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Teaching Accounting Ethics: Opportunities and Challenges

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Abstract

All universities, especially Jesuit universities, have an obligation to develop their students' moral and ethical consciences. Regis University is guided by its responsibility to help its students develop an ethical compass; pursue a continual search for truth, values, and a just existence; and answer the question "How ought we to live?" A foundation in accounting ethics supports this mission. This paper presents a descriptive case study showing how Regis University's College for Professional Studies (CPS) School of Management (SOM) integrated accounting ethics into its curriculum. Since 2010, the SOM has included ethical content in several accounting courses, and it added a standalone accounting ethics course in 2015. This paper examines the opportunities and challenges experienced by the SOM to include ethics in the accounting curriculum, including addressing students' moral and ethical development, evaluating and addressing ethical dilemmas faced by accounting professionals, understanding and applying ethical decision-making frameworks, understanding and applying accounting professional codes of ethical conduct, understanding U.S. federal ethics regulations, identifying and addressing signs of ethical collapse in organizations, and assessing students' ethical decision making. Additionally, instructor tools and resources, class structure, and methods to mentor accounting professors to teach accounting ethics are examined.

Teaching Accounting Ethics: Opportunities and Challenges

Ethical behavior is a critical issue for society, business, and the accounting profession. In early 2000, several high profile accounting scandals called attention to ethical breakdowns at U.S. corporations such as WorldCom, Enron, Tyco, and Health South. These scandals caused significant losses to the companies' stakeholders, a loss of trust in the accounting profession, a tarnishing of the accounting profession's reputation, and increased U.S. regulatory governance to strengthen corporate ethical behavior. Despite ethical guidelines in the Sarbanes-Oxley Act of 2002, the Public Company Accounting Oversight Board's (PCAOB) auditing standards, and revised federal sentencing guidelines, unethical corporate behavior continued. The Madoff scandal, the collapse of investment banking firms, and the financial crisis of 2008 prompted another round of U.S. federal laws, including the Dodd-Frank Act of 2010, and renewed interest in addressing ethical behavior in the accounting profession. State boards of accountancy, the

regulatory bodies that monitor licensing of Certified Public Accountants (CPAs), increased ethics requirements for licensure. As Regis University School of Management (SOM) faculty members, the authors understand the ethical challenges faced by students and are committed to providing students with the accounting ethics curriculum and tools needed to support their moral development to address ethical issues in their accounting careers. This paper presents a case study of a graduate accounting ethics course developed for Regis University's College for Professional Studies School of Management's Master of Science of Accounting. The paper includes the following sections: review of the recent literature about teaching ethics, explanation of the case study methodology, and course design.

Literature Review

The review of the literature examines recent literature about teaching accounting ethics. It addresses the importance of teaching accounting students ethics, values, and integrity in accounting curriculums and in the context of

the Jesuit tradition; strategies for teaching accounting ethics; professional codes of conduct for accounting professionals; the focus on ethical behavior in leading business and accounting higher education accreditation programs; U.S. federal statutory accounting ethics requirements; U.S. state boards of accountancy accounting ethics course requirements; and ethical systems frameworks.

Interest in the importance of accounting ethics education began to develop in the late 1980s. One of the conclusions of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission's 1987 Report¹ was that education can deter fraud. The commission recommended that accounting and business programs, professional associations, and Continuing Professional Education (CPE) programs should include ethics training in the curriculum, and that ethics should be integrated with technical accounting and business topics. Luoma² recommended the use of case studies and a focus on professional accounting associations' codes of ethics.

Massey and Van Hise³ recommend that the Ignatian Pedagogical Paradigm's (IPP) approach to education be used as a framework for modern accounting ethics education. The paradigm supports a principles-based approach to teaching the course by addressing "context, experience, reflection, action, and evaluation." The accounting ethics course focuses on a holistic approach that develops the whole student. Hanson⁴ believes that Jesuit education is distinguished from non-Jesuit education by its focus on Ignatian themes and that these should run in parallel with business school's finance, accounting, and business objectives.

