



ETHICS AND LEADERSHIP FOR ACCOUNTANTS IN 2023

FEATURING HERB RUBENSTEIN, JD, MPA, PGA





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Host: Matthew Briggson, CPA

Email: matt@encoursa.com





Presenter: Herb Rubenstein, JD, MPA, PGA
Herb Rubenstein Consulting
Former Lecturer, University of Colorado
Graduate School of Business
www.HerbRubenstein.com

Learning Objectives

- Identify leadership theory and best practices that will help you become a better leader.
- Recognize how to navigate ethical dilemmas that often arise during uncertain times.
- Discover new services that accounting professionals can provide to expand their accounting practices and increase their influence in their own organizations.
- Identify organizations in addition to the AICPA that contribute to ethics for accountants.

Business and Organizational Opportunities for Accountants

- Expand your human capital - your skills and knowledge regarding leadership and ethics, including understanding the term “anticipatory ethics”
- Improve your reputation as a leader and ethics expert and increase your “convening power,” a critical leadership attribute or trait
- Expand your business through getting more clients, better clients, reducing costs (possibly using AI or delegating better) and influence within organizations and with your clients
- Learn how to delegate more effectively and hold people accountable
- Promote accounting’s role in society - Accountants sell reasonably accurate and time reports, tax filings, help produce data for reports, create budgets and do financial forecasts, audit processes - all of these activities include ethics at the core (integrity and independence) and require leadership skills

Leadership Approaches to Meetings

- Agenda for any meeting longer than 20 minutes with 2 or more people
- If you cannot affect the overall agenda, create an agenda just for yourself for every meeting.
- What do you want to get out of the meeting?
- Apply this thinking to this webinar.
- My learning objectives described above - that is a fancy term for “agenda.”
- Take 30 seconds - what are your goals for this Webinar on Ethical Leadership
- Do you have any goals for your organization or fellow workers you want to help achieve today?

Traditional Approaches to Leadership

- Steven Covey's - Always look for a third way when there are two sides holding fast for their position to win
- Marshall Goldsmith and Peter Drucker - Create a "To Stop" list so your "To Do" list does not get so crowded you can't get it all done
- James MacGregor Burns - Transformational Leadership - The duty of a leader is to create the next generation of leaders
- Norman Schwarzkopf - If a rung on the ladder is broken in the chain of command that won't listen to you identifying a key problem, got straight to the top and let them know about the problem
- Herb Rubenstein - The job of a leader of leaders is completely different from a leader of followers. Leaders of leaders help set goals and empower others to achieve them. Leaders of followers tell followers what to do. (Micro-management occurs when you think you are leading followers but are leading leaders. When in doubt, assume you are leading leaders and delegate.

Leadership Characteristics (vs. Traits)

- Per Doris Kerns Goodwin, author of *Leadership in Turbulent Times* - Leadership Skill Can Be Developed
- Humility but decisive with strong goals, vision
- Acknowledge Errors and hold others accountable
- Shouldering Blame vs Taking Credit Only for Success
- Learning From Mistakes, Remaining Confident and Instilling Confidence in Others - Transformational “L”
- Collaboration, Team Builder
- Integrity, consistency - opposite from lack of honesty

Leadership Characteristics (vs. Traits) *(Cont.)*

- Empathy, the opposite of narcissism
- Resilience, viewed as strength, but not overbearing, dominating
- Connecting With All People = Low Turnover Rate
- Controlling Unproductive Emotions
- New Concept: Leadership Capital, Social Capital, Relationship Capital, Human Capital
- Leadership requires self-management

Defining Leadership - Two Different Ways

- Definition 1: Leadership is the creation and fulfillment of worthwhile opportunities by honorable means by Herb Rubenstein
- Creation includes vision
- Fulfillment includes implementation and reporting
- Worthwhile opportunities either produce an economic return, reduce harm to the environment (sustainability), create a “best practice,” or improve the condition of humans and the global ecosystem, a “social return”

Introduction - Defining Leadership (cont.) - Definition #2

- Definition No 2: Leaders create a significant impact by building an organization of people working together on common goals. - Brook Manville; See: [Link to Forbes Article: Stop Chasing Novelty in Your Leadership](#)
- Leaders mobilize followers to get something done
- Leadership and management overlap, often the same thing. - Mintzberg and Manville

Two Great Books on Leadership

- *The Harvard Business Review Leader's Handbook: Make an Impact, Inspire Your Organization, and Get to the Next Level* (HBR Handbooks) Kindle Edition by [Ron Ashkenas](#) (Author), [Brook Manville](#) (Author)
- [Link to Leader's Handbook \(Amazon\)](#)
- Northouse, Peter G. *Leadership Theory and Practice*, 8th edition, (Sage Publications)
- [Link to Leadership Theory and Practice \(Amazon\)](#)

