

**Effectiveness of the Complaint-based Enforcement
System of the AICPA Code of Professional Ethics**

by

S. Douglas Beets

Dissertation submitted to the Faculty of the
Virginia Polytechnic Institute and State University
in partial fulfillment of the requirements for the degree of
Doctor of Philosophy
in
Business (Accounting)

APPROVED:

Dr. Larry N. Killough,
Chairman

Dr. Robert M. Brown

Dr. Wayne E. Leininger

Dr. J. Susan Milton

Dr. Craig D. Shoulders

May 26, 1987

Blacksburg, Virginia

EFFECTIVENESS OF THE COMPLAINT-BASED ENFORCEMENT
SYSTEM OF THE AICPA CODE OF PROFESSIONAL ETHICS

by

S. Douglas Beets

Committee Chairman: Larry N. Killough

Accounting

(ABSTRACT)

The American Institute of Certified Public Accountants (AICPA) is presently considering a proposal to revise the enforcement system of the Code of Professional Ethics from the current complaint-based mechanism to a system based on reviews of practitioners and their work. Inherent within the proposal is the conclusion that the existing enforcement provisions, based on complaints about violations, are not adequate.

Complaints about ethics violations can originate from practically anyone although two of the primary initiators of violation complaints are Certified Public Accountants (CPAs) and their clients. CPAs, however, may have limited opportunities to observe violations committed by colleagues. Clients, on the other hand, may be in a prime position to detect departures from the ethics code but may have no incentive to

report violations committed by their CPAs; e.g., a violation may benefit the client.

A survey of these two groups (CPAs and clients) indicated that while both groups are familiar with the code and believe that the rules of conduct are appropriate, clients do not tend to report violations and CPAs, on average, indicated that they would report observed violations slightly more than one-half the time. These findings suggest that an enforcement system based solely on the complaints of CPAs and clients cannot be effective.

ACKNOWLEDGEMENTS

This dissertation is the result of the combined effort of many people whom I greatly appreciate. The helpful comments and suggestions of Professors Bob Brown, Wayne Leininger, Susan Milton, and Craig Shoulders certainly enhanced the study significantly. While our relationship was occasionally turbulent, my chairman, Dr. Larry Killough, patiently advised me and as a result of his contributions and concern, the research was much more sound and conclusive than it would have otherwise been. Finally, Dr. Konrad Kubin deserves a special word of appreciation because of his encouragement in the early development stages of the dissertation. Without his belief in the value of the study, the project would not have reached fruition.

As with all of my accomplishments, my primary emotional support has come from my family. My parents, in particular, have provided consistent support, encouragement, and love at every stage of my graduate education. Through these years, I have greatly valued the knowledge that, in victory or defeat, I can always "go home."

I also owe a great debt of gratitude to the many friends and graduate students that I have known in my tenure at VPI.

These day-to-day friendships and camaraderie have made the course of study much more enjoyable.

Finally and most importantly, I thank God. He has blessed me with the people mentioned above, the traits that I needed to complete this dissertation, the inspiration to pursue the topic of ethics, His unending love, and His son Jesus Christ.

TABLE OF CONTENTS

ABSTRACT	ii
ACKNOWLEDGEMENTS	iv
LIST OF TABLES	ix
	page
I. PROBLEM STATEMENT	1
Professional Ethics and Autonomy	1
The Development of Accounting Ethics and Enforcement	2
The Evolution of Rule of Conduct 101 - Independence	5
Changes in the Advertising and Solicitation Rules	8
The Anderson Report - Reactive or Proactive? .	12
Problems with Complaint Initiation	17
Violations Reported by Other Practi- tioners	22
Violations Reported by Clients	22
Changing the Code - Need or Knee-jerk Reac- tion	24
The Empirical Study	24
Organization of the Study	26
II. LITERATURE REVIEW	28
Studies Relating to Knowledge	30
Social Psychology Studies of Crime Reporting .	38
Rusch's and Loeb's Violation Reporting Surveys	40
Ethics Code Opinion Studies	43
Conclusion	48
III. MODEL AND HYPOTHESES	51
The Current Model of Complaint Initiation . .	51
Hypotheses	54
Major Hypotheses	55
Association Hypotheses	55
Appropriateness	56
Contacting	57
Perceived Sanctions	58
Prescribed Sanctions	59
Reporter Involvement	60
Violators' Past Ethics Behavior	60
Knowledge of the Enforcement Body	61
Supporting Hypotheses	61
Group Comparison Hypotheses	62

Conclusion	64
IV. METHODOLOGY	67
Method of Data Collection	67
Instrument Development	69
Separate Knowledge and Reporting Surveys	69
Instrument Format	71
Development of Cases	71
Instrument Questions and Presentation	72
Pretest	79
Sample Selection	82
Statistical Analysis	84
Sample Size Determination	87
Tests of Non-response Bias and "Cheating"	88
Summary	91
V. ANALYSIS OF RESULTS	94
The Response	94
Major Hypotheses	96
Hypothesis M1: Code Familiarity	96
Hypothesis M2: Violation Reporting	100
Implications for the Model	101
Association Hypotheses	103
Hypotheses A1 and A2: Appropriateness	104
Hypotheses A3 and A4: Violator Contact	106
Hypotheses A5 and A6: Perceived Sanction Severity	106
Hypotheses A7 and A8: Prescribed Sanction Severity	107
Hypothesis A9: Initiator's Involvement	108
Hypothesis A10: Violator's Ethics Record	108
Hypothesis A11: Familiarity with Authorities	108
Conclusions Regarding Associations	109
Supporting Hypotheses	110
Hypothesis S1: Perceived Code Stringency	110
Hypothesis S2: Appropriateness	111
Hypothesis S3: Prescribed Code Stringency	114
Hypothesis S4: Violator Contact	114
Hypothesis S5: Perceived Sanction Severity	116
Hypothesis S6: Prescribed Sanction Severity	117
Hypothesis S7: Perceived Sanction Equity	120
Hypothesis S8: Initiator's Involvement	120
Hypothesis S9: Familiarity with Authorities	120
Conclusions Regarding the Supporting Hy- theses	121
Group Comparison Hypotheses	123
Comparisons Between CPAs and Clients	123
Comparisons Between Big 8 and Smaller Firms	126
Comparisons Between Auditors and Other Pub-	

lic Accountants	126
Comparisons Between Clients Employing De- greed Accountants and Other Clients .	129
Conclusions Regarding the Group Comparison Hypotheses	129
Tests for Non-response Bias	131
Conclusion	137
VI. SUMMARY, IMPLICATIONS, AND LIMITATIONS	138
Summary of Major Findings	138
Implications for the Accounting Profession . .	141
Implications for the AICPA	141
Evaluation of the Current Complaint- based System	142
CPAs' and Clients' Opinions of the AICPA Rules of Conduct	144
Familiarity with the Code and Enforce- ment Procedures	147
Implications for Enforcement Authorities .	149
Research Limitations	152
Suggestions for Future Research	155
Conclusion	157
BIBLIOGRAPHY	160
APPENDIX A, CPA Knowledge Questionnaire	164
APPENDIX B, CPA Reporting Questionnaire	170
APPENDIX C, Client Knowledge Questionnaire	182
APPENDIX D, Client Reporting Questionnaire	188
VITA	200

LIST OF TABLES

Table	1.	P-values for Major Hypotheses (Aggregate)	98
Table	2.	P-values for Hypothesis M1 (Individual Cases): Familiarity With the Code	99
Table	3.	P-values for Hypothesis M2 (Individual Cases): Tendency to Report Violations	102
Table	4.	P-values for Association Hypotheses	105
Table	5.	P-values for Supporting Hypotheses (Aggregate)	112
Table	6.	P-values for Hypothesis S2 (Individual Cases): Appropriateness	113
Table	7.	P-values for Hypothesis S4 (Individual Cases): Tendency to Contact Violators	115
Table	8.	P-values for Hypothesis S5 (Individual Cases): Perceived Sanction Severity	118
Table	9.	P-values for Hypothesis S6 (Individual Cases): Prescribed Sanction Severity	119
Table	10.	P-values for Group Comparison Hypotheses (Ag- gregate): Accountants vs. Clients	124
Table	11.	P-values for Group Comparison Hypotheses (Ag- gregate): Big 8 Firms vs. Smaller Firms	127
Table	12.	P-values for Group Comparison Hypotheses (Ag- gregate): Auditors vs. Other Public Account- ants	128
Table	13.	P-values for Group Comparison Hypotheses (Ag- gregate): Clients Employing Degreed Account- ants vs. Other Clients	130
Table	14.	P-values for Group Comparison Hypotheses (Ag- gregate): Mail Respondents (CPAs) vs. Confer- ence Attendees	133
Table	15.	P-values for Group Comparison Hypotheses (Ag- gregate): CPAs - Early vs. Late Respondents	135
Table	16.	P-values for Group Comparison Hypotheses (Ag- gregate): Clients - Early vs. Late Respondents	136