The literature agrees that it is important to include values and ethics in accounting curriculums and courses. Blanthorne, Stacy, Kovar, and Fischer's⁵ research concluded that accounting faculty overwhelmingly agreed with integrating ethics into courses. Jennings⁶ believes that accounting students should be taught ethics because of the role that accountants played in recent scandals such as Enron, WorldCom, and Arthur Andersen. However, there are several opponents of this view. Breaux, Chiasson, Mauldin, and Whitney⁷ studied corporate accounting recruiters who focus on entry-level accountants. The recruiters suggested that a better method for teaching

ethics to entry-level accountants is not in the college classroom, but through on-the-job training and CPE courses. In 2005, the National Association of State Boards of Accountancy (NASBA) attempted to mandate the inclusion of three separate ethics courses in the coursework requirements for the Uniform Certified Public Accounting exam⁸: an ethics philosophy course, an accounting ethics course, and a capstone ethics course. Accounting academics defeated this initiative, arguing that the requirement would place a burden on accounting programs' resources.⁹ Despite differing views regarding ethics courses, the CPA exam's content and skill specification¹⁰ currently includes numerous accounting ethics topics such as ethical responsibilities of tax practitioners and the board of directors, ethics and independence of CPAs, awareness and understanding of the AICPA's professional code of conduct, and international ethics accounting standards.

Major professional accounting organizations — including the American Institute of Certified Public Accountants (AICPA), the Institute of Management Accountants (IMA), the Institute of Internal Auditors (IIA), and the Association of Certified Fraud Examiners (ACFE) — require their members to follow ethical and professional conduct standards that are defined in the organizations' codes of professional conduct.¹¹ Since many accounting students aspire to earn professional certifications, many accounting curriculums focus on professional codes of conduct.¹²

There are several U.S. federal statutory requirements mandating accountants' ethical behavior. Section 404 of the Sarbanes-Oxley Act of 2002 requires a code of ethics for senior executives.¹³ The revised U.S. Federal Sentencing Guidelines includes a provision that mitigates sentencing in corporate fraud cases in a company that has a corporate code of ethics. The corporate code of ethics must be designed to ensure that it is effective, and the ethics program must be designed with the objective of preventing and detecting fraud.¹⁴ The Association to Advance Collegiate Schools of Business (AACSB), the Accreditation Council for Business Schools and Programs (ACBSP), and International Assembly for Collegiate Business Education (IACBE)¹⁵ are higher education business accreditation bodies requiring ethical behavior in their accreditation standards. AACSB and ACBSP accounting

accreditation standards require members to include learning outcomes that address ethics for accountants with a focus on the profession's ethical standards. IACBE's prospective accounting accreditation also includes an ethical requirement.

Uniform CPA Exam requirements are governed by state boards of accountancy. Several require ethics courses or study for licensure, including Colorado, Illinois, and Texas.¹⁶ Texas and Colorado require a discrete accounting ethics course to meet the state's CPA educational requirements.

The research also addresses who should teach ethics in accounting courses. Massey and Van Hise¹⁷ discussed the advantages of using trained ethicists, but acknowledged the problem of limited resources and recommended that accounting faculty train and prepare for the role. Blanthorne, Lovar, and Fisher's¹⁸ research concluded that the accounting faculty was best suited to teach ethics in accounting classes. Massey and Van Hise and Blanthorne et al.¹⁹ also noted that some accounting faculty may be intimidated by the prospect of teaching ethics in accounting courses because they felt unqualified.

The literature also debates whether accounting ethics should be taught as a discrete course or integrated into accounting courses. Fisher, Swanson, and Schmidt²⁰ believe that there are shortcomings in accounting ethics courses because of academia's narrow focus on teaching professional codes of conduct. They recommended that accounting academia mobilize their resources to identify teaching strategies that develop students' knowledge and critical thinking skills to address ethical issues. Fisher and Swanson²¹ believe that accounting programs should offer a discrete ethics course at the beginning of an accounting program to deliver the message that ethics is an important topic in an accounting program. Dellaportas²² and Massey and Van Hise²³ also believe that a discrete accounting ethics course should be taught in accounting programs.

Several researchers recommend specific teaching strategies to teach ethics to accounting students. Klimek and Wenell's²⁴ study assessed two groups of students' ethical reasoning ability. One group took a discrete accounting ethics course while the other group was exposed to ethics content in several accounting courses.