Leadership in 2023

- Many traditional norms have been thrown to the wind
- Retribution is the new leadership skill in vogue today
- Viewing, defining an enemy so followers know who is good and who is bad
- Presenting ultimatums with lack of civility in many professions, especially the legal profession, and thank goodness accountants are still civil to each other
- Replacing empathy with disgust
- Making huge offers for businesses and seeking to walk away from them
- Lying to the masses and complaining as juries award money to those harmed
- Pessimism replacing optimism
- But many are still taking the high road in leadership, so let's sharpen our leadership skills starting with that "Do" list - What do leaders do?

What Leaders Do

- Build a unifying vision
- Recruit, train, and motivate great people
- Innovate
- Gather and deploy resources
- Organize and form/build teams
- “Hold ethics” in high regard and inspire others in the organization to do the same

Now Let's Combine Leadership and Ethics

- Knowledgeable - must know relevant history to every situation and understand excellent leadership approaches
- Practical - must be able to engage people, motivate people, empower people, trust people get them to become followers then see themselves as either leaders today or a leader someday in the future
- Honest and efficient - must never waste the time of others and must find out the facts before speaking and sticking to the facts while speaking
- Accountable - must hold others accountable via awards and negative reinforcements
- Listening - still the most valuable leadership skill because listening is learning
- And must be able to define ethics

Let's Get to A Very Difficult Question for Many of You - We Are Playing for Keeps

- Who is the ethics leader in your organization?
- Would the person you just mentioned, or thought of, say they were the ethics leader in your organization?
- If you don't know who is the ethics leader, that is a good indication there is no ethics leader, or, maybe you are that leader.
- And if you don't know who the ethics leader is in your organization, how can you support them, or *empower them*.

“Holding Ethics” - What Does This Mean?

- What does it mean to “hold ethics” from a leadership perspective
- The Rising Song Institute, looking for people who can “hold music.”
- To hold ethics is to: Put Ethics on the Agenda for Meetings and:
 - Incorporate ethics into conversations/discussions and actions
 - Ethics viewed as high priority and commitment
 - Have systems that report breakdowns in ethics
 - Anticipatory ethics - systems that report potential future breakdowns in ethics
 - Get people to enthusiastically support ethical behavior

Defining Ethics

- A system of moral principles turned into a code of conduct or behavioral norms which represent the minimum standard of acceptable behavior
- AICPA Code of Conduct
- An enforcement system designed to eliminate unethical behavior, and, alternatively, promote ethical behavior = applied conduct including:
 - A Code of Conduct
 - Adjudicating ethical lapses
 - Rewarding ethical behavior and giving significant negative reinforcement to unethical behavior
 - Clear rules of ethics - Presidential Advisor and Snow in Washington Story

Fraud Increased Dramatically During Covid - We Have Our Work Cut Out For Us

- Accounting Today had article about how 77% of Fraud Examiners see more fraud going on today than a year ago; 92% expect more fraud in the future
- Fraud went through the roof in the mainstream economy and the crypto/Web3 economy
- JP Morgan announces its employees committed illegal activity helping their clients commit illegal activity with PPP - Is this the next Wells Fargo
- Whistleblowers' numbers skyrocketed, reaped huge reward as people stopped looking the other way when people, companies, clients cheated with over 140,000 calls to the waste fraud and abuse SBA hotline in 2021 (800 in 2019) and 80,000 in 2022.
- Social media exploded as disgruntled employees told about misdeeds
- False information spread in my estimation more in 2020-2022 than in any three-year period in human history

Ethics Took A Hit - And Now Maybe A Comeback With Your Leadership Now

- Quoting Eric White, Esquire
 - “Money will drive the conversation. Ethics will not drive the conversation.”
 - Ask, “Upon what principle are we making this decision here?” Before the discussion starts about a decision to be made.
 - Was your organization unprincipled in those times? How about now?
 - Without an “Ethics Leader” stepping up in your organization, the organization is like a boat that has a helm or steering wheel but has no rudder. (Turn the helm and it turns the rudder and the rudder directs the board). CEO’s are always steering wheel/helms, but without ethics being accepted by employees and guiding their behavior the ship cannot be steered
 - EY fined \$100,000,000 for cheating on ethics exams June 28, 2022 after KPMG fined \$50,000,000 for cheating on ethics exams - June 17, 2019....
 - Prosecutors believe behind every CEO whose company is unethical, is an accountant helping the CEO do, manage, oversee, and promote unethical behavior. Don’t be that accountant. Prosecutors will come after you and give you an immunity agreement after your lawyer has given you a \$50,000 invoice.

