Accounting Ethics Courses: Do They Work?

By David F. Bean and Richard A. Bernardi

Those opposed to adding a required ethics course in accounting have stated that there is no proof that such a course would result in more-ethical behavior. In the absence of such proof, the proposal to require ethics education in the accounting curriculum is dismissed by supposedly unbiased and learned opponents. The authors, however, and many others, are deeply concerned that ethics courses are challenged while the place of other courses in the curriculum goes unexamined. Curriculum review should be an ongoing process at institutions of higher education. If one is concerned with outcomes assessment, then the burden of proof should be applied equally to all accounting courses, not just ethics. Is this double standard a positive contribution of academia to the accounting profession?

Consider an outcomes assessment of courses after Enron and WorldCom. Besides being ethical failures, these scandals also represent failures of the accounting curriculum, if one uses the proposed measurement standard suggested for ethics. The failed audits of Enron and WorldCom not only challenge the effectiveness of auditing courses, they also reflect poorly on what is being taught in intermediate accounting courses. The WorldCom fraud goes to the heart of the introductory financial accounting course; had its auditors heeded the definition of assets as items having future value and expenses as items having no future value, the WorldCom audit would not have failed. Viewed in such a light, even an introductory course would not receive a positive outcome assessment.

Kohlberg's Moral Development

One of the theories covered in most introductory ethics courses is the Kohlberg model of moral development (Lawrence Kohlberg, "Stages and Sequences: the Cognitive Development Approach to Socialization," *Handbook of Socialization Theory and Research*, edited by D. Goslin, 1969).

Kohlberg describes moral development as a series of six progressive stages that describe the logic used in making decisions in situations involving ethical components. At stage two, an individual uses a cost/benefit relationship that focuses on oneself. In stage three, an individual focuses on oneself and one's close circle of friends, maximizing benefits after carefully considering the costs involved. In stage four, the reasoning process is focused on following the rules of the individual's society (or profession). In this stage, an individual is concerned with following the rules as the price of membership in the society or profession (i.e., a rules-based approach). Finally, at stages five and six, the individual includes considerations of what one should do in a situation free of the constraints of the lower-stage levels (i.e., a concepts-based approach).

In Kohlberg's model, an individual's level of moral development is at a distinct level at any given point. While reasoning is primarily at one dominant stage, others maintain that some decisions can also be based on reasoning using higher- or lower-stage level considerations (James R. Rest, *Moral Development: Advances in Research and Theory*, 1986). Rest maintains that individuals have different levels of sensitivity to ethical situations. The most frequently used measure of one's moral development is Rest's Defining Issues Test, which measures an individual's level of moral development (James R. Rest, *Defining Issues Test*, 1979). Scoring on this test is based on the proportion of stage five and stage six considerations used in one's decision process. Higher scores on the Defining Issues Test reflect reasoning about what should be done rather than rigidly following a set of rules (stage four) or looking out for oneself or one's friends (stages two and three).

Following the Rules

The Kohlberg-Rest model has been used in numerous accounting ethics studies, which note that accounting students and practitioners score lower on Rest's Defining Issues Test than does the general population of students and college graduates. Many researchers speculate that this phenomenon is the result of being part of a profession that inculcates a "following the rules" mentality (i.e., stage four). Following the rules is a lower level of ethical reasoning that the profession has used as a comfortable excuse: "We did everything we were required to do."

Unfortunately, recent audit failures indicate that everyone should be more sensitive to the ethical implications embedded in the audit environment. For example, the leadership of Deloitte & Touche believes that the accounting profession has "always strived to 'follow the rules.' But in the wake of scandals and the loss of investor confidence, we obviously must do more to restore public trust" (William G. Parrett, "Globalization's Next Frontier: Principled Codes of Conduct That Bolster the Rule of Law," speech to International Center for Corporate Accountability, May 14, 2004). As Parrett suggests, the profession must consider what we should be doing rather than just meeting basic requirements. This is the challenge of an accounting ethics course: Students must be exposed to the real challenges of auditing and the need to maintain a critical mentality when examining a client's data.

Ethical Sensitivity and Auditing

Researcher and coauthor of this article Richard A. Bernardi examined fraud detection using a sample of 342 audit seniors and 152 audit managers from five of the former Big Six firms (Richard A. Bernardi, "Fraud Detection: The Effect of Client Integrity and Competence and Auditor Cognitive Style," *Auditing: A Journal of Practice & Theory*, 1994). One-third of Bernardi's sample was told they were auditing a high-integrity client, one-third a low-integrity client, and the remaining third was not provided with any explicit integrity information; all other data contained in the work papers were identical. Not surprisingly, the study found that managers detected the embedded fraud at a higher rate than did seniors (5% and 42%, respectively), an experience effect. Bernardi also found that managers who scored higher on Rest's measure of ethical sensitivity detected fraud at a higher rate when provided with client integrity data, either high or low, than did the managers who scored lower on Rest's measure (75% and 47%, respectively). Audit managers in the control group who scored high on Rest's measure but were not provided with client integrity data fared no better than did managers who scored lower on Rest's metric (54% and 56%, respectively).

