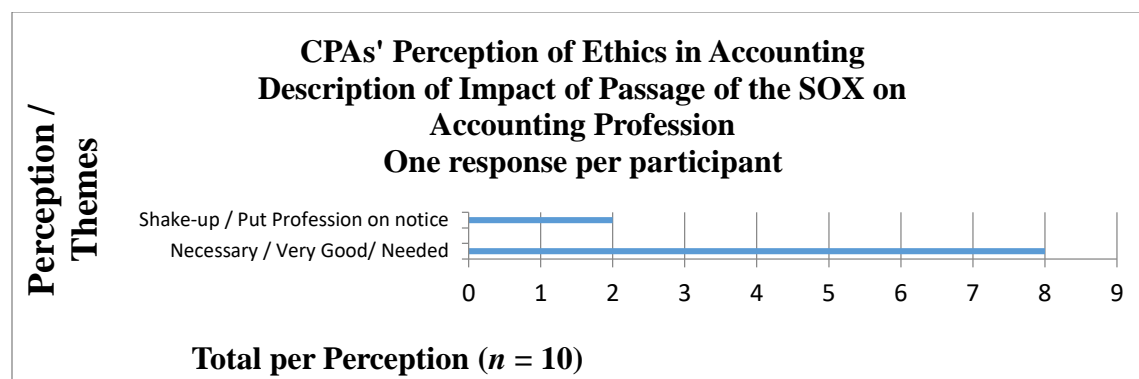
A very similar opinion was expressed by SP06, explained as:

Greed and trying to keep the clients happy at any cost (personal communication, December 12, 2016).

The central common perception among all participants was greed. While 30% of the participants associated greed with only a few partners in one branch office, the remaining 70% seem to associate it with an overall financially aggressive position of the entire firm.

Pursuant to either view, greed was perceived as the dominant cause for the downfall of the global CPA firm.

**Fifth follow-up question in the fourth series.** The fifth issue pertaining to the fourth series of follow-up questions sought to understand participants' perception, relative to the impact of the Sarbanes-Oxley Act (SOX) on the accounting profession, asked as: How would you describe your perception of the impact of the passage of the Sarbanes-Oxley Act (SOX) on the accounting profession. The result of participants' responses is provided in Figure 14. As Figure 14 indicates, 80% of participants described their perception of the impact of the passage of SOX on the accounting profession with words such as "necessary," "very good," and "needed." The remaining 20% of participants described their perception of the impact using words such as "shake-up," or "put the profession on notice," implying a type of warning to the profession to change the manner it conducts itself, while signaling the possibility of a future reprimand.



*Figure 14.* Description of the impact of the passage of the SOX Act on the accounting profession.

A sample perception from the 80% majority of the participants viewing the passage of SOX as "needed" is illustrated by SP02, stating:

People complained about it all the time, saying, because of SOX 404, we have to do this or that...and everything has to be cross-checked, documented and certified...but I think it keeps everybody in check...I think that it is a good thing for the profession.. tough medicine.. we needed that (personal communication, December 8, 2016).



The perception of the impact of the passage of SOX on the accounting profession, expressed as putting the accounting profession on notice and shared by 20% of the participants, is described by SP04 as:

Sarbanes-Oxley put accounting firms on notice to curb unethical behavior (personal communication, December 9, 2016).

### **Summary**

Study participants were selected pursuant to the methodology prescribed in Chapter 3 of this study, and, subsequently, interviewed about their views relative to the primary research question as to how they perceive the public accounting's reputation in terms of ethics. The interviews also contained several follow-up questions.

The additional follow-up questions were grouped in four main series. Each of the four main series was discussed separately, along with their related follow-up questions.

This researcher captured participants' responses using digital recording devices. The responses were subsequently transcribed, de-identified, and analyzed to obtain participants' perceptions, and to develop themes for each question and issue.

The conclusions and themes derived from the primary research question, along with the thirteen follow-up questions, were presented in a total of 14 figures. The information presented in these 14 figures will be discussed and further analyzed in the next chapter for their importance and relevance to the study, and, when applicable, to their consistency with the literature contained in the literature review chapter of this study. The next chapter will also provide observations reached from the study, as well as recommendations for improving future CPE courses in ethics.

## Chapter 5: Observations, Recommendations and Conclusion

### Introduction

As described in the history of the accounting profession, the need to maintain and verify records of economic transactions has existed for thousands of years, as evidenced by the discovered clay tablets dating back to the Mesopotamian era in 3,000 B.C. (Marshall et al., 2017, p. 9).

However, the need to provide assurance to the validity of financial statements in the United States grew during the industrial revolution, which eventually gave rise to the formation of the first CPA firm in New York (Zeff, 2003a).

Several events, such as the fall of Enron, WorldCom, and the global CPA firm Arthur Andersen at the beginning of the 21<sup>st</sup> century tarnished the reputation of the accounting profession. The profession was referred by a unanimous court opinion by United States Chief Justice Warren Burger as “performing a public watchdog function, ” (p. 818) over the financial market, “requiring complete fidelity to the public trust” (*United States v. Arthur Young*, 1984, 818).

This study was designed to understand and explore the perception of the average CPA regarding the accounting profession in terms of ethics, viewed as the cornerstone of the accounting profession, about a decade after the occurrence of the unethical events at the beginning of the millennium.

The conclusions derived from the results of this phenomenological study, conducted by one-on-one interviews with 10 practicing CPAs is provided below. The 10 participants consisted of 6 men and 4 women, with an average professional work experience in the field of accounting of 28 years.

### Results from Primary Research Question

The results of the study of the primary question indicate that approximately 90% of participants perceived public accounting's reputation in terms of ethics as very favorable, with their perceptions ranging from "pretty good" to "very strong and positive," and the highest ranking, "extremely ethical."

Only one of the participants, SP06, provided a very low opinion of ethics in the accounting profession. However SP06's opinion was rendered while making references to the specific events at the beginning of the millennium, as noted in the introduction to this chapter.