Polling Question #1

- ▶ Which of the following actions by a leader would be an example of “Holding Ethics”?
 - A) Regularly discuss ethics in the context of business meetings.
 - B) Have systems in place that report breakdowns in ethics.
 - C) Rely on anticipatory ethics to predict future breakdowns.
 - D) All of the above.

Roles of Boards of Directors and Leaders in Bringing Us Back from Brink

- The inherent drive of globalization is a “growth mindset.”
- The inherent foundation of growth is leverage.
- The essence of leverage is using other people’s money and using your more limited assets as “collateral” - even accounts receivable/factoring.
- Inherent in leverage is RISK
- Boards of Directors starting in the 1980’s began to focus on growth CEO’s and former CEO’s with knowledge of how leverage worked were sought-after to become members of boards of directors of major organizations
- Boards forgot about their first duty - governance.
- The essence of governance is risk assessment, pooled risk, and storing resources to deal with risk (protect the people from, enemies foreign and domestic, so that the people can pursue life, liberty and happiness)

What Is The Essence of Leadership

- Know the facts and be able to speak about them honestly
- Be able to assess the situation carefully, honestly, objectively
- Be able to build consensus around the nature and extent of the problem
- Be able to tap expertise as to what caused the problem
- Be able to tap expertise as to what is/are the solution(s)
- Be able to muster resources to apply to the solution(s)
- Be able to enroll people so they do not sabotage the solutions and actively, even enthusiastically, support the solutions
- Measure progress accurately against the problem and make strategy changes if problem gets worse or is not resolved quickly enough

Leadership Can Be Defined as “The Actions That Will Get Us Out of This Mess”

- Once you know the “strategies” we need to create concrete acts to implement the strategy
- What acts are now necessary - and what role do accountants play in bringing these acts to the forefront of the narrative and the action
- Reduce borrowing or store cash, be liquid
- Get boards and everyone focused on risk
- Tell the truth and walk away from every client committing fraud
- Set, keep and ENFORCE high ethical standards
- Lead - Focus on the big picture while taking care of the little picture

Example of Ethics Leadership in Accounting

- IESBA Revised and Restructured Code of Ethics - <http://www.ethicsboard.org/revised-and-restructured-code-ethics> - Voluntary in the US
- International Ethics Standards Board for Accountants - Part of the International Federation of Accountants
- IESBA “NOCLAR” - requirement to disclose non-compliant activity to government authorities, July 2016 and growing internationally

Institute of Singapore Chartered Accountants (ISCA) -

- Adopts IESBA “NOCLAR” provisions - Effective 4/1/20
- AICPA Adopts NOCLAR effective June 30, 2023
- When you see non-compliant activity, you will under many circumstances have a duty to document and understand what you see and report it to the audit committee or even a governmental agency or licensing authority
- Put NOCLAR summary in client retention agreements

Non-Compliance Reporting

- The question is “What should you do when others do something NOCLAR?”
- And the even better question going forward is what must every accountant on earth do when observing unethical behavior by accountants
- Standard trumps other standards in principle goes back to April 2016 by IESBA and now 2022 approval by the AICPA
- Provides clear pathway to report to public authorities any illegal behavior by any accountant without causing a violation of any other duty an accountant has
- PCOAB now has a proposal to require NOCLAR Reporting

More on NOCLAR

- Official notice of the revisions appeared in the Journal of Accountancy online in June 2022. The new interpretations and revisions are effective June 30, 2023.
- NOCLAR includes:
 - Financial irregularities, fraud, deviations from GAAP, failure to report material information
 - ESG Reporting Errors and Environmental Accounting Fraud and Misrepresentation
 - Discrimination, Failure to pay women, minorities, LGBTQ equal pay for equal work
 - Sexual harassment which has financial implications to client
 - Any violation of state or federal law including whistleblower retaliation
 - Any violation of any state or federal regulation
 - NOCLAR covered activities will grow over time as the concept of "materiality" grows

More on NOCLAR

- Upon becoming aware of **credible information** concerning an instance of NOCLAR (or suspected NOCLAR), the member should obtain an understanding of the matter.
- If the member **identifies or suspects that NOCLAR has occurred or is likely to occur**, he or she should discuss the matter with the appropriate level of management. When appropriate, the member should also discuss the matter with those charged with governance (governance board). In these discussions, the member should advise the parties to take appropriate and timely action.
- Later, the member should **evaluate the appropriateness of management's response** to the NOCLAR.
- The member should **consider whether to withdraw from the engagement** (if possible, under law or regulation), particularly if the client's management and/or governance board fail to respond appropriately to the NOCLAR.
- The member **should document relevant details about the NOCLAR** as described in the interpretation.
- SEE: <https://www.auditconduct.com/post/aicpa-issues-4-new-pronouncements>

