



Expanding Your Accounting Business Through Providing Ethics Related Services

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Introduction

- The Cost of Ethical Violations is increasing
- The Ability to Catch Ethical Violations is Increasing
- The Ability to Avoid Ethical Violations is Increasing
 - VW
 - Wells Fargo
 - Elon Musk
 - <http://fortune.com/2016/12/28/biggest-corporate-scandals-2016/>
 - <http://fortune.com/2017/12/31/biggest-corporate-scandals-misconduct-2017-pr/>





The Perfect Storm

- Supply – Ethics related problems rising in number and scope as companies and nonprofits grow in size and complexity
- Scope – Ethics now incorporates environmental degradation, sexual harassment, known product faults (Samsung battery explosions, Takata Airbags)
- Demand is increasing for ways to avoid ethical problems by clients and your own organization



Cryptocurrency

- No AICPA mention of this in its Code of Conduct
- But, see:
<https://www.thetaxadviser.com/newsletters/2018/apr/ovdp-cryptocurrency.html>
- IRS is close to obtaining virtual currency records
- See Quote from Edward Jenkins, CPA in his Tax Advisor article cited above:



Cryptocurrency (Con't)

- FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR), filing obligation and a Form 8938, *Statement of Foreign Financial Assets*, reporting obligation, if the value exceeds the respective reporting thresholds. That outcome is derived from the Ninth Circuit Court of Appeals case, *Hom*, 657 Fed. Appx. 652 (9th Cir. 2016).





Cryptocurrency for Domestic Transactions

- Starting to take hold
- Look and see who is using cryptocurrency
- Walmart - <https://bgr.com/2018/04/22/walmart-blockchain-cryptocurrency/>
- <https://www.nasdaq.com/article/7-major-companies-that-accept-cryptocurrency-cm913745>
- Selected List of Companies using CTC





Cryptocurrency (Con't)

- Expedia
- Subway
- Overstock
- PayPal
- Shopify
- Microsoft
- KFC Canada
- Whole Foods



Cryptocurrency (Con't)

- <https://99bitcoins.com/who-accepts-bitcoins-payment-companies-stores-take-bitcoins/>
- See Journal of Business Ethics:
<https://link.springer.com/article/10.1007/s10551-016-3298-0>
- So, why was cryptocurrency created:
 - To keep financial transactions secret, away from the authorities
 - To make financial transactions more secure, robust (via blockchain's bullet proof, almost fraud proof structure)





Final Slide on Cryptocurrency

- Crypto, short for Cryptography, means: Cryptography is a method of protecting information and communications through the use of codes so that only those for whom the information is intended can read and process it. The pre-fix "crypt" means "hidden" or "vault" and the suffix "graphy" stands for "writing."
- <https://searchsecurity.techtarget.com/definition/cryptography>





The Role of the Accounting Profession

- Market gap – which profession is best equipped to meet this need for high level, process oriented, ethics consulting and advisory services?
- The Accounting Profession
 - Global Ethical Standards (to a great extent)
 - Process Oriented
 - Audit Methodologies
 - Cheaper Than Law Firms
 - Can Deal With Ethical Issues of Cryptocurrency



New Business for Big and Small Firms

- Benefits of Providing Ethics Oriented Services
 - Will not cannibalize your current business
 - Will enhance your current client relationships
 - Will promote your reputation
 - Will save companies, nonprofits lots of money
 - Will help set new, strong standards for ethics
 - Can help you have more “business” or demand for your services within your own organization





Challenges

- What services can accountants sell?
- How do we make it repeatable business?
- How do we do it better than our competitors?
- How do we train our accountants to provide the services?
- How do we charge for these services?
- To whom in the organization do we sell these services?
- How do we brand these services?



Hurdles

- How do we get our firm on board with providing these services?
- Are these really accounting services? Covered by our errors, omissions, malpractice insurance?
- What if we provide these ethics related service and the client still gets in ethical trouble?
- Can we sell these services to government agencies?
- Won't our clients want us to do this for free?



What Services Do We Sell?