Research for this study did not reveal any similar phenomenological study for a comparison of perceptions and views of this type and venue, as this study was a case of first impression. However, it is interesting for this researcher to note that at least one participant, SP06, as indicated, still viewed the reputation of public accounting as "only fair," as still somewhat tarnished after the scandals surrounding Enron, Arthur Andersen and WorldCom. Further discussion of the findings relating to the participants' perceptions in connection with these accounting scandals will be discussed towards the end of this chapter.

Many of the participants, such as SP02, indicated their belief in the continuous need for the profession to act in the highest ethical manner, in order to maintain the trust that the public places on the profession.

This view was echoed and magnified in some instances by views presented by participants such as SP09, who believed that the accounting profession is held to a higher standard of ethics and professionalism than any other profession.

The overall results of the specific research question, aimed to explore and understand the participants' perception of ethics in accounting, that indicate the participants had a very positive

view of the profession, with at least 90% of participants perceiving public accounting as a very ethical profession despite recent scandals.

This view, held by 90% of participants, appears as a very optimistic view of the accounting profession in terms of ethics.

Next are various observations relative to some of the remaining follow-up questions in connection with participants' perception of ethical issues in connection with the accounting profession.

These follow-up questions were design to elicit further responses, in order to explore and understand the participants' view relative to the primary question of their perception of ethics in the accounting profession. The questions are grouped in four different series, with each series containing specific questions pertaining to different ethical aspects of the accounting profession. The results from each category are discussed separately.

### **First Series of Follow-Up Questions Relative to Meaning of Ethics**

The first series of follow-up questions pertained to the participants' responses as to (a) What ethics meant to them? ; (b) What percentage of CPAs they believe continuously acted in an ethical manner? ; and (c) What participants believed was the number one factor for a CPA's unethical conduct?

**Participants' definition of the term ethics.** As stated in the previous chapter, the data for the first question of the first series, revealed that 50% of participants used the word "integrity" in their description of the word ethics, thereby equating one term with the other. This finding is extremely consistent with the essence of the literature review relative to the AICPA Code of Professional Conduct (the "Code"), as stated in the literature review of this study, which, under Rule 0.300.040 defines "Integrity" in part as "the benchmark against which a

member must ultimately test all decisions” (AICPA Rules of Professional Conduct 0.300.050.02). This point is illustrated by SP03, declaring:

The second highest category of participants consisted of 40%, who defined ethics as “doing the right thing” or, at times, “acting morally,” and implied a somewhat different view than merely following professional rules.

The second category of the definition of ethics, expressed by 40% of participants, defined ethics as “doing the right thing” or, at times, expressed as “acting morally.” This definition of ethics appears consistent with morality principles described by Aristotle pursuant to his Virtue ethic theory. Aristotle’s view was discussed in the deontological theories section of the literature review of this study. The deontological theory defined morality as “doing the right, at the right time, in the right way” (Shaw, 2012, p. 10).

**Perception on percentage of CPAs acting ethically.** The data for this second question of the first series revealed that 70% of participants believe that CPAs consistently act in an ethical manner over 90% of the time. However, the data also revealed that 30% of CPAs believe that only 85% of CPAs consistently act in an ethical manner.

It is unfortunate that 30% of participants believe that CPAs consistently act in an ethical manner only 85% of the time. However, this result appears consistent with the results of the participants’ study as to the reputation of the profession in terms of ethics, as per Figure 1 in Chapter 4, which indicated that only 90% of the participants perceived a public accounting’s reputation in terms of ethics as very favorable.

There is no prior similar study of this type and venue for comparison. However, it is possible that the opinion of these 30% of participants was generally influenced by recent scandals involving Enron, Arthur Andersen and WorldCom, as has already been noted in

responses by some of the participants. It is also possible that, due to the filing of countless accounting malpractice lawsuits, and disciplinary actions taken by the State Board of Accountancy on a regular basis, the summary of actions are sent to all CPAs for their review. Such processes also act as a deterrence for similar actions by other CPAs in the profession.

This perception is shared by 30% of participants and reflect that only 85% of CPAs consistently act in an ethical manner. This is certainly an area that should be emphasized for future improvement.

**Perception on the number one factor for unethical conduct.** The last follow-up question in this first series was an attempt to elicit the participants' perception of the number one factor or reason, which led CPAs to act in an unethical manner.

As stated in Chapter 4, 80% of participants believe that greed, which is defined as a CPA's attempt to keep the client happy, as well as a CPA's efforts not to lose the client, was the number one factor in contributing to a CPA's unethical conduct.

This perception of greed as leading to CPAs' unethical conduct is overwhelmingly supported by the history of the accounting profession, as provided in the literature review of this study.

As stated in the literature review, the U.S. Department of Justice forced AICPA in the 1970s to remove the ban contained in its Professional Code of Ethics against competitive bidding, advertising and solicitation. This, in turn, led CPAs to begin to aggressively solicit and "underbid new audit engagements by 25 to 50 percent of the fees charged" (p. 202) by an entity's existing CPA firm (Zeff, 2003a). This practice also undermined decades-old ethical values that had existed in the profession, while providing growth at any price (Zeff, 2003a).

The removal of such a ban also gave rise to opinion shopping (p. 80), which occurs when a client pursues CPA firms to replace its existing CPA firm in the hope of a more favorable opinion in connection with the client's financial or possibly tax-related matter (Chen et al., 2016).

Greed, in the form of financial self-interest, is also consistent with the ethical egoism track of the consequentialist theory, as discussed in the literature review for this study, pursuant to which theory ethical and moral decisions are made by aiming to create the greatest outcome or benefit for the person making the decision (Stanwick & Stanwick, 2014).

As further stated in Chapter 4, within the remaining 20%, one of the participants, SP08, identified "the nature of the person's character" as the number one cause for a CPA's unethical conduct. This perception is highly consistent with morality principles described by Aristotle pursuant to his Virtue ethics theory. This view was described in the deontological theories section of the literature review of this study. The aforementioned theory places extreme importance on a person's moral character in evaluating his or her ethical behavior (Weiss, 2009).