I
PROBLEM STATEMENT

1.1 PROFESSIONAL ETHICS AND AUTONOMY

A code of professional ethics for any profession is essentially a set of rules and precepts designed to instill, in practitioners, attitudes and behavior that will encourage public confidence.¹ Adoption of these rules can be considered to be a voluntary assumption of self-discipline above and beyond the requirements of the law and serves as an indication to the public that the profession will act in the public interest. In effect, a code of ethics is an announcement that, in return for the faith that the public places in them, members of the profession accept the obligation to behave in a way that will be beneficial to the public. Additionally, an ethics code provides members of the profession with guidance regarding the kind of behavior that the historical experience of the profession indicates is most likely to encourage the confidence of the public.²

¹ J.L. Carey, "The Realities of Professional Ethics," Ethics in the Accounting Profession (New York: John Wiley & Sons, 1978), p. 89.

² J.L. Carey and W.O. Doherty, Ethical Standards of the Accounting Profession (New York: AICPA, 1966), p. 6.

In return for public confidence and trust, a profession may be permitted to be autonomous under the implicit assumption that the right to self-regulation is extended with the expectation that professional conduct will be monitored by enforcement of an ethics code. Since the responsibility of self-regulation accompanies the privilege of autonomy, any profession that fails to effectively regulate the professional behavior of its members risks losing this autonomy.³ Bishop and Tondkar stated:

Without an effective code of ethics, the professional standing of CPAs can be questioned and public confidence in their self-discipline will be lessened.⁴

1.2 THE DEVELOPMENT OF ACCOUNTING ETHICS AND ENFORCEMENT

In the accounting profession, the historical development of an ethics code has been a dynamic process. Additions and amendments have been adopted as a result of changes in the business and legal environments and pressure applied by practitioner and governmental groups. A brief review of the evolution of the AICPA Code of Professional Ethics and its enforcement provisions will enhance understanding of current

³ R.R. Davis, "Ethical Behavior Reexamined," CPA Journal, December 1984, p. 32.

⁴ A.C. Bishop and R.H. Tondkar, "Development of a Professional Code of Ethics," Journal of Accountancy, May 1987, p. 100.

concerns which have resulted in the AICPA's perceived need for a major revision of the code.

In the late nineteenth century, demands for independent audits increased the visibility of public accounting. As a result of this heightened exposure, leaders of the profession became more concerned about professional ethics. Upon organization in 1889, the American Association of Public Accountants (AAPA), the authoritative accounting body at that time, realized the need for rules of conduct to improve the quality of practitioner work and encourage behavior that would earn respect for the profession. Consequently, in the same year that the AAPA was formed, the association adopted two ethics rules; one prohibiting members from splitting fees and the other prohibiting non-members from practicing as members. A comprehensive set of rules, however, was difficult to establish and enforce for several reasons:

1. Anyone could practice accounting. All sorts of bookkeepers and accountants outside the membership of the AAPA were offering accounting and auditing services in competition with association members.
2. Even among association members, there was little agreement on the extent to which discipline should be legislated. Accountants during this period were extremely individualistic in their practices and did not want to

be restricted by rules that would standardize accounting practice.

3. Enforcement of ethics rules was practically impossible under the AAPA's organization. Any disciplinary action had to be enforced by the state society to which the member belonged. The association had no independent power as AAPA policies were under the ultimate control of delegates from the state societies.⁵

The problem of disciplinary control was a primary cause of the reorganization of the AAPA in 1916. Members of the successor organization, the American Institute of Accountants (AIA), were directly responsible to the disciplinary authorities of the national organization. Hence, code enforcement was more effective because the AIA did not have to work through each individual state society to discipline a member as did its predecessor, the AAPA.⁶

The new organization acted quickly to establish and enforce a new ethics code. The AIA Council approved eight rules of professional conduct at its first meeting and copies of the code were subsequently distributed to members. In the fol-

⁵ J.L. Carey, The Rise of the Accounting Profession, Vol. 1 (New York: AICPA, 1969), pp. 84-85.

⁶ Ibid., p. 228.

lowing year, two members were suspended by the AIA ethics committee for knowingly certifying a balance sheet containing material misrepresentations. Thus, the AIA effectively demonstrated to the members that the new code of ethics would be enforced.⁷

Subsequent changes in the Code of Professional Ethics occurred as they were deemed necessary by the AIA, which changed its name to the American Institute of Certified Public Accountants (AICPA) in 1957. In many cases, however, the changes resulted, at least in part, from government pressure or intervention. Two examples of government influence in ethics rule determination involve the rules regarding independence and advertising. An understanding of these situations provides insights into the current situation wherein the AICPA is contemplating changes in the ethics system.

1.2.1 The Evolution of Rule of Conduct 101 - Independence

The development of ethics rules regarding independence exemplifies the influence of the Securities and Exchange Commission (SEC) on the AICPA and the accounting profession. In the period from 1933 to 1964, the SEC and the AICPA debated au-

⁷ Ibid., p. 230.

ditor independence on several occasions. Adoption of the SEC's proposal ultimately resulted from each confrontation.

For many years prior to the 1930's, many members of the AIA, particularly those on the ethics committee, were concerned about the conflict of interest that existed when an auditor of a company had a significant financial interest in that company or served as an officer. Finally, in 1932, the ethics committee issued a resolution that expressed disapproval of joint service as an auditor and director of a company. This measure was defeated, however, because of members' disdain of restraints on their freedom of action.⁸

In the following year (1933), the Securities Acts became law and the Federal Trade Commission issued regulations regarding not only joint service as an auditor and officer or director, but also financial interest of an auditor in a client corporation. As a result of this requirement, the Council of the AIA adopted a resolution, in 1934, that prohibited a member from certifying financial statements of a publicly-owned enterprise if the member owned or was committed to acquire a substantial financial interest in the enterprise.⁹

⁸ Ibid., pp. 240-242.

⁹ Ibid., p. 243.

Carey commented on this situation:

As a consequence, on this and other occasions, the changes were ultimately made under pressure when they could have attracted public applause by being made voluntarily at the initiative of the profession itself.¹⁰

The primary cause of the AIA-SEC conflict regarding auditor independence was differing concepts of independence. The AIA considered independence to be a state of mind and a matter of character; a CPA, as a professional, did not subordinate his judgments to those of his client and related decisions were professionally impartial and objective. While the SEC did not disagree with the AIA's concept of auditor independence, the commission was more concerned with the public's view of auditors. The appearance of independence, the SEC held, was essential because auditors must be trusted by investors and stockholders because these parties typically lacked the ability to correctly interpret financial statements.¹¹

As a result of their concern about the appearance of independence, the SEC ruled that an auditor would not be considered independent if he had a substantial interest in a client

¹⁰ Ibid.

¹¹ Michael Chatfield, A History of Accounting Thought (Hinsdale, Illinois: Dryden Press, 1974), pp. 134, 154, 155.

company, was an officer or director, or had any other relationship with management which might subconsciously impair his objectivity. Again responding to pressure from the SEC, the AIA added a rule to its code of ethics in 1941 specifying that a member shall have no substantial financial interest in audit client companies.¹²

Twenty-three years later, in 1964, the SEC decided that it still was not satisfied with the appearance of auditors' independence and pressured the AICPA to issue yet another ethics rule to prevent auditors from having any financial interest in their clients.¹³

Obviously, as the earlier Carey quote implied, the evolution of the Rule of Conduct regarding independence did not result from careful consideration by the AICPA and the profession but from pressure applied by the SEC.

1.2.2 Changes in the Advertising and Solicitation Rules

Changes in the rules regarding advertising and solicitation have been brought about in a manner similar to the develop-

¹² Ibid., p. 155.

