

Toward a Convergence of Global Ethics Standards: A Model from the Professional Field of Accountancy

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Abstract

Given the increased globalization of business and the mandate for ethics as a component of professional orientation for accountants, this paper looks at foundations for an international code of ethics. It examines the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants and IFAC's ethics education framework as advanced in International Education Standard 4: Professional Values, Ethics, and Attitudes. It includes a discussion of the harmonization of U.S. and IFAC sets of ethics standards for the accounting profession. The paper adopts a more holistic and developmental approach to ethics education for the professional field of accountancy worldwide.

Key Words: ethics, international, accounting, standards, codes

Introduction

The Accounting Education Change Commission (AECC) lists professional orientation as one of the desired capabilities for accounting majors in business programs in the United States in its Position Statement Number One: Objectives of Education for Accountants (AECC, 1990).

The Association to Advance Collegiate Schools of Business (AACSB) International's Education Task Force Report indicates that educators should "advance the awareness, reasoning skills, and core principles of ethical behavior" for future business leaders (AACSB, 2004, 7). Given the increasing globalization of business in the 21st century, this professional orientation becomes more complex with the need for an international set of ethics standards for the accounting profession.

This research paper was motivated by the importance of ethics as a fundamental component of professional orientation for future generations of accountants and other business leaders. It is organized into three sections. First, universal human values and common themes in the definition of ethics are considered as bases for global ethics. Second, a model for a global framework for ethics for the accounting profession including an overview of a global Code of Ethics and international standards for ethics education are presented. The scope of this coverage includes a discussion of authoritative bodies for ethics for the accounting profession in the United States and the process of harmonization of U.S. and international standards. Third, the notion of spiritual capital is examined as an additional foundation for global ethics.

Ethics Defined—Common Themes

Reese notes that the word ethics is derived from the "Greek ethikos (from ethos meaning 'custom' or 'usage')." According to Reese's definition, the term as employed by Aristotle included both the idea of 'character' and of 'disposition.'

Reese further states that the word ‘moralis’ was introduced into the vocabulary of philosophy by Cicero who regarded it as the Latin equivalent of Aristotle’s ethikos. Both terms imply a linkage with practical activity (Reese, 1990, 156). The Ethics Resource Center defines ethics as the ”study of what we understand to be good and right behavior and how people make those judgments” (Ethics Toolkit). This resource emphasizes the importance of differentiating among ethics, values (fundamental beliefs), and morals (values attributable to a system of beliefs).

Josephson states that “ethics has nothing to do with business. It is a separate, independent mode of evaluation that applies to all conduct” (Josephson, 1992, 9). He defines ethics on the basis of enduring ethical values including honesty, integrity, promise-keeping, fidelity, fairness, caring, respect, responsibility, excellence, and accountability (Josephson, 1992). He constructs six pillars of character to underpin the moral development of individuals: trustworthiness, respect, responsibility, fairness, caring, and citizenship (Business Ethics).

The Institute of Management Accountants’ utilizes Kidder’s definition of ethics from the Institute for Global Ethics as follows: “Ethics in its broader sense, deals with human conduct in relation to what is morally good and bad, right and wrong. It is the application of values to decision making. These values include honesty, fairness, responsibility, respect and compassion” (Ethics Center).

The common themes from these definitions imply a practical, applied, values-based approach to ethical decision-making for use in contextual accounting and business scenarios.

1.2 Universal Human Values

Kidder states that there is a pressing need for shared values in our age of global interdependence. He looks at some key questions: “Is there a single set of values that wise, ethical people around the world might agree on? Can there be a global set of code of ethics? If there is a common core of values ‘out there’ in the world, it ought to be identifiable through examination of contemporary modes of thought in various cultures around the world” (Kidder, 1995, 501).

In his essay titled “Universal Human Values: Finding an Ethical Common Ground,” Kidder identifies several core values: love, truthfulness, fairness, freedom, unity, tolerance, responsibility, and respect for life (Kidder, 1995, 502-07). This essay captures key research results from interviews for his book titled Shared Values for a Troubled World: Conversations with Men and Women of Conscience. His interviewees espouse the point of view that universal human values can anchor a set of standards for a global code of ethics.

It should also be noted that Kohlberg’s model for the six stages of moral development culminates with adherence to universal ethical principles as outlined below.

- Level I Preconventional
 - I-1 Heteronomous morality
 - I-2 Individualism
- Level II Conventional
 - II-1 Mutual interpersonal relationships
 - II-2 Social system/conscience
- LEVEL III Postconventional (principled)
 - III-1 Social contract/utility/individual rights
 - III-2 Universal ethical principles (Armstrong, 1993, 20-21)

Given some consensus about the existence of universal human values, more specific issues such as a framework for global ethics and ethics education for the accounting profession are discussed below.

