

Understanding Accounting Ethics, Second Edition

By Mark Cheffers and Michael Pakaluk

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Reviewed by Vincent J. Love

The authors of *Understanding Accounting Ethics, Second Edition*, take a different, but complementary, approach to addressing ethics to that of *Ethics for CPAs*, a book I reviewed in the January 2003 *CPA Journal*. That book lays out all of the relevant rules contained in the various professional and regulatory codes of conduct. *Understanding Accounting Ethics*, on the other hand, equips readers with a framework to measure the ethical character of their actions outside and above the rules to determine if they are “doing the right thing.” It does this by addressing the value of ethical behavior to the profession, discussing the broad concepts and then applying ethical principles to actual situations, and analyzing the actions of the parties from the perspective of ethical underpinnings. The result is a framework that can be used to appropriately handle any ethical dilemma one might encounter as a CPA. These two excellent books on ethics are companion pieces that should be in every CPA’s library.

Understanding Accounting Ethics, Second Edition, is structured along the framework for education recommended by the International Federation of Accountants: 1) gaining knowledge, 2) acquiring perceptiveness, 3) exercising judgment, and 4) planning for continued growth in professionalism. This is accomplished through the structure of the book by formatting each chapter to assist in its use as an instructional tool, and more importantly, organizing the subject and discourse in conformity with each segment of the framework.

Each chapter begins with a summary of content, followed by a list of the learning objectives. Then each chapter delves into its subject matter in an organized, eas-

ily readable fashion, including relevant quotations from some of the giants of the profession. At the end of each chapter there is a section that lists the key ideas introduced, review questions, discussion points, suggested research topics, and further reading on the subject.

Pairs of chapters are directed toward fulfilling the requirements of each of the four segments of the framework. Chapters 1 and 2 address why the accounting profession is, by nature, inherently ethical, and focus on the basic ideas, foundational concepts, and approaches of professional ethics. At the beginning of the first chapter is a quote from Harvey Kapnick that sets the tone for this part of the framework: “If the accounting profession is to fulfill its public interest responsibilities, its own credibility must be restored. This is essential not only for the survival of the profession, but also for our free enterprise system itself.” The authors then go on to eloquently examine in detail four considerations for why ethics is so essential to the profession:

- Auditors are not paid by those whose interest they are supposed to represent—those third parties who rely on our reports. A quote from Robert H. Montgomery is used to make this point: “Accountants and the accountancy profession exist as a means of public service; the distinction which separates a profession from a mere means of livelihood is that the profession is accountable to standards of the public interest, and beyond the compensation paid by clients.”

- Our profession is relatively young (approximately 150 years). A quote from John L. Carey is used to reinforce this fact: “Thus, while the *art* of accounting is ancient, the *profession* of accounting, in comparison with law and medicine, for example, is very young.”

- CPAs need an inner orientation to the truth. Another quote from Montgomery is used to crystallize this important consideration: “In order to tell the truth there must be some detachment from one’s immediate environment; from the opinions of neighbors; from ambition, money, power, fame, comfort, security and ease. Have we the courage to proclaim the truth, or do we shrink from the struggle?”

- CPAs must be especially able to resist greed and greediness.

This chapter ends with another quote from Montgomery, from 1905, that is at the core of our profession:

The Lawyer’s duty is first of all to his client, and that duty frequently compels him to avail himself of technicalities and other means of enabling that client to evade the Law and its penalties; but the Public Accountant has only one duty to his client and the Public, and that is to disclose to him or for him ‘the truth, the whole truth, and nothing but the truth’ so far as his abilities and special training to that end enable him to ascertain it.

The authors demonstrate that the inherent character of the profession is ethics, thereby making the case that ethics is a necessity for our professional existence and not an adjunct to it. This perspective is reflected throughout the book.

Chapter 2 focuses on the fundamentals of accounting ethics. It addresses the cardinal virtues of wisdom, justice, courage, and self-mastery, and how they shape the profession. Again, the authors use relevant quotations to demonstrate and reinforce the concepts they express: “A Public Accountant is a man fearless and unprejudiced, with the ability to look at both sides of a question; one who will not allow his honest opinion to be changed by clients or adverse party; who dictates and is never dictated to; who places his devotion to his profession above the opportunity of gain by questionable means.” The wonderful quotes throughout are alone worth the price of the book.

After the authors address the philosophical knowledge the reader needs as a basis for ethical accounting and auditing, Chapter 3 analyzes the application, or lack of application, of ethics in the Enron scandal. Chapter 4 discusses WorldCom. The intrinsic nature of the fraud involved in these real-life cases was different (Enron, a failure of objectivity and independence; WorldCom, a failure of professionalism and integrity). These examples and the nature of the ethical failures are explored in a way that makes them understandable without reference to a plethora of rules. This gives the reader the ability to understand the nature of an ethical dilemma and how to resolve it when no specific rule exists to guide the professional. Rules are

limiting. Principles and concepts applied with intellectual honesty are boundless.

Chapter 5 presents 10 ethical dilemmas with a synopsis of each situation and the questions that arise based on the scenario. Later in the chapter, the reader receives a suggested resolution for each, the reasoning behind the resolution, and the real-life facts that served as the basis. This guides the reader through practice cases based on real-life situations where he or she applies principles and concepts to resolve dilemmas, and reinforces the lessons from the previous chapters.

Chapter 6 focuses on why rules are not enough to guide the ethical conduct of professionals. The rules governing a profession can only address certain limited aspects of ethical behavior; it is impossible for them to cover all of the dilemmas that a professional will face in his or her career. The authors discuss six very cogent reasons why rules are insufficient:

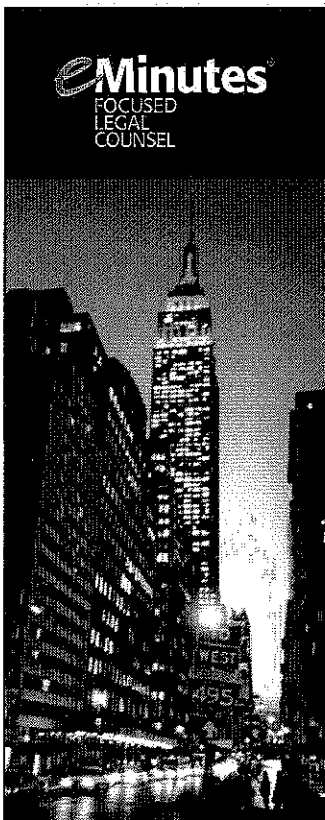
- They state only necessary, not sufficient, conditions.
- Their terms are ambiguous.
- They must be interpreted according to idealizations.
- They require correct motivation.
- They are, on their own, unmanageable.
- They require our recognizing that we are actually following the rule.

The final chapters, 7 and 8, address the ability to teach and learn ethics, and to grow in ethics beyond the basic level of understanding and implementing principles and concepts. The authors encourage the seasoned professional and the beginner to continue their personal growth. They give practical advice to accounting students and newly licensed CPAs. Included in the last chapter is an excerpt from an unnamed Big Four code of conduct that contains, among others, the following questions to apply in avoiding a poor course of action:

- Does it feel right?
- What would a reasonable person think?
- Can you sleep at night?

This book is a must-read for every professional, especially those who have a passion for understanding the basis and foundation of ethics and the application of its concepts and principles in our profession. I highly recommend it as an addition to any professional's library. A wise accountant should have this book as a reference source to aid in complying with stricter and enhanced ethics standards, particularly in situations not covered by any specific rule. □

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