¹³ Ibid., p. 134, 155.

ment of the independence rule; i.e., as a result of governmental pressure.

The consensus of accounting practitioners concerning advertising has greatly fluctuated since 1900. At times, the profession has considered advertising distasteful and unprofessional. At other times, advertising was considered informative and beneficial for consumers because the competition that may accompany increased advertising can result in lower costs and a higher quality of services.

As discussed earlier, the public accounting profession was flourishing at the beginning of the twentieth century because of a rapid increase in the demand for independent audits. Entry into the profession was relatively unrestricted and competition between practitioners became intense. As a result of this competition, advertising was used extensively.¹⁴

Perhaps because some advertisements made various astounding claims or promised fantastic savings in fees, advertising was criticized by many practitioners and organizations as being unprofessional. The Journal of Accountancy, in particular, criticized all forms of advertising because the editors

¹⁴ Darwin J. Casler, "Accounting and Professional Ethics: 1887-1917," The Illinois CPA, Spring 1963, p. 51.

thought such practices were inconsistent with professional service.¹⁵ Common criticisms of advertising were that it (1) impaired independence, (2) lowered the credibility and dignity of the accounting profession, (3) resulted in higher fees because the costs of advertising were passed to clients, and (4) lowered the quality of services rendered.¹⁶

As a result of the apparent widespread practitioner disdain for advertising, the Council of the AIA adopted an ethics rule in 1922 prohibiting all forms of advertising. The rule was not, however, universally popular and several members of the AIA resigned in protest, most notably A.C. Ernst, founder of Ernst & Ernst.¹⁷

For the next fifty years, the AICPA discouraged its members from advertising their services. In the early 1970's, however, the AICPA's Ethics Division became concerned about the effect of the advertising rule on the public interest, perhaps in response to the consumer movement that was gaining momentum at the time. The division began discussion of the rule but, as with the independence rule, the federal govern-

¹⁵ Ibid.

¹⁶ A.C. Ostlund, "Advertising - In the Public Interest?," Journal of Accountancy, January 1978, p. 60.

¹⁷ Carey, p. 233.

ment acted to void the advertising ban before the profession acted voluntarily.¹⁸

In 1978, the U.S. Supreme Court ruled that the Arizona Bar Association's restrictions on advertising were unconstitutional. The court ruled that the restrictions violated the right of free speech guaranteed by the first amendment to the U.S. Constitution. Subsequently, the AICPA Code of Professional Ethics was amended to allow advertising which is not "false, misleading, or deceptive."¹⁹

Other modifications of the code that have occurred in response to government intervention include:

- The Rule of Conduct forbidding competitive bidding was declared void by a U.S. district court in an antitrust suit in 1972.
- In 1979, members of the U.S. Justice Department's staff recommended that the department initiate a complaint seeking to have the Rule of Conduct that prohibited

¹⁸ T.D. Wood and D.A. Ball, "New Rule 502 and Effective Advertising by CPAs," Journal of Accountancy, June 1978, p. 65.

¹⁹ Ibid.

encroachment declared illegal. The AICPA dropped the rule before the Justice Department took action.²⁰

Consequently, in the several instances cited, the AICPA Code of Professional Ethics was amended due to intervention or the threat of intervention by a segment of the federal government.²¹ In these situations, the AICPA cannot credibly claim to have changed the code to instill, in practitioners, attitudes and behavior that will encourage public confidence - the presumed purpose of the code. The type of action taken by the AICPA in these circumstances is sometimes referred to as a "knee-jerk response," i.e., making a reactive modification when it is dictated by circumstances rather than taking proactive measures out of professional concerns.

1.3 THE ANDERSON REPORT - REACTIVE OR PROACTIVE?

The importance of examining past situations, wherein the Code of Professional Ethics was modified as a result of governmental pressure, is realized when one considers the circumstances involved with the creation of the Anderson Report.

²⁰ W.K. Kunitake and C.E. White, "Ethics for Independent Auditors," Journal of Accounting, Auditing, and Finance, Summer 1986, pp. 222-223.

²¹ K.J. Bialkin, "Government Antitrust Enforcement and the Rules of Conduct," Journal of Accountancy, May 1987, pp. 105-106.

The recommendations of this report for a comprehensive restructuring of the code and its enforcement procedures are currently under consideration by AICPA membership.

The environment under which these recommendations were developed has characteristics similar to those of past code changes: (1) members of the profession questioning the system, (2) the federal government demonstrating concerns with the system and hinting about possible intervention, and (3) a reactive AICPA, attempting to avoid governmental standard-setting or intervention.

Within the past several years, members of the accounting profession have expressed concern about the adequate enforcement of the AICPA Code of Professional Ethics. In a 1978 publication entitled, Ethics in the Accounting Profession, Carey stated that the profession cannot take pride in the current ethics enforcement situation.²² Graber indicated that professionalism, alone, will not sufficiently enforce the Code of Professional Ethics:

If AICPA members perceive that (a) their ethical misconduct is not likely to be observed, (b) that if observed, it is not likely to be reported, and (c) that if reported, it is not likely to result in any significant penalty, there is very little to deter the

²² John L. Carey, "Compliance and Enforcement," Ethics in the Accounting Profession (New York: John Wiley & Sons, 1978), p. 337.

tempted CPA from violating the code...We may be encouraging the development of (violators of the code) by permitting the continuation of an ineffective ethics enforcement system.²³

Additionally, several accounting studies discussed in the next chapter indicate that accountants (1) may not know enough about the Rules of Conduct to report violations, and (2) may feel that some of the rules are not appropriate, possibly reducing the likelihood that they would report violations.

In addition to concerns within the profession, the U.S. Congress has demonstrated an interest in the enforcement of the AICPA code. In The Accounting Establishment, a 1977 staff study of the Subcommittee on Reports, Accounting, and Management, difficulty was expressed in assessing the success and quality of the AICPA's ethics enforcement program.²⁴ There were also suggestions that (1) Rule of Conduct 101, Independence, was not adequately enforced and (2) the AICPA was reluctant to discipline a member unless such an action was predicated by a final verdict of guilty in a court of

²³ D.E. Graber, "Ethics Enforcement - How Effective?," CPA Journal, September 1979, p. 17.

²⁴ Subcommittee on Reports, Accounting, and Management, The Accounting Establishment (Washington: U.S. Government Printing Office, 1977), p. 125.

law.²⁵ In hearings before the subcommittee, Rickover asserted:

Some professions in this country have aroused public outrage by their failure to enforce their own code of ethics. Lawyers are famous in their reluctance to discipline their own; doctors knowingly allow incompetent colleagues to continue practice. From what I have observed, the accounting profession's record is at least as bad.²⁶

In the more recent 1985 hearings before the Subcommittee on Oversight and Investigations, enforcement procedures of the ethics system were again sharply criticized. For example, Abraham Briloff, an accounting academician, denounced the disciplinary apparatus of the AICPA, stating that the system was ineffective.²⁷

Criticisms of enforcement of the AICPA code in congressional proceedings constitutes a situation similar to those of previous changes in the ethics code; i.e., a segment of the federal government is demonstrating a concern for a perceived weakness in the code. Since the U.S. Congress is charged with acting in the interest of the public and has the power

²⁵ Ibid., pp. 50, 126.

²⁶ Subcommittee on Reports, Accounting, and Management, Hearings (Washington: U.S. Government Printing Office, 1977), pp. 1654-1655.

²⁷ Subcommittee on Oversight and Investigations, Hearings (Washington: U.S. Government Printing Office, 1985), pp. 72-73.

to limit or even end the autonomy of the profession, the consequent implication is that continuation of the privilege of self-regulation is contingent, at least in part, upon the profession's adequate enforcement of the AICPA code.

In response to these concerns and criticisms, a special committee was formed by the AICPA in 1983 to complete a comprehensive evaluation of the relevance of the existing ethical standards to professionalism, integrity, and the commitment to quality service and the public interest. In the spring of 1985, the special committee presented an interim report of its conclusions to the governing council of the AICPA. Then, in July 1986, the committee's final report, Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment, was distributed to AICPA membership for consideration and comment.²⁸ This document is commonly referred to as the Anderson Report.

