

Ethics Committees and Consultants in Public Accounting Firms?

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The ethical milieu of public accounting has become increasingly complex. Casler indicates that when in 1905 the American Accounting Association of Public Accountants (the original name of the American Institute of Certified Public Accountants (AICPA)) adopted its first ethical standards, only two "were adopted."¹ This is in sharp contrast to the current environment in which a public accountant works.

Other professions—law and medicine for example—also practice in a complex ethical milieu. Research suggests that these two professions are perhaps better preparing students in their professional schools for the ethical complexities of practice.² Additionally, as will be discussed later in this paper, hospital ethics committees and ethics consultants have evolved to assist medical practitioners and the institutions in which they work to deal with ethical issues and/or dilemmas.

In a recent editorial in *The Journal of the American Medical Association*, Edmund D. Pellegrino, M.D., at the time Director of the Kennedy Institute of Ethics, Georgetown University, states that

In democratic, educated, and morally heterogeneous societies like ours, the intuitive and idiosyncratic way of making ethical choices is no longer tenable.... The physician's decisions must now be justified to patients and their families, one's colleagues, and the courts. As a result, every physician requires a more formal and systematic knowledge of ethical analysis and must know how to use the advice of ethics consultants wisely and well.³

Pellegrino's comments are addressed to the field of medicine; however, his message is likely relevant to the public accounting pro-

feSSION. As noted above, the environment of public accounting has become ethically complex (examples of such complexity are discussed later in this paper). Further, the report of the National Commission on Fraudulent Financial Reporting (Treadway Commission) recommends increased coverage of ethics (1) in business courses as well as accounting courses at colleges and universities, (2) on examinations for professional certificates, and (3) in continuing education courses for accountants as well as individuals associated with public corporations.⁴ These recommendations are likely in part a recognition of these complexities. The use of ethics committees and/or consultants in public accounting firms may, in fact, provide a more systematic approach to ethical issues and/or dilemmas that public accounting firms may encounter.

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¹Darwin J. Casler, *The Evolution of CPA Ethics: A Profile of Professionalization*, Occasional Paper No. 12, Bureau of Business and Economic Research, Graduate School of Business Administration, Michigan State University, East Lansing, Michigan, 1964, p. 5.

²See, for example, Stephen E. Loeb, "Teaching Students Accounting Ethics: Some Crucial Issues," *Issues in Accounting Education*, Fall 1988, p. 317 for a brief discussion of some of this research.

³Edmund D. Pellegrino, "Clinical Ethics: Biomedical Ethics at the Bedside," *The Journal of the American Medical Association*, August 12, 1988, p. 837.

⁴National Commission on Fraudulent Financial Reporting, *Report of the National Commission on Fraudulent Financial Reporting*, October 1987, pp. 15, 16, 82-86.

This paper briefly reviews the institutional framework of public accounting and compares it to the institutional framework of medical practice. It is within such frameworks that the ethical issues and/or dilemmas are considered and resolved by each profession. Examples of some of the ethical problems and complexities that exist in public accounting are then reviewed. Next, a discussion of ethics committees and ethics consultants in medicine is presented. The implications of the medical profession's experience with ethics committees and consultants are then considered in relation to the public accounting profession.

INSTITUTIONAL FRAMEWORKS

Institutionally, public accounting is practiced in public accounting offices. Public accounting firms can have one or more such offices. This is in contrast to medicine where physicians have offices, but another institution—the hospital—is also an essential element in the practice of medicine.⁵ Public accountants often do a substantial amount of work in a client's office. However, the role of the public accountant working in a client's office is vastly different than the role of a physician working in a hospital. For example, in a hospital a physician must observe various hospital regulations and policies. In contrast, when working in a client's office, a public accountant is subject to few constraints.

Hospitals and physicians provide a number of health related services to society. In the process of providing such services, a number of ethical issues and/or dilemmas can arise which in some instances may involve extending or sustaining human life.⁶ In recent years, as discussed later in this paper, an increasing number of hospitals have organized ethics committees. Also, some hospitals are using ethics consultants.⁷ The ethical issues and/or dilemmas that public accountants and/or public accounting firms face are no less complex but are generally of a different nature than those encountered by hospitals and physicians. Examples of issues and/or dilem-

mas that public accountants and/or public accounting firms may face include: independence; scope of services; confidentiality; practice development; and differences on accounting issues. These ethical issues and/or dilemmas are discussed in detail later in this paper.