- Ten separate services discussed that apply both to clients and your own organization
- These represent the tip of the iceberg of the full range of “**Accounting Related Ethics Services**” (ARES) that accounting firms could provide via entrepreneurship and intrapreneurship
- Basic concept behind these services:
Everything a business or nonprofit does has a significant accounting component.





Ten Steps To Improve Your Client's/Your Own Organization's Ethical Compliance

1. Help create or reinforce the position of Chief Ethics Officer, with clear duties, power/authority, budget, direct reports, responsibilities, a significant compensation package, and clear reporting systems
 - a. Assist with the planning and implementation to insure that adequate budget, staff, decision rights, and reporting exists
 - b. High profile communication

<https://www.nytimes.com/2018/10/21/opinion/who-will-teach-silicon-valley-to-be-ethical.html>

- a. Salesforce
- b. 23andMe
- c. Uber



Step 2 to Improve Your Client's and Your Own Organization's Ethical Compliance

2. Get the CEO and all “C” suite officers on board in client organizations and your own organization to infuse their speeches, articles, investor calls, and meeting agendas with ethical compliance issues listed early in the agenda
 - a. Publish widely
 - b. Add to marketing
 - c. Exxon example of “safety” after Valdez



Step 3 To Improve Your Client's and Your Own Organization's Ethical Compliance

3. Set ethical standards, policies and guidelines for your own accounting firm or organization where you serve as an accountant

a. For example, have a code of conduct, provide ethical compliance training, and revise the code of conduct periodically to expand its reach

b. Manage the ethics conversation in your organization



Step 4 To Improve Your Client's and Your Own Organization's Ethical Compliance

4. Help your organization or client develop an “ethics hotline” where people can report ethical concerns anonymously.

- a. Beware of recent Murray Energy company fine of \$150,000 after it did this.
- b. Must support the activity once you have done it.
- c. Must have clear budget
- d. Must produce timely, accurate reports on the hotline activity, its quality, and results





Step 5 To Improve Your Client's and Your Own Organization's Ethical Compliance

5. Develop an array (current listing) of ethical threats and challenges that your organization is facing and is expected to face.

a. Update this list periodically – Anticipatory Ethics

b. Use this list to predict where your clients' or your own organization's ethical challenges will come from in the future



Step 6 To Improve Your Client's and Your Own Organization's Ethical Compliance

6. Work toward setting ethical standards for your sector or industry.

a. Write about, speak about ethics, publish your views, and attend, present at conferences

b. Develop a thought leadership and practice leadership role for yourself and your organization in setting high ethical compliance standards



Step 7 To Improve Your Client's and Your Own Organization's Ethical Compliance

7. Develop measures of the level of ethical compliance within the client and your own organization

a. Conduct surveys and other data collection and analysis

b. Report results of the surveys and show trends in ethical compliance in the organization over time

c. Conduct rigorous analysis of the data.

d. Example: Research/evaluate the “independence” of the independent director(s) required by law



Step 8 To Improve Your Client's and Your Own Organization's Ethical Compliance

8. Develop rewards for very ethical behavior, publicize it, and provide negative reinforcements (penalties) personally to individuals and groups for their failure to be ethically compliant.

a. There must be a zero tolerance policy towards failures to be ethically compliant.

b. Create swift adjudication system that is fair, adequately staffed, has sufficient budget, and full support of top management





Step 9 To Improve Your Client's and Your Own Organization's Ethical Compliance

9. Identify the past and potential future costs of your client or your own organization failing to be ethically compliant

a. Focus not only on ethics violations in your own organization and your clients, but also in your client's and your own organization's supply chain, and distribution chain

b. Create scenarios that predict with rigor how future fines, penalties, and enforcement approaches will increase, stay the same or decrease (unlikely)





Step 10 To Improve Your Client's and Your Own Organization's Ethical Compliance

10. Sustainability -

- a. Sustainability and Accounting Standards Board supported by PWC and many others
- b. Environmental audit from a process and accounting perspective – (e.g., VW)
- c. Employee treatment (human capital) audit from a process and accounting perspective – (e.g. Google, CBS, Fox News, Weinstein, and the list goes on)
- d. Financial Sustainability – Projections, Scenario Planning