Under the proposed revision, described by the special committee chairman, George D. Anderson, as a goal-oriented, positively-stated system, ethics would be promoted through the use of a mandatory quality assurance review (QAR) pro-

²⁸ AICPA Special Committee on Standards of Professional Conduct for CPAs, Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment, (New York: AICPA, 1986).

gram. Instead of the current complaint-based system wherein only a complaint results in disciplinary action, the QAR program would start with desk reviews of audit, review, and compilation reports submitted by firms. A field review would take place when a serious deficiency is discovered in the desk review. When a less serious deficiency is found, corrective or remedial actions would be prescribed. For non-cooperation or a deficiency of a greater magnitude, the AICPA would enforce sanctions that could lead to suspension of or expulsion from membership.²⁹

One conclusion made by the special committee was that the existing complaint-based nature of the enforcement system has not been adequate in promoting ethical behavior:

It seems clear that the existing structure does not adequately promote high quality performance because of reliance on complaints as the basis for disciplinary actions and apparent unwillingness of practitioners to report on the substandard work of their peers...³⁰

1.3.1 Problems with Complaint Initiation

As indicated in the previous quote from the special committee's report, a significant weakness in the current ethics

²⁹ George D. Anderson and Robert C. Ellyson, "Restructuring Professional Standards: the Anderson Report," Journal of Accountancy, September 1986, pp. 99-104.

³⁰ AICPA Special Committee, p. 19.

enforcement mechanism is reliance on a complaint-based system. Graber suggested that complaint initiation is the weakest link in the enforcement chain and also indicated that improvements to the enforcement system have directed little attention to complaint initiation.³¹ In developing this conclusion, he reviewed prior ethics studies and stated:

By any reasonable set of standards, the rate of disciplinary actions taken during this era appears to be inordinately low (or, perhaps the profession had reached a state of sinless perfection!).³²

Because the studies that Graber reviewed were nearly a decade old when he analyzed them, he also examined the current volume of ethics violations that were reported by the AICPA. He found that the AICPA reported an average of 25 ethics violations (convictions) each year at a time when there were 69,719 AICPA members in public accounting practice.³³ Correspondence with the AICPA Professional Ethics Division in December 1985 indicated that the average number of complaints over the eleven-year period from 1975 to 1985 was 132 per year.³⁴

³¹ Graber, p. 16.

³² Ibid., p. 14.

³³ Ibid.

³⁴ American Institute of Certified Public Accountants (AICPA), Personal Letter from K.A. Lewis, Professional Ethics Division, December 18, 1985.

Two other studies corroborate Graber's findings of a low volume of disciplinary actions resulting from ethics violations. In a survey of alleged ethics violations, Loeb found that one state society considered an average of 3.5 professional conduct cases per year and the corresponding state board of accounting considered 2.9 cases per year. On a nationwide basis, the average number of complaints handled by the 48 state societies was .67 per state per year.³⁵ Reflecting on this data, Loeb stated:

It is evident that the number of CPAs punished is still relatively small. Does this signify that accountants in this state commit very few violations? Or does it mean that the state's control agencies are ineffective?³⁶

A similar study by Thuresson, St. Pierre, and Gottschalk found that only nineteen complaints related to ethical issues were resolved by the Virginia State Board of Accountancy during the three-year period from 1982 to 1985 for an average of six complaints annually.³⁷

³⁵ S.E. Loeb, "Enforcement of the Code of Ethics: A Survey," Accounting Review, January 1972, pp. 7-9.

³⁶ Ibid., p. 9.

³⁷ L.K. Thuresson, K. St. Pierre, and D. Gottschalk, "An Analysis of State Sanctions Against Virginia Certified Public Accountants," Virginia Accountant, December 1985, p. 26.

This information must be interpreted with care. A low volume of ethics complaints and subsequent disciplinary actions, alone, does not attest to the effectiveness or ineffectiveness of the enforcement system. As suggested by Graber:

This (information) seems to indicate: (1) AICPA members are performing at an extremely high level of ethical conduct, (2) the ethics enforcement machinery is performing at a low level of efficiency, or (3) a combination of both factors.³⁸

However, given the special committee's expressed suspicion that practitioners are unwilling to report code violations, there appears to be a significant concern that the current complaint-based system may be ineffective.

Since the enforcement system is based on complaints, an examination of the complaint initiation process is the first step in identifying any possible weaknesses. According to the Joint Ethics Enforcement Program Manual of Procedures, a potential disciplinary matter may be brought to the attention of the AICPA or a state society of CPAs by a complaint, a referral, or by other information.³⁹ A complaint is defined as a written communication that "implies, alleges, or suggests that a member or a firm has, or may have violated one or more provisions of an applicable code of professional

³⁸ Graber, p. 14.

³⁹ AICPA, Joint Ethics Enforcement Program Manual of Procedures (New York: AICPA, 1983), p. 15.

ethics."⁴⁰ A referral is a complaint received from an ethics committee of a state society. "Other information" is "any information sent to, or obtained by, an ethics committee that alleges, implies, or suggests the possibility that a member or a firm may have violated one or more provisions of an applicable code of professional ethics."⁴¹

Consideration of the possible sources of these complaints and "other information" reveals that two groups, namely other practitioners and clients, are typically in the best positions to observe and report ethics violations. Other practitioners may be familiar with the code of ethics and, through clients or other business contacts, may learn of ethics violations. Clients are in direct contact with their own accountants and potentially could observe, firsthand, departures from the code.

In the Thuresson, St. Pierre, and Gottschalk study, the complaints were categorized by their sources. Over two-thirds of the complaints concerning ethical issues were filed by other accountants. The remaining cases were evenly distrib-

⁴⁰ Ibid., pp. 15-16.

⁴¹ Ibid., p. 16.

uted between complaints initiated by clients and the state board itself.⁴²

1.3.1.1 Violations Reported by Other Practitioners

From the preceding discussion, CPAs constitute a significant potential source of complaints regarding the ethical behavior of other practitioners. When a CPA does learn of another practitioner's transgression, however, he may be reluctant to report it. Graber explained:

Fear of incurring the wrath of the offending member, fear of lowered esteem by other CPAs, the possibility of initiating an action which could impair another CPA's livelihood, and a knowledge of ones own shortcomings may be deterrents to reporting known ethics breaches of a fellow CPA.⁴³

Consequently, while CPAs are probably more familiar with the ethics code than other parties, they may be reluctant to file a complaint with the AICPA or state authorities.

1.3.1.2 Violations Reported by Clients

Many ethics violations are probably committed within the realm of the client-CPA relationship, thus placing the client

⁴² Thuresson, St. Pierre, and Gottschalk, p. 26.

⁴³ Graber, p. 16.

in an excellent position to detect such violations. Clients, however, may not be familiar with the specific rules of the AICPA code or even aware of the existence of an ethics code for accountants. The client's familiarity with the code would probably depend, to a large degree, on the existence and training of the client's accounting staff. Clients who employ degreed accountants are probably more familiar with the code of ethics than clients who do not employ degreed accountants because exposure to the AICPA Code of Professional Ethics is part of most degree programs in accounting.

Even if clients are familiar with the AICPA Code of Professional Ethics, however, a CPA's violation of the code may directly benefit the client, thus mitigating the possibility that the client would report the violation. For example, if an auditor issues an unqualified opinion on a client's financial statements despite the auditor's knowledge of a material misstatement, the client would not be likely to file an ethics violation complaint since he benefited from the violation. Consequently, if clients are familiar with the ethics of the accounting profession, the question must be asked: Would a client report certain specific violations committed by its CPA?

1.3.2 Changing the Code - Need or Knee-jerk Reaction?

The Anderson Report and the body of literature previously discussed question the effectiveness of the enforcement system of the Code of Professional Ethics, particularly the complaint-initiation mechanism. The Anderson Report, however, does not indicate that the special committee used any body of literature or empirical studies in determining that the code needs comprehensive changes. Consequently, the question arises: is this action simply another AICPA knee-jerk reaction to government concerns and the fear of a loss of autonomy or is there a genuine need for a revision in the code and its complaint-based enforcement provisions?

1.4 THE EMPIRICAL STUDY

To evaluate the effectiveness of the complaint-based enforcement system and whether a need for revision exists, a study was conducted employing two sources of ethics violation complaints: CPAs and clients. This study consisted of two separate mail surveys that were administered simultaneously. Each survey employed both CPAs and clients; consequently, each population was sampled twice (without replacement).