Academic Community Response to NOCLAR

- Will promote new academic research on impact of unethical behavior and financial results
- Will lead to publications that will increase public awareness and involvement
- Will promote transparency
- Will influence how accounting is taught
- Will promote study of how often and under what circumstances accountants report NOCLAR

Additional Examples of New and Expanded Ethics Platforms

- AICPA - Professional Ethics Executive Committee - Open Meetings
- Business Roundtable redefines the purpose of the corporation:
<https://www.businessroundtable.org/policy-perspectives/corporate-governance>
- Globally, recessions reveal problems in ethics that profits and economic growth seem to keep out of the public's eye

Anticipatory Ethics

- Being able to predict where future ethical challenges will occur in an organization, or even individuals
- Predictive analytics - strong indicators of future ethical challenges
 - New Reporting or Requirements or Regulations
 - VW, No Child Left Behind, NY Housing Authority - No internal controls
 - Business Pressures for Results
 - Wells Fargo, Kobe Steel, Enron (all new activities had to be cash positive in 90 days)
 - Lack of Enforcement or Systems to Hold Organizations Accountable
 - Oil and Gas emissions and other requirements (US/Canada)
- Most ethical violations are systemic, predictable, not isolated

Polling Question #2

- ▶ Using analytics specifically to predict future ethical challenges is often referred to as?
 - A) Human Capital Analytics
 - B) Predictive Analytics
 - C) Conducting an Ethical Audit
 - D) Anticipatory Ethics

Future Areas of Enforcement Actions

- May 2022 - SEC fines BNY Mellon for ESG misstatements/omissions 1.5m
<https://www.sec.gov/news/press-release/2022-86>
- May 2022 SEC adds 20 staff to Crypto Assets and Cyber Unit in Division of Enforcement, will go up to 50 people soon
- SEC: August 31, 2021 - SEC announces three enforcement actions - eight entities for deficient cybersecurity procedures <https://www.sec.gov/news/press-release/2021-169>
- SEC: September, 2023 - 1.1B against 16 Wall Street firms for failure to keep and maintain business records. <https://www.sec.gov/news/press-release/2022-174>
- 2023: Going back to 2013 when Roadrunner, that owned 20 transport companies went on a buying spree. Companies they bought underperformed. The SEC alleged that Roadrunner sought to disguise its underperformance by engaging in a “fraudulent scheme to (a) hide major expenses, (b) hide the poor performance of some of its recently acquired Operating Companies, and (c) avoid the write off of significantly overstated or impaired assets and accounts.” 9.6m in settlement. See: <https://cooleypubco.com/2023/02/27/sec-charges-roadrunner-accounting-fraud/>

More Future Areas for Enforcement

- GRI calls for mandatory sustainability reporting. Fight is on in 2023 regarding ESG
- AI - Are you competent in this area? Becoming a necessary competency and leadership skill. Demand those with whom you work to use AI. Future regulation of AI is coming and accountants need to the laws governing AI, here and in Europe
- 2023 - Enforcement against Coinbase, Binance might drive crypto more “off-shore, but new exchanges are being developed that will not hold the asset, just trading like a stock exchange, this reduces risk to crypto-currency users.
- Jan 2023 - SEC v McDonald’s and its CEI Easterbrook - for sexual misconduct termination: Against McDonald’s and Easterbrook for false and misleading statements regarding his termination (stating he was fired “without cause” when they had cause: Barred from being a Director or Officer of a company for 5 years, \$400k civil penalty; \$53M disgorgement of salary taken back by the company and McDonald’s cooperated with SEC and was not separately fined. McDonald’s knew or should have known Easterbrook had numerous sexual encounters with staff.

