



## Ethics Panel Discussion

# 12 Ethical Business Principles – *from a business manager's perspective*

- 1. HONESTY.** Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means
- 2. INTEGRITY.** Ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise
- 3. PROMISE-KEEPING & TRUSTWORTHINESS.** Ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact
- 4. LOYALTY.** Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty

# 12 Ethical Business Principles

**5. FAIRNESS.** Ethical executives are fair and just in all dealings; they do not exercise power arbitrarily

**6. CONCERN FOR OTHERS.** Ethical executives are caring, compassionate, benevolent and kind; they like the Golden Rule and help those in need

**7. RESPECT FOR OTHERS.** Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions

**8. LAW ABIDING.** Ethical executives abide by laws, rules and regulations relating to their business activities

# 12 Ethical Business Principles

**9. COMMITMENT TO EXCELLENCE.** Ethical executives pursue excellence in performing their duties, are well informed and prepared in all areas of responsibility

**10. LEADERSHIP.** Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct

**11. REPUTATION AND MORALE.** Ethical executives seek to protect and build the company's good reputation and the morale of its employees by engaging in no conduct that might undermine respect

**12. ACCOUNTABILITY.** Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities

# IIA Code of Ethics / Principles

- **Integrity** of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- **Objectivity** - auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined
- **Confidentiality** - auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority
- **Competency** - auditors apply the knowledge, skills, and experience needed in the performance of internal audit services

# AICPA Code of Conduct

The AICPA Code of Conduct is based on six principles;

- 1) responsibility
- 2) serve the public **interest**
- 3) **integrity**
- 4) **objectivity** and **independence**
- 5) due care and
- 6) scope and nature of services.

These principles are required practices for all certified public accountants who are members of the AICPA

# Case Studies

## **German Auto Company**

- Tampered with the emissions function
- Initial attempts to conceal
- Violation of clean air requirements
- Who got in trouble?

## **Japanese Auto Company**

- Misuse company funds
- Under reported income
- Company funds for personal gain
- Illicit uses of company expenses

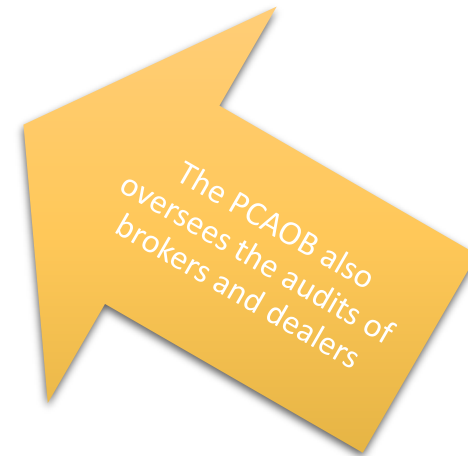
# Case Studies

PCAOB and 2 large accounting Firm's

# PCAOB Background



## SEC has Oversight Authority over the PCAOB



**PCAOB**  
Public Company Accounting Oversight Board

# PCAOB Background



- The Sarbanes-Oxley Act of 2002 created the PCAOB
- Requires that auditors of US public companies be subject to external and independent oversight
- PCAOB inspects registered public accounting firms to assess compliance with the SOX Act
- ... for the first time in history...
- Previously, the public accounting profession was self-regulated
- SEC has oversight authority over the PCAOB
- In Dec 2017, SEC overhauled the PCAOB Board

# Large Firm – Case A

- After pressure from the SEC, Firm A wanted badly to improve its standing in the eyes of its regulator.
- But when they recruited employees from its overseer (PCAOB), a **scandal** emerged ...
- ... over leaks of confidential information that resulted in the indictments of five people on fraud and conspiracy charges.



# FIRM A

- SEC Authorities likened it to “stealing the exam”
- Employees of the PCAOB, the main regulator of the audit industry, gave the executives advance peeks at the secret lists of scheduled audits of Firm A...
- ... that the PCAOB planned to review during annual inspections of the firm, prosecutors alleged in an indictment



# FIRM A

- That information would have enabled Firm A to better prepare for the inspections, an important report card of the firm's performance.
- As the scheme unraveled, accountants deleted messages, and considered hiding their communications using prepaid "burner" phones and codes over Instagram, prosecutors said.
- Three former audit partners at Firm A, were charged with conspiracy and wire fraud, according to the indictment.
- So were CH, who inspected Firm A for the PCAOB before joining Firm in 2015, and JW, a former PCAOB inspector.