One survey (referred to as Survey 1) was designed for evaluation of CPAs' and clients' familiarity with the AICPA Code

of Professional Ethics. The instrument to conduct this survey was a questionnaire presenting several case situations pertaining to the AICPA Rules of Conduct. Respondents were asked whether the CPA in each case situation acted in accordance with the AICPA Code. Data analysis yielded descriptive statistics, e.g., the average number of cases correctly evaluated, as well as results of hypotheses testing. The research hypotheses relating to Survey 1 (discussed in greater detail in Chapter 3) were developed to determine (1) whether the subject groups evaluated the cases with greater accuracy than a random response, (2) whether CPAs and clients differed in their evaluation accuracy, and (3) whether the subject groups believed that the AICPA Code is more stringent or more lenient than it actually is.

The other survey (referred to as Survey 2) presented the same cases as Survey 1 but also indicated whether the fictitious CPA did or did not act in accordance with the AICPA Code. The subjects were then asked for their opinions regarding the appropriateness of the AICPA Code in the case situation. In the cases wherein the AICPA Code was violated, additional questions were asked concerning (1) whether the respondent would report the violation and/or contact the violator, (2) the respondent's belief of the resultant extent of sanctions that would be taken against the fictitious CPA if the violation were reported, and (3) the respondent's opinion of the

resultant extent of sanctions that should be taken against the fictitious CPA. Other questions at the end of the instrument asked the respondents (1) what they suspected would be the extent of involvement of a complaint initiator, and (2) whether they would be more likely to report a violation if they were aware that the violating CPA had not acted in accordance with the AICPA Code in past situations.

The primary objective of Survey 2 was to ascertain whether the members of the subject groups would report observed violations. A secondary goal of this survey was determination of the factors related to the decision to report.

Collectively, the findings of the two surveys, presented in Chapter Five, identify strengths and weaknesses in the complaint-based enforcement system and may aid in determining whether there is a need for the changes suggested by the Anderson Report.

1.5 ORGANIZATION OF THE STUDY

The dissertation is segmented into six chapters. The second chapter concentrates on prior research relating to ethics codes. A model of the current complaint-initiation system is presented in Chapter Three as well as hypotheses to test the model and examine other relationships. Chapter Four

concerns the research methods of the study and consequently includes discussion of population definition and sample selection, pretesting, sample size determination, and non-response bias. The results of the statistical analyses are the topic of Chapter Five. Discussions of the research implications, conclusions, and suggestions for future research are included in the sixth and final chapter.

II LITERATURE REVIEW

The previous chapter included a discussion of the complaint-based enforcement system of the AICPA Code of Professional Ethics and identification of a need for an evaluation of the system. In particular, the potential complaint initiators' knowledge of the code was questioned as well as the likelihood of their reporting observed violations.

To aid in the development of a research project that would examine the effectiveness of the complaint-based enforcement system, a review of related research was conducted. This review revealed empirical studies in several different professions that had an established code of ethics.

Examination of empirical studies concerning ethics and their intended purposes indicated that they could be broadly classified into three categories. The first category includes studies in which researchers attempted to quantify practitioners' knowledge of their codes of ethics. The second consists of inquiries into compliance of the disciplines' practitioners with their codes of ethics. These studies attempted to investigate either actual compliance or self-perceived compliance; i.e., the practitioners' perceptions of their own compliance with their profession's code of eth-

ics.⁴⁴ Studies in the third category asked practitioners and peripheral parties for their opinions about their code.

Several of these works can aid in the development of a project to evaluate the complaint-based enforcement system of the AICPA code. Because the effectiveness of a complaint-based system is dependent upon practitioners' familiarity with the ethics rules, studies that attempted to determine practitioner knowledge of ethics codes were reviewed. Similarly, opinion studies were reviewed because practitioners' opinions of a code may be a factor in their decision to report a code violation.

⁴⁴ Two examples will illustrate the difference between an actual compliance study and a self-perceived compliance study. In a study by Loeb (S.E. Loeb, "Incompatible Occupations for CPAs - an Inquiry into Compliance," New York Certified Public Accountant, June 1971, pp. 433-437.), the disciplinary files of a state board of accountancy and the AICPA were examined to determine how many complaints had been filed regarding the Rule of Conduct relating to incompatible occupations. Guiffre (W.A. Guiffre, "The Ethics of Secondary School Principals and Conformity to a Written Code of Ethics," Dissertation Abstracts International, November 1978, p. 2651A.) conducted a mail survey to determine the degree to which the behavior of public and parochial secondary school principals conforms to the American Association of School Administrators' Code of Ethics. Each subject was asked to respond to case descriptions by choosing from the series of responses the one which most nearly matched what he had done or would do upon encountering a similar problem. Consideration of the methods of gathering data in these two studies reveals that Loeb's study examines evidence of compliance as recorded by authoritative bodies and Guiffre's study sought practitioners' self-perceived code compliance.

2.1 STUDIES RELATING TO KNOWLEDGE

In assessing the effectiveness of a complaint-based ethics enforcement system, a primary concern is whether the potential complaint initiators are familiar with the code. If their knowledge of the ethics rules is inadequate, a complaint-based system is not likely to be effective. Consequently, a review of prior studies that assessed the familiarity of subject groups with an ethics code (hereafter referred to as knowledge studies) should be an important part of the development of a project to determine enforcement system effectiveness.

In a study in the field of psychology, Baldick surveyed intern psychologists to determine whether formal ethics training resulted in significantly higher scores on a questionnaire concerning ethics in clinical practice. The instrument constructed by Baldick consisted of 12 clinical situations developed with the aid of journal articles, books, and actual clinical experiences. Each incident contained several ethical dilemmas, problems, or considerations. The directions asked the subjects not to refer to "Ethical Standards of Psychologists" (an ethics code) prior to completion of the instrument. The subjects were instructed to indicate in a two-word to five-word phrase the possible eth-

ical problems or considerations in each of the presented situations.⁴⁵

A one-way analysis of variance was performed for the levels of ethics training and the score on the instrument. These findings indicated that formal training in ethics results in significantly higher scores as measured by the instrument.⁴⁶

Shertzer and Morris conducted a mail survey of a random sample of five percent of the members of the American Personnel and Guidance Association (APGA) to determine if their ethical discriminatory abilities were related to certain demographic variables. A multiple-choice questionnaire was designed incorporating 12 ethical situations drawn from the Ethical Standards Casebook. The incidents selected represented approximately half of the total code statements and were selected according to whether (a) the situation described was conceivable (not too rare), (b) the situation was clearly presented, and (c) plausible but unethical distractors to the incident could be prepared.⁴⁷

⁴⁵ T.L. Baldick, "Ethical Discrimination Ability of Intern Psychologists: a Function of Training in Ethics," Professional Psychology, April 1980, pp. 277-279.

⁴⁶ Ibid., pp. 280-281.

⁴⁷ B. Shertzer and K. Morris, "APGA Members' Ethical Discriminatory Ability," Counselor Education and Supervision, March 1972, pp. 200-202.

As with the previous study, one-way analysis of variance was employed to test for differences between the demographic variables and the questionnaire scores. Additionally, the scores were compared to random responses to determine whether APGA members' selection of ethically correct responses differed from chance. Of the nine demographic variables, three were found to be related to ethical discriminatory ability: religious preferences, amount of education, and method of academic exposure to professional ethics. In addition, APGA members were able to discriminate ethically correct responses from plausible distractors at a level significantly better than chance.⁴⁸

Davis, in an accounting ethics survey, used a mail questionnaire to determine the degree of ethical knowledge possessed by CPAs. The instrument included fifteen ethical scenarios that were designed to reflect circumstances that might arise in the operating environment of a CPA. Respondents were asked to recommend a course of action without referring to the published professional standards. The analysis consisted of descriptive statistics and the author concluded that the re-

⁴⁸ Ibid., pp. 202-203.

sults were not an encouraging sign that CPAs are knowledgeable about specific applications of their ethical code.⁴⁹

Another accounting knowledge study involved a mail survey of a random sample of CPAs licensed by the Arkansas State Board of Accountancy. The questionnaire, developed by Byrd, included twenty situations which were adaptations prepared from the AICPA Rules of Conduct and ethics rulings. In the analysis, the chi-square test of independence was used to test for correlation between the responses and various demographic variables. Results indicated only one of the variables showed any correlation with the proportion of cases correctly judged: CPAs who demonstrate the greatest familiarity with the AICPA Code of Professional Ethics feel that taking an ethics exam should be required of all CPAs. Byrd also concluded that this study indicates a lack of understanding of the ethics code by Arkansas CPAs.⁵⁰

Merrick conducted a mail survey of a sample of psychologists and psychology interns engaged in the provision of psychotherapy services in the Chicago metropolitan area. The

⁴⁹ R.R. Davis, "Ethical Behavior Reexamined," CPA Journal, December 1984, pp. 33, 36.