Finally, the last participant, SP10, perceived "incompetence" as the number one reason for a CPA's unethical conduct. As discussed in the literature review of this study, lack of due care will lead to ethical violations of Rule 0.300.060 of the AICPA Code of Professional Conduct. This type of ethical violation, which commonly leads to an accounting malpractice lawsuit, is consistent with the view expressed by this participant. Lack of professional competence could also be remedied by professional continuing education, in the specific area of technical deficiency.

### **Second Series of Follow-Up Questions on CPAs' Ethical Decision-Making Process**

The second series of follow-up questions contained two inquiries relative to participants' perception of their ethical decision-making and ethical reasoning; (a) The first explored the most influential factor in their ethical decision-making, and (b) Investigated other sources participants used as guidance.

**Most influential factor in ethical decision-making.** The responses to this first follow-up question in the second series indicated that 40% of participants view an individual's character as the most influential factor in a person's ethical decision-making process, which is consistent with the importance placed on a person's virtuous character as discussed in the literature review (Thrioux & Krasemann, 2009).

One participant, SP06, described the importance of an individual's character as the most influential factor in ethical decision-making, as consisting of a person's upbringing, and training and education. This description by SP06 is consistent with Aristotle's belief that virtues are learned through education and exposure to life's circumstances. Such circumstances include a person's upbringing, as explained in the literature review chapter of this study (Shaw, 2012).

Another 30% of participants viewed integrity as the most influential factor in a person's ethical decision-making process, which is consistent with Rule 0.300.50 of the AICPA Code of Professional Conduct. The latter describes "integrity" as "the benchmark against which a member must ultimately test all decisions" (AICPA Rules of Professional Conduct 0.300.050.02).

One participant, SP05, identified the Golden Rule as most influential factor in ethical decision-making, which is consistent with a prior study of business students discussed in the literature review, wherein students identified religion as the most influential source for learning about ethics, second only to one's family (Jasso, 2006).



The view expressed by one participant, SP08, as the most influential factor in ethical decision-making, is identified as “constant vigilance” in Figure 5 as presented in Chapter 4. This view was described by SP08 as continuously evaluating the ethical ramifications of one’s task while providing accounting services. Sensitivity to and continuous awareness of the ethical ramifications in performing services is consistent with the four mental stages of moral reasoning developed by psychologist James Rest, as discussed in the literature review of this study. The four mental stages consist of (a) “Moral Sensitivity,” (p. 97) in being conscious that there is a moral component present; (b) “Moral reasoning,” (p. 97) in selecting the most moral course of action towards the pending issue; (c) “Moral decision-making,” (p. 97) in choosing the final disposition while evaluating moral considerations; and (d) “Implementing,” (p. 97) a person’s moral decision-making despite resistance or obstructions (Fisher, 1999).

**Other sources used as guidance in ethical decision-making.** The next and final follow-up question in the ethical decision-making process inquired into other sources used as guidance in ethical decision-making. As indicated in Chapter 4, it revealed 45% of participants identifying a trusted CPA colleague, or other respected leaders in the profession, as reliable sources for guidance in ethical decision-making when faced with an ethical dilemma.

The importance of the 45% of CPAs’ reliance on a colleague’s advice becomes evident when it is noted that, according to the data, the 45% exceeds the combined total of the next two closest reported sources for CPA’s ethical guidance, which were the AICPA ethics hotline, at 25%, and a participant’s malpractice carriers’ ethical guidance experts, at 15%, the total for which is only 40%.

Since this is first phenomenological study exploring CPAs’ perception and their source for guidance, it revealed the importance of the need for continuous training of the entire

accounting profession. These study results indicate that members rely on other members within the accounting profession for ethical guidance, more than any other source in the profession.

It is very surprising to this researcher that a CPA's reliance on a colleague's advice exceeds that of a participants' penchant for advice from AICPA's ethics hotline, a hotline specifically designated to help them with ethical dilemmas, as well as the advice of experts at their malpractice insurance company. Participants seek guidance from a trusted CPA colleague instead of expert agents employed at their malpractice insurance carrier's office, despite the fact that that these malpractice insurance experts are also knowledgeable and are continuously working hard to prevent any type of ethical violation, which may result in a malpractice claim against the insured.

Participant SP02's reliance on his / her own upbringing, as a source for ethical learning, is consistent with the discussion in the literature review of this study identifying family as an influential part of a person's ethical decision-making process (Jasso, 2006).

### **Third Series of Follow-Up Questions on Continuing Professional Education**

The third series of follow-up questions inquired into participants' perception of (a) The mandatory continuing professional education (CPE) in ethics; (b) Their description of prior CPE courses in ethics attended; and (c) Their recommendations for future improvements in CPE in ethics.

**Mandatory nature of continuing professional education (CPE) in ethics.** The first follow-up question relative to CPE related questions, inquired specifically into participants' general perception of the mandatory Continuing Professional Education (CPE) course in ethics as a requirement for certain numbers of hours in ethics education by the California Board of Accountancy at each biennial license renewal.

This positive perception was revealed by 80% of participants, who indicated their perception of the mandatory CPE courses in ethics as ranging from “should have it more often,” expressed by 20% such as SP06, to “great” or “positive requirement,” expressed by another 30%, to “very important” or “really good,” expressed by another 30% of participants.

There are no prior similar studies for comparison of these perceptions. However, although ethics is such an important component of the accounting profession, the preference for more mandatory continuing education in ethics is somewhat surprising to this researcher, given the fact that CPE courses in ethics are generally expensive, and their mandatory nature may also pose additional challenges for compliance considering a CPA's busy office schedule.

It is important to note that the remaining 20% indicated their disapproval of prior courses taken in ethics, referring to them, at times, as either “unrelated to ethics” as described by SP07, or “very repetitive,” as noted by SP10. This observation by SP07 relates to the subject matter of adult education in ethics and is consistent with the second principle facilitating adult learning, as described in by (Knowles et al., 2012), as teaching CPAs about ethical issues that deal with their own professional careers.

This general dissatisfaction of prior ethics courses indicated by 20% of the participants is certainly an area that should be focused on in the future courses in ethics.

The dissatisfaction by 20% of participants could be significantly reduced by implementing participants' suggestions for improving future CPE courses in ethics, discussed as the third follow-up question in this series.