What Do Managers Do? (Related to Leadership) Per Mintzberg: Managing

- Maintain workflow
- Connect Externally
- Blend All Around
- Remote Controlling
- Fortifying the Culture by Telling the Truth
- Intervene Strategically
- Manage in the Middle/Out of the Middle
- Advising from the Side

Mintzberg - More on Management

- Delegate - authorize with some freedom
- Designate - making choices
- Distribute - resources
- Deem - set and impose targets
- Developing - people and ideas/culture of org
- Manage WITH people, not of people!
- Strategic planning = prioritizing
- Empowerment and Set Ethical Standards for All
- Build teams = resolving/anticipating conflicts
- Handle disturbances

Polling Question #3

- ▶ Which of the following is NOT an action Mintzberg advocates for effective leaders:
 - A) Delegate - Authorize with some freedom
 - B) Distribute - Resources to team members
 - C) Direct - Top-down directions to all reports.
 - D) Deem - Set and impose targets

Path Goal Theory of Leadership

- Theory - coherent framework of thought useful to organize information, actions, and analysis to promote successful behavior, correct interpretations, and predict future actions
- Path Goal is 8 Elements of Leadership - each element is viewed as essential
- 1. Identify goal and secure buy-in/ownership of goal by followers
- 2. Identify all key barriers, obstacles, opposing forces to success
- 3. Ensure proper training, resources, people, and technology to achieve goals
- 4. Organize and direct actions of followers to achieve goals and all sub-goals

Path Goal Theory of Leadership (Cont.)

- 5. Monitor accurately and report accurately all key activity and interim results, and guide changes in strategy, resources, actions necessary to achieve the goals based on what has taken place with the original strategy
- 6. Identify and report accurately when the goal is achieved or shortcomings that result from the effort
- 7. Acknowledge and systematically reward all contributions to achieve goals
- 8. Set new goals and repeat the process

Source: Northouse, *Leadership Theory and Practice* and Rubenstein, *Leadership for Lawyers, 2nd ed.* (American Bar Association, 2007)

3 minute break.



New Forms of Money - Cryptocurrency Leads to New Forms of Ethics

- No AICPA mention of this in its Code of Conduct
- But, see:
<https://www.thetaxadviser.com/newsletters/2018/apr/ovdp-cryptocurrency.html> and
https://www.ey.com/en_gl/tax/how-taxes-on-cryptocurrencies-and-digital-assets-will-soon-take-shape
- IRS is close to obtaining all virtual currency records
- Cryptocurrency - based on *block-chain* which is designed to stop unethical money handling
- Distributed Autonomous Organizations and taxation

Polling Question #4

- ▶ Soon to be important Web3 issues for accountants include:
 - A) How Distributed Autonomous Organizations are taxed
 - B) How people paid in crypto-currency are taxed
 - C) Future tax reporting obligations of crypto based revenue
 - D) All of the above

Leadership, Ethics, and Climate Change

- Climate change, regardless of the cause, creates instability due to population movements, new business models, stranded assets, politicization of the economy, and big winners and losers economically
- Very important numerical reporting issues - KEY
- This is a global phenomenon, but we have very little global leadership
- Mismatch between leadership models and acute business and social and ethical issues

Sustainability and Ethics

- Excess pollution, financial irregularities
- Violations of regulations are now considered ethical violations by many
- Have resulted in the creation of the:
- Value Reporting Foundation and the International Sustainability Standards Board and Foundation - 501 (C)(3) organizations

<https://www.valuereportingfoundation.org/>

Sustainability and Ethics (Con't)

- ISSB Mission: Develop and disseminate sustainability accounting standards and assist corporations [in their efforts to] “disclose material, decision-useful information to investors”
- New Credential - *Fundamentals of Sustainability Accounting*
- Sustainability, Pollution, Climate Change is Applied Ethics
- Of great academic interest with significant implications for future knowledge building
- For more information see the Sustainability Accounting Management and Policy Journal
<http://www.emeraldgrouppublishing.com/products/journals/journals.htm?id=sampj>
- New International Standards for Sustainability and Climate by IFRS on June 26, 2023: See: <https://www.accountingtoday.com/news/issb-releases-sustainability-and-climate-disclosure-standards>

Sustainability/ESG and Ethics (Con't)

- https://www.accountingtoday.com/news/sustainability-assurance-seen-as-full-of-inconsistencies?position=editorial_14&campaignname=ACT%20Daily-06252021&utm_source=newsletter&utm_medium=email&utm_campaign=V2_ACT_Daily_20210503%2B%27-%27%2B06252021&bt_ee=9K9lq6yRQK%2B1EGMVDrqCRaMAMwo%2FAgcFrgP%2Bcrypt9yHrY7TB09chmu7kjRZTdNNn&bt_ts=1624615223875

Sustainability/ESG and Ethics (Con't)

- *Accounting Today* citation on: Sustainability Assurance re: Verify Reporting - Assurance Engagements...
 - Full of Inconsistencies across jurisdictions, Practitioners and NEEDS STANDARDIZATION
 - Opportunity for every accountant to write articles, help set and keep standards for this work and promotes ethics in sustainability
 - Big political fight, but KPMG announces it will invest 1.5B in ESG
 - More and more research shows that companies with high ESG scores outperform other companies in their sector over time
 - BNY Mellon fined for omissions in its ESG reports in 2022
 - This will happen more and more often
 - ESG is not going away