Certified Public Accountants (CPAs) can join the American Institute of Certified Public Accountants and/or the various CPA societies. These organizations usually have an ethics committee and/or staff that can provide advice to public accounting practitioners relating to ethical issues and/or dilemmas. For example, a question that a public accountant might have regarding an issue and/or dilemma that has been addressed previously in the professional literature probably can be adequately answered informally by an appropriate staff member or ethics committee member of one of these organizations. In contrast, a new and/or complex ethical issue and/or dilemma may require a written request to the ethics committee for an opinion, perhaps a meeting or meetings of the ethics committee, and then a formal response from the committee. In such a situation, especially if time is an important factor, requesting an opinion about the issue from a professional association may not always be a feasible alternative.

There are other reasons for not contacting a professional association for an opinion on an ethical issue and/or dilemma. Examples of such reasons include:

- situations that a public accounting firm would consider so sensitive that the partners may not wish to have the

⁵One source, Elliot Gene Cohen and David C. Thomasma, "Taking Ethics Seriously," *Healthcare Executive*, July/August, 1987, p. 25, notes that "for more than 80 percent of the American population, death occurs at the hospital...."

⁶See Troyen A. Brennan, "Ethics Committees and Decisions to Limit Care: The Experience at the Massachusetts General Hospital," *The Journal of the American Medical Association*, August 12, 1988, pp. 803-807.

⁷See Joyce Bermel, "Ethics Consultants: A Self-Portrait of Decision Makers," *Hastings Center Report*, December, 1985, p. 2.

issue known to individuals outside the firm. Even though members of a professional association ethics committee are bound by rules of confidentiality, the partners may feel that the situation should not be discussed outside the firm.

- situations in which a public accounting firm may wish to require its professionals to adhere to standards that are even higher than the formal ethical rules and interpretations of a professional association.⁸ The firm may feel that the "morally responsible" alternative in a particular situation may call for an action that is at a higher level than such existing rules or interpretations require.⁹ Thus, as a matter of policy, a public accounting firm may in particular situations want its personnel to do what they themselves feel is the morally responsible action even though their response may be beyond what would be required by the ethics rules and interpretations of a professional association.

ETHICAL COMPLEXITIES OF PUBLIC ACCOUNTING

The code of ethics of the AICPA has been evolving for a number of years.¹⁰ As the practice of public accounting has expanded into new areas and as business transactions have become increasingly complex, the ethical issues in public accounting also have increased in complexity. An exhaustive listing of all possible ethical issues and/or dilemmas that may affect public accountants and/or public accounting firms would be difficult to complete. New issues and/or dilemmas are constantly arising and some issues and/or dilemmas are closely related and difficult to place in a mutually exclusive category. An example of the latter are the issues of independence and scope of services.

Some of the ethical issues and/or dilemmas that arise in public accounting may be handled routinely by following the policies that a public accounting firm has established

for dealing with such matters. Alternatively, notwithstanding a public accounting firm's existing policies, ethical issues and/or dilemmas may arise in practice that require careful thought and decision making on the part of the affected individuals and/or firm.

Several major ethical issues and/or dilemmas, mentioned earlier in this paper, that individuals and firms in public accounting practice may encounter are discussed next. The issues and/or dilemmas provide examples of the ethical complexities that public accountants and public accounting firms can encounter and for which they may require assistance. They include:

- *Independence* — audit independence is one of the more unique ethical issues facing public accountants. The value of an external auditor's opinion on the financial statements of an entity is to a large measure a function of the auditor's independence. Standards relating to audit independence are constantly evolving.¹¹ Also, some issues relating to independence are clear while others are somewhat ambiguous.

⁸See the discussion in Loeb, "Teaching Students Accounting Ethics: Some Crucial Issues," pp. 318-319.

⁹For discussions of "moral responsibility" see, for example, John Ladd, "Philosophical Remarks On Professional Responsibility in Organizations," *Applied Philosophy*, Fall, 1982, especially pp. 67-68; Albert Blumenthal, *Moral Responsibility: Mankind's Greatest Need, Principles and Practical Applications of Scientific Utilitarian Ethics*, Rayline Press, Santa Ana, California, 1975, especially pp. 40-51; and Stephen E. Loeb and Suzanne N. Cory, "Whistleblowing and Management Accounting: An Approach," *Journal of Business Ethics* (forthcoming).

¹⁰See, for example, Casler. Also, see Loeb, "Teaching Students Accounting Ethics: Some Crucial Issues," p. 319.