The study concluded that students who took the accounting ethics course scored higher on an ethical reasoning ability assessment. Jennings²⁵ identified key cases (i.e., WorldCom and Enron) representing ethical failures of the previous decade that can be used in accounting classrooms to explore ethical dilemmas and how to resolve them. She believes that analyzing cases that present the ethical dilemmas faced by these companies shows the students how to deal with those dilemmas. Jennings also believes that it is important for students to develop skills such as leadership, independence, and a willingness to learn about the dilemma's facts — skills that will help them stand up to ethical dilemmas. Marianne Jennings²⁶ thinks that accountants face a struggle learning about ethics because the profession is focused on technical skills and right and wrong answers, which hamper their ability to address the gray areas of ethical decision-making. Loeb²⁷ supports active learning strategies in accounting ethics courses, including group projects, guest speakers, reflections, class discussions, internships, and service learning projects. Massey and Van Hise²⁸ also support active learning strategies, including student-led classes, reflective writing assignments, case analysis, and interview assignments.

Several models and frameworks are used to teach ethics in general and specifically to accounting students. The Kohlberg theory of moral development, as cited in Crain,²⁹ identifies six progressive stages of moral development and is based on psychological assumptions. This theory is addressed in ethics courses and is applied to teaching accounting professionals and students.³⁰ The International Federation of Accountants' International Education Standards Board (IESB) released a framework for international accounting education standards that includes a focus on ethics and values. The framework addresses conflict of interest, ethical threats, earnings management, ethical decision-making skills, and whistle blowing.³¹ Jennings³² believes that ethics courses should focus on moral absolutes that teach students to deal with tough choices. She says, "ethics should focus on absolutes and the need for fortitude when pressure comes with its demand for flexibility and compromise."

The literature presents ethical frameworks for reasoning to teach ethical decision-making. The AICPA³³ developed a six-step approach for

addressing ethical dilemmas based on the AICPA Code of Professional Conduct. Table 1 presents a summary of five common ethical systems described in terms of their classical sources, key themes, and the broad question posed by each system. This summary provides resources for instructors to develop approaches to teaching students a framework of ethical

reasoning, and students can explore the frameworks to identify perspective(s) that resonate with their personal situations or the cases under review. Several state boards of accountancy, including those in Texas and Illinois,³⁴ explicitly require an accounting ethics course to cover ethical reasoning and ethical theory, topics that are addressed in Table 1.

Table 1: Summary of Ethical Systems Frameworks³⁵

<i>System/ Theory</i>	Utilitarian	Rights	Justice, Fairness	Common Good	Virtue
<i>Classical Sources</i>	Epicurus, J. Bentham, Adam Smith, J. S. Mill	Kant, R. Nozick	R. Nozick, J. L. Rawls, J. Royce, M. L. King	Greek philosophers, St. Ignatius, C. Gilligan	Aristotle, Aquinas, MacIntyre, E. Pincoffs
<i>Key word themes</i>	Utility, consequences	Moral rights, duties	Distributive, retributive, comparative	Caring; professional ethics	Moral virtues, sustainability, religious tradition
<i>Query</i>	Which option will produce the most good and do the least harm?	Which option best respects the rights of all who have a stake?	Which option treats people equally or proportionately?	Which option best serves the community as a whole, not just some members?	Which option leads me to act as the sort of person I want to be?
<i>Challenge</i>	Conflict with rights	Entitlement, freedom	Measurement	Relationships – fairness?	Cultural relativity

The literature also examines the value of assessment tools to measure students' ethical reasoning abilities and attitudes. Kohlberg developed an assessment tool to score an individual's ability to examine moral dilemmas based on his theory of moral development (as cited in Crain, 1985).³⁶ Rest³⁷ refined the tool with the Defining Issues Test (DIT), which was easier to administer and score than the Kohlberg tool. Joseph D. Wehrman³⁸ believes that a pre- and post-class assessment to evaluate students' ethical emotional intelligence is a valid measure of dealing with ethical issues. An alternative to formal assessments is the use of ethics questionnaires such as the ACFE's fraud IQ series³⁹ and the AICPA's and IMA's ethics knowledge quizzes.⁴⁰ While these tools are not formal assessment tools, they can serve as the basis for discussion to raise students' ethical awareness.