Leadership, Ethics, and Privacy

- Weather.com, an IBM Company, sued in 2019 by the City Attorney of Los Angeles for violating the privacy rights by selling (profiting) from sale of location data of users
- Why “City Attorney of Los Angeles?” and Why important?
- City Attorney’s Office of Los Angeles is a leader in ethics lawsuits. It was the first to sue Wells Fargo for selling fake accounts to its customers
- Why an accounting issue? Accounting issue: Where is the money coming from? What are you selling? Tech companies will have to become more transparent to their auditing and accounting firms.
- GoodRX - sued for selling your private data it collects in the prescription business

Leadership, Ethics, and Supply Chains

- Walmart Example - All suppliers must begin using blockchain technology
- Demanding to know the carbon footprint of your (clients') suppliers and demanding it be reduced
- Demanding to know the labor policies of your (clients') suppliers and demanding fair labor practices
- Getting to know the fines paid by your suppliers, "character due diligence" - Religious Example of Construction Contractor and Donation Clawback

Leadership, Ethics, and Reporting Numbers - Ethical Dilemmas

- VW Emissions Scandal - A Scientific Problem or an Accounting Problem
- Ethics demands strict internal controls to assure all reporting of numbers relied on, OR POTENTIALLY RELIED UPON BY INVESTORS AND REGULATORS
- Leaders who are accountants can demand their clients have in place strict internal controls of all numbers, emissions numbers, financial numbers, human capital numbers, all are INVESTMENT GRADE

Technology, Ethics, and Leadership

- Technology is ethically neutral - just a tool
- Can equally be done for good or evil and will move into any area where money rewards it for the move in a free market economy
- Makes ethical issues bigger due to scale
- Makes ethical issues tougher due to its double-edged sword of promoting transparency and being able to obfuscate/hide things brilliantly

Whistleblower Payments

- On May 5, 2023 SEC announces record \$279M whistleblower payment. See: <https://www.cnbc.com/2023/05/05/sec-record-whistleblower-award.html> - Situation not described
- May 2023 - SEC awards whistleblower 12M
- IRS issues several whistleblower payments in 2022 in excess of \$100M
- Total 1.3 B in 2022 payments by SEC for 328 Awards See: <https://www.wiley.law/alert-SEC-Annual-Whistleblower-and-Enforcement-Reports-Signal-Continued-Aggressiveness-in-2023-and-Beyond>
- Many other agencies paying big bucks to whistleblowers
- Expect many more awards to whistleblowers
- Bill before Congress to provide for legal fees for whistleblowers in a broader array of situations

Whistleblower Developments

- Laws in 49 States, 55 Federal Agencies authorized/mandated to pay whistleblowers 10 to 30% of agency recovery
- False Claims Act (cheating government) over 2B in recoveries due with millions paid by DOJ to whistleblowers in 2022. See: <https://www.justice.gov/opa/pr/false-claims-act-settlements-and-judgments-exceed-2-billion-fiscal-year-2022>
- Accountants make great whistleblowers as Thomson Reuters reported back in 2007 - not news here. <https://www.reuters.com/article/us-fraud-survey/whistle-blowers-still-best-at-finding-fraud-survey-idUSN1643696820071016>
- Former CEO of Visiting Nursing Association of New York gets 16m for turning in organization - did not know about false billing until he decided to depart...

Whistleblower Developments (Con't)

- New book by Steven Kohn: *Rules for Whistleblowers: A Handbook for Doing What's Right - 2023*
- The [Dodd-Frank SEC Whistleblower Program](#), 15 U.S.C. § 78U-6, provides substantial monetary rewards to whistleblowers who voluntarily provide original information to the SEC where such information results in a successful enforcement action with monetary sanctions exceeding \$1 million.

Whistleblower Paradigm

- Demonization of those who are truth tellers will subside as people get behind them
- Company vs. Whistleblower - now the whistleblower will be the home “team”
- Courage to speak the truth valued by PwC with its “Speak Up Program” since 2013
- FDA Baby Formula Whistleblower - 34 page report took 4 months to get to the chief federal officer in the FDA - Disgrace and baby deaths followed, agency “explanations” - nonsensical

Polling Question #5

Technology is ethically:

- A) Biased in favor of violating the privacy rights of individuals
- B) Not relevant to accountants and their pursuit of ethics
- C) Neutral
- D) None of the above