¹¹See, for example, R. Glen Berryman, "Auditor Independence: Its Historical Development and Some Proposals for Research," in Howard F. Stettler, editor, *Contemporary Auditing Problems: Proceedings of the 1974 Arthur Andersen/University of Kansas Symposium on Auditing Problems*, 1974, especially pp. 1-10; Casler, pp. 7-26; and Gary John Previts, *The Scope of CPA Services: A Study of the Development of the Concept of Independence and the Profession's Role in Society*, John Wiley & Sons, New York, 1985.

- *Scope of services* — closely associated with the issue of audit independence is the question of what services an external auditor should perform for a client beyond financial auditing. In other words what other services (e.g., consulting, tax return preparation and tax advice, and so on) are compatible with financial auditing. For example, at what point and for which services might a public accounting firm lose its independence by providing non-audit services to an audit client?¹²
- *Confidentiality* — when should an independent auditor remain silent about a matter and when should an independent auditor act as a “public watch dog?”¹³ Further, what should an independent auditor do if the interests of two different clients are in direct conflict? For example, what should a public accounting firm do when it finds that the information developed during the audit of one client materially affects its audit of another client.¹⁴
- *Practice development* — in the late 1970s, following several U.S. Supreme Court decisions and pressure from the United States Department of Justice, the public accounting profession removed many ethical proscriptions relating to advertising and the solicitation of clients.¹⁵ Public accounting firms now have a good deal of latitude as to practice development. However, public accountants still are required to keep their practice development efforts within certain limits (see Rule 502 of the AICPA code of ethics¹⁶). There are limits to what a public accounting firm can say or claim in an advertisement (an advertisement, for example, should not be untrue¹⁷). A public accounting firm should have a policy delimiting the nature and extent of its professional development activities.
- *Differences on accounting issues* — a situation can occur in which a difference exists between the manner

in which the management of an entity wishes to account for a transaction and the manner the entity's independent auditor believes the transaction should be handled. Such a situation can be important if the differences in positions of the parties can result in material differences in the financial statements. In such a situation, an entity may threaten to “shop” for another public accounting firm that will agree with management's position on the accounting issue.¹⁸

ETHICS COMMITTEES AND CONSULTANTS IN MEDICINE

Ethics Committees In Medicine

As noted above, many hospitals faced with complex ethical issues and/or dilemmas have formed ethics committees. An article pub-

¹²See, for example, Casler, pp. 23-26; Previts; and Robert Chatov, “The Possible New Shape of Accounting in the United States,” *Journal of Accounting and Public Policy*, Fall 1985, pp. 164-166, 169-170.

¹³United States v. Arthur Young & Company et al., 104 S. Ct. 1503 (1984).

¹⁴See John E. Beach, “Code of Ethics: The Professional Catch 22,” *Journal of Accounting and Public Policy*, Winter 1984, pp. 311-323, for a discussion of such conflicts.

¹⁵Kenneth J. Bialkin, “Government Antitrust Enforcement and the Rules of Conduct,” *Journal of Accountancy*, May 1987, pp. 105, 106. Bialkin, p. 106 also notes the existence of a Federal Trade Commission “study of the accounting profession” that included consideration of the “rule against advertising and solicitation.” He (p. 106) notes that “while the changes to Rule 502 [relating to advertising and solicitation] were in direct response to specific challenges by the Antitrust Division [of the Department of Justice], the additional concerns expressed by the FTC inquiry should not be entirely discounted.”

¹⁶American Institute of Certified Public Accountants (AICPA), *AICPA Professional Standards*, Volume 2, Continually Updated, ET Section 502.

¹⁷Ibid.

¹⁸See, for example, Robert J. Sack, “Commercialism in the Profession: A Threat to be Managed,” *Journal of Accountancy*, October 1985, pp. 126, 128, 130; Daniel L. Goelzer, “The Opinion-Shopping Controversy,” *Corporate Accounting*, Fall 1986, pp. 9-14; and Grace W. Weinstein, *The Bottom Line: Inside Accounting Today*, New American Library, New York, 1987, pp. 71-73.

lished in 1986 citing "recent surveys" indicates that "may be as high as 60 percent" of U.S. hospitals use ethics committees.¹⁹ A note published in early 1988 indicates the extraordinary growth in hospital ethics committees in the United States from "one percent of ... hospitals" in the U.S. during 1982 to "today" more than "60 percent of hospitals with ... beds" for at least 200 patients.²⁰

Reamer notes that "in hospitals ... institutional ethics committees ... have existed for a number of years to provide opportunities for health care professionals to exchange ideas about ethical issues."²¹ He also indicates "institutional review boards [that] review ethical issues related to biomedical research and the use of human subjects have existed in hospitals for two decades..."²² In the remainder of this current paper, institutional ethics committees in hospitals will be referred to as hospital ethics committees.

