



Ethics: Staying Compliant or Creating a Culture of Ethical Behavior



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INTRODUCTIONS



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FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, Bloomsburg, and Philadelphia.

We provide **Advisory & Business Consulting, Audit & Assurance, Entrepreneurial Support & Client Accounting, Internal Audit, Professional Placement, Tax, and Technology** services to a variety of industries including:



Affordable Housing



Construction



Employee Benefit Plans



Family-Owned Business



Healthcare



Manufacturing & Distribution



Nonprofits



THEMES FOR TODAY'S CONVERSATION

1. Ethics in the News
2. Review of the AICPA Code of Professional Conduct
3. Current Trends in Enforcement
4. AICPA Disciplinary Actions
5. Creating an Ethical Culture





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ETHICS IN THE NEWS

ETHICS IN THE NEWS

Ernst & Young to Pay \$100 Million Fine After Auditors Cheated on Ethics Exams

The S.E.C. said the cheating involved hundreds of the firm's workers from 2017 to 2021, resulting in the largest penalty ever imposed by the agency against an auditing firm.

Luckin Coffee charged with fraud, to pay \$180 million in settlement, SEC says

Starbucks rival in China raised more than \$800 million from investors

By [Claudia Assis](#)

Published: Dec. 16, 2020 at 5:52p.m. ET

Theranos, CEO Holmes, and Former President Balwani Charged With Massive Fraud

Holmes Stripped of Control of Company for Defrauding Investors

\$700,000,000

McKinsey's \$78 million opioid settlement to reimburse insurers gets final approval

McKinsey has now paid out nearly \$1 billion total to settle claims over its role in the opioid crisis.

[MICHAEL GENNARO](#) / August 2, 2024



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ETHICS IN THE NEWS

The Collapse of FTX: What Went Wrong With the Crypto Exchange?

Boeing Charged with 737 Max Fraud Conspiracy and Agrees to Pay over \$2.5 Billion

Facebook Exposed 87 Million Users to Cambridge Analytica **\$725,000,000**

Previously, the number had been 50 million; Facebook CEO Mark Zuckerberg says the fixes to Facebook's data-sharing woes will be a "multi-year" process.

HOW THE BIGGEST FRAUD IN GERMAN HISTORY UNRAVELLED

The tech company Wirecard was embraced by the German elite. But a reporter discovered that behind the façade of innovation were lies and links to Russian intelligence.

By Ben Taub
February 27, 2023



ETHICS IN THE NEWS

These ethics scandals underscore recurring themes in the corporate world:

- The devastating impact of greed, lack of accountability, and ethical lapses.
- Financial losses and legal repercussions served as catalysts for change, driving regulatory reforms and reshaping public expectations of corporate behavior.
- Provide lessons on the importance of maintaining ethical standards, fostering transparency, and ensuring that integrity prevails in all business practices.





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REVIEW OF THE AICPA CODE OF PROFESSIONAL CONDUCT

AICPA CODE OF PROFESSIONAL CONDUCT

Organized by Topic based on a Conceptual Framework approach
3 Parts:

- Members in Public Practice
- Members in Business
- All other members (retired, unemployed)



AICPA CODE OF PROFESSIONAL CONDUCT

- Conceptual frameworks and related interpretations
- The code is organized intuitively
 - Separates guidance by line of business, then by topic
 - Where necessary, topics are broken into subtopics and sections
- Not designed to cover every possible situation



AICPA CODE OF PROFESSIONAL CONDUCT

Preface *All Members*

- ***Responsibilities principle***

In carrying out their responsibilities as professionals, *members* should exercise sensitive professional and moral judgments in all their activities.

- ***The public interest principle***

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.

- ***Integrity principle***

To maintain and broaden public confidence, *members* should perform all professional responsibilities with the highest sense of integrity.

- ***Objectivity and independence principle***

A *member* should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A *member* in public practice should be independent in fact and appearance when providing auditing and other attestation services.