**Participants' best description of prior CPE courses in ethics.** The next CPE related follow-up question inquired into the words that participants use to best describe the perception of prior CPE courses in ethics.

As indicated in Chapter 4, only 50% of participants described prior CPE courses in ethics as "informative," "helpful," "necessary," or "substantial." The remaining 50% of participants had a very unfavorable view of their choice of words describing their prior CPE courses in ethics either as "boring," expressed by 40% of participants, or just "rules to follow," expressed by the remaining 10% of dissatisfied participants.

The 50% unfavorable view of prior CPE ethics courses is alarming, especially considering the vital importance of continuing education in ethics in the profession. This is further disconcerting when considering that a trusted colleague is a CPA's most frequently contacted source for ethical guidance.

Again, the lack of any prior similar phenomenological study does not provide an opportunity for the comparison of results.

It is interesting to note the difference in the perceptions expressed in response to the two previous questions, as participants indicated an 80% approval for the existence of mandatory CPE courses in ethics, yet 50% of participants expressed a highly unfavorable view of CPE courses attended, and described them as "boring."

The difference between the responses to the two question suggests that, although participants acknowledge the importance of ethics as an integral part of the accounting

profession, with some wanting more of it and more often, at least 50% of participants are completely bored and dissatisfied with the effectiveness of ethics courses that they have attended. This signifies the importance of the next follow-up question raised with participants about their recommendations in improving future CPE courses in ethics.

**Participants' recommendations for improving future ethics courses.** The last follow-up question in the CPE-related series of questions specifically inquired into recommendations for the improvement of future courses in ethics. Participants' responses to this question provided extremely invaluable information for improving future courses in ethics, as they provide a rare insight into the minds of practicing CPAs, and provide their very candid and honest, yet confidential, recommendations for improving the content of future CPE courses in ethics.

An astonishing 85% of participants consistently recommended adding more real accounting scenarios dealing with violations of ethical rules.

One participant, SP04, also supported the recommendation for the inclusion of more real case examples of ethical violations by utilizing the ethical egoism track of consequentialist theory. This theory describes that real examples of ethical violations could teach attendees that even a minor ethical violation may result in disciplinary action, and an eventual revocation of a CPA's professional license.

This recommendation, provided by 85% of participants, is consistent with the first three assumptions presented by (Knowles et al., 2012) to facilitate adult learning, as contained in the literature review of this study, explaining that a continuing education course in ethics for adult learners should be designed to: (a) Motivate CPAs to learn to fulfill the need for ethical education, which the CPAs feel the course would satisfy; (b) Teach CPAs about ethical issues

that deal with their own professional career; (c) Teach by using their own experiences, as CPAs learn best by relating to their own experiences (Knowles et al., 2012).

Teaching CPE courses in ethics utilizing scenarios that help CPAs fulfill the need to learn about ethics, would teach them about ethical issues that deal with their profession, and teach the application of their professional knowledge and experience, to which CPAs can easily relate from their own experience.

The recommendation of the remaining 15% of participants, such as SP10, stated as “less theoretical discussions,” is also consistent with the same teaching principles presented by (Knowles et al., 2012), as it indicates that the remaining 15% of participants disfavor of theoretical discussions that do not relate to their profession. In contrast, participants favor relatable real case scenarios.

#### **Fourth Series of Follow-Up Questions Impact of the Fall of Enron, WorldCom, Arthur Andersen and Passage of SOX on Accounting Profession**

The fourth and final series of follow-up questions covered the participants’ (a) Perception of Impact on the fall of Enron; (b) WorldCom; (c) Arthur Andersen; and (d) Passage of the Sarbanes-Oxley Act. These questions were intended to explore and understand how participants perceived the impact of these scandals on the accounting profession.

**Perception of the impact of the fall of Enron on the accounting profession.** The first follow-up question in the fourth series in connection with scandals was relative to the words that the participants believed best described their perception of the impact of the fall of Enron on the accounting profession.

Participants’ responses indicated that 90% of them believe that the fall of Enron had either a “disastrous and shocking” impact, or was “a direct hit to the reputation of the accounting profession.”

As the first phenomenological study to explore CPAs perceptions, there is no similar previous data available for comparison. However, participants' perception is consistent with their initial perception of some of the participants, who blamed Enron as the cause for their diminished perception of the accounting profession.

**Perception of impact of the fall of WorldCom on the accounting profession.** The second follow-up question in the fourth series in connection with the scandals pertained to participants' perception of the impact of the fall of WorldCom on the accounting profession.

This study indicates that 90% perceive the impact of the fall of the telecommunications giant, WorldCom, as either "another disaster," shared by 40%, "shameful," at 30%, or "worse than Enron," at 20%, as it occurred shortly following the fall of Enron.

In fact, one participant, SP06's poor perception of ethics relative to the accounting profession, in response to the primary research question, was made by a reference to the close proximity of these scandals at the beginning of the millennium, as stated in Chapter 4 of the study.

A minority opinion, expressed by SP10, attributed the fall of WorldCom to corporate fraud perpetrated only by WorldCom's then-CEO, Bernie Ebbers, thereby generating no negative impact on the accounting profession.

**Perception of impact and the cause of the fall of Arthur Andersen on the accounting profession.** Two follow-up questions were selected for discussion relative to the impact of the fall of global CPA firm, Arthur Andersen, on the accounting profession. The first follow-up question pertained to participants' description of their perception of the impact of the fall of Arthur Andersen, whereas the second follow-up question in this category inquired into their perception of the cause of the fall.

Participants were equally divided in their description of the impact of the fall of Arthur Andersen on the accounting profession. One half described it by using words such as “terrible,” “disastrous,” and “devastating for the profession,” while the second half described it using words such as “wake-up call,” “shake-up,” “shocking,” and “disbelief.”

In expressing their disbelief, many participants noted the fact that a century-old global CPA firm, such as Arthur Andersen, could so easily crumble down with one major ethical violation, pertaining to mainly one client, namely Enron. The fall of Arthur Andersen, therefore, was described by some participants as a possibility that could occur to any firm, should the firm behave in an unethical manner.

