

MAA250 ETHICS AND FINANCIAL SERVICES

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OVERVIEW

A vulnerable profession

- The accounting and financial services profession is a profession very vulnerable to the temptation of acting in self or private interest
- We deal with other people's money, much of it is electronically administered and handled, and the risk of greed can prevail, enhanced with increased opportunity
- \$\$\$ and profit driven organisations who value profit over reputation can nurture this dangerous temptation to compromise our ethical decision making

What is the state of the accounting profession?

- Due to the spate of corporate collapses, the accounting profession has lost a large degree of its reputation
- The areas that have lost the most amount of reputation is the audit role / function and corporate governance
- We are now in the process of rebuilding the reputation of our profession
- Sceptics have argued that it may never regain the reputation it once had

The changing accounting profession

- Going back 30 years ago or so, the traditional role of the accountant focused primarily of fewer tasks, but we did them thoroughly, well and ethically. These fewer tasks were mainly tax and audit

- Now we have moved away from that role of providing just fewer expert tasks, and we are offering a full range of financial services, including the broad spectrum from bookkeeping, to prep of financials, to tax advice, business consulting, and tax. We refer to this wider range of services, as the 'one stop shop'. Although convenient for the client, it poses a range of conflicts of interest, and threats such as self-review. This can reduce our level of independence and quality of service, if we are not careful. Now we offer what is commonly referred to as 'the one stop shop' of full financial services maybe to the detriment of our ongoing credibility
- If we are a 'jack of all trades', can we truly be experts of anything, and how can we be truly impartial?

What is meant by 'the one stop shop'?

- It means that we offer more than just the traditional role / service of just tax and audit. We offer the full range of financial services, which is convenient for the client, but can pose many conflicts of interest
- Audit services = audit (less money to be made in that area) / traditional role
- Non audit services = consulting + more (more money to be made in these areas) / contemporary role

What is meant by 'the balance of power' between professional and client?

- Based on the expertise of the professional, the client seeks that knowledge
- The balance of power should be such that the professional is in 'control' and the client is being directed
- This is the healthy balance of power
- This relationship can be interrupted when the client tries to 'control' (or bully) the professional, where the client tries to place undue pressure on the professional to 'do as client' wants, and unfortunately undermines the ethical decision making of the professional e.g. The Enron, Arthur Andersen relationship which was toxic
- It is not always ethical or appropriate to put client or employer needs first if you are being asked to do something unethical/public interest and professionalism is far more important to uphold than satisfying a pushy client or employer

Should we always put client first???

- If clients are asking us to behave ethically and adhere to the law and uphold our professional duty, then it is fine to value client needs and adhere to their requests
- If, however, clients are applying undue pressure and 'bullying' the professional to engage in comprising or unethical practices, then it is NOT acceptable to 'put client first' (public interest and the profession should come first instead)

What is meant by 'Profit is King'?

- This is a short term and dangerous focus for a company. Successful companies need to focus on the long term vision
- 'Profit for King' is a short term desire to drive profit up to its maximum, at whatever ethical cost. The dollar is the main driving force and motivator, e.g. Enron.

- If a company has this focus, they may act recklessly, without concern for the impact of their short-term risky and 'self-interest' related practices and decision making. We often use this term to describe all the firms that have faced corporate collapse or major corporate fraud scandals e.g. Enron, Arthur Andersen, WorldCom, NAB. etc.

What is meant by 'the tone is set from the top'?

- Leadership style and behaviour is very influential, and it filters down to lower levels of an organisation
- If leaders are ethical, an ethical culture is more likely to prevail. If leaders are unethical, then an unethical culture
- Culture and behaviour does not flow upwards, culture and behaviour flows downwards
- We try and follow and please our leaders, hence mimicking the traits and values of those leaders

What laws in Australia govern us re business?

- Corporations Act
- Taxation law
- Clerp 9 (2004)
- Ongoing development of corporate governance guidelines (some are legislated but not all)

(post the major US corporate collapses, the major act which was implemented was the Sarbanes Oxley Act, 2002, which brought about improvement to audit quality and increased the accountability of BOD's / the Clerp 9 in Australia followed in 2004)

- We are predominantly self-regulated (laws and standards developed from within the profession, as opposed to be directed and enforced through government)
- This is a privilege of a profession. Professions want to maintain this right to self-regulate

(Other than these laws, the accounting profession is predominantly self-regulated)

Shareholder versus Stakeholder? The emphasis used to be on 'shareholder' focus alone

When the focus is just on shareholder focus, the risk is that company priority centres around profit generation too much, as this is where ethics can be compromised. This is where the term 'Profit is king' stems from.

Shareholder:

- Those who own the shares in a publicly listed company
- Where profit generation and delivering the highest return on investment (via dividend based on profit) is the main focus

Stakeholder:

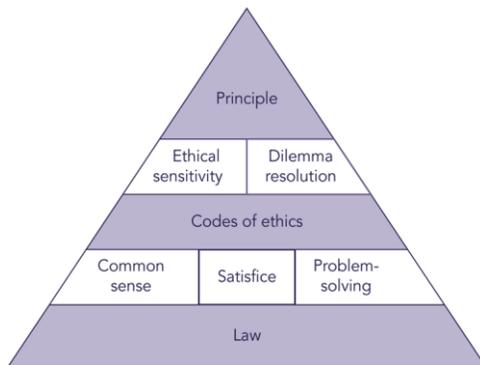
- Includes not only the shareholder, but also: the employees, the suppliers, creditors, the lenders, the tax department, the trade unions, customers, the community and the environment

Topic 1 INTRODUCTION TO ETHICS AND ETHICS FRAMEWORK

WHAT IS ETHICS?

- Ethics is about choices: assessing alternatives, making the 'right' decision and acting on it in accordance with the decision, with courage
- Ethics encompasses individuals, groups, organisations and society

THE ETHICAL HEIRARCHY / FRAMEWORK



THE 3 LEVELS OF THE ETHICAL HEIRARCHY / FRAMEWORK – applying to decision making

- Level 1 – ethics and the law (any legislation, no conscious decision making necessarily required as we know it is already law)
- Level 2 – ethics and codes of conduct (designed to address basic business decisions that do not have any serious ethical implications OR simple ethical decisions, not complex ones)
- Level 3 – ethics and personal principles (designed to address more complex business decisions that do have serious ethical implications / where a higher level of ethical judgement and decision making is required)
 - Be able to differentiate between the 3 levels
 - Be able to provide examples of each of the 3 levels(Note: that this model is separate/distinct to Kohlberg's model)

Three levels of ethics framework

- Governing body (management) – Topics 2, 7
- Workplace – Topics 5, 6, 8
- Individual employees – Topics 3, 4

1. Governing Body (Corporate Governance)

- Governance conveys authority & control
 - Corporate Governance relates to strategies, directions, methods and manners adopted by a group of people such as the CEO, the board etc.
- Traditional focus: the ability to maximise shareholders' value
- More recent focus: board composition; independence of directors/auditors; accountability to *stakeholders*; financial reporting disclosure etc.

The ethics of the governing body:

- Provide and facilitate good corporate governance practices
- Management of stakeholders' interests
- Meeting conformance and performance drivers

2. Workplace

- Influenced by the governing body
- Implementation of governance policies and procedures
- Monitoring of "soft issues" – workplace practices, norms and cultures

3. Individual employees

- Influenced by cultures & values established by the governing body and the workplace
- An individual's ethical behaviour is made up of four interrelated components (Ethical sensitivity, Ethical priorities, Ethical judgement and Ethical courage)