Further research found that managers used a more conservative estimate of materiality as their scores on Rest's measure of ethical sensitivity increased (Richard A. Bernardi and Donald F. Arnold, "The Influence of Client Integrity and Competence and Auditor Characteristics on Materiality Estimates," *The Irish Accounting Review*, 1994). Auditors who scored higher on Rest's measure also were more likely to disclose sensitive findings even when management threatened retaliation (Donald F. Arnold and Lawrence A. Ponemon, "Internal Auditors' Perceptions of Whistle-Blowing and the Influence of Moral Reasoning," *A Journal of Practice & Theory*, 1991) and were less likely to underreport billable hours (Lawrence A. Ponemon, "Auditor Underreporting of Time and Moral Reasoning: An Experimental-Lab Study," *Contemporary Accounting Research*, 1992). In sum, the existing research demonstrates the benefits of being more sensitive to ethical issues in an auditing context.

Why have the profession and academia chosen to ignore ethics research studies when debating whether an ethics course should be included in the accounting curriculum?

Accountants' Level of Ethical Sensitivity

Having demonstrated the importance of increased ethical sensitivity, it is disturbing that, in an analysis of prior studies, the authors found that accounting majors' scores on Rest's measure are consistently below that of the general population throughout and after college (Richard A. Bernardi and David F. Bean, "Establishing a Standardization Sample for Accounting Students' DIT Scores," presented at the Northeast Region of the American Accounting Association's Annual Conference, Portsmouth, N.H., 2006). Another study provided data demonstrating that an accounting ethics course can increase a participant's ethical sensitivity as measured by Rest's Defining Issues Test (Mary Beth Armstrong, "Ethics and Professionalism in Accounting Education: A Sample Course," *Journal of Accounting Education*, 1993). Armstrong tested all students at the beginning and the end of the semester (i.e., pretest and post-test methodology). Her data indicated that those students who had already taken a general ethics course and who also took the ethics and professionalism course scored significantly higher on Rest's Defining Issues Test. An increase in one's ethical sensitivity is thus the result of a synergy of academic experiences in ethics.

Armstrong's recommendation closely approximates the National Association of State Boards of Accountancy's (NASBA) original proposal that ethics in the accounting curriculum should include a triad of ethics instruction comprised of an ethics philosophy course, ethical coursework in the accounting curriculum, and a capstone ethics and professionalism course. The authors believe that the research needed to show an association between an ethics course (Armstrong) and outcomes assessment in an audit environment (Bernardi) has already been done. Why have the profession and academia chosen to ignore these and many other ethics research studies when debating whether an ethics course should be included in the accounting curriculum?

NASBA's Proposal

NASBA's original proposal for a three-course ethics sequence parallels the current accounting course sequence: two introductory courses prior to two intermediate accounting courses, followed by advanced accounting. The initial course should be taught in the liberal arts context and cover the spectrum of theories in ethics. What is questionable is whether all business majors should be required to take a business ethics course as covering ethics "across the curriculum" [Association for the Advancement of Collegiate Schools of Business (AACSB), *Ethics Education in Business Schools*, 2004]. Finally, a discipline-specific accounting ethics course taken during the same semester that a student takes auditing would provide a synergy not in the current curriculum.

This three-course sequence should provide the profession with auditors who are more ethically sensitive. Given the number of courses that must be taken to qualify for the CPA exam, it is inconceivable that every one would be considered more important to those entering the profession than an accounting ethics course.

The Need for the Ethics Course

Accounting scandals in large companies and organizations generate notoriety and often result in adverse publicity for the accounting profession. Many practitioners can relate their own stories involving small and family businesses, and although the economic impact may not have been as great, the personal devastations suffered were just as severe.

Certainly no single ethics course or group of ethics courses can guarantee that students will always behave and act ethically. Similarly, there is no guarantee that those taking accounting courses will always properly account for a given transaction. An honest assessment of the errors and omissions that experienced professionals encounter when reviewing the work of less-experienced colleagues clearly demonstrates that having an accounting degree does not guarantee accurate or proper accounting. Individuals would probably concur, however, that the probability of correct and ethical choices increases with increased education in these particular subject areas. An accounting ethics course should lessen the frequency and severity of ethical lapses in the profession.

Organizations and reporting requirements evolve to address the increasing complexity of events and transactions. There is a need for ethics education of professional accountants that enables them to grow beyond the simplistic rules of right and wrong that were learned in childhood. Accountants need more-advanced tools to fulfill their societal obligations in this increasingly complex environment with its many shades of gray.

Ethics is of primary importance to the accounting profession, and the profession clearly has the right, if not the obligation, to require an accounting ethics course as a condition of admittance. The academic community is entitled to determine the quantity and nature of accounting courses that are offered. Each institution of higher education, however, has the prerogative to determine its curriculum, and there a collective agreement is not required. Accounting students can study accounting ethics either at the institution they are attending or, if not offered at their institution, at a different institution. The authors believe that if academia continues to collectively oppose a course in accounting ethics, it would be in the accounting profession's best interest to create and offer its own accounting ethics course as a precondition of entry to the profession. ❑

***David F. Bean, PhD, CPA,** is a consultant with B. D. & C., Academic Consulting, New Rochelle, N.Y., and **Richard A. Bernardi, PhD, CPA,** is a professor at the Gabelli School of Business at Roger Williams University, Bristol, R.I.*