The literature review shows that there is extensive and rich academic research on the subject of teaching accounting ethics and that it

is considered an important part of higher education accounting curriculums. However, except for Van Hise and Massey,⁴¹ the literature does not present case studies on accounting ethics courses. This paper advances the existing literature on discrete accounting ethics courses by presenting a case study of a course that focuses on developing the knowledge and skills to identify and address ethical dilemmas, to understand and comply with professional accounting codes of professional conduct, and to understand and apply ethical systems frameworks.

Methodology

The methodology used for this paper was a descriptive case study to explore the development of a discrete accounting ethics course for Regis University's SOM Masters of Science of Accounting (MSA) program. According to Creswell, a case study is used to "explore in depth, a program...that is bounded by time and activity."⁴² The course, MSA_A623

Issues in Accounting Ethics, was launched in spring 2015. The course curriculum was chosen to emphasize active learning, reflection, understanding of professional codes of ethical conduct, and development of the students' ethical conscience to equip them with the skills to address ethical dilemmas they will face as professional accountants. The next section examines the course as a case study to identify effective learning strategies to ensure that the course worked. Course objectives, faculty selection, course structure, and course assignments are discussed in this case study. The case study methodology was selected to describe

and explain Regis University's graduate accounting ethics course⁴³ as an example for other accounting professors.

Course Design

This section explains the course design for MSA_A623 Issues in Accounting Ethics. The following topics are discussed: course objectives, pedagogy, and class assignments.

Course Objectives

The course objectives are summarized in Table 2.

Table 2: MSA_A623 Course Objectives

Objective Number	Course Objectives
1	Identify Signs of Ethical Collapse in an Organization.
2	Apply the AICPA's Six-Step Approach to Resolving an Accounting Ethical Dilemma
3	Describe the key code sections of Professional Accounting Organization's Professional Codes of Conduct and Ethics
4	Explain Ethical Systems Frameworks
5	Distinguish Between Independence in Fact and Independence in Appearance
6	Identify U.S. Regulations Governing Accountant's Ethical Behavior
7	Analyze Ethical Issues in Accounting Case Studies

Pedagogy

This section examines the pedagogy used in the course and the reasons for the methods selected. Faculty selection, use of a hybrid class structure, major class themes, and class assignments are discussed.

Faculty selection. Accounting course assignments in the SOM are based on academic preparation and credentials, professional experience, and professional certifications, such as CPA licensure. As noted by Massey and Van Hise,⁴⁴ accounting faculty are not likely to be trained ethicists. In the SOM, no one in the accounting faculty pool is both a trained ethicist and a qualified accountant, so the school faces a challenge selecting qualified faculty to teach the

accounting ethics course. The discrete accounting course's objectives are broad — including explaining ethical systems frameworks, professional accounting codes of conduct, and U.S. statutory ethical regulations — content making it likely that some of the curriculum is outside the instructor's expertise.

To facilitate identifying qualified instructors to teach the accounting ethics course and their training needs, the instructor pool was invited to participate in a short survey. Eleven active SOM faculty members were invited to participate. Eight, or 62%, of the sample responded. The demographics of the survey are summarized in Table 3. The survey questions are summarized in Table 4.

Table 3: Participant Attributes: Faculty Category and Gender

Faculty Category	Number	Percent
Affiliate	6	75%
Full-time	2	25%
Total	8	100%

Gender	Number	Percent
Male	6	75%
Female	2	25%
Total	8	100%

A five-part Likert scale was used for the survey. The Likert scale intervals measured the survey participants' responses on a scale of strongly disagree (SD), disagree (D), neither disagree or agree (NDNA), agree (A), and strongly agree (SA). Table 4 summarizes the results by question. Question 1 shows strong support for a discrete accounting ethics course. One participant commented, "We need to ensure that our graduates recognize potential ethical dilemmas which may occur in practice and that they know their options in reacting to the issue."

There is also strong agreement that the respondents believe they are qualified to teach the course (Question 2) and are willing to teach the course (Question 3). Willingness to teach the course is in contrast to findings by Massey and Van Hise and Blanthorne et al.⁴⁵ that teaching accounting ethics intimidates accounting instructors. There is much less agreement regarding integrating ethics in other accounting courses (Question 4) and the desire for training to teach either a discrete or an integrated course.

