

ETHICS EDUCATION TOOLKIT

INTRODUCTION

IAESB

**International Accounting
Education
Standards Board™**

INTRODUCTION

The “Ethics In Business” video program helps educate and train business and professional people at all levels while studying at university or working in various areas of business. It can be used for sensitization to ethics threats, such as threats of: conflicts, self-interest, or intimidation. Ethics threats may result in compromised ethical conduct. Professional accountants need to be able to deal with ethical threats and be able to choose a course of action consistent with the fundamental principles set out in the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code of Ethics). The five scenarios of the “Ethics In Business” video program illustrate the use of an ethical decision-making model that assists in developing learners’ ethical judgment.

The video program also aims to promote discussion of ethics-related issues in the workplace. It can be used as part of a tertiary education course, as training support material for professional accountancy organizations, as a supplement to existing training and development programs within organizations, or as part of a broad management ethics program.

The “Ethics In Business” videos raise several everyday ethical issues confronting members of the accounting profession. The five scenarios depicted in the videos are designed to expose aspiring professional accountants and professional accountants to the ethical dimensions of certain business decisions. The stories are fictional but are developed from actual case histories and demonstrate a variety of challenges to a professional accountant’s standards of professional ethics, in different settings, and at various levels of seniority within the profession.

Professional accountants, whether working in public practice or in commerce, face ethical problems during their working life that are exclusive to the profession. They have access to financial information and can become aware of unethical or dishonest practices. Professional accountants have a responsibility to behave in a professional manner and to abide by the IESBA Code of Ethics and the code of conduct of their professional body. However, it is not possible to have codes or rules for every situation and the issue of personal accountability is critical.

Not everyone has the same capacity for independent ethical judgment. Awareness of, and practice in, resolving potential ethical dilemmas can help accountants to make sound, ethical decisions. Professional accountants who can identify circumstances that may impinge on their standards of professional conduct will be in a better position to avoid compromising situations. Sometimes it may be obvious to an outsider what the course of action should be, but to the individual involved it may not be so simple. By developing the skills to identify these dilemmas, accountants will be better able to deal with situations which put their professional standards at risk.

These scenarios invite participants to consider various aspects of accountability and responsibility for business decisions. They promote discussion of ways to handle ethical threats, to avoid compromises, and to resolve demands on an accountant's integrity. They aim to take participants from the abstract study of ethical principles to the emotional and ambiguous task of dealing with specific ethical threats and seeking safeguards.

¹The "Ethics In Business" video program was developed originally by The Institute of Chartered Accountants in Australia (ICAA) and Michael Schildberger's Business Essentials Pty Ltd, with the support of the then Price Waterhouse, CRA and the RMIT University. The ICAA, who owns the copyright of the program, has graciously given consent for the International Federation of Accountants (IFAC) to adapt the video program for use by its member bodies in the application of the International Education Standard (IES) 4, Initial Professional Development - Professional Values, Ethics, and Attitudes.

General Discussion Guidelines

The videos comprise five scenarios, each illustrating a different ethical dilemma. Each scenario is an opportunity to discuss each video in turn. Each scenario is designed to promote discussion of the ethical threats which it raises, but does not settle. These issues vary from scenario to scenario and the discussion may also vary according to the different audience. However, certain general discussion points can be applied to all the scenarios. The points made in this section are provided to aid discussions in classroom, training seminars or open forums.

1. General areas of discussion:

- The facts of the case;
- the relevant ethical principles, theories and standards of conduct expected of accountants;
- Identification of the stakeholders (i.e. all parties affected or likely to be affected by the situation);
- the possible alternatives;
- the ethical issues arising from these alternatives;
- the practical constraints;
- what actions could be taken; and
- whether the situation could have been approached differently.

2. Broader issues raised by the scenarios include:

- the need for standards, codes of conduct, policies or record keeping;
- the accountant's responsibilities; what they are and to whom they are owed (e.g., the company, the client, statutory bodies, etc.);
- balancing conflicting responsibilities; and
- the impact of organizational factors.