One participant, SP09, noted an optimistic view that many people outside the profession have already forgotten about ethical violations leading to the fall of Arthur Andersen, and treat their CPAs as confidants.

In describing their perception of the cause of the fall of the CPA firm, 70% of participants, such as SP06, associated the fall with the firm's general greed, and its financially aggressive position in attempting to keep the firm's clients happy. The remaining 30% of participants, such as SP04, associated greed to only a few greedy partners in one branch office. Therefore, pursuant to the combined perception of all participants, greed, as previously



discussed, was unanimously viewed as the central factor leading to the downfall of a global CPA firm.

**Perception of impact of passage of the SOX act on the accounting profession.** The last remaining issue pertaining to the fourth category of follow-up questions sought to understand the perception of participants relative to the impact of the Sarbanes-Oxley Act (SOX) on the accounting profession.

As stated in Chapter 4, the study data revealed that 80% of participants, such as SP02, described their perception of the impact of the passage of SOX on the accounting profession with words such as “necessary,” “very Good,” or “needed.” The remaining 20% of participants, such as SP04, described their perception of the impact with words such as “shake-up” and “putting the profession on notice.” That seems to suggest a warning to the profession to change the manner in which it conducts itself, hinting to the possibility of a future reprimand against the profession.

The comments by 20% of participants describing SOX, as a regulation putting the profession on notice, is meaningful when considering the self-regulating nature of the accounting profession. Any additional ethical wrongdoing, similar to the events that led to the downfall of Arthur Andersen, may further diminish the accounting profession’s ability and power to self-regulate.

Overall, participants perceived the fall of Enron, WorldCom, and Arthur Andersen as disastrous and shameful for the profession. A few of the members even stated that they were ashamed to acknowledge being a CPA at the time of these scandals. However, other participants indicated that the public has now mostly forgotten about these accounting scandals, although members of the accounting profession continue to remember and be affected by their outcome. The provisions of the SOX Act, intended to regulate public companies, as well as the accounting

profession, with the goal of preventing similar financial scandals, is a direct result of remedying the impact of the accounting scandals.

### **Recommendations for Future Research**

This study provides an initial foundation for the phenomenological study of ethics relative to the accounting profession.

Additional follow-up future studies of the perception of practicing CPAs, especially as they relate to CPE courses in ethics, would be very helpful to monitor and assess the effectiveness of such courses in teaching ethics to adult learners, especially in light of the findings revealed by this study.

In addition, a phenomenological study of individuals, who were subjected to disciplinary action by the California Board of Accountancy for their ethical violations, would also prove valuable in providing real case opinions from individuals previously disciplined.

### **Conclusion**

This phenomenological study was conducted to provide insight into the minds of practicing CPAs, and to explore and understand their thoughts, experiences, and perceptions relative to ethics, which is the cornerstone of the accounting profession. The accounting profession is the only profession referred as the watchdog of the financial markets by the highest court in the country.

The study revealed that 90% of participants had a very positive view of the reputation of the accounting profession in terms of ethics and that 70% of participants believe that 90% of CPAs consistently act in an ethical manner.

Additional follow-up question revealed a trusted colleague as participants' number one source for ethical guidance when faced with an ethical dilemma. This finding emphasizes the need to provide effective ethical training for the entire accounting profession.

Finally, another follow-up question revealed the participants' overwhelming preference for the use of prior, real-case scenarios to which participants could relate from their own knowledge and experience in learning about accounting ethics.

This researcher found the study into perceptions of the average practicing CPAs very insightful and interesting. In particular, one participant, SP08's view, in response to the follow-up question relative to the most influential factor in ethical decision-making, referred to in this study as "constant vigilance," resonated with this researcher. This view requires constant awareness of the possibility of encountering ethical dilemmas in every stage of every client interaction, as well as in every possible type of accounting service.

The utmost importance of ethics in the accounting profession is clearly evident by participants' responses in explaining their perceptions relative to the recent accounting scandals with respect to the fall of such global giants as Enron, WorldCom and Arthur Andersen. These accounting scandals also led to the combined loss of employment for hundreds of thousands of employees, as well as hundreds of billions of dollars of shareholder investment.

Effective continuing professional education in ethics utilizing the adult learner-centered principles advanced by (Knowles et al., 2012), combined with constant vigilance of ethical dilemmas, should prove effective in minimizing the likelihood of future occurrences of accounting scandals.

This in turn, will reduce the possibility for further government intervention, such as the Sarbanes-Oxley Act, in a self-regulated profession such as the accounting.

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## APPENDIX A

## Research and Follow-up Questions

Follow-up Research Question and Follow-up questions (Post feedback):

1. How do you perceive the public accounting's reputation in terms of ethics?

Possible follow-up questions:

Definition of ethics and ethics in the accounting profession.

- a. What word(s) would you use to describe what ethics means to you?
- b. How would you describe your perception, your thoughts, and your feelings about ethics in the accounting profession?
- c. What words would best describe your perception, your thoughts and your feelings about ethics in the accounting profession?
- d. Which concepts would you consider crucial in maintaining ethics and ethical standards in any given profession?
- e. What words would you consider as crucial in your description of your perception of ethics in the accounting profession?
- f. What words would you therefore view as absolutely vital to your perception of ethics in the accounting profession that may or may not be as vital in other professions?
- g. What percentage of CPAs do you believe consistently act in an ethical manner in the accounting profession?
- h. What do you believe is the number one factor or reason for a CPA to act in an unethical manner in his or her accounting practice?
- i. What do you think are some additional factors or reasons for a CPA to act in an unethical manner?

j. How would rank these addition factors or reasons for a CPA to act in an unethical manner?

k. How would you describe ethical leadership in the accounting profession?