AICPA CODE OF PROFESSIONAL CONDUCT

Preface *All Members*

- ***Due care principle***

A *member* should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the *member's* ability.

- ***Scope and nature of services principle***

A *member* in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.



AICPA CODE OF PROFESSIONAL CONDUCT

Incorporates two interpretations – one for members in public practice and another similar one for members in business.

- Additionally, for those providing attest services, there is a conceptual framework focused on specific threats to independence.
- These are designed to provide assistance in circumstances where no specific guidance exists.



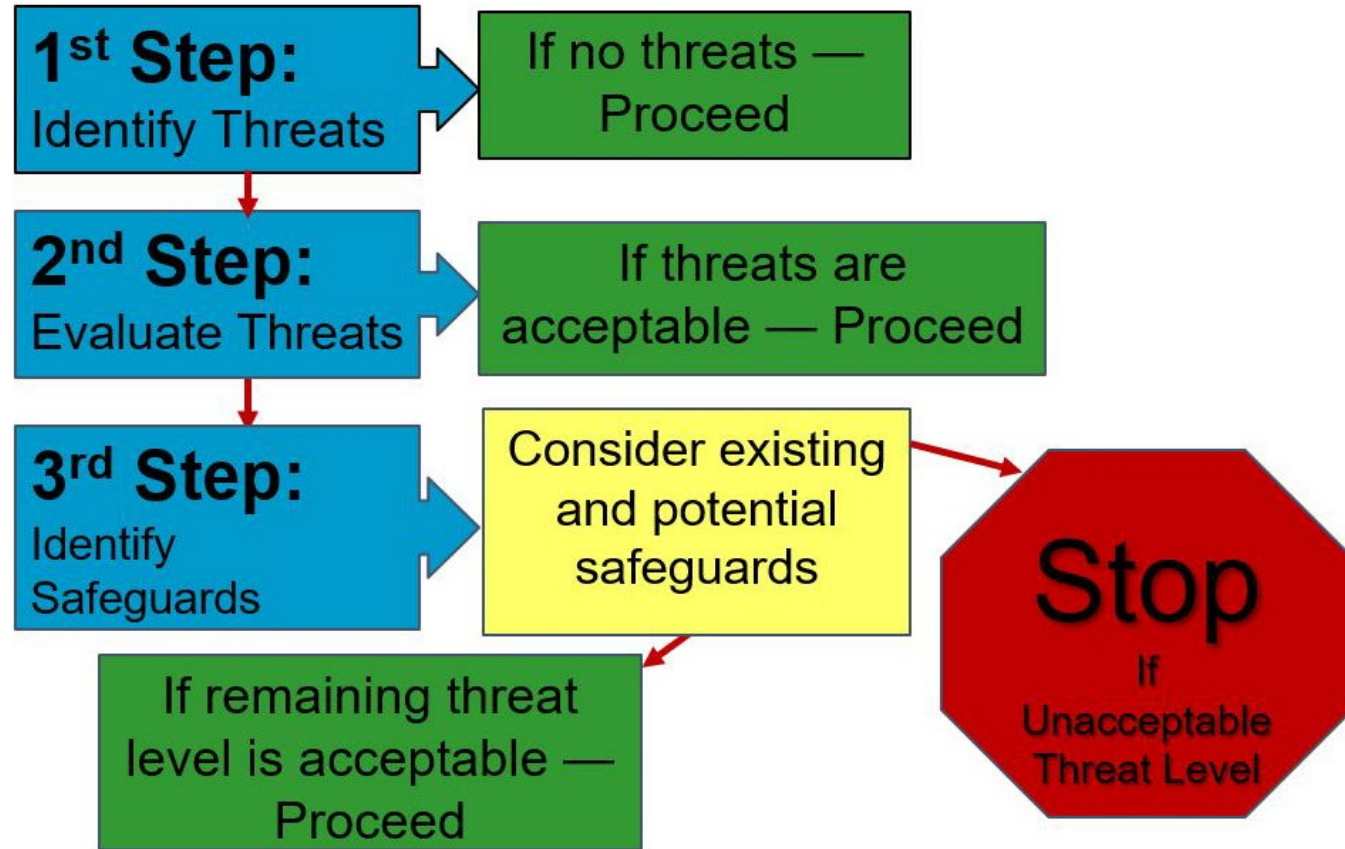
AICPA CODE OF PROFESSIONAL CONDUCT

Conceptual Frameworks

- Incorporate a “**Threats and Safeguards**” approach, designed to assist users in analyzing relationships and circumstances that the code does not specifically address
- Under this approach, users:
 - Identify threats to compliance with the rules
 - Evaluate the significance of those threats to determine if it is at an acceptable level
 - If not at an acceptable level, users apply safeguards to eliminate the threats or reduce them to an acceptable level



CONCEPTUAL FRAMEWORK: THREATS AND SAFEGUARDS APPROACH



ET 1.000.010 *Conceptual Framework for Members in Public Practice*



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AICPA CODE OF PROFESSIONAL CONDUCT

***Safeguards* that may eliminate a *threat* or reduce it to an *acceptable level* fall into three broad categories:**

- *Safeguards* created by the profession, legislation, or regulation.
- *Safeguards* implemented by the *client*. It is not possible to rely solely on *safeguards* implemented by the *client* to eliminate or reduce significant *threats* to an *acceptable level*.
- *Safeguards* implemented by the *firm*, including policies and procedures to implement professional and regulatory requirements.



A FOCUS ON THE 7 THREATS

The Code of Professional Conduct identifies 7 threats that could compromise a CPA's compliance with the AICPA code of professional conduct. These 7 categories should be considered in assessing the risk of noncompliance relative to a specific fact pattern.

1. Adverse Interest
2. Advocacy
3. Familiarity
4. Management Participation
5. Self-Interest
6. Self-Review
7. Undue Influence



AICPA CODE OF PROFESSIONAL CONDUCT

Toolkits / Resources

- Toolkits contain examples to spark discussion and interpretive resources