More on Sustainability

- Global
- No longer political (some may disagree)
- Written into contracts
- Needs to be monitored daily, not quarterly or annually
- Needs process audits, internal controls
- Must produce “investment grade” data and information



New Reporting Requirements

- New ISO Standard 30414 Coming Out on Human Capital
- Some already out:
<http://enterpriseengagement.org/newswire/content/8483139/iso-releases-the-first-standards-on-human-resources-practices/>





- International Ethics Standards Board for Accountants
- Part of the International Federation of Accountants
- Why learn about new international standards
- Globalization
- Voluntary standard now urging the "reporting to governmental authorities" non-compliance with national accounting standards or ethical standards by accountants – passed: April, 2016



IESBA (Con't) and AICPA

- IESBA Revised and Restructured Code of Ethics -
<http://www.ethicsboard.org/revised-and-restructured-code-ethics>
- International Ethics Standards Board for Accountants – Part of the International Federation of Accountants
- AICPA – Professional Ethics Executive Committee – Open Meetings





More on Context and Principles

- Transparency as a principle or value is beginning to become more valued than loyalty and secrecy
- Secrecy is putting up a big fight
- Secrecy will “lose” and not because it is bad
- Transparency will win not because transparency is good
- Stakeholders, competitors are getting better able to gain information (e.g., Panama Papers, guilty pleas, social media, the 4th Estate - Reuters)



Selling Transparency

- Let's look at Energy and Energy Efficiency
- Disclosing All Materials, Compounds in Fracking was adopted by Baker Hughes – My role
- Disclosing Personal/Residential Energy Use Data More Widely – My Role
- Transparency is good business in the long run
- Secrets never stop disclosure of good things
- Good Company Index - by McBassi



Transparency 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



Applying the New Materiality Concept

- 20 years ago – banks sells a few million dollars of fake accounts to unsuspecting customers could only be “busted” for a few million dollars
- Today, bank sells a few million dollars in fake accounts to its bank customers – costs Wells Fargo billions of dollars and they have to replace four members of their board
- Social media, increases “exposure” by increasing the risk of getting caught and public demand for a large fine and substantial punishment



New Materiality Definition

- BP gets US Congress to pass a “maximum liability” law of 75m for oil spill
- Deepwater Horizon, oil spill, costs BP 50 billion
- BP must sell off billion of dollars of assets at bargain basement prices to pay
- BP stopped for several years from doing business with the US Government
- Limit of liability law was of no help



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 insure accuracy
- Oil on rail cars – labeled for lower flammability than the oil it carried - <http://cs.trains.com/trn/f/111/t/220623.aspx>





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



Punishment for Ethical Violations

- Joint Ethics Enforcement Program - Nationwide
- Starting to see a lot of individual prosecutions
Elon Musk, Elizabeth Holmes –
- <https://www.forbes.com/sites/michelatindera/2018/03/14/elizabeth-holmes-and-theranos-charged-with-massive-fraud-by-sec/#2ef843961d93>
- Suspensions from practice, from areas of work (such as securities or the financial sector) is expanding rapidly)





Understanding How Bad It Is Today

- Ask Rex Tillerson -
<http://www.wbur.org/onpoint/2018/05/17/tillerson-vmi-commencement-speech>
- Crisis of ethics and Integrity
- It is very bad, very bad
- Retrenchment in ethics and regulatory enforcement will lead to a backlash and greater ethics and regulatory enforcement in the future



How Bad It Is – (con't)

- Huge government (federal and state and local) budget shortfalls and deficits will lead to increased fines and penalties for violations – State of New York has been living off fines for a decade
- This current era of letting companies “get away with it” is a repeat of lax regulations and enforcement in 60’s, 70’s and 80’s that led to greater regulations and enforcement



More Than Compliance Audits

- Canadian utility complaining to me that regulators in 2016 were starting to enforce, for the first time, without warning, regulations that had been on the books for twenty years
- Duty to warn of negative consequences - a key to the accounting profession
- Time to start warning and fixing
- Ethical challenges take years to fix



Punishment

- 2014 KPMG pays \$8.2m to settle allegations for providing non-audit services to affiliates of audit clients
- 2014 EY pays 4m for lobbying on behalf of an audit client (Reuter's article triggered investigation)
- Who will catch your client's ethical and regulatory violations?