Table 4: Survey Question Responses

Ranking/Points Question	SD 1	D 2	NDNA 3	A 4	SA 5	Mean in Points
1. The School of Management offers an accounting ethics course: MSAA/MBAA612R Issues in Accounting Ethics. I believe that this course should be offered.				1	7	4.9
2. I believe that I am qualified to teach the SOM's accounting ethics course: MSAA/MBAA612R Issues in Accounting Ethics				3	5	4.6
3. I would like to teach MSAA/MBAA612R Issues in Accounting Ethics.				4	4	4.5
4. In addition to offering MSAA/MBAA612R, ethical content is included in several other MSAA/MBAA courses. My opinion of this practice is:		2		2	4	3.8
5. I would like additional training to prepare me to teach MSAA/MBAA612R and the ethical content included in the other MSAA/MBAA612R courses.			2	4	2	3.6

The results of the survey demonstrate that the graduate accounting faculty are willing to teach the discrete graduate accounting ethics course. One affiliate faculty member believes that the concept of “tone at the top” should influence the policy regarding teaching accounting ethics. The tone at the top is an element of the COSO Internal Control Integrated Framework’s Control Environment component that focuses on an organization’s leadership setting an example by behaving ethically.⁴⁶ He believes that the school should implement a policy requiring all accounting faculty to teach the accounting ethics course to demonstrate their commitment to the importance of the course and to support the school’s Jesuit tradition. The experience gained teaching the course will also carry over to other accounting courses taught by the instructor that include ethical content.

One of the challenges identified by accounting practitioners or faculty asked to teach ethics is that those professionals usually are not formally trained as ethicists.⁴⁷ It is not that accountants are not ethical in accounting practice or in teaching practice, but rather that they do not have the vocabulary to dissect ethical dilemmas with the students. One of SOM’s accounting faculty members said that he would like “greater familiarity with the vocabulary and the different systems of ethical analysis” to prepare him to teach the course.

Another faculty member believes that training could be provided to faculty members lacking experience and knowledge to teach accounting ethics. Recommended topics are training on ethical concepts, examples of ethical dilemmas related specifically to accounting, and relevant videos on the topic. For faculty who want more preparation prior to teaching the course, opportunities to team-teach the class provide an additional benefit of mutual faculty development, together with presenting students with differing perspectives and models for analyzing the ethical dilemma in debate.

Hybrid class structure. A hybrid class structure was selected for the discrete accounting ethics course: half of the course (two consecutive eight-hour days) in the classroom and the balance facilitated online over seven weeks. This approach was chosen for several reasons. The classroom meetings allowed the students to meet face-to face for in-class discussions and collaboration on in-class group

assignments, allowing them to explore ethical issues and dilemmas with their peers. In addition to the primary instructor, one of this paper’s co-authors was present to assist facilitating group discussions. Two accounting leaders from the local community were invited as guest speakers, the immediate past chair of the Colorado State Board of Accountancy and the immediate past chair of the Colorado State Society of CPAs, to provide insight into ethical obligations of CPAs and to discuss personal experiences with ethical dilemmas. The guest speakers facilitated interactive discussions during their presentations. Lectures covering the technical requirements of accounting professional codes of conduct, U.S. regulatory ethics requirements for accountants, and ethical systems frameworks provided background information and resources for the course’s assignments.

Major class themes. The major themes followed in the class are resolution of ethical dilemmas, common ethics systems frameworks used to examine and resolve ethical dilemmas, and request moments. The next section discusses these themes.

The ethical dilemma, the issue that is more complex than simply “it is wrong” or “it is illegal,” arises when conflicting interests have genuine and legitimate claims. The challenge for students and their faculty is both to identify differing interests and to evaluate the legitimacy of their different perspectives or claims. This is essentially the problem of critical thinking raised in many other contexts besides that of teaching ethics. Within the field of ethics, the stakeholder approach, identifying multiple stakeholders and their potentially differing interests, provides a useful initial approach to analyzing an ethical dilemma. Once the concept of ethical systems frameworks is explained to the students, a quick outline of the common ethical frameworks helps students move toward the “why?” questions, and eventually toward evaluating alternative responses from those differing points of view. The frameworks provide a vocabulary for this conversation and for expressing the potential perspectives that frame the dilemma.