Reamer points out that hospital ethics committees came into prominence

in 1976, when the New Jersey Supreme Court ruled that Karen Anne Quinlan's family and physicians should consult an ethics committee in deciding whether to remove her from life-support systems....

... [In 1983 a presidential] commission suggested that health care institutions experiment with ethics committees in an effort to improve the quality of decision making related to clinical care....²³

Rosner indicates that

...IRBs [Institutional Review Boards] developed very differently from hospital ethics committees. The role of IRBs was mandated and specified by federal regulations. Institutional review boards are widespread and generally accepted as useful by the biomedical community and the lay public.... [Hospital ethics committees] were motivated in part by a need for legal protection for medical personnel and hospitals, but the reasons for the formulation and goals of the specific committees are diverse and poorly defined.²⁴

Hospital ethics committees can have a variety of functions.²⁵ The following six possible functions that a hospital ethics committee might possibly perform are adapted and/

or quoted from Thomasma and Monagle:²⁶

1. Educational — relating to ethical issues,
2. Serving as a forum for the discussion and analysis of ethical issues by individuals from a variety of backgrounds,
3. Suggesting policies, given limited resources, to assist with the maintenance of quality services in the hospital,
4. Assist in development of announced "institutional commitments" (for example, "mission, philosophy"),
5. Assist in the "developing [of positions] regarding ethical" matters,
6. Provide assistance to an individual physician faced with an ethical dilemma.

Thomasma and Monagle assert that "... hospital ethics committees should represent a broad range of value perspectives, professional expertise, and community representation."²⁷ These authors suggest that such a committee might include in its composition representation from: physicians (from various specialties), nurses, "social services," ethicists, the hospital administration, and "the hospital board."²⁸

¹⁹Joan McIver Gibson and Thomasine Kimbrough Kushner, "Will The 'Conscience of an Institution' Become Society's Servant?", *Hastings Center Report*, June, 1986, p. 9.

²⁰Cynthia B. Cohen, "Birth Of A Network," *Hastings Center Report*, February/March, 1988, p. 11.

²¹Frederic G. Reamer, "Ethics Committees In Social Work," *Social Work*, May-June, 1987, p. 188.

²²Ibid.

²³Ibid.

²⁴Fred Rosner, "Hospital Medical Ethics Committees: A Review of Their Development," *Journal of the American Medical Association*, May 10, 1985, p. 2694.

²⁵See David C. Thomasma and John F. Monagle, "Hospital Ethics Committees: Roles, Membership, and Structure," pp. 397-403, in John F. Monagle and David C. Thomasma, eds., *Medical Ethics: A Guide for Health Professionals*, Aspen Publishers, Inc., 1988.

²⁶Thomasma and Monagle, p. 398. See Thomasma and Monagle, p. 397 for the source of their material.

²⁷Thomasma and Monagle, p. 403.

²⁸Ibid.

Reamer notes that some social workers serve on hospital ethics committees.²⁹ Further, he advocates the use of ethics committees in social work noting that "... it is time for the profession to introduce forums that enable social workers to reflect on the [ethical] issues carefully and systematically."³⁰

Gibson and Kushner in an article published in 1986 note that "ethics committees today are more solidly established than in the past, and many have achieved the status of permanent standing committee of the medical staff."³¹ However, hospital ethics committees are not without problems.³² In the next section some of these problems are reviewed.