- Available Toolkits:
 - Nonattest Services
 - Responding to noncompliance with laws and regulations
 - Implementation Guide: State and Local Gov't
 - Conceptual Framework Toolkits
 - Comparison of rules: AICPA and Gov't Auditing Standards
 - Practice Aids:
 - Independence Considerations for Information Systems Services
 - Understanding circumstances that may compromise your integrity and objectivity





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CURRENT TRENDS IN ENFORCEMENT

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Ernst & Young to Pay \$100 Million Fine After Auditors Cheated on Ethics Exams

- Involved hundreds of the firm's workers from 2017 to 2021
- Largest penalty ever imposed by the SEC against an auditing firm
- EY did not do enough to stop the practice of cheating
- Regulators said the firm misled investigators, withheld evidence, and violated public accounting rules designed to maintain the integrity of the profession
- The penalty is double the amount KPMG paid in 2019 to resolve similar allegations of cheating by auditors on internal training exams.
- 49 auditors at EY received the “answer key” to an ethics exam that is part of the CPA exam



CURRENT TRENDS IN ENFORCEMENT

Big Four Accounting Firms in Australia

- PwC tax scandal involves PwC's abuse of Australian government structure and policies to enrich itself and its corporate clients.
- Breach of confidentiality and trade secrets.
- PwC, and other Big Four Accounting firms, give advice to governments on writing tax law, and also corporations seeking to avoid those laws.
- PwC leaked Australian Government tax plans to corporations around the world.
- PwC Australia's CEO's was ultimately alleged to have been involved in this scandal.

Implications

- PwC Australia sold its government consultancy practice for \$1.
- New CEO.
- Many new policies in place, new governance and structure.



CURRENT TRENDS IN ENFORCEMENT

- Firms and the profession continue to face new levels scrutiny.
- US audit regulator has launched a “culture review” of the firms to root out the cause of a rise in the number of public company audits that fail to meet regulatory standards. The review would examine whether something had gone wrong with “tone at the top”, the Public Company Accounting Oversight Board announced in December. It would also put the organizational structure of firms under scrutiny.
- Audit failures by the PCAOB, DOL, and AICPA continue to be a significant area of focus.