CPA's perception of ethical decision-making process and ethical reasoning.

a. What factors do you view as the most influential factors in a CPA's ethical decision-making process?

b. Of the above factors, which one(s) of the factors do you consider to be absolutely vital in the CPA's ethical decision-making process?

c. Is your response to the prior question also the most influential factor in your ethical decision-making process?

d. When faced with an ethical dilemma, do you follow the AICPA's Code of Professional Conduct?

e. What other source do you use as guidance in your ethical decision-making process?

f. What type(s) of an accounting practice (tax, financial statement audit, general consulting, etc.) do you believe has the greatest likelihood of causing an ethical dilemma for a CPA in the accounting profession?

g. What type of issue(s) within the specific practice type(s) that you have identified, do you believe has the greatest likelihood of causing an ethical dilemma for a CPA in the accounting profession?

h. What types of a specific situation(s) do you view as the most likely to cause(s) a CPA to act in an unethical manner in the profession?

i. Do you believe that as long as a course of conduct is legal, then it is also ethical?

CPAs perception on mandatory Continuing Professional Education (CPE).

- a. What is your perception of the mandatory Continuing Professional Education (CPE) course in the area of ethics, as regularly required by the California Board of Accountancy?
- b. What words would you use to best describe your perception of the CPE courses on ethics you have attended?
- c. Did you find the CPE courses in ethics interesting?
- d. What words would you use to describe the effectiveness of the existing CPE courses in ethics in deterring unethical conduct by a CPA?
- e. What recommendations do you have for improving the continuing education courses in ethics for the future?
- f. Which aspects of the continuing education in ethics would like to see emphasized?
- g. Which aspects of the continuing education in ethics would like to see changed or deemphasized?

CPA's perception on the impact of the fall of Enron, WorldCom, and Arthur Andersen, passage of Sarbanes-Oxley.

On Enron.

- a. How would you describe your perception of the impact of the fall of the corporate giant Enron on the accounting profession?
- b. What word(s) do you believe best describe your perception of the impact of the fall of Enron on the accounting profession?
- c. Do you believe that the general public blamed the accounting profession for the fall of Enron?
- d. To what degree do you believe the public placed such blame on the accounting profession?

On WorldCom.

- a. How would you describe your perception of the impact of the fall of the telecommunication giant WorldCom on the accounting profession?
- b. What word (s) do you believe best describe your perception of the impact of the fall of telecommunication giant WorldCom on the accounting profession?
- c. Do you believe that the general public blamed the accounting profession for the fall of the telecommunication giant WorldCom?
- d. To what degree do you believe the public placed such blame on the accounting profession?

On Arthur Andersen.

- a. How would you describe your perception of the fall of Arthur Andersen on the accounting profession?
- b. What words would you use to describe the impact of the fall of Arthur Andersen on the accounting profession?
- c. What specific word(s) would you use describe the cause(s) of the fall of Arthur Andersen?

On Sarbanes-Oxley.

- a. How would describe your perception of the impact of the passage of the Sarbanes-Oxley Act (SOX) on the accounting profession?
- b. What word(s) would best describe your perception of the public's view of the accounting profession at the time of passage of SOX?
- c. Do you believe that SOX has been effective in reducing the unethical behavior arising from accounting misconduct by the business community in general?



d. Do you believe that SOX has been effective in reducing the unethical behavior arising from accounting misconduct by the CPA firms?

Conclusion.

Would you like to add, modify or delete anything significant from the interview that would give a better or fuller understanding toward the establishment of your perception of ethics as it relates to the accounting profession, or any of your other interview responses?

## APPENDIX B

## AICPA Code of Conduct – Integrity (0.300.040)

“.01 Integrity principle. To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

.02 Integrity is an element of character fundamental to professional recognition. It is a quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions.

.03 Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality. Service and public trust should not be subordinated to personal gain or advantage. Integrity can accommodate the inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle.

.04 Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance or in the face of conflicting opinion, a member should test decisions and deeds by asking: “Am I doing what a person of integrity would do? Have I retained my integrity?” Integrity requires a member to observe both the form and spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment

.05 Integrity also requires members to observe principles of objectivity and independence and due care.

## APPENDIX C

## AICPA Code of Conduct – Objectivity Independence (0.300.050)

.01 Objectivity and independence principle. A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

.02 Objectivity is a state of mind, a quality that lends value to a *member's* services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may appear to impair a member's objectivity in rendering attestation services.

.03 Members often serve multiple interests in many different capacities and must demonstrate their objectivity in varying circumstances. Members in public practice render attest, tax, and management advisory services. Other members prepare *financial statements* in the employment of others, perform internal auditing services, and serve in financial and management capacities in industry, education, and government. They also educate and train those who aspire to admission into the profession. Regardless of service or capacity, members should protect the integrity of their work, maintain objectivity, and avoid any subordination of their judgment.

.04 For a member in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and public responsibility. Such a member who provides auditing and other attestation services should be independent in fact and appearance. In providing all other services, a member should maintain objectivity and avoid conflicts of interest.

.05 Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services. Members employed by others to prepare financial statements or to perform auditing, tax, or consulting services are charged with the same responsibility for objectivity as members in public practice and must be scrupulous in their application of generally accepted accounting principles and candid in all their dealings with members in public practice.

## APPENDIX D

## AICPA Code of Conduct – Due Care (0.300.060)

.01 Due care principle. A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

.02 The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability, with concern for the best interest of those for whom the services are performed, and consistent with the profession's responsibility to the public.

.03 Competence is derived from a synthesis of education and experience. It begins with a mastery of the common body of knowledge required for designation as a certified public accountant. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual responsibility. In all engagements and in all responsibilities, each member should undertake to achieve a level of competence that will assure that the quality of the member's services meets the high level of professionalism required by these Principles.

.04 Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm. Each member is responsible for assessing his or her own

competence of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.

.05 Members should be diligent in discharging responsibilities to clients, employers, and the public. Diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards.

.06 Due care requires a member to plan and supervise adequately any professional activity for which he or she is responsible.

## APPENDIX E

## CalCPA Grant of Approval for Recruitment of Volunteers

Good morning, Arthur,

CalCPA is happy to grant you approval to reach out to and speak with CalCPA volunteers for your qualitative dissertation study. CalCPA encourages members to connect and build relationships with each other, so communicating with other CalCPA members about ethics is a natural fit.

Please let me know if you need anything else from me.