⁵⁰ S.D. Byrd, "The Arkansas Public Accountant and the American Institute of Certified Public Accountants' Code of Professional Ethics," Dissertation - University of Arkansas, 1979.

survey was intended to examine whether psychologists' responses to twenty vignettes were affected by the availability of the American Psychological Association's (APA) "Ethical Standards of Psychologists" or the extent of prior training in professional ethics. Each vignette was accompanied by questions addressing respondents' understanding of the applicability of professional ethical standards to the therapist's behavior described in the case. The sample was randomly divided into two sub-samples; the experimental sub-sample received a copy of the APA ethics code along with the questionnaire while the control sub-sample did not receive the ethics code.⁵¹

Analysis of data indicated that psychologists' perceptions of ethical issues are influenced by the availability of professional standards. Multiple regression analysis revealed various background variables had a significant impact on subjects' perceptions, especially those variables related to therapeutic orientation, practice setting, the nature and

⁵¹ R.D. Merrick, Jr., "Ethical Boundaries and Psychotherapy: An Examination of the Impact of Availability and Awareness of Professional Standards on Psychologists' Perceptions of Ethical Issues in the Provision of Psychotherapy," Dissertation Abstracts International, March 1982, p. 3829B.

extent of professional training, and membership in certain professional organizations.⁵²

Another study of ethics knowledge was completed by Barr in the counseling profession. The purpose of the study was to compare the awareness of counselor-trainees and practicing counselors of the American Personnel and Guidance Association's (APGA) code of ethics. The instrument used in the mail survey consisted of 66 multiple-choice items based on the 66 standards of the ethics code; each of the items was given equal weight. The sample of counselor-trainees were all completing their last term's work for the Master's degree, while the practicing counselors had been in the field at least one year.⁵³

The three major findings from the analysis of variance were: (1) counselor-trainees scored significantly higher on the instrument than practicing counselors, (2) counselor-trainees who were members of the APGA scored significantly higher than non-members, and (3) male practicing counselors

⁵² Ibid.

⁵³ J.A.M. Barr, "A Comparison of Counselor-trainee and Practicing Counselor Awareness of the Ethical Standards as Set Forth by the American Personnel and Guidance Association," Dissertation Abstracts International, July 1971, pp. 167A-168A.

scored significantly higher than female practicing counselors.⁵⁴

In summary, several general conclusions may be made regarding the knowledge studies reviewed. First, examination of the ethics knowledge studies revealed that they attempted to measure, to an extent, the same quality, subject knowledge, but used diverse methods. There were no widely-recognized methodologies, standardized instruments, or established models used in the determination of a subject groups' knowledge of an ethics code. Therefore, the nature of these prior knowledge studies is exploratory. A consequent disadvantage of attempting to assess knowledge, then, is the paucity of established methodologies.

Second, the scrutinized studies had primarily one of two intended purposes: comparison or correlation. The comparison studies were designed to detect significant differences between subject groups. For example, Baldick looked for differences in instrument scores between psychologists who had formal training in ethics and those who did not.⁵⁵ Similarly,

⁵⁴ Ibid.

⁵⁵ Baldick, pp. 276-282.

Barr examined differences between counselor-trainees and practicing counselors.⁵⁶

Other studies examined correlations between instrument scores and demographic variables. This was the focus of the studies by Shertzer and Morris, Byrd, and Merrick.

An exception to these two categories of purposes was an additional test made by Shertzer and Morris. They compared subjects' responses to those that would have occurred by chance. Multiple-choice questions followed each case situation presented; consequently, a "chance" ethically-correct response to each case would be the probability that the ethically-correct response would be chosen at random.⁵⁷

Third, all of the knowledge studies examined utilized mail surveys to gather data rather than through controlled experiment or interview formats.

Last, except for Davis' study, the studies were structured so that the subject, aware that his familiarity with an ethics code was being examined, was asked to evaluate case sit-

⁵⁶ Barr, pp. 167A-168A.

⁵⁷ Shertzer and Morris, pp. 202-203.

uations or answer a questionnaire; i.e., a "test" format was used.

2.2 SOCIAL PSYCHOLOGY STUDIES OF CRIME REPORTING

Because of the similarities between reporting ethics code violations and bystander reporting of observed crimes, a search for studies relating to crime reporting was conducted and an interesting body of social psychology experiments was discovered. These studies were all field experiments wherein a staged crime was committed in the presence of subjects and the behavior of the subjects was observed and recorded.

An example of this research is a study conducted by Bickman to explore the relationship between a subject's attitude toward an authority and the reporting of a staged shoplifting. The experiment involved a staged pleasant (or unpleasant) encounter between an experimenter/clerk and a subject/shopper followed by a staged shoplifting and observation of the subject/shopper's behavior.⁵⁸

Although this type of experiment may result in subject irritation (or even litigation) because of the failure to gain

⁵⁸ L. Bickman, "Attitude Toward an Authority and the Reporting of a Crime," Sociometry, January 1976, pp. 76-82.

subject consent to be a part of an experiment, the results afforded by this design have external validity since the crime was perceived to be genuine by the subjects and they were unaware of the experiment.

Unfortunately, however, the application of this method to complaint initiation of the AICPA Code of Professional Ethics would be difficult for several reasons:

- An effective experiment design depicting a believable situation in an accounting environment would be hard to develop.
- Depending on the design, cooperation would have to be obtained from an accounting firm and a client.
- Observing the behavior of the CPA/subject or client/subject subsequent to the staged violation would require the cooperation of the authoritative bodies to which the violation could be reported and might otherwise be difficult because of a possible time lag between the event and the report.
- The design probably could only examine reporting of one rule of the code because only one violation of the code could be staged in the presence of each subject.
- There may be legal and ethical repercussions involved with the use of subjects without their consent. This type

of experiment is now considered a violation of the ethics codes of the psychology profession.⁵⁹

2.3 RUSCH'S AND LOEB'S VIOLATION REPORTING SURVEYS

Beyond the social psychology studies, other study designs for ethics violation reporting were also considered. The literature review of empirical studies relating to ethics codes revealed a useful survey in each of two professions; psychology and accounting.

In the psychology survey, Rusch mailed a questionnaire to California-licensed psychologists and asked them to specify which of the following actions they would take upon witnessing eighteen specific ethics code violations:

- Contact the violator.
- Report the violation to an authority.
- Neither of these actions.
- Both of these actions.

⁵⁹ J.G. Adair, T.W. Dushenko, and R.C.L. Lindsay, "Ethical Regulations and Their Impact on Research Practice," American Psychologist, January 1985, pp. 59-60.

Rusch considered nine of the violations serious and the rest were considered relatively minor.⁶⁰

Analysis of descriptive statistics revealed that the respondents strongly indicated they would contact the violator, report the violation, or take both actions upon learning about serious ethics code violations. With respect to less serious violations, the preferred choice of action was contacting the violator. Rusch also examined correlations between case responses and demographic variables, such as experience, but found no significant correlation.⁶¹

In the accounting profession, Loeb also conducted a study relating to ethics violation reporting. The primary purpose of this study was to determine the opinions of members of the Federal Government Accountants Association (FGAA) regarding their ethics code; however, the following question regarding ethics reporting also was asked:

If you saw an FGAA member violate the FGAA Code of Ethics, which of the following actions would you be most likely to take:

1. I would do nothing.

⁶⁰ Patricia A.C. Rusch, "An Empirical Study of the Willingness of Psychologists to Report Ethical Violations," Dissertation Abstracts International, July 1982, p. 260B.

⁶¹ Ibid.