CURRENT TRENDS IN ENFORCEMENT



Annual Report of AICPA Disciplinary Activity January 1 – December 31, 2021 and 2020

The following is a statistical report of the disciplinary activity of the AICPA, including cases investigated by the Professional Ethics Division, cases handled by the Joint Trial Board Division and actions taken under the automatic provisions of the AICPA bylaws. The AICPA and state CPA societies participate in the Joint Ethics Enforcement Program. The report includes investigations conducted by state societies resulting in findings of ethics code violations and cases referred to the Joint Trial Board by state societies.

	2021	2020
Total cases at beginning of period (including 78 and 116, respectively, deferred due to pending litigation)	722	777
Cases opened during period	389	359
Cases completed during period	(482)	(414)
Total cases at end of period (including 81 and 78, respectively, deferred due to pending litigation)	<u>629</u>	<u>722</u>
<i>Summary of Disposition of Completed Cases*</i>		
Expelled or Suspended	74	77
Admonished	66	35
Corrective Action Required	94	62
No Violation/Dismissed	57	38
No Further Action	98	116
Subsequent Monitoring Completed Satisfactorily	26	30
Other	<u>67</u>	<u>56</u>
	<u>482</u>	<u>414</u>





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AICPA DISCIPLINARY ACTIONS

AICPA DISCIPLINARY ACTIONS

2024 YTD: Approximately 75 Published Disciplinary Statements

- Themes resulting in disciplinary action include:
 - Failure to comply with continuing professional education requirements
 - Acts Discreditable (conviction of a crime)
 - Signing documents containing materially false and misleading information (including willfully filing a false tax return)
 - Disregard for professional standards / failure to perform (**ERISA, Yellow Book**)
 - Referral from PCAOB or SEC
 - Failure to return client records

2023: approx. 100 published disciplinary statements, very similar themes



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CREATING AN ETHICAL CULTURE

CREATING AN ETHICAL CULTURE

- **Lead by Example** – proactively creating a space where you encourage ethical decision-making and accountability, your team will be more likely to do the same.
- **Provide Meaningful Feedback** – promotes accountability. Be direct and empathetic with a goal of helping others grow and improve professionally.
- **Combat Workplace Bias** – Implicit and explicit bias can affect decision and actions. A sense of belonging is the best way to foster meaningful interactions through mentorships and teamwork.
- **Give Employees a Voice** – Leaders must receive meaningful feedback and stay accountable. Employees must have a platform to share their thoughts. It involves real listening.



CREATING AN ETHICAL CULTURE

- **Develop an Authentic Leadership Style** – Principle-driven decisions prioritizing employee satisfaction and relationships. Must reflect your values, principles, and mission.
- **Take Accountability** – Taking accountability can be difficult—especially in the workplace. However, it's critical to fostering an ethical, productive work environment and protecting your organization from negative financial or legal actions.



CREATING AN ETHICAL CULTURE

Discussion Questions

- How can an organization shift its mindset from the “what” (compliance) to the “why” (the ethics of doing the right thing)?
- What can leadership do that would influence the shift from a checklist-of-rules mentality to a do-the-right-thing mentality?
- What are the biggest challenges for organizations trying to move from a compliance mindset to a culture-of-ethics mindset?
- How can a staff member who is not in a leadership position influence this conversation?
- Are there investments that can be made, and where is the best ROI in this area?





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FINAL WORDS

FINAL WORDS

- Know your own weaknesses. Staying compliant isn't enough!
- Do not blindly follow professional standards. They are a tool and cannot fully address every situation.
- Be skeptical in ALL things.
- Communicate concerns; others may feel the same way.
- If uncertain, concentrate on present and future impacts. What is the real trade-off you are making?
- You can sell your services daily, your reputation only once.
- Do your decisions and behaviors drive a culture of ethical behavior?
- Remember: Tone at the top matters!



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