Some Possible Problems With Hospital Ethics Committees

In a recent discussion concerning hospital ethics committees with an attending physician practicing at a community hospital on the east coast of the United States, I was told that this physician's hospital had established an ethics committee. However, after involvement in two cases, the committee had ceased being used because it was considered too complex, too time consuming for a physician, and possibly interfering with the professional judgment of a physician. Some similar sentiments were noted in an article by Dr. Mark Siegler.³³ The latter notes that "such [hospital ethics] committees may expand the number of participants in the decision from those directly involved in the case to an unmanageable collection of noninvolved professional and moral 'experts'...."³⁴ Further, Siegler expresses concern about the effect of the physician relinquishing some of his or her "medical responsibility" for a patient to a hospital ethics committee.³⁵ Additionally, Siegler worries that "these committees ... may have serious conflicts of interest between their responsibility to the individual patient and their efforts to minimize hospital risk, to develop sound hospital policies, and perhaps even to allocate economic resources most efficiently."³⁶ On a different tack, Gibson and Kushner express concern that hospital ethics committees generally are not provided adequate resources.³⁷

Ethics Consultants

Recently, some individuals have begun to specialize as ethics consultants to provide advice to health related professionals and institutions. An editorial in *The Lancet* states that "bioethics committees in the USA ... may include ... perhaps a representative of the new profession of ethics consultants."³⁸ A note published in the December 1985 issue of the *Hastings Center Report*, mentioned some of the findings of a National Institute of Health poll of ethics consultants.³⁹ Of 38 individuals participating in this study, the largest number had a "philosophy" background and the next largest number reported a "theology/divinity" background.⁴⁰ Also, Purtilo describes an example of an ethical dilemma in which a physician or hospital may request the assistance of an ethics consultant.⁴¹ LaPuma et al. discuss an "ethics consultation service"⁴² at one particular hospital.⁴³ Additionally, the legal profession and the process it serves uses

²⁹Reamer, p. 189.

³⁰Ibid., p. 191.

³¹Gibson and Kushner, p. 10.

³²The existence of problems is suggested by Gibson and Kushner, p. 10 as well as others such as Mark Siegler, "Ethics Committees: Decisions By Bureaucracy," *Hastings Center Report*, June, 1986.

³³Mark Siegler, "Ethics Committees: Decisions By Bureaucracy."

³⁴Ibid., p. 22.

³⁵Ibid.

³⁶Ibid.

³⁷Gibson and Kushner, p. 10.

³⁸Editorial, "Who's For Bioethics Committees?," *The Lancet*, May 3, 1986, p. 1016.

³⁹Bormel, p. 2.

⁴⁰Ibid.

⁴¹Ruth B. Purtilo, "Ethics Consultations In The Hospital," *The New England Journal of Medicine*, October 11, 1984, p. 983.

⁴²John LaPuma, Carol B. Stocking, Marc D. Silverstein, Andrea DiMartini, and Mark Siegler, "An Ethical Consultation Service in a Teaching Hospital: Utilization and Evaluation," *The Journal of the American Medical Association*, August 12, 1988, p. 808.

⁴³Ibid., pp. 808-811.

ethics consultants (experts).⁴⁴ For example, ethics experts have testified in court cases.⁴⁵

ETHICS COMMITTEES AND/OR CONSULTANTS WITHIN PUBLIC ACCOUNTING FIRMS

Public Accounting Firm Ethics Committee

Should public accounting firms have ethics committees? If one responds positively to such a question, a number of other issues then arise. In this section the issue of possible functions of a firm and/or office ethics committee is addressed. This is followed by a discussion of the form an ethics committee might take and the possible composition of the membership of such committees.

Functions of Committee

Earlier in this paper it was noted that independent public accountants practice within an institutional framework of public accounting offices and firms. Public accounting firms may have procedures or policies relating to ethical issues. For example, the AICPA in *Statement on Quality Control Standards No. 1* suggests the establishment of "policies and procedures" relating to "independence."⁴⁶ However, I am not aware of existing firm or office ethics committees in public accounting that perform functions parallel to those that hospital ethics committees may perform or that have an interdisciplinary composition.⁴⁷

Functions that a public accounting firm ethics committee might perform include: (1) helping develop and periodically reviewing a formal ethical philosophy for the firm; (2) coordinating ethics education for the firm; (3) proposing firm policies relating to ethics; and (4) responding in a timely manner to ethical issues and/or dilemmas that are brought to the ethics committee by a partner and/or members of the professional staff. These functions are based on and are parallel to some of the functions that were mentioned earlier that a hospital ethics committee might perform.⁴⁸

An ethics committee could help a public accounting firm in developing a formal firm ethical philosophy and then in periodically assessing the firm's progress under such a philosophy. Research relating to professional firms — both in public accounting⁴⁹ and law⁵⁰

— has indicated that professional firms can have different "ethical climates." Generally, firm and/or office management will likely set such a climate — probably more reactively than proactively.⁵¹ An ethics committee could

⁴⁴Peter G. McAllen and Richard Delgado, "Moral Experts in the Courtroom," *The Hastings Center Report*, February, 1984, pp. 27-34; John J. Paris, "An Ethicist Takes The Stand," *The Hastings Center Report*, February, 1984, pp. 32-33; and Michael S. Yesley, "The Moral Expert Witness: Function or Footnote?," *The Hastings Center Report*, February, 1984, pp. 28-29.