3. Focus on objectives

- the need for standards, codes of conduct, policies or record keeping;
- the accountant's responsibilities; what they are and to whom they are owed (e.g., the company, the client, statutory bodies, etc.);
- balancing conflicting responsibilities; and
- the impact of organizational factors

4. Discussion Ideas

It is important to ensure that all the discussion points are covered. One way of doing this is by ordering the discussion under various headings e.g. "What should Sally do?", "Sally's responsibilities", "Who else is involved?" This can also help you to demonstrate the conceptual order of points haphazardly made during the discussion by subsequently referring to the points summarized under these headings.

It can be useful to have participants compare their reactions to a scenario. You may wish to keep a record of participants' comments so that you can return to these after your discussion. This review may generate further discussion. When faced with a large group, it may be useful to divide the participants into smaller work groups. Each work group can discuss one aspect of the dilemma and then report back to the reconvened larger group for a more general discussion.

5. Decision-making Models

Consider whether you intend to apply different ethical models (See Appendix 1) to the scenarios. This may help participants to view each scenario from more than one perspective by using questions that are based on different models and frameworks e.g. utilitarianism, virtue ethics, pragmatism etc.

Appendix 2 provides an example a decision making model - the American Accounting Association 7 Step Model, which has been applied to all five scenarios in the video program.

6. Conclusion

At the end of the discussion you should summarize the important points made by the participants. Ask the participants for feedback on the video and the session. Titles of the Scenarios:

1. What a Plan (Dollar Planning)
2. What a Waste (Clean Up)
3. Country Practice
4. No Control (Internal Audit)
5. A New Job

INTRODUCTION

1. Conventional Decision-making:

a. Overview

- The facts of the case;
- the relevant ethical principles, theories and standards of conduct expected of accountants;
- Identification of the stakeholders (i.e. all parties affected or likely to be affected by the situation);

b. Three Level Process

- First level is concerned with identifying and clarifying the problem
- Second level outlines the steps to making an informed decision
- Third level deals with implementing and evaluating the decision, to assess its effectiveness

c. Steps - These levels involve eight identifiable steps

1. Define the problem
 - Accurately defining the real problem is very important as it establishes the reasons for making a decision; and ethical issues are not always black or white
2. Establish the decision criteria
 - E.g. work-related issues may rely on criteria such as company policies; personal issues may rely on views of fairness and respect
3. Weigh the criteria which are not normally equal in importance
 - E.g. compliance with the law is more important than maximizing revenue
4. Develop alternative courses of action
 - Identify all possible alternatives to help resolve the problem
5. Analyze the alternatives
 - Critically analyze and objectively evaluate different courses of action, although personal judgment will introduce subjectivity
6. Select the best alternative
 - Choose the alternative that produces the greatest overall value
7. Implement the decision
 - Sound implementation is as important as the decision itself
8. Evaluate appropriateness of the decision
 - Evaluation enables people to learn from the experience

2. Ethical Decision-Making:

a. Definition

Ethical decision-making can be defined as ‘the process of identifying a problem, generating alternatives, and choosing among them, so that the alternatives selected maximize the most important ethical values while achieving the intended goal’

b. Hierarchy of Ethical Decision-making

Ethical decision-making can be defined as ‘the process of identifying a problem, generating alternatives, and choosing among them, so that the alternatives selected maximize the most important ethical values while achieving the intended goal’

1. Decisions compliant with the law
2. Decisions consistent with professional obligations, guided by codes of conduct
3. Decisions based on moral values and philosophical reasoning

ETHICAL DECISION MAKING MODELS

1. Overview

- Ethical decision-making models develop a systematic approach to making decisions
- They give moral perspectives to the alternatives, consequences and various interests
- Examples of ethical decision-making models include:
 - Stakeholder Impact Analysis
 - Tucker's 5-question model
 - Moral Standards Approach
 - Pastin's Approach
 - AICPA Decision Tree
 - American Accounting Association (AAA) Model

