

P E R S P E C T I V E S  
ethics education

## Teaching CPAs About Serving the Public Interest

By Nicholas J. Mastracchio Jr.

A continuing deluge of articles, editorials, and speeches addresses the need of ethics education in the curriculum of accounting majors. One must wonder, however, if teaching ethics at the college level is too late. Have we become immunized against ethical behavior? Are the primary criteria for behavior whether or not one will be better off, and the chances of being caught? As youngsters, do we learn at the dinner table

that the family vacation was funded by expense-account padding? And do we hear our parents talking about overstating their tax deductions? Are simple laws, such as speed limits and parking rules, expected to be ignored in our society? Do our baseball heroes cork their bats and use steroids? Do our political leaders question "what the definition of 'is' is"? Are cheating on school exams and plagiarizing papers via the Internet common occurrences? Are examples of child abuse prevalent among those supposedly dedicated to religious service?

If the answer to these questions is yes, then how can we expect those who choose accounting as a career to be exceptions to the rule? Are they a higher caliber of individual than those who choose a religious life? Did the decision-makers at Enron and WorldCom not know that what they were doing was wrong? Did they need a course that would have taught them not to conduct business the way they did? We read that the guards at the Abu Ghraib prison in Iraq were not trained in the Geneva Conventions. Did the guards need a course to learn that the way they treated the prisoners was wrong?

### What Can Help?

At best, one can only hope that education can help. Accounting students

should be well grounded in ethics; however, society's attitude must also change. Perhaps a sound basic foundation in ethics, which teaches methods of measuring the consequences of decisions in ethical terms, can help.

In taxation, there is a difference between tax evasion and tax avoidance. Surely no one would suggest that each of us should pay taxes by deciding what our fair share should be. So we learn that minimizing our taxes is acceptable as long as we do not violate the law.

Unfortunately, the attitude toward teaching "ethics" in most curricula consists primarily of learning rules. Acting ethically then becomes merely not violating particular rules. An auditing course may go further, listing the AICPA rules of professional conduct, but still say little about how protecting the public interest is a CPA's responsibility. Some legal discussions may occur in a business law course, or a tax course may include some discussion of tax ethics. With the ethical compass that this attitude fosters, one is able to work at WorldCom and rationalize capitalizing line costs to apply them against future revenues. Shoehorning an accounting treatment into a GAAP principle is considerably easier for auditors than asking themselves whether stakeholders are receiving a fair picture of the company: "After all, everyone manages earnings."

The National Association of State Boards of Accountancy (NASBA) responded to the recent scandals by forming a task force to investigate the extent of education in protecting the public interest. The American

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Accounting Association (AAA) agreed to cosponsor a survey of educators on the issue of ethics education on campus. The following results were obtained:

- 46% of the schools offered a separate course in ethics.
- 68% of those offered the course in the school of business.
- 18% offered the course in the accounting department.
- 56% indicated that the course provided separate coverage for protecting the public interest.
- Where offered, 51% stated it was a requirement for accounting majors.
- Where offered, 45% stated it was a requirement for other business majors.
- 90% indicated that protecting the public interest was covered in the auditing course.

For those survey participants that opted to identify their affiliation, a syllabus of the courses was obtained. Some institutions had a good, solid ethics course, but most courses designated as ethics courses were related to business law, included only a brief look at ethics, and, with a few exceptions, did not provide adequate coverage of ethics, values, and appropriate professional conduct.

Considering the results of this survey and the audit and accounting failures of the past few years, it appears that a contribut-

ing factor may be a failure in the effectiveness of ethics education. An individual's value system is affected by numerous influences long before college and is probably already well formed by that age. There must, however, be an appreciation of the foundation for ethics and values in philosophical thought, as well as a general understanding of expected business and professional behavior, including the responsibility to protect the public interest. It is apparent that most individuals will receive little or no education in this area in an institution of higher learning.

#### Academia's Role in a Solution

Academia should recognize a need for education in the broad philosophical concepts of ethics. This should be followed by the application of these principles in the world of business and accounting. This education should begin as early as possible in a student's academic career.

Two methods are in use by those few schools that attempt to provide this education. The education is either presented in separate courses or integrated throughout the business education. The advantages and disadvantages of these methods are discussed below.

#### Integrated Program

*Advantages.* The perception is fostered that ethics is a consideration in all aspects

of accounting and business. The program can be implemented without significant additional resources.

*Disadvantages.* Instructors may lack expertise in ethics education. Compliance is difficult to measure.

#### Separate Courses

*Advantages.* The preliminary philosophical basis of ethics and values can be taught in the liberal arts program by professors that have the appropriate expertise. This can be followed by one or two courses in business- and accounting-related ethics issues. Compliance is easy to measure.

*Disadvantage.* The program must be implemented slowly due to the need to change the curriculum and add business or accounting courses in what is often already a full curriculum.

This writer believes that the best method for ethics education is to require undergraduate students to complete a liberal arts ethics course in the first two years of college, followed by a business ethics course in the junior or senior year, and an accounting ethics course that is part of the additional 30 hours in the 150-hour program.