⁴⁵McAllen and Delgado, pp. 27-34; Paris, pp. 32-33; and Yesley, pp. 28-29.

⁴⁶American Institute of Certified Public Accountants, *Statement on Quality Control Standards No. 1*, "System of Quality Control for a CPA Firm," American Institute of Certified Public Accountants, 1979, para. 7a.

⁴⁷An article published several years ago (The Center for Business Ethics at Bentley College, "Are Corporations Institutionalizing Ethics?," *Journal of Business Ethics*, April 1986) reported the results of a survey of major corporations regarding ethics. That study (The Center for Business Ethics at Bentley College, p. 87) reported that 40 companies had responded that they use ethics committees in some manner (the article mentioned some of the tasks these committees were assigned). Patrick E. Murphy, "Implementing Business Ethics," *Journal of Business Ethics*, December, 1988, in discussing business ethics advocates the use of ethics committees in businesses (p. 909). Murphy, p. 909 mentions one company which he reports has assigned such a committee the tasks of "interpreting, clarifying, communicating and [adjudicating] the company's code [of ethics]."

⁴⁸See footnote 26 for the source of the ideas for these functions. Some of the tasks of an ethics committee in a business mentioned in The Center for Business Ethics at Bentley College (p. 87) are somewhat similar to these suggested functions.

⁴⁹Stephen Edward Loeb, "A Behavioral Study of CPA Ethics," Ph. D. dissertation, University of Wisconsin, 1970, pp. 185-197.

⁵⁰Jerome E. Carlin, *Lawyers' Ethics: A Survey of the New York City Bar*, Russell Sage Foundation, New York, 1966, Chapter 6.

⁵¹The National Commission on Fraudulent Financial Reporting (p. 32) recognizes the importance of "top management" in setting "tone." In discussing public companies, the National Commission on Fraudulent Financial Reporting states "the tone set by top management — the corporate environment or culture within which financial reporting occurs — is the most important factor contributing to the integrity of the financial reporting process" (p. 32). Later in its report the National Commission on Fraudulent Financial Reporting notes (p. 56) that "the tone that top managements of public accounting firms set is just as important in the firms as that set by top managements in public companies." Also, see the discussion in Murphy, p. 910.

suggest that an office or a firm proactively establish a formal ethical philosophy, and in turn, the ethical climate of the office or firm. If a firm or office were to develop a formal ethical philosophy, an ethics committee might periodically assist in an evaluation as to how the firm or office was progressing under such an ethical philosophy.

In the dynamic environment of current public accounting practice, continuing education is needed, and, in fact, is mandated by the AICPA By-laws, the requirements of the AICPA Division for CPA Firms, and the requirements to practice in many jurisdictions.⁵² Ethics education should be an important aspect of a public accountant's professional development. One study, for example, found attentiveness to ethical issues to be an important factor in explaining variation of ethical behavior in public accounting practice.⁵³ Further, as noted earlier in this paper, the Treadway Commission recommended that ethics be a part of a public accountant's continuing education. Specifically, that commission recommended

As part of their continuing professional education, independent public accountants, ... should study the forces and opportunities that contribute to fraudulent financial reporting, the risk factors that may indicate its occurrence, and the relevant ethical and technical standards.⁵⁴
[emphasis in original].

Consequently, a firm ethics committee could serve as a facilitating mechanism within a public accounting firm to coordinate ethics related continuing education and to provide assurance that such continuing education is consistent with the firm's ethical philosophy.

An ethics committee could propose firm policies relating to specific ethical issues and/or dilemmas. As suggested earlier, not all matters relating to ethics that occur in public accounting have clear answers or solutions. Further, a firm or office may wish to set ethical standards that are higher than those required by appropriate authorities⁵⁵ (for example, a firm might not wish to advertise or might wish to have independence standards that are higher than those required by a professional association⁵⁶ or the Securities and Exchange Commission⁵⁷).