2. Models

a. Stakeholder Impact Analysis

i. Overview

- The assumption that all shareholders want to maximize only short term profit appears to represent too narrow a focus
- Modern corporations are now accountable to shareholders and non-shareholders, both of which form the set of stakeholders to which a company responds

ii. Fundamental Interests of Stakeholders

- **Three commonly held interests:**
 - 'Well-offness'; one's interests should be better off
 - Fairness; fair distribution of benefits and burdens
 - Rights; should not be offend the rights of any stakeholder

iii. Decision Criteria

- **A decision may be declared unethical if:**
 - It fails to provide net benefit - not better off (well-offness criteria)
 - It is unfair (fairness of distribution)
 - The rights of individuals are offended (rights of others)
- **Use of Profitability**
 - Should profit be used as a measure for well- offness?
 - Profit is fundamental to the interests of shareholders but some impacts are not captured in the determination of profit
 - Limitations of using 'profitability' as a measure are externalities and expressing in present values some future uncertain outcomes
- **Externalities**
 - Where third parties bear the cost of company activities, e.g., pollution
 - Externalities are often ignored in profit calculation but they 'catchup' in the form of fines, 'clean up' or bad publicity

- o Sometimes reliable measurement is difficult, e.g., benefits derived from a scholarship
- o However, an estimate is preferred to Omission
- **Present Values**
 - o Using a certain percentage to bring future benefits and costs into present day dollars
 - o There is uncertainty as to the appropriateness of the percentage or discount rate used
 - o The assumption for future benefits and costs ignore any unexpected risks

b. Tucker's 5-Question Approach

i. Decision Criteria

- If there is a negative response to any one/or more question(s), the problem should be reviewed and corrected
- Otherwise, the decision is unethical
- Is the decision:
 - o Profitable?
 - o Legal?
 - o Fair?
 - o Right?
 - o Going to further sustainable development? (i.e., is it environmentally sound?)
- The last question is an optional question designed to focus on a particular issue
- This model is useful in deciding problems without many externalities and where profit is the main consideration

c. Moral Standards Approach

i. Decision Criteria

- Decisions are based on consideration of:
 - o Utilitarianism – Does the action maximize net benefit?
 - o Individual Rights – Is action consistent with each person's rights?
 - o Justice – Will action lead to a just distribution of benefits and burdens?
- All standards must be used

d. Pastin's Approach

i. Decision Criteria

- Examination of four key areas
 - o Ground Rule Ethics – an organization's rules or values that govern desired behavior
 - o End-Point Ethics – utilitarianism/well-offness
 - o Rule Ethics – rules derived from values that respect and protect rights, e.g., Golden Rule of Christianity – 'do unto others as you would have them do unto you'
 - o Social Contract Ethics – formulate decision into imaginary contract and reverse roles; introduce concept of fairness