Warm regards,

Jackie

[REDACTED]  
 Program Associate  
 California Society of CPAs, Los Angeles Chapter  
 330 N. Brand Blvd., Suite 710  
 Glendale, CA 91203  
 [REDACTED]

Register for Upcoming Conferences

-----Original Message-----  
 From: Arthur Baghdasarian [mailto:[REDACTED]]  
 Sent: Tuesday, October 11, 2016 2:43 PM  
 To: [REDACTED]  
 Subject: Re: Email regarding IRB approval

Hello Jackie,  
 I am responding to your e-mail about my request for IRB approval letter. As per our conversation, I just need your approval from you, for asking for volunteers at CALCPA meeting for my research study.  
 Thank you in advance.  
 Best wishes,  
 Arthur

## APPENDIX F

## Expert Validation Request

Dear Dissertation Review Team,

Thank you very much for your time in assisting and providing feedback relating to my dissertation interview questions.

Attached I have provided information on the following:

- The type of study.
- The phenomenon being studied.
- The need for the study.
- The study venue.
- The interview questions for your review and consideration.

Feedback instruction: Please read each question in reference to my research question and provide your feedback as to whether you believe the question is relevant in extracting the necessary information to reach the objective of my study in the form it is currently presented, or it should to further modified.

If you believe that a question should be modified, please provide your suggestions for any modifications that you recommend.

Thank you again for your time as your assistance is greatly appreciated.



## APPENDIX G

## Study Information for Experts' Validation

Validation of research question information:

The type of study: Phenomenological

The phenomenon: “To explore the CPAs lived-in experience and perception as it relates to ethics in the accounting profession”.

The research question: “What is a CPA’s perception of ethics in the accounting profession?”

The need of for the study: The recent events such as the fall of the global giants such as Enron and WorldCom due to accounting and financial unethical behavior has somewhat tarnished the ethical standing of the CPAs in accounting profession. As ethical behavior is a crucial part of the accounting profession, the study is geared toward understanding the CPAs’ own perception of ethics in the accounting profession, from actual practicing CPAs, to see what they think about ethics in their profession, what makes them act ethically, their moral compass, their moral and ethical reasoning process when they encounter an ethical dilemma in the accounting profession.

The study venue: Los Angeles County, which would rank as 21<sup>st</sup> global economy, located in California, ranked as the eight global economy, while employing more accountants than any other state in the country.

The interview questions for the phenomenological study:

Additional follow-up questions to the above research question are attached.

## APPENDIX H

## Written Recruitment Script

## Written Recruitment Script

(Used via e-mail or telephone conversation or if met in person)

Hello (Mr./ Mrs., CPA Research Participant),

My name is Arthur Baghdasarian (You may recall we met several years ago in an accounting related meeting, or Mr. John Smith provided me with your information as a potential volunteer participant, or you recently volunteered to participate or we shared an office). I have completed all the required coursework at Pepperdine University's Doctorate of Education in Organizational Leadership program (EDOL) and currently am in the dissertation stage of the program, as I am planning to conduct a research of willing participant CPAs about their perception of ethics in the accounting profession and then write my dissertation, as the last stages in obtaining my doctorate degree.

Therefore through this contact (e-mail, or phone call) I am reaching to you to ask if you will be kind enough to help me as a volunteer participant in conducting my research. I will need a total of 10 volunteer CPAs to assist me by sharing their thoughts, views and perception of ethics in the accounting profession in the Los Angeles County area In my dissertation I will be focusing on your perception of ethics in the accounting profession, what ethics means to you, and certain ethics related questions about your CPE courses in ethics, Enron, WorldCom, Arthur Andersen and Sarbanes-Oxley Act.

As a practicing CPA for the past 27 years and a practicing attorney for the 23 years, I truly understand and appreciate how valuable your time is and I greatly appreciate if you could

assist me as a participant in this research study. Rest assured that your identity, as well as any and all the information collected will be maintained as strictly confidential.

I have not come across a similar type of a study of the perception of practicing CPA. In it is my opinion this research study would help shed light towards better understanding of the practicing CPAs' perception of ethics within the accounting profession.

Please reply to this e-mail (or call back, or approach me in person) if you decide to volunteer your time or if you require additional information prior to reaching a decision.

## APPENDIX I

## Informed Consent for Participation in Research Activities

Pepperdine University

Graduate School of Education and Psychology

## INFORMED CONSENT FOR PARTICIPATION IN RESEARCH ACTIVITIES

## CERTIFIED PUBLIC ACCOUNTANT'S PERCEPTION OF ETHICS IN THE

## ACCOUNTING PROFESSION

You are invited to participate in a research study conducted by **Arthur Baghdasarian and Dr. June Schmieder-Ramirez** at Pepperdine University, as you are a Certified Public Accountant practicing in the Los Angeles County. Your participation is voluntary. You should read the information below, and questions about anything that you don't understand, before deciding whether to participate. Please take as much time as you need to read the consent form. You may also decide to discuss participation with your family and friends. If you decide to participate, you will be asked to sign this form. You will also be given a copy of this form for your records.

## PURPOSE OF THE STUDY

The purpose of this study is to explore the CPAs perception of ethics in the accounting profession in Los Angeles County, in order to better understand his or her views to help promote ethics in the accounting profession.

## STUDY PROCEDURES

If you volunteer to participate in this study, will be asked to give your contact information so that the researcher can make sure that you qualify to participate in the study as

license to practice as a Certified Public Accountant in Los Angeles County. After providing your contact information you will receive an e-mail in connection with your willingness to participate in this research study.

After expressing your acceptance to voluntarily participate in this research study, you will be asked to provide information as the date, time and location that is most convenient for an interview for calendaring and scheduling purposes.

After you provide your preference as the best date, time and location for your interview, an e-mail will be sent to confirm your continued availability for your preferred date, time and location.

On the date and time for your interview, the researcher will meet with you for a 20-25 minute period.

The interview will recorder using three digital audio recorders. This is done so that the information can then be transcribed, analyzed and used in this research study. If being recorded makes you uncomfortable, you have the right to leave the interview. If you chose to participate in this research, then you must agree to the recording of the interview.

If you are interested, the researcher could provide you with information by –mail or telephone call about the status of the research.

