Laura A. Hay, CPA, CAE
Professional Ethics: Conduct Beyond Reproach

The Individual Perspective:
Ethical Decision Making

What’s the Point?

Where each accountable for our decisions, no one can make us act unethically
Expectations of Trusted Financial Professionals

“Have the courage to say no. Have the courage to face the truth. Do the right thing because it is right. These are the magic keys to living your life with integrity”

W. Clement Stone
Can Ethics be Taught?

1. What is ethics?
2. How does one become ethical?
3. What is meant by integrity?

Poll 1: Ethics is best defined as:

- Doing what’s best in a particular situation
- Applying a defined set of principles and values to a situation to determine the right course of action
- Actions that comply with applicable laws and regulations
- Actions that best minimize the negative impact
Poll 2: How does one become ethical?

- Attending an ethics class and signing a code of conduct
- Recognizing situations that create ethical dilemmas
- Consistently and thoughtfully evaluating situations using an ethical decision-making model
- Teaching, speaking, and promoting ethical behavior

Poll 3: What is meant by integrity?

- Doing whatever is necessary to maintain public trust
- Going beyond what is specifically required to do what is right within the spirit of the standards
- Observing all technical and ethical standards in form
- Being perfect in judgment with no allowance for inadvertent error or honest difference of opinion
What does it mean to you to be a Trusted Finance Professional?

What is the Public Perception?

What is the Market Perception?

How does this shape our reality?

Poll 4: What is the public perception of financial professionals?
Poll 5: What is the market perception of financial professionals?

What makes you trustworthy?

- Consistently displaying the core values that lead to trust
- Able to be relied on to do or provide what is needed or right
- Worthy of confidence
What is meant by integrity and objectivity?

- Not knowingly misrepresent facts
- Not associate with misleading information
- Exercise “Should Have Known” standard of care
- Stay clear of conflicts of interest (or adequately disclose)
- Shall not subordinate professional judgment

What do The Rules Say?

AICPA Conceptual Framework: Threats and Safeguards

- Advocacy Threat
- Management Participation Threat
- Undue influence threat
- Self-review threat
- Familiarity Threat
- Self-interest threat

Think of the last time your trust was broken. How long did it take for that person to win it back?
What does it mean to be professionally competent?

What Does This Look Like?
- Know your boundaries
- Acquires knowledge
- Thinks critically
- Asks insightful questions
- Maintains appropriate skepticism
- Seeks counsel/advice
- Respectfully declines when necessary

Professional Competence: What Do You Need to Know?

Know the professional standards that apply to your work and comply with them
How do you develop professional competence?

**Formal Learning**
- Coaching and mentoring
- Instructor-led
- Self-directed
- Structured on-the-job experiences

**Informal Learning**
- Coaching and mentoring
- Ask the expert
- Observation
- Social networks
- Unguided experimentation

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How Do You Judge Character?
A quick peek at a broken process
Would You Trust This Person?

How much respect and deference would you give to someone with this background?

Bachelor’s, Master’s, & Ph.D. in Economics

Energy Deputy (Under Secretary of the Department of the Interior)

Would You Trust This Person?

Someone with an impressive resume that meets all the needs of the job?

Computer science

Accounting
Would You Trust This Person?

Deep Industry Experience

• 35 years of business experience
• B.S. in Mechanical Engineering from Texas Tech University
• Masters of Business Administration from the University of Texas
• Certified Public Accountant

Would You Trust This Person?

Financial Expert

• Previous experience at 2 public accounting firms
• Multiple certifications within the field of finance
• Bachelor Degree and Master’s degrees in Accounting
How Do You Engage in Ethical Decision Making?
Becoming intentional About how you think

Little Jimmy: What’s The Big Deal
A lighthearted look at ethical drift
Ethical Decision-Making and Ethical Drift

Why good people do bad things

- A gradual erosion or moving away
- Below level of awareness
- Danger realized too late or not at all

Ethical Decision-Making: How Drift Happens

- Small, “minor” exceptions made
  - Just this once
  - It’s nothing more than a rounding error
  - Everyone pads just a little bit

- A new norm is established

- Pattern repeats
Ethical Decision-Making: The Influence of Bias

1. Understand your frame of reference and underlying assumptions that could blind you to warning signals

1. **Selective Perception Bias:** Expectations influence how we perceive the world.
2. **Stereotyping:** Expecting a group or a person to have certain qualities
3. **Overconfidence:** Perceiving abilities to be greater than what they are

Ethical Decision-Making: The Influence of Bias

2. Engage in critical-thinking using multiple “data” points to rid yourself of certain biased viewing of information

1. **Confirmation Bias:** Remember what reinforces thinking / ignore what doesn’t
2. **Anchoring Bias:** Rely too heavily on one piece of information / generally received early in the process
3. **Bandwagon Bias:** Allows other people’s (popular) belief to take precedence
Ethical Decision-Making: What’s The Process?

Identify the problem or issue

Identify the potential issues involved

Examine applicable ethical codes, laws and regulations

Identify and challenge personal biases, assumptions, judgments

Consult / seek guidance

Determine right course of action and proceed

CASE STUDY: Application of Ethics

1. What’s at stake here?
2. What personal concerns might you have?
3. How could those personal concerns affect your judgment?
4. What process would you follow to get resolution?
Application of Ethics Takeaways

What are key points to remember?

- People respect and follow orders of more senior people
- People that are new and still learning are more likely to follow orders
- Experienced people can use their knowledge to get compliance
- People are motivated by their desire to help a good person

Subordination of judgment occurs more easily than we like to acknowledge

The Organizational Perspective: Ethics and Risk Management

What’s the Point?

Ethical values are at the heart of good governance, enterprise risk management and compliance.
Ethics and Risk Management

The two are inextricably linked

An ethical failure creates risk for the organization that can result in significant loss

A strong risk management culture reduces the likelihood of an ethical failure

COSO’s View of Ethics and Risk Management

“An entity’s strategy and objectives and the way they are implemented are based on preferences, value judgments, and management style.

Management’s integrity and commitment to ethical values influence these preferences and judgments, which are translated into standards of behavior”
10 Elements of Compliance and Ethics Programs*

- Governance
- Culture and values
- Incentives and awards
- Risk management
- Policies and procedures
- Communication and training
- Monitoring and reporting
- Escalation, investigation and discipline
- Issues management
- On-going improvement process


ETHICS APPROACHES

Social Q&A

A Lifelong Journey

Not a marathon – many short races

Questions?

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