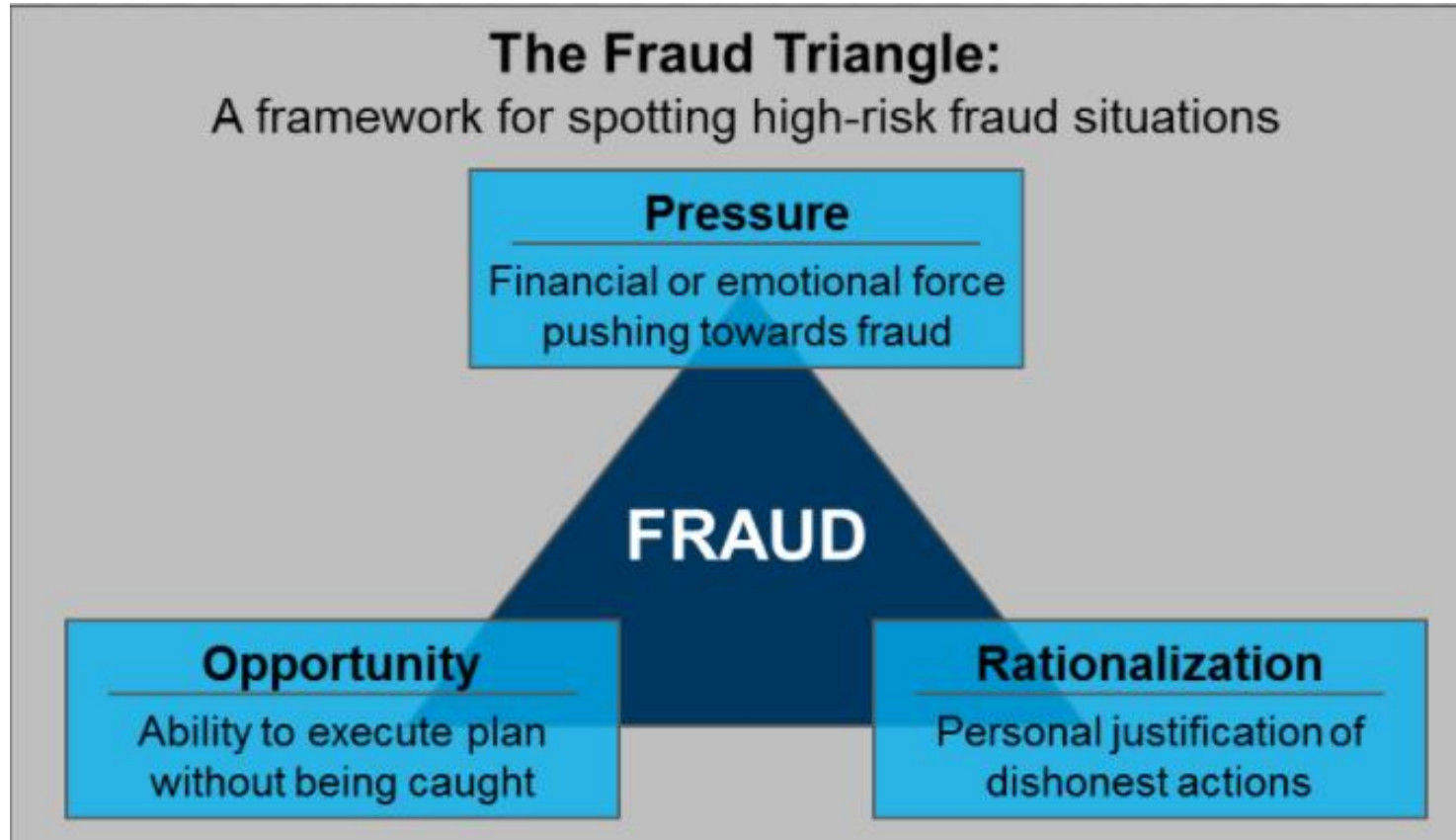


# What happened at Firm B?

## 2018 review of 2016 workpapers

A scathing inspection report

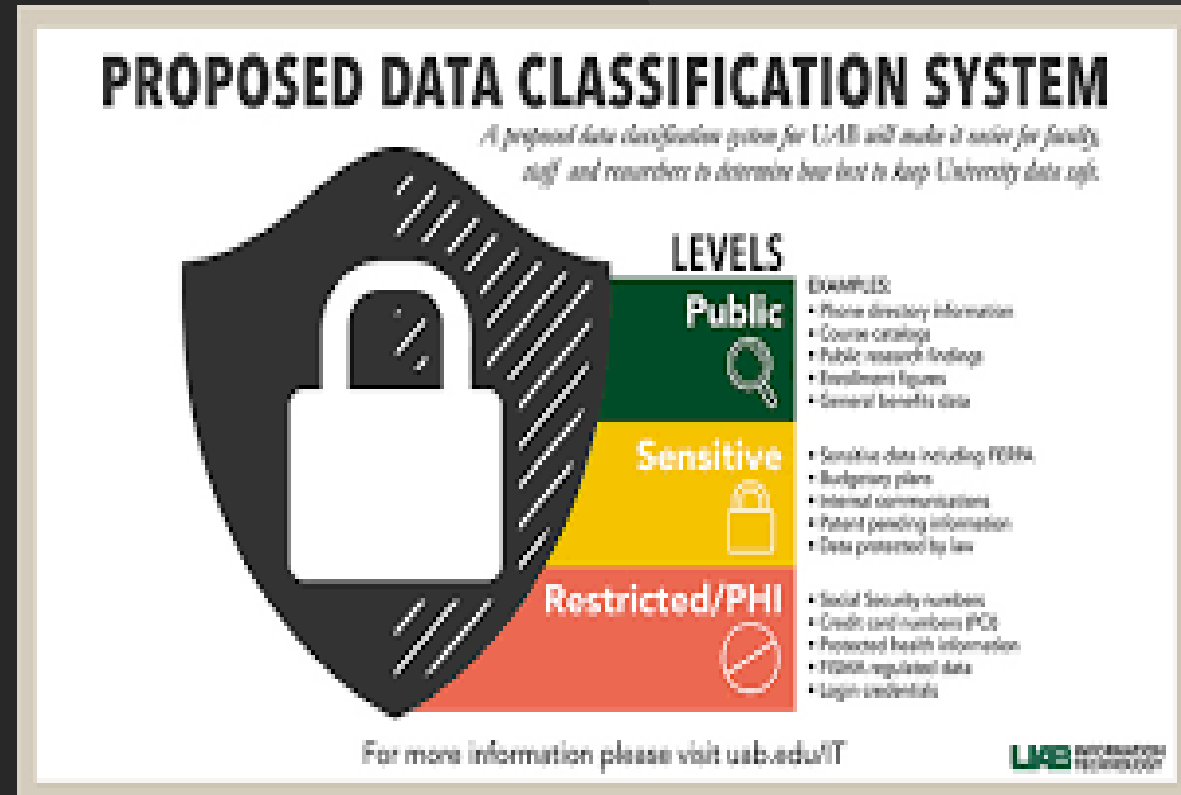
- Selected 24 Firm B audits from 2016
- Found serious problems in 16 of the Firm B audits
- 100 separate audit violations of audit standards
- Including 38 violations against Audit Standard No. 5...
- ... which governs internal control over financial reporting
- The 67% failure rate is up from a 52% failure rate from 2015
- Did not assess effective design and operation effectiveness
- Some good news – did not result in any opinion changes



The Fraud Triangle

# Related Topics - Data Classification

- Public
- Internal
- Confidential
- Highly Confidential (PII)
- Restricted
- Confidential supervisory information (CSI) generally consists of information regarding Regulators examination and supervision of corporations and financial institutions.



Questions