Accountants - Ethical Violations of Note Resulting from Ethical Dilemmas

- KPMG fires 6 accountants, including head of its audit practice, in 2017 for improperly warning a client that the Public Company Accounting Oversight Board was going to conduct an audit. A KPMG employee was once an employee of the PCAOB and got insider, confidential information from the agency and relayed it to the client
- <https://www.nytimes.com/2017/04/12/business/dealbook/kpmg-public-company-accounting-oversight-board.html>
- Accountants testifying against client today based on immunity
- And accountants getting charged with crimes when they do not cooperate
- This is the future - prosecutors will charge accountants with criminal offenses or give them immunity to testify - Tough set of choices for accountants

What Does This Mean for Accountants

- Reporting becomes the new currency - Thus Corporate Social Responsibility Reports
- Government agencies (NY City Housing Authority, Schools Across the Nation) now regularly caught for cheating, falsifying reports
- Regulations putting such pressures on businesses that they cheat on emissions (VW)
- Business pressures cause companies to cheat on quality of steel being shipped (Kobe)

Ethical Accountants May Be The Last Line of Defense

- Political figures are having their accountants turn against them to avoid their own prosecution
- IESBA, International Ethics Standards Board for Accountings has new Code of Ethics and an April 2016 Advisory Demanding Reporting of All Noncompliant Activities (NOCLAR) to Government Authorities
- Acts Discreditable Rule, Rule 501 gives you backbone

Social Media - People - Will Catch Your Client - Increasing Risks

- Secrecy vs Transparency is the new Civil War being fought in the world
- West Virginia University catches VW
- Reuters catches EY lobbying for an audit client
- Disgruntled employees getting payments for turning in their old employers
- Devices can detect pollution, violations of regulations

Leadership and Ethics As It Applies to The Business of Accounting

- What services do accountants sell?
 - Ethical, accurate reporting of business results
 - Ethical, accurate reporting of scientific results (emissions)
 - Ethical, accurate, controls and processes
- How do accountants train their staffs to be ethical? To make
 - ethical demands, build their reputation for ethics
- Leaders predict (and avoid) problems
- Most ethical problems are predictable (anticipatory ethics)

Ethical “Best Practices”

- Chief Ethics Officer
- Ethics Hotline
- Accurate Sustainability Reporting
- Creating Codes of Conduct - Applied Ethics
- Enforcing Codes of Conduct
- Ethics Audits
- Measure the Costs of Ethical Failures

Polling Question #6

Two ethics oriented best practices include:

- A) Resigning from every client who is noncompliant and reporting them publicly
- B) Creating position of Chief Ethics Officer and installing an Ethics Hotline
- C) Calling out publicly every time you think a competitor is unethical and filing suit
- D) Letting each division or part of an organization create its own ethical standards and letting them enforce their ethical standards in the manner they deem appropriate

New Ethical Requirements for Human Capital

- New ISO Standard 30414 on Human Capital
- Some already out:
<http://enterpriseengagement.org/newswire/content/8483139/iso-releases-the-first-standards-on-human-resources-practices/>
- Leadership is Setting Standards, Creating Awareness
- of these Ethical Standards, Securing Compliance

Transparency/Ethics Requires Auditable Numbers - Only Accountants Can Do This

- VW Emissions - Not a science issue, not an environmental issue, this is an accounting fraud issue - lack of internal controls
- Risk, Risk, Risk - Employee surveys can disclose or point to - Ethical violations, safety and other compliance violations, sexual harassment - and each of these have human costs, environmental costs, and financial costs
- Lower Risk - all other things being equal - WINS

Expanding the Concept of Materiality

- Materiality - Key Concept in Accounting - defined as: “WHAT IS IMPORTANT TO THE REPORT AUDIENCE”
- <https://www.business-case-analysis.com/materiality-concept.html>
- Who is the report audience today - Everyone
- What does the word “important” mean - decision useful, worthy of reasonably being relied upon in financial dealings, can impact stock prices

What is “Material”?

- Turnover rates of employees - Material?
- YES, because research shows that a company with a lower turnover rate makes more money than its competitors with higher turnover rates, and thus will have higher stock prices
- Environmental Compliance - YES for the same reason
- Human Capital metrics - related to stock prices and company performance - new research areas

If “Material,” Then What

- Must be accounted for and reported properly financially
- Kobe Steel - sold steel that was mislabeled to higher quality levels - this is an accounting issue - what is the process for auditing the labeling process to ensure accuracy
- Oil on rail cars - labeled for lower flammability than the oil it carried - <http://cs.trains.com/trn/f/111/t/220623.aspx>
- Is your clients or own organization's Contribution Strategy material??? (www.opensecrets.com)
- Membership in or support for single gender organizations?