2. Comment to another professional accountant about what the violator had done.
3. Tell the violator's employer what he had done.
4. Report the violation to the FGAA.
5. Avoid having lunch or other social engagements with the violator.
6. Say something directly to the violator.
7. Other.⁶²

The subjects were instructed to rank the listed actions according to the likelihood that the action would be taken. If any actions were considered inappropriate, they were to be excluded from the ranking.⁶³

Loeb analyzed the data using descriptive statistics and reported:

- Saying something to the violator was the most likely or second most likely reaction to an ethics violation as indicated by 69 percent of the respondents.
- Reporting the violator to the FGAA was the most likely or second most likely action taken by 23 percent of the respondents.
- Upper-level government employees appeared to be the most likely to report a violator to the FGAA.

⁶² S.E. Loeb, "The FGAA Code of Ethics: an Empirical Examination," Federal Accountant, March 1974, pp. 43-44.

⁶³ Ibid.

- The violator's employer would be told of the violation by 20 percent of the respondents.
- Doing nothing was considered inappropriate by 58 percent of the respondents.⁶⁴

2.4 ETHICS CODE OPINION STUDIES

While the studies by Rusch and Loeb were the only ones examined that asked subjects what action they would take upon learning of ethics code violations, several studies attempted to ascertain the subjects' opinions of their ethics codes. Since the likelihood of reporting a violation may be correlated to the potential reporter's opinion of the applicable ethics rule, an understanding of these "opinion" studies may be a beneficial part of an overall project to determine the likelihood of complaint initiation and the related factors.

Whisnant conducted a mail survey of CPAs regarding their opinions of the AICPA Rules of Conduct that restricted competition and the marketing of professional services. The primary (alternative) hypotheses were:

⁶⁴ Ibid.

- CPAs practicing in states with different codes of ethics would nevertheless share opinions regarding the research issues.
- CPAs grouped by employment status, departmental affiliation, hierarchical status, or certification criteria would have differing opinions of the issues.⁶⁵

Group comparisons using analysis of variance indicated that the hypotheses were upheld. Whisnant also concluded that the CPA profession was amenable to the relaxation of the ethics rules relating to solicitation and advertising.⁶⁶

In another mail survey, Shea sent questionnaires to student affairs professionals to determine their opinions of the American College Personnel Association "Ethical and Professional Standards." In the design of the instrument, one concept was chosen from each of the eight areas of professional activity in the association's code and questions regarding the subjects' opinions were asked after each concept.⁶⁷

⁶⁵ S.R. Whisnant, "The Attitudes of Accountants and Other Specialists Employed by CPA Firms to the Ethical Issues of Marketing Professional Services," Dissertation Abstracts International, June 1977, pp. 7820A-7821A.

⁶⁶ Ibid.

⁶⁷ D.B. Shea, "Perceptions of Ethical Standards in the Student Affairs Profession," Dissertation Abstracts International, October 1984, pp. 1054A-1055A.

As in many of the other studies, one-way analysis of variance was employed to facilitate group comparisons. The two primary conclusions drawn from the analysis were:

1. The demographic variables of age, use, developmental stage, degree, and sex moderately affected perceptions of the standards.
2. Those respondents who identified themselves as younger, knowledgeable of ethical standards, beginning their developmental stage, possessing a non-terminal degree, or female rated the concepts of the ethics code higher than their counterparts in the respective variables.

Shea also concluded that student affairs professionals have generally positive perceptions of all areas of responsibility.⁶⁸

In a previously-discussed study by Loeb, members of the Federal Government Accountants Association (FGAA) were mailed a list of responsibilities of FGAA members based on the principles of the ethics code. The subjects were asked if they agreed, disagreed, or had no opinion about each statement. Loeb's analysis, based on descriptive statistics, indicated

⁶⁸ Ibid.

that over sixty percent of the respondents favored all provisions of the FGAA code.⁶⁹

Loeb also co-authored another opinion study that examined the opinions of selected accounting educators regarding the provisions of the AICPA Code of Professional Ethics. A questionnaire was mailed to accounting department chairpersons at universities that had undergraduate programs accredited by the American Association of Collegiate Schools of Business. The instrument presented various major provisions of the code and the subjects were asked to express their opinions on an agreement-disagreement scale.⁷⁰

As in the previous Loeb study, descriptive statistics were used to analyze the data. Bedingfield and Loeb found that only two provisions of the AICPA code received less than eighty percent agreement by the respondents. These provisions were the rules that prohibited competitive bidding and rendering opinions on forecasted statements.⁷¹

⁶⁹ Loeb, Federal Accountant pp. 37-45.

⁷⁰ J.P. Bedingfield and S.E. Loeb, "Attitudes of Professors Toward Accounting Ethics," Accounting Review, July 1973, p. 603.

⁷¹ Ibid.

As with the knowledge studies, an analysis of the overall characteristics of the opinion studies was necessary to obtain guidance in the construction of a research project concerning the reporting of ethics violations. As mentioned previously, a review of studies that sought to determine opinions of ethics codes was of benefit in designing a violation report study because opinions of ethics codes may be a factor in complaint initiators' decisions to report.

First, like the knowledge studies, the opinion studies were exploratory in nature. While all the studies sought subjects' opinions regarding codes of ethics, they employed distinctly different methods. Hence, there was no evidence of established methodologies or models for opinion determination.

Second, the intended purposes of the opinion surveys were either response descriptions or comparisons between groups. The studies conducted by Whisnant and Shea made group comparisons while Loeb's studies used descriptive statistics to make conclusions regarding the sample.

Third, the method of data collection employed by these opinion surveys is consistent with the knowledge studies examined; mail surveys were used in every empirical study examined.

2.5 CONCLUSION

The most significant finding of the literature review was that there have been no comprehensive empirical evaluations of the complaint-based ethics enforcement systems of any profession. Empirical studies relating to ethics codes, however, were discovered and reviewed. Many of these studies relate, at least peripherally, to an aspect of the research issues of this dissertation.

A review of studies relating to ethics codes revealed a classification of the studies into three categories; those related to familiarity with ethics codes (knowledge studies), those related to code compliance, and studies that attempted to determine subjects' opinions of ethics codes (opinion studies). In the design of a comprehensive research project to determine the effectiveness of a complaint-based enforcement system, analysis of the knowledge studies helped in determining whether subjects were familiar with the code and consequently would recognize violations. Additionally, the opinion studies provided guidance since the likelihood of reporting violations may be correlated to subjects' opinions of the code.

A common characteristic of the knowledge and opinion studies examined is their exploratory nature; there are no dominant

methodologies or established models. An additional common characteristic of these studies is their method of data collection; all the knowledge and opinion studies utilized mail surveys.

The expressed intent of the majority of these studies was comparison between subject groups. Another frequently-expressed intent was correlation between instrument scores and demographic characteristics. One knowledge survey, conducted by Shertzer and Morris, compared the sample's instrument scores to random scores enabling the researchers to conclude that members of the population tend to identify correct responses.⁷²

The instruments employed by the knowledge surveys tended to be of a "test" format. The subject was asked to evaluate case situations and knew that his familiarity with a code was being examined.

In addition to the knowledge and opinion studies, two studies were reviewed that asked the subjects what action they would take upon witnessing code violations. Rusch showed that subjects react differently to violations that vary with "seri-

⁷² Shertzer and Morris, pp. 202-203.

ousness."⁷³ As part of an opinion survey, Loeb asked subjects what action they would take upon witnessing a code violation and found that "saying something to the violator" was the most common response.⁷⁴

Last, a group of social psychology studies were reviewed which involved the staging of a crime in the presence of subjects who were unaware that an experiment was being conducted. The behavior of the subjects was then observed. While this design affords greater external validity than asking subjects what action they would take upon witnessing a code violation, realistic application of this design to violations of the AICPA Code of Professional Ethics would be difficult. Additionally, failure to obtain subject consent might result in ethical and legal problems.

The next chapter presents (1) a model of the current enforcement system of the AICPA Code of Professional Ethics and (2) several research hypotheses used in assessing accountants' and clients' familiarity with the code and examining factors related to their decision to report observed violations.

⁷³ Rusch, p. 260B.

⁷⁴ Loeb, Federal Accountant, pp. 43-44.

III MODEL AND HYPOTHESES

Several studies were reviewed in Chapter Two which examined, at least in some respect, the same research issue of concern in this research project: the effectiveness of a complaint-based ethics enforcement system. As discussed in Chapter Two, however, these empirical works typically lack models and established methodology. An important phase of this exploratory research, consequently, is the development of a model of the existing enforcement system which is currently under scrutiny by the profession. Hypotheses can then be developed to test the appropriateness of the model.