Who Will Catch Your Client or Your Organization in an Ethical Lapse?

- Employees and whistleblowers
- Customers
- Watchdog groups
- State, Federal, Local Gov. agencies
- Foreign governments
- International NGO's
- Reuters and News Organizations
- Competitors





Who Will Catch Your Client or Your Organization? (con't)

- Grandmothers
- Algorithms
- Social Media
- Lawsuits
- Cell phone videos and photographs
- Your own client will report itself for violations to get more lenient treatment – New DOJ guidelines on FCPA – August, 2018 – Next slide



Who Will Catch Your Client Or Your Organization? (con't)

- <https://www.law.com/ctlawtribune/2018/08/15/new-doj-commentary-promises-lenieny-for-companies-who-do-the-right-thing-and-self-report-violations/?slreturn=20180917105712>
- YOU will catch your client and be paid handsomely for doing it – and YOU will create process that prevent or make very unlikely the mis-reporting from happening again
- The Expanded Concept of the Audit –
- Anticipatory Ethics – the Process Audit designed to insure that the Emissions of the VW REPORTED equal the Emissions generated in REAL ROAD CONDITIONS





How To Make Ethics Related Services Repeatable Business

- I think we have already answered this question
- But, I recommend multi-year contracts for these services (and, of course, these contracts could still be “at will”, but with a multi-year horizon) since this work takes time
- Much background work is necessary for ethics related services including really learning the culture and processes or lack of processes in your client companies and non-profits or your own organization if you are focusing internally



How To Provide Ethical Services Better Than Your Competitors

- Participate with the AICPA as it contemplates new ethical rulings, and expands the work of its ethics related committees
- 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
- Build The Culture of Your Firm Around Providing These Services



How To Train Your Accountants

- Investigate becoming certified by the Sustainability Accounting Standards Board
- 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



How To Charge For Ethics Related Services

- Hourly
- Fixed Price (if this is a repeatable activity and you have done it before so you can estimate time and complexity)
- Check out AICPA rules on Contingent Fees - they may apply
- Check out AICPA rules on Referral Fees – this may apply





Selling Ethics Related Accounting Services to Government Agencies

- It is possible, but will be challenging
- It can be an expansion of current services to government agencies
- Foreign governments will be great targets for this work as they try to begin to meet international standards



To Whom Do You Sell These Services

- Begin with your current contacts
- Possibly go up the chain to the board of a company or nonprofit rather than CFO or CEO
- Can sell to the smallest businesses or nonprofits as well as the largest
- Can work into your normal services, but beware of being asked to do this for no pay if it is bundled without an explicit task
- Can sell to Universities, Hospitals, NGO's



“Branding” These Services

- Give these services their own logo, trademarked, well defined
- Create a Division or Branch or Office within your organization that heads up offering these services
- Create a VP or high level position to organize, develop, manage, and serve as director for these services
- Prominently show these services on your website, writings, and make it a integral part of your editorial calendar
- Use your “ethics expertise and practice” in recruiting and in your business development activities



Conclusion

- Ethics was seen as “good to do” - now becoming the minimum standard of behavior
- Social media exposes ethical violations
- Customers will be making decisions based on ethics ratings of companies
- Costs of ethical violations will rise
- Accountants have the tools and a reasonable price structure to address the ethical and non-compliance issues that clients and your own organizations face and reduce their risk of substantial penalties and fallout



Conclusion (Con't)

- Transparency increasing, secrecy and loyalty beginning to diminish as fundamental values
- This trend will accelerate as we have reached a tipping point
- Transparency vs secrecy/loyalty is actually a civil war, a peaceful one to a great extent
- Technology, the investment community, and the public are all on the side of transparency and they are unstoppable, and can only be slowed down for a short period of time



Conclusion (Con't)

- Big Market Gap to be filled
- You have to reorganize your accounting firms to sell ethics related services
- Good to begin with your own organization
- Publish articles, give speeches, use social media
- Expand ethics, human capital, and sustainability oriented ethics related training for your staff and services for your clients
- You should lead by example by having a code of ethics and processes to guarantee your own firm's reporting is accurate/ethical





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