Additionally, an ethics committee could, on a timely basis, assist partner or professional staff in the recognition of and/or solution of ethical issues and/or dilemmas that might arise in practice. An ethics committee could assist in what Callahan refers to as "recognizing ethical issues."⁵⁸ In the complexity of the current business environment, a public accountant may benefit from a committee with which he or she can discuss and confirm the ethical nature of an issue and/or dilemma. This may be especially important given the limited training in ethics currently provided by most college or university accounting programs.⁵⁹ Further, an ethics com-

⁵²As to the AICPA By-laws see AICPA, *AICPA Professional Standards*, Volume 2, BL Sections 230 and 230R; as to the AICPA Division for CPA Firms, see, for example, Walter G. Kell, William C. Boynton, and Richard E. Ziegler, *Modern Auditing, Fourth Edition*, John Wiley & Sons, New York, 1989, pp. 18-19; and as to practice requirements, see, for example, Kell, Boynton, and Ziegler, p. 21 and Weinstein, pp. 77-89.

⁵³Loeb, "A Behavioral Study of CPA Ethics," pp. 173-176.

⁵⁴National Commission on Fraudulent Financial Reporting, p. 85.

⁵⁵Earlier in this paper it was suggested that a public accounting firm might wish in some situations to have its professionals follow standards that were higher than those required by a professional association.

⁵⁶See, for example, Donald H. Taylor and G. William Glezen, *Auditing: Integrated Concepts and Procedures, Fourth Edition*, John Wiley & Sons, 1988, pp. 84-85 and David Lavin, "Perceptions of the Independence of the Auditor," *The Accounting Review*, January 1976, pp. 41-50 for discussion of different positions the AICPA and the Securities and Exchange Commission (SEC) can have on an ethics issue.

⁵⁷This possibility was confirmed to the author in a conversation with a staff member of the SEC.

⁵⁸Daniel Callahan, "Goals In The Teaching Of Ethics," in Daniel Callahan and Sissela Bok, eds., *Ethics Teaching In Higher Education*, Plenum Press, New York, 1980, p. 65.

⁵⁹See, for example, Loeb, "Teaching Students Accounting Ethics: Some Crucial Issues," pp. 316-317; National Commission on Fraudulent Financial Reporting, p. 82; Jean C. Wyer, Primary Researcher, Abstract of "Fraudulent Financial Reporting: The Potential for Educational Impact" in National Commission on Fraudulent Financial Reporting, *Report of the National Commission on Fraudulent Financial Reporting*, October 1987, p. 108, and Jeffrey R. Cohen and Laurie W. Pant, "Accounting Educators' Perceptions of Ethics in the Curriculum," *Issues in Accounting Education*, Spring 1989.

mittee could suggest alternative solutions that are within the ethical philosophy or ethical policies that the firm or office had set in conjunction with its ethics committee. Thus, an ethics committee could facilitate the solution to an ethical issue and/or dilemma without referring the matter to an individual or group outside the public accounting firm. Additionally, the ethics committee could assist in determining when an issue and/or dilemma should be referred to an individual or group outside the firm.

There is another function an ethics committee could possibly serve — that of ombudsman for a public accounting firm.⁶⁰ In such a role an ethics committee could provide a service for the public accounting firm's professional staff, clients, and third-party users of the firm's audit reports. For example, an ethics committee could serve as a mechanism for a professional staff member to appeal a decision of an immediate superior.⁶¹ Thus, the ethics committee could assist an individual staff member solve what that person believes is an ethical dilemma. An ethics committee could also serve as an additional vehicle (beyond, for example, the engagement partner) within a public accounting firm where a client or user of a firm's audit reports could bring a complaint concerning the firm or a firm policy. This would give a public accounting firm an additional opportunity to resolve an issue without the other party taking the issue outside the firm.

Organization of Ethics Committee

The organization of a public accounting firm ethics committee likely would be a function of the size and nature of the public accounting firm's practice. National firms might have a firm-wide committee with possibly committees at regional and/or local office level. In such a situation, local or regional committees might report to the firm-wide committee. Such a decentralized organization structure might provide a more timely response to local office issues. Regional firms with multiple offices might have firm-wide and/or local office ethics committees. Local firms, with one office, could have a firm ethics committee within the office.

To be of value, an ethics committee in a public accounting firm would need access to and the support of the level of management to which it reports. For example, in a national firm, such a firm-wide committee might report to the firm managing partner and/or managing committee. In a local firm an ethics committee might report to the managing partner, a limited number of partners, or all partners. Management support should be such that the committee is able to operate independently within the firm and committee members are comfortable in providing objective opinions and advice.