As defined by Baxter,⁴⁸ “Request moments expose the ethical obligations that we feel we owe toward others.... They force choices on us, choices that reveal our character.” Students can examine request moments in accounting case

studies and in many other forms of literature to identify the context of ask, obligation, power, consequence, and all other elements of literary or real-life plot. The value of a Jesuit liberal arts education is more evident in students' breadth of exposure to these dilemmas in various settings. However, graduate students do not

always show up with this very desirable background, and both faculty and curriculum should be prepared to fill in some of the gaps.

Class assignments. The teaching strategies and pedagogical resources used in the Regis MSA Ethics class are summarized in Table 5.

Table 5: Summary of MSAA612R Assignments

Assignment	Resources	Learning Strategy	Course Objectives
Accounting Professional Codes of Conduct	Lectures Guest speakers	Class instruction	3, 7
Ethical Systems Frameworks	Markkula Center	Instruction and reflection	4
Resolving Ethical Dilemmas	AICPA Six-Step Approach to Ethical Dilemmas; Guest speakers	Class instruction and in-class discussion	3, 4
Signs of Ethical Collapse	Jennings (2006)	Group assignment and in-class discussion	1
Case Studies	IMA and AAA Case Studies	Group and individual assignments; class discussions and papers	7
Ethical Issues	VerschoorIMA Columns	Class discussions	1, 3, 6
Final Paper Case Study	Cooper Enron Whistleblower Case	Reflection and paper	All

Several accounting case studies were assigned to develop the students' experience handling ethical dilemmas, an approach recommended by Jennings.⁴⁹ During the in-class sessions, teams are assigned to analyze the cases and present their findings to the class. This approach allows the students to work with their peers to examine the case and allows the instructor to facilitate discussion to reinforce the steps for resolving ethical dilemmas within the ethical systems frameworks. Two individual case assignments are assigned during the online part of the course.

Case studies generally present the case situation after the damage is identified and thereby allow hindsight judgments that rely on facts not available at the outset. This makes the case a deductive exercise diminishing the painful bind that often occurs when someone is involved in the case. The teaching challenge is not only to

reinforce the moral spine to say "no!", but more importantly to develop the foresight to recognize a dangerous path early in the journey. This is perhaps as much a challenge to imagination as it is to analysis or assessment. The ethical frameworks raise questions from a variety of perspectives that can help with the predictive challenge, and the application of multiple frameworks to assess a dilemma is also one basis upon which to measure student performance, if not actual ethical development.


A modified case study is assigned for the final paper based on Cooper's⁵⁰ whistleblower role during the Enron scandal. The paper focuses on her experience discovering the scandal, its root causes, the roles of the key players in the fraud, her effort to report the scandal, her role in the internal audit department, governance issues at the company, the punishments given to the scandal's convicted players, and a reflection

about what the students would have done differently had they been in her shoes.

Feedback from several students supported the case study approach. They said, “I think the cases were paramount in applying what we were learning and discussing in class to practice,” and “The case studies were most helpful. They were scenarios that were realistic and put your skills and knowledge to the test!”

Conclusions and Future Research

This paper presented a case study of MSA_A623 Issues in Accounting Ethics. It examined the objectives, pedagogy, and assignments for the class. It also allowed the authors to examine the course within the context of Bean and Bernardi’s⁵¹ important question about accounting ethics courses: “Do they work?” The authors are confident that the course follows a sound design and includes the elements that contribute to an effective discrete accounting ethics course. It provides the basis for future research to assess student perceptions of the course that will provide more evidence to answer the question.

The issue of assessing students’ ability to effectively identify and address ethical issues is a topic for future research. While there are existing assessment instruments — Kohlberg’s moral development, Rest’s DIT, and Joseph D. Wehrman’s recommendation to measure emotional intelligence — the authors plan to perform a mixed methods study to examine student perceptions about the course. The study will be a two-stage study. The first stage will include a student survey to measure student perceptions about the course, followed by a qualitative stage to interview the students to gain insight into their perceptions about the course. 

Notes

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¹² Jennings, “Incorporating Ethics,” 7-26.

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¹⁴ United States Sentencing Commission, “Amendments to the Sentencing Guidelines” (2004), http://www.ussc.gov/sites/default/files/pdf/amendment-process/official-text/amendments/20040501_Amendments.pdf

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¹⁹ Massey and Van Hise, "You Want Me to Teach What?" 109-112; Blanthorne et al., "Accounting Educators' Opinions About Ethics in the Curriculum," 355-390.

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