2.1 International Federation of Accountants’ (IFAC) Framework For Global Ethics

The mission of the International Federation of Accountants (IFAC) is to “serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession’s expertise is most relevant (IESBA, 2009, p. 2).” The International Ethics Standards Board for Accountants (IESBA) has promulgated standards based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

According to this Code of Ethics for Professional Accountants, the purpose of its conceptual framework is to “1) identify threats to compliance with the fundamental principles; 2) evaluate the significance of the threats identified; and 3) apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level” (IESBA, 2009, 6).

Five key sections of the Code parallel the fundamental principles as follows: 1) Section 110 Integrity; 2) Section 120 Objectivity; 3) Section 130 Professional Competence and Due Care; 4) Section 140 Confidentiality; 5) Section 150 Professional Behavior. Sections 290 and 291 cover rules for Independence—Audit and Review Engagements and Other Assurance Services respectively. Sections 300-350 outline the rules for Professional Accountants In Business. The Code became effective as of January 1, 2011 with ongoing exposure drafts on key elements. There are several categories of threats as outlined in the IFAC Code. Self-interest threats revolve around the undue influence of financial or other interests on the professional accountant’s judgment or behavior. Self-review threats occur when an accountant does not adequately evaluate prior work for a current engagement. Advocacy threats entail the promotion of a client’s or employer’s position with the resultant compromise of objectivity. Familiarity threats arise due to a long or close relationship with a client or employer. Intimidation threats deter an accountant from acting objectively because of actual or perceived pressures including undue influence over this professional (IESBA, 2009, 8-9).

There are two types of safeguards against the threats: 1) professional, legislative, or regulatory; and 2) work environment. Examples of safeguards created by profession, legislation, or regulation include:

- Professional or regulatory monitoring and disciplinary procedures
- External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant
- Educational, training and experience requirements for entry into the profession
- Continuing professional development requirements
- Corporate governance regulations
- Professional standards (IESBA, 2009, p. 9)

Safeguards in the work environment include “effective, well-publicized complaint systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behavior” (IESBA, 2009, 9). These safeguards also include a requirement to report breaches of ethical standards as per the IFAC Code.

2.2 IFAC International Education Standard 4 (IES4): Professional Values, Ethics, and Attitudes

As per its title, International Education Standard 4 (IES4) looks at approaches to the development and maintenance of professional values, ethics, and attitudes in accounting education programs. Professional values, ethics and attitudes are the professional behavior and characteristics that identify professional accountants as members of a profession. They include the ethical principles of conduct generally associated with and considered essential in defining the distinctive characteristics of professional behavior. Taken together, professional values, ethics and attitudes include: a commitment to technical competence; ethical behavior (such as independence, objectivity, confidentiality, and integrity); professional manner (such as due care, timeliness, courteousness, respect, responsibility and reliability); pursuit of excellence (such as commitment to continuous improvement and life-long learning) and social responsibility (such as awareness and consideration of the public interest). Professional values, ethics and attitudes are taken together as an attribute and for the purpose of this research report, ethics education includes all aspects of educational and developmental activities which aim to enhance and maintain professional values, ethics and attitudes. The term ‘ethics’ is expressed as an overarching term for values, ethics and attitudes in this report (IAESB, 2006, 16-17) It should be noted that the International Education Standards are currently undergoing revisions under the International Education Standards Revision Project. The emphasis will be on the key education concepts of competence, international professional development, continuing professional development, and assessment in the redrafting of these IESs.

The IFAC Information Report supports the development of IES4. It utilizes input from the following individuals or organizations: 1) IFAC member bodies regarding their systems of education and development for professional values, ethics, and attitudes; 2) academics, researchers, corporate executives, professional accountants and representatives from accounting firms, regulators and international policy-makers; and 3) experts and interest groups in ethics and ethics education (IAESB, 2006, 16).

The global scope of the Information Report is evident from the inclusion of the geographic areas of the Americas, the Asia Pacific, the Middle East and Sub-Saharan Africa, and Europe and the Latin, African, more developed/colonial Asian, less developed Asian, Near Eastern, Germanic/Nordic, and Anglo cultural areas (IAESB, 2006, 23, 25).