Composition of Committee

Similar to a hospital ethics committee a public accounting firm ethics committee might be interdisciplinary. Thus, such a committee might, for example, contain some partners of the firm, professional staff, firm in-house legal counsel, external legal counsel, and perhaps, one or more ethicists. As much as possible, the partners and professional staff who serve on such a committee should be representative

⁶⁰ One source, Bob Quilitch and Kevin Christensen, "Using An Ombudsman And A Rights Committee To Handle Client Complaints," *Hospital & Community Psychiatry*, February 1981, pp. 127-129 describes the use of an ombudsman. Michael Brody, "Listen To Your Whistleblower," *Fortune*, November 24, 1986, pp. 77-78, discusses the use of this concept in U.S. corporations. Jonathan P. West, "The Role of the Ombudsman in Resolving Conflicts," in James S. Bowman and Frederick A. Elliston, eds., *Ethics, Government, and Public Policy: A Reference Guide*, Greenwood Press, New York, 1988, pp. 169-200 discusses the use of the ombudsman concept in government. See also The Center for Business Ethics at Bentley College, p. 87.

⁶¹ American Institute of Certified Public Accountants, *Statement on Auditing Standards [SAS] No. 22, "Planning and Supervision,"* American Institute of Certified Public Accountants, 1978, para. 12 seems to suggest that a mechanism should exist for dealing with possible "differences" relating to "accounting and auditing issues" that might arise "among" the members of the professional staff who are performing an independent audit. Paragraph 12 of SAS No. 22 was "renumbered" paragraph 14 as a result of an amendment to SAS No. 22 by American Institute of Certified Public Accountants, *Statement on Auditing Standards [SAS] No. 48, "The Effects of Computer Processing on the Examination of Financial Statements,"* American Institute of Certified Public Accountants, 1984, para. 1.

of the various services that the public accounting firm provides clients (audit, tax, consulting, and so on) and the various industries, if any, in which the firm specializes. Such an interdisciplinary committee would bring together individuals with a variety of backgrounds and provide the firm with a variety of views on ethical issues.⁶² Ethicists, although not trained in accounting, could provide assistance in addressing an ethical issue and/or dilemma. Legal counsel could provide advice on the legal aspects of an ethical issue and/or dilemma. The actual composition would likely depend on the size of the firm, the geographic dispersion of the firm, and the nature of the firm's practice.

Ethics Consultants

Many of the reasons advanced for the use of ethics committees could be cited to support the employment of an ethics consultant or consultants in public accounting firms. Depending on the size of a firm, the geographic dispersion of the firm, and the nature of the firm's practice, the consultants could be used at local, regional, or firm-wide levels. Such consultants could serve on ethics committees and also, on a day-to-day basis, serve as advisors to the partners and professional staff on ethical issues and/or dilemmas that may arise. Firm or office ethics committees would likely meet periodically. Consequently, in the interim, ethical consultants could provide quick responses to ethical issues and/or dilemmas that arise.⁶³

CONCLUSIONS

In recent years, the medical profession's development of hospital ethics committees and use of ethics consultants provide interesting concepts that may be useful to the public accounting profession. The concepts of

ethics committees and/or ethics consultants in public accounting are likely not without problems. However, there are a number of potentially positive functions that an ethics committee and/or ethics consultants might provide to the public accounting profession.

The use of ethics committees and/or consultants by the public accounting profession might result in more ethics education within public accounting firms as well as more discussion of ethical issues by individuals in public accounting practice. Additionally, public accounting firms that have informal policy statements or an informal ethical philosophy might develop formal policy statements on ethics or a formal ethical philosophy. Firms without either informal or formal policy statements or an ethical philosophy might consider developing one or both. Public accountants would have more assistance in the recognition and solution of ethical issues and/or dilemmas. Care would have to be exercised so that the appropriate public accountants, not ethics committees and/or ethics consultants, actually make decisions and establish policy. Further, care would also need to be taken so that decision-making would not become overly complex or unwieldy.⁶⁴ However, the potential benefits from using ethics committees and/or consultants mentioned earlier in this paper suggest that the public accounting profession should consider both concepts.

⁶² See Thomasma and Monagle, p. 403.

⁶³ See the discussion in Purtilo, p. 984.

⁶⁴ These are the types of potential problems that, as noted earlier, have been raised in relation to hospital ethics committees. Thus, the experiences of the medical profession with hospital ethics committees and/or ethics consultants should be considered if the public accounting firms were to utilize ethics committees and/or consultants.