An effective integrated program has merit, but there remains a need to provide recognition of underlying concepts, which is best handled in the liberal arts department. Some institutions have taken the integrated approach, and one hopes that they

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## YEARS Milestones

This issue marks two milestones in *The CPA Journal's* evolution. First, it marks the one-year anniversary of the major redesign we introduced in January 2004. In this issue, you may notice refinements in that design, the continuing work of art director Damian Voerg, aimed at optimizing the readability of the content, particularly the exhibits; the versatility of layouts for different types of articles; and the harmony of the elements that create our look.

Also, with this issue, *The CPA Journal* enters its 75th year of publication. Beginning this month and throughout the year, we'll use the occasion to reflect on the past in ways that illuminate the present and, we hope, the future. Articles with this theme will be accompanied by the "75" icon you see here.

Join us in celebrating as *The CPA Journal* passes another milestone in accomplishing its mission: providing a high-level forum for discourse, debate, and analysis about current important issues across the diverse range of interests and perspectives within the accounting profession in an up-to-date, attractive package. □

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have identified ways for their business and accounting faculty to effectively bring ethics and the concept of protecting the public interest into the classroom.

This writer believes that state boards of accountancy should mandate extensive ethics education as a component of the 150-hour requirement. Ethics education must be reinforced and strengthened, and the concept of protecting the public interest must be a vital component. To accomplish this goal, nine semester credit hours of ethics education should become a requirement for taking the

Uniform CPA Examination. Three credit hours in ethical foundations should be required in the liberal arts program; three credit hours in business ethics should be required in the business program; and three credit hours should specifically address ethical issues in accounting.

Separate courses in ethics education are preferable, but for institutions that integrate ethics into their accounting and business curricula, a separate three-credit-hours liberal arts course in ethical foundations should be required. In addition, these institutions should

incorporate a minimum of 90 class hours in business ethics, with a minimum of 45 of these class hours in ethics issues in accounting. These hours should be identified in the syllabi, and a proportionate portion of the grade for the course should be based on ethics tests, papers, and discussions. □

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## personal viewpoint

### Swimming Against the Tide: The Hidden Costs of Offshoring

By Jo Ann M. Pinto

Advances in technology have meant that many of the services once performed as personal professional services, including tax preparation, can now be electronically exported via the Internet to lower-cost workers in emerging-market countries. According to Forrester Research, 3.3 million professional positions, mostly in information technology and financial services, will move offshore by 2015.

#### An Offshoring Primer

To its proponents, offshoring offers tangible benefits: Routine, labor-intensive tasks can be performed at a much lower cost in developing countries. U.S. manufacturers began relocating production facilities to low-wage countries decades ago, but until recently, white-collar workers were relatively insulated from the quest to reduce labor costs. The Internet has paved the way for the export of professional services to lower-cost environments. India is an especially appealing location because of its relatively well educated and English-speaking workforce, favorable cost structure, and a time difference that allows workflows to continue around the clock.

Advocates of offshoring claim that the overall demand for U.S. goods and services will increase with the rising incomes of consumers in developing countries. Proponents also contend that highly skilled tasks, such as analyzing reports and rendering consulting services, will continue to be performed by domestic workers.

While the largest accounting firms have always maintained overseas offices to service multinational clients, recent reports in the financial press suggest that firms of all sizes now offshore tax-preparation services to processing centers in India. In many cases this fact is not shared with the client; nor does it necessarily translate into a lower fee for tax services rendered. Firms engaged in this practice have a U.S. partner review the return and provide the tax-planning advice.

According to the *New York Times*, an estimated 100,000 returns were prepared overseas during the 2004 filing season. While this is a tiny slice of the overall market for tax-preparation services, the number was virtually nonexistent just three years ago.

#### Are Clients' Best Interests Served?

As someone who has engaged in tax-preparation services, I know that there is simply no substitute for face-to-face contact with the client. Important, tax-saving information can be transmitted between the client and tax preparer during a live interview. I recall the following incident from a tax sea-

son years ago: While completing the return of an elderly widow, I asked her in passing what she did in her spare time. She laughed and said she had little spare time because, in addition to holding down a part-time job, she kept house for her son, daughter-in-law, and three grandchildren (who lived in her home). The new information she disclosed changed her filing status from single to head-of-household. Aside from meeting the other requirements, her unmarried granddaughter was a "qualifying person" for purposes of determining head-of-household status. Not only was I able to use this information for the current year, I filed amended returns for the prior three years, reaping her several thousand dollars in tax refunds. That anecdote, only one of dozens I could recount, highlights how live tax interviews can provide real added value to the taxpayer.

#### Is There a Substitute for Experience?

To exercise appropriate due diligence, tax preparers must be able to extract from their clients relevant information solicited in plain language. For example, it is imperative for tax preparers to understand what constitutes ordinary and necessary expenses for a wide range of businesses; someone unfamiliar with American culture may be unable to make the distinction. A well-seasoned tax professional combines extensive knowledge of the tax code, well-honed interpersonal skills, and good business sense.