Why Accountants to Fix These Woes?

- What do accountants do?
- They do **ACCURACY**.
- They create processes to provide **ACCURACY AND RELIABILITY**
- Their work is based on and promotes **TRUST**
- Their work is based on law and ethics
- They know how to set up internal controls
- They focus on timely reporting

Polling Question #7

Which of the following information is likely “material” to a stakeholder?

- A) Employee Turnover and Environmental Compliance
- B) Employee Turnover and Company Parking Spots
- C) Environmental Compliance and Remote Work Policy
- D) All of the above.

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Leaders Promote Their Reputation

- Participate with the AICPA as it contemplates new ethical rulings, and expands the work of its ethics related committees - PEEC
- Align quickly with the Sustainability Accounting Standards Board and help shape the future standards
- Take Advantage of the “First Mover” Advantage
- Build A Great Reputation for Ethics
- Build The Culture of Your Firm Around Providing Ethics Related Services

PEEC of the AICPA

- <https://www.aicpa.org/interestareas/professionalethics/community.html>
- Professional Ethics Executive Committee
- Open Meetings, can join by phone, computer
- Issues new ethics interpretations
- Participate in State AICPA Chapter's Ethics Committee
- Benefits of Participation - Story of Maryland Attorney on Maryland State Bar Association's Committee on Securities Law
- Great human capital builder, great reputation builder, great source for articles you can give clients and speeches you can give to community organizations like Rotary, Kiwanis, Optimist, Chambers of Commerce

Polling Question #8

- The PEEC is:
- A) Part of the IESBA
- B) Part of the IFAC
- C) The Professional Ethics Executive Committee of the AICPA
- D) Part of the Sustainable Accounting Standards Board

Leadership Roles in the Community

- Become Adjunct Professors or Guest Lecturers on this topic at local universities and graduate schools, speak at Rotary, Kiwanis, Optimist
- Develop and deliver continuing education courses for CPE credit in the field of ethics
- Write and publish, be a thought leader - keep up with developments and ongoing investigations
- Hire an editor to help you write: the best do

Conclusion

- Leadership and Ethics are woven together at the core of organizational and individual action
- Was seen as “good to do” - now becoming the minimum standard of behavior
- Social media exposes ethical violations and risks and costs of ethical violations will rise (both financial and social costs)
- Customers and investors will be making decisions based on ethics ratings of companies

Conclusion (Con't)

- Uncertain times make things worse in the ethical realm
- Pressures become greater
- Oversight becomes less
- Chaos, high turnover, people working from home, less culture
- Everyone is out for themselves, and their group, organization in uncertain times
- Government turns the other cheek
- But, there will be a post-post ethics period
- What to do? Ethics means taking the “long run view”

Conclusion (Cont.)

- You should lead by example by having a code of ethics and processes to guarantee your own firm's reporting is accurate/ethical
- Understand the Path-Goal Theory of Leadership
- Anticipatory Ethics
- Someone has to “Hold Ethics”
- “Without leadership, nothing happens” - Fred Lederer, William and Mary Law School

Conclusion (Cont.)

- Call to action
- Understand the benefits to your your organization
- Know the benefits to your client
- Part of your duty for the “audience” of every financial and numerical report
- Technology is ethics neutral - that is the danger - It is just a tool
- Customers will flee unethical organizations as trust will be “destroyed,” - How many people will never buy a VW again? More than you think.

Conclusion (Cont.)

- Cryptocurrency, and its underlying technology, blockchain, very important developments
- Globalization
- IESBA/IFAC
- PEEC/AICPA
- New standards for “Materiality” might include “contribution strategy,” treatment of animals
- Damages for unethical conduct, if caught, or when caught, will be very high for all involved

Conclusion (Cont.)

- Leaders declare (at least to themselves) they are leaders and if they have guts in uncertain times, they will declare they are ethical leaders
- Leaders follow much of the time, but never compromise their ethical integrity even when they are being pragmatic and getting some deal rather than no deal
- People and organizations need sustainable, ethical leaders who are known by others in the organization to be the ethical leader of the organization
- Leaders create other ethical leaders (Theory of Transformational Leadership - James MacGregor Burns)

Conclusion (Cont.)

- There are more detailed courses in ethics offered showing the new changes in the AICPA code and ethical trends
- And other courses on how to expand your accounting practice selling ethics related services
- This course was about leadership and ethics and I thank you for taking this course.

Contact Information

- Herb Rubenstein, JD, MPA, PGA
- herb@herbrubenstein.com
- www.herbrubenstein.com
- 303.910.7961



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Ethics for Accountants, presented by Herb Rubenstein

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