3.1 THE CURRENT MODEL OF COMPLAINT INITIATION

Because disciplinary proceedings against a violator of the AICPA Code of Professional Ethics are initiated by a complaint regarding the violator's behavior, the enforcement system of the code is based on a basic two-step model:

- When a violation occurs, it is either witnessed or evidence is created which is subsequently discovered.
- The witness or discoverer of evidence of a violation reports it to an appropriate authoritative body.

The effective functioning of this model, however, depends on the validity of three underlying assumptions:

1. Violations are witnessed or create evidence that is subsequently discovered.
2. Those who witness violations or discover evidence of violations will recognize the actions as violations.
3. Those who witness violations or discover evidence of violations will report them to appropriate authorities.

All three of these assumptions must be satisfied for a violation to be reported; i.e., failure of any of the assumptions means that violations will not be reported.

As discussed in Chapter One, the effectiveness of the current enforcement system, as modeled, is questionable. Most recently, the AICPA Special Committee on Standards of Professional Conduct for CPAs (the Anderson Committee) concluded that the existing system is inadequate in promoting ethical behavior because it relies on complaints and practitioners are reluctant to report their peers.⁷⁵ Consequently, the Anderson Committee and other critics contend that the system of violation reporting, as modeled, is not effective.

⁷⁵ AICPA Special Committee on Standards of Professional Conduct for CPAs, p. 19.

Of the three model assumptions, the first one is the most difficult to test empirically. It is difficult, however, to concoct a scenario wherein a hypothetical CPA violates the code without any witnesses and without creating evidence of the infraction. Consequently, an assumption may be made that code violations either create evidence or are witnessed. The violation witness or discoverer of evidence, however, may not recognize the action as a violation or, if recognized, may not report it.

The second and third assumptions are more easily examined empirically and are the focus of this research project. The second assumption demonstrates the presumption that a violation witness or a discoverer of evidence of an infraction would recognize an action as a violation. This assumption is related to the research question that was addressed in many of the "knowledge" studies examined in Chapter Two: are subjects familiar with the code of ethics? The third assumption concerns the reporting of the violation by the witness or evidence discoverer and consequently relates to the studies by Loeb and Rusch in which code violation reporting was analyzed.

In Chapter One, the argument was made that while anyone can report a violation of the AICPA Code of Professional Ethics, CPAs and clients are the parties that are most likely to be

in a position to witness a violation of a Rule of Conduct. Consequently, two research questions emerge from the criticism of the current model of ethics violation reporting:

- Are CPAs and clients familiar with the Code of Professional Ethics?
- If they witnessed violations of the code, would they report them?

3.2 HYPOTHESES

The preceding research questions are the focus of the major hypotheses of this dissertation. Additionally, several other hypotheses of an exploratory nature will be tested. While these exploratory tests do not relate directly to the model, they may enhance the understanding of the relationships and processes of complaint initiation and consequently aid in development of more sophisticated models of complaint initiation. The association hypotheses examine, for example, what factors may be involved in a violation witness's decision to file a complaint. The inclusion of factors that are associated with reporting in the model of complaint initiation would enhance the explanatory power of the model. The existing model assumes, perhaps unrealistically, that witnessed violations will be reported regardless of the decision characteristics of the violation witness.

3.2.1 Major Hypotheses

- M1: Clients and CPAs do not tend to be familiar with the AICPA code.⁷⁶
- M2: Clients and CPAs do not tend to report witnessed violations of the AICPA Code.

These two hypotheses directly parallel the research questions relating to the model. While they do not consider any factors that may be related to the decision to report violations, they do test two of the primary assumptions upon which the current model of complaint initiation is based. Rejection of either of the null hypotheses, consequently, would lend evidence that the existing enforcement mechanism, as modeled, is ineffective.

3.2.2 Association Hypotheses

The series of association hypotheses test for the existence of association between the likelihood of reporting a witnessed violation and factors that may affect the decision to file a complaint. These factors include the following characteristics of violation witnesses:

⁷⁶ Each of the hypotheses presented actually represents two hypotheses: a null and an alternative. Only the alternative is stated. Additionally, the populations of clients and CPAs were tested separately for each hypothesis.

- perceptions of the appropriateness of the applicable rule of conduct
- preferences to contact the violator
- perceptions of sanctions that would result from a violation
- perceptions of sanctions that should result from a violation
- perceived extent of involvement of a complaint initiator
- knowledge of the violator's past ethical behavior
- awareness of the appropriate authoritative bodies to which a violation should be reported.

As mentioned previously, these hypotheses are exploratory in nature and are, therefore, based on logic and conjecture in the absence of an explanatory model. Results of these tests, however, may indicate which factors are relevant to the violation reporting decision and assist in the development of a model with greater explanatory power.

3.2.2.1 Appropriateness

- A1:** Clients and CPAs tend to be more likely to report violations when they consider the applicable rules of conduct to be appropriate.
- A2:** Clients and CPAs tend to be less likely to report violations when they consider the applicable rules of conduct to be inappropriate.

These hypotheses test for the existence of an effect of the violation witness's opinion of the applicable ethics rule on the likelihood that he will report a violation of that rule.

This set of two complementary hypotheses, which shares similar wording and logic with many of the hypotheses sets that follow, is necessary due to the statistical method employed, the Wilcoxon signed-rank test. Using this statistical method, a significant association will only be indicated when both complementary null hypotheses are rejected.

3.2.2.2 Contacting

- A3: Clients and CPAs tend to be less likely to report violations when they would contact the violator.
- A4: Clients and CPAs tend to be more likely to report violations when they would not contact the violator.

Rather than report a violation to an authority and possibly jeopardize the violator's career, a violation witness may prefer to contact the violator in hopes that the violator will amend his unethical behavior. If such an action is taken, it may reduce the likelihood that the violation witness will report the infraction to an authority.

3.2.2.3 Perceived Sanctions

- A5: Clients and CPAs tend to be more likely to report violations when they believe the violations will result in severe sanctions.
- A6: Clients and CPAs tend to be less likely to report violations when they believe the violations will not result in severe sanctions.

Possible sanctions that may be exercised against a CPA violator by a state accountancy board include:

- revocation of CPA certificate
- temporary suspension of CPA certificate⁷⁷
- a warning
- other sanctions, such as probation or a requirement to take a professional development course.⁷⁸

Of these possibilities, license revocation or suspension can be considered relatively severe compared to a warning or probation because the former sanctions might have an effect on the violator's reputation and career while the latter probably would not.⁷⁹ Consequently, for the purpose of this

⁷⁷ L. Thuresson, K. St. Pierre, and D. Gottschalk, "An Analysis of State Sanctions Against Virginia Certified Public Accountants," Virginia Accountant, December 1985, p. 27.

⁷⁸ S.E. Loeb, "Enforcement of the Code of Ethics: A Survey," Accounting Review, January 1972, pp. 7-8.

⁷⁹ Ibid., pp. 6-8.

study, a severe sanction is defined as license revocation or suspension.

Hypotheses A5 and A6 consider the possibility that a violation witness may feel that reporting an infraction is not worth his time and effort if the resultant sanction is lenient and would not act as a just punishment.

3.2.2.4 Prescribed Sanctions

- A7: Clients and CPAs tend to be more likely to report violations when they believe the sanctions should be severe.
- A8: Clients and CPAs tend to be less likely to report violations when they believe the sanctions should not be severe.

These hypotheses are very similar to the previous set of hypotheses except they consider the possibility that there may be a difference in the violation witness's perception of the sanction that would result from a violation and the sanction that the witness feels should result. Such a difference might also affect the likelihood that the witness will report a violation.

3.2.2.5 Reporter Involvement

- A9: Clients and CPAs tend to be more likely to report violations when their perceived extent of involvement is limited to the initial complaint.

CPAs and clients that witness violations of the AICPA Code may be reluctant to report the violation to an appropriate authority because they may suspect that they subsequently will be asked to provide additional oral or written testimony regarding the violation which would require a great expenditure of their time and effort. Therefore, if violation witnesses' perceived extent of involvement extends beyond the initial complaint, they may be less likely to report the transgression.

3.2.2.6 Violators' Past Ethics Behavior

- A