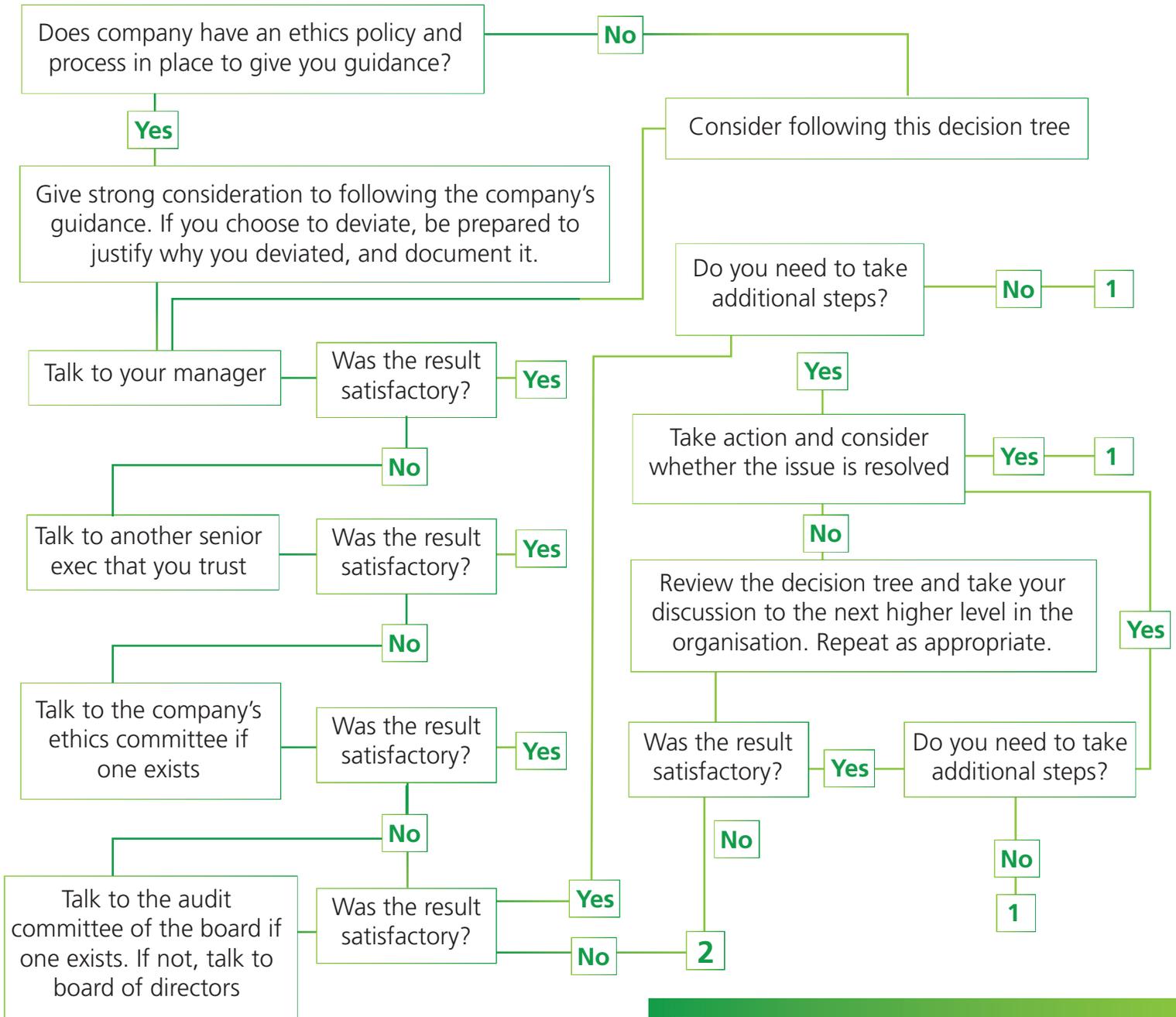
e. AICPA Ethics Decision Tree

i. Overview

- Developed by the AICPA (American Institute of CPAs) to help accountants walk through the process of resolving an ethical issue at work (designed for accountants in business rather than for those in public practice)

ii. Decision Criteria

- Firstly follow established company policies if in place
- If not, discuss with immediate superior and escalate upwards if necessary
- The following decision tree outlines the steps...



1 No further action required.
2 Consider whether it is appropriate to resign.

Ethical decision-making in practice

- Ethical decision-making is a function of individual characteristics and the environment in which a decision-maker works and lives
- The greatest influence on a person's decision-making is one's personal ethics
- The higher one's personal ethics (moral development), the less dependent that person is on outside influences and hence the more that person is likely to resolve the problem autonomously
- Questionable decisions result from an environment clouded by pressure and stress
- The extent to which an individual will make a decision consistent with their personal values, will depend on how well they can resist the pressures in the work environment

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