#### POTENTIAL RISK AND DISCOMFORT

The potential risk of the interview is the likelihood that sharing your information and perception of ethics in the accounting profession, if disclosed to third parties, may impact someone's reputation or feelings. However, to minimize and eliminate this risk to the extent possible, the researcher will personally maintain all the research information and files in locked file cabinets and password-protected computers. In addition, after the information is

professionally transcribed, every participant will only be identified by a number and the original source documents will be destroyed.

Another possible potential risk may be due to remembering past events and the psychological harm associated with those memories.

#### POTENTIAL BENEFIT TO PARTICIPANTS OR TO THE SOCIETY

As a CPA member in the accounting profession, you will have the opportunity to participate in a unique research study that would help you, your colleague, and the entire accounting profession understand your perceptions, views, knowledge and recommendations, even though the information is coded.

This will be an opportunity for you to have your opinion heard and read by countless other CPA professionals, as well as other professionals who may share the same view that you hold.

#### PAYMENT / COMPENSATION FOR PARTICIPATION

You will receive a gift card in sum of \$20 dollars in appreciation of your time in participating in this Research study.

#### CONFIDENTIALITY

The records collected for this study will be kept confidential as far as permitted by law. However, if I required to do so by law, it may be necessary to disclose the information collected about you. Examples of the types of issues that would require me to break confidentiality are if disclosed any instances of child abuse or elder abuse. Pepperdine University's Human Subjects Protection Program (HSPP) may also access the data collected. The HSPP occasionally reviews and monitors research studies to protect the rights and welfare of research subjects.

The data will be stored on password protected computer in researcher's office. The data will be stored for a minimum of three years. The collected will be coded, de-identified, transcribed and analyzed.

The audio recordings of the interview will be professionally transcribed by a professional transcription service and the researcher will personally pick up the originals along with the transcriptions.

The researcher will create a corresponding code for each of the transcriptions as the names are removed from the transcriptions. Also, the researcher will destroy all the audio files of the recordings. The researcher will keep master list of the codes identifying the transcriptions in a password-protected computer, and then destroyed after three years.

#### SUSPECTED NEGLECT OR ABUSE OF CHILDREN

Under California law, the researcher who may also be mandated report will not maintain as confidential, information about known or reasonably suspected incidents of abuse or neglect of a child, dependent adult or elder, including, but not limited to, physical, sexual, emotional, and financial abuse or neglect. If any researcher has or is given such information, he or she is required to report this to the proper authorities.

#### PARICIPATION AND WITHDRAWAL

Your participation is voluntary. Your refusal to participate will involve no penalty or loss of benefits to which you are otherwise entitled. You may withdraw your consent at any time and discontinue participation without penalty. You are not waiving any legal claims, rights or remedies because of your participation in this research study.

#### ALTERNATIVE TO FULL PARTICIPATION

Your alternative to participation in the study is not participating or only completing the items for which you feel comfortable.

#### EMERGENCY CARE AND COMPENSATION FOR INJURY

If you are injured as a direct result of research procedures you will receive medical treatment; however, you or your insurance will be responsible for the cost. Pepperdine University does not provide any monetary compensation for injury.

#### INVESTIGATOR'S CONTACT INFORMATION

I understand that the investigator is willing to answer any inquiries I may have concerning the research herein described. I understand that I may contact Arthur Baghdasarian at (xxx) xxx xxxx or June Schmieder-Ramirez at (xxx) xxx xxxx.

#### RIGHTS OF RESEARCH PARTICIPANT – IRB CONTACT INFORMATION

If you have questions, concerns or complaints about your rights as research participant or research in general please contact Dr. Judy Ho, Chairperson of the Graduate & Professional Schools Institutional Review Board at Pepperdine University 6100 Center Drive Suite 500 Los Angeles, CA. 90045, (xxx) xxx xxxx or xxxx@pepperdine.edu.



APPENDIX J  
IRB Approval Notice

**PEPPERDINE**

Pepperdine University  
24255 Pacific Coast Highway  
Malibu, CA 90263  
TEL: 310-506-4000

**NOTICE OF APPROVAL FOR HUMAN RESEARCH**

Date: December 05, 2016

Protocol Investigator Name: Arthur Baghdasarian

Protocol #: 16-11-448

Project Title: A PHENOMENOLOGICAL STUDY OF CERTIFIED PUBLIC ACCOUNTANTS' PERCEPTION OF ETHICS IN THE ACCOUNTING PROFESSION

School: Graduate School of Education and Psychology

Dear Arthur Baghdasarian:

Thank you for submitting your application for exempt review to Pepperdine University's Institutional Review Board (IRB). We appreciate the work you have done on your proposal. The IRB has reviewed your submitted IRB application and all ancillary materials. Upon review, the IRB has determined that the above entitled project meets the requirements for exemption under the federal regulations 45 CFR 46.101 that govern the protections of human subjects.

Your research must be conducted according to the proposal that was submitted to the IRB. If changes to the approved protocol occur, a revised protocol must be reviewed and approved by the IRB before implementation. For any proposed changes in your research protocol, please submit an amendment to the IRB. Since your study falls under exemption, there is no requirement for continuing IRB review of your project. Please be aware that changes to your protocol may prevent the research from qualifying for exemption from 45 CFR 46.101 and require submission of a new IRB application or other materials to the IRB.

A goal of the IRB is to prevent negative occurrences during any research study. However, despite the best intent, unforeseen circumstances or events may arise during the research. If an unexpected situation or adverse event happens during your investigation, please notify the IRB as soon as possible. We will ask for a complete written explanation of the event and your written response. Other actions also may be required depending on the nature of the event. Details regarding the timeframe in which adverse events must be reported to the IRB and documenting the adverse event can be found in the *Pepperdine University Protection of Human Participants in Research: Policies and Procedures Manual* at [community.pepperdine.edu/irb](http://community.pepperdine.edu/irb).

Please refer to the protocol number denoted above in all communication or correspondence related to your application and this approval. Should you have additional questions or require clarification of the contents of this letter, please contact the IRB Office. On behalf of the IRB, I wish you success in this scholarly pursuit.

Sincerely,

Judy Ho, Ph.D., IRB Chair

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