2.3 IFAC Ethics Education Framework

The purpose of IFAC's ethics education framework is: "1) to develop a sense of ethical responsibility in future accountants; 2) to improve the moral standards and attitudes of future accountants; 3) to develop the problem solving skills that have ethical implications; and 4) to develop a sense of professional responsibility" (IAESB, 2006, 53-54).

Research results indicate that specific prescribed topics of ethics education should include:

- The nature of ethics
- Differences of detailed rules-based and principles-based framework approaches to ethics including their advantages and drawbacks
- Professional behavior and compliance with ethical standards
- Concepts of independence, skepticism, accountability and public expectations
- Ethics and law including the relationship between laws, regulations and the public interest
- Compliance with the fundamental ethical principles of integrity, objectivity, commitment to professional competence and due care, and confidentiality
- Ethics and the individual professional accountant including decision-making for the resolution of ethical dilemmas
- Consequences of unethical behavior to the individual, profession, and society
- Corporate governance
- Social responsibility (IAESB, 2006, 102).

The ethics education framework consists of four stages—knowledge, sensitivity, judgment, and behavior. The first stage provides accounting trainees with a fundamental knowledge base for issues related to professional values, ethics, and attitudes. Ethics education at Stage 1 focuses on the nature of ethics, an ethics framework to understand the environment, theories and principles of ethics, virtues, and individual moral development (IAESB, 2006, 97). Stage 2 applies basic ethical principles to the relevant functional areas of accounting practice such as auditing and taxation. This sensitization stage ensures the development of students' sense of awareness for an appreciation of the ethical dimensions for the practice of accounting (IAESB, 2006, 97). Stage 3 is an application stage for ethical judgment, where individuals learn how to integrate and apply ethics knowledge and sensitivity to formulate a reasoned and well-informed decision about ethical dilemmas (IAESB, 2006, 98). Stage 4 looks at ethical behavior in situational or contextual business environments since professional accountants have the responsibility to resolve ethical dilemmas in accordance with the standards of conduct for the profession (IAESB, 2006, 98). This approach to ethics education is consistent with Ryan's call for a "sense of goal establishment via authentic contextualized ethics curricula and astute instruction" for the development of moral reasoning skills for majors in undergraduate business programs (Ryan, 2011, 50).

There are both pre- and post-qualifying professional body program topics for students and practitioners respectively. Teaching methodologies can include:

- Hypothetical case study analyses
- Role playing
- Discussion of selected readings and videos
- Analysis of business situations involving ethical dilemmas
- Discussion of disciplinary pronouncements and Codes of Ethics
- Seminars using speakers with experiences in corporate or professional decision-making
- Mentoring and self learning systems
- Discussion of philosophical issues in life
- Writing reflective journals (IAESB, 2006, 68)

2.4 Authoritative Bodies for Ethics for the Accounting Profession in the United States

The National Association of State Boards of Accountancy (NASBA) and the American Institute of Certified Public Accountants (AICPA) are the most authoritative resources for information about ethics for the accounting profession in the United States.

According to National Association of State Boards of Accountancy (NASBA), “education in ethical and professional responsibilities means a program of learning that provides potential professional accountants with a framework of professional values, ethics and attitudes for exercising professional judgment and for acting in an ethical manner that is in the best interest of the public and the profession. This includes a commitment to comply with the codes of ethical conduct of State Boards of Accountancy and all those entities and organizations, including federal and state government entities and agencies, that promulgate standards of acceptable conduct” (NASBA Ethics and Public Service).

NASBA’s Discussion Papers monitor and evaluate the issues of the AICPA’s Professional Ethics Executive Committee (PEEC) for the purpose of harmonization of ethics standards across the 55 jurisdictions and other regulatory bodies. This promotes the development and adoption of Uniform Accountancy Act (UAA) ethics provisions uniformly among the states including emerging issues related to ethics (NASBA Discussion Papers).

NASBA’s Education Committee is charged with formulating the rules related to accounting education. An ethics program should at least provide a foundation for ethical reasoning and the core values of integrity, objectivity and independence (NASBA Uniform Accountancy Model Act). Article 5 of the UAA pertaining to ethics education was unanimously approved by its Board of Directors in 2009. The most recent UAA Model sets the ethics education requirement as the completion of a “minimum of three SCH [semester credit hours] in an undergraduate and/or a graduate course listed or cross listed as an accounting or business course in ethics as defined in Rule 5-1(e). A discrete three SCH course in ethics may count towards meeting the accounting or business course requirements of Rule 5-2(d)(2) or Rule 5-2(d)(4). As an alternative, colleges or universities may choose to integrate the course throughout the undergraduate and/or graduate accounting or business curriculum” (NASBA Uniform Accountancy Act Model Rules).

The AICPA provides a framework for standards for services and conduct for the accounting profession. Its Code of Professional Conduct sets forth principles of professional conduct, rules for independence, integrity, and objectivity, general standards for accounting principles, and responsibilities to clients and colleagues for certified public accountants. The AICPA takes a more rules-based approach to setting standards for ethical behavior so there is more guidance for specific practice situations in the U.S.

2.5 Harmonization of U.S. and IFAC Codes

From the U.S. perspective, the AICPA Professional Ethics Executive Committee (PEEC) began a project in 2009 to create a single source of easy-to use guidance on ethics and independence issues. This project entails the restructuring the AICPA Code of Professional Conduct and other ethics-related materials to provide a comprehensive source for guidance for ethical and independence issues for the accounting profession. This codification will also enhance the convergence efforts with the IFAC Code through its identification of differences between national and international standards.

The IFAC Code of Ethics for Professional Accountants establishes ethical requirements for professional accountants worldwide. As per the Code, a “member body of IFAC or firm shall not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they shall comply with all other parts of this Code” (IESBA, 2009, Preface, 4). According to Allen, convergence for this project means that “PEEC may propose new or revised interpretations of AICPA rules if they are less strict than comparable guidance in the IESBA Code” (Allen 2010, 31).

From IFAC’s viewpoint, the objective of the IESBA is to serve the “public interest by setting high quality ethical standards for professional accountants including auditor independence requirements through the development of a robust, internationally appropriate code of ethics” (IESBA, 2011, 5). It uses a more conceptual framework approach for setting standards for ethical behavior for the accounting profession.

The IESBA Strategy and Work Plan, 2011-12, includes three interrelated activities for the achievement of the convergence of its Code with national standards and regulations. First, IFAC will conduct surveys of regulators and national standard setters about the types of improvements necessary to get buy-in for the adoption of the Code in their jurisdictions. Second, IFAC will develop comparisons of key provisions as benchmarked against selected jurisdictions for an understanding of the similarities and differences among standards. Third, outreach activities for open lines of communication will be used to facilitate the convergence efforts with its Code (IESBA, 2011). More than 100 countries have already adopted IFAC's Code so these harmonization efforts are critical for the implementation of international standards for ethics. Allen (2010) provides a comparative analysis of some specific provisions of the AICPA and IFAC Codes with a brief case study for the applicability of these Codes in a given scenario.

3.1 Notion of Spiritual Capital

Zohar defines wealth as “that which we have access to that enhances the quality of life” (2004, 2). She states that we “often speak of wealth of talent, a wealth of character, a wealth of good fortune. The word wealth itself comes from the Old English ‘*welth*’ meaning ‘to be well’ (2004, 2). Although the dictionary definition of wealth emphasizes money and materiality, spiritual capitalism “is wealth that we can live by, wealth that enriches the deeper aspects of our lives. It is wealth we gain by drawing upon our deepest meanings, deepest values, most fundamental purposes, and highest motivations, and by finding a way to embed these in our lives and work” (Zohar, 2004, 3).

The wider meaning of capital as defined in the Oxford English Dictionary is “that which confers wealth, profit, advantage or power” (Zohar, 2003, 25-26). “The word ‘spiritual’ is derived from the Latin ‘spiritus’ which means that which gives life or vitality to a system” (Zohar, 2003, 28-29). Spiritual capital is the “amount of spiritual knowledge and expertise available to an individual or a culture, where spiritual is taken to mean ‘meaning, values, and fundamental purposes’” (Zohar, 2003, 27). This notion of spiritual capitalism uses moral and social dimensions to underpin a shared set of universal values for the global business community. According to Zohar, spiritual intelligence supports a human being's innate ability to distinguish between right and wrong in attunement with universal values. The incorporation of these added dimensions into an ethical framework requires a more holistic and developmental approach to global ethics education for the accounting profession.

3.2 Conclusion

Kidder states that an “underlying moral presence shared by all humanity—a set of precepts so fundamental that they dissolve borders, transcend races, and outlast cultural traditions” will serve as a “moral glue that will bind us together in the twenty-first century” (1995, 502). As the challenging work on the harmonization of ethical standards for the accounting profession progresses, it is heartening that there is increasing evidence of shared universal human values and of the notion of spiritual capitalism as foundations for global ethics. This bodes well for the ongoing work on convergence projects for international ethics standards for the accounting profession. It is critically important that coverage of these ethics standards be viewed as a key component of professional orientation in accounting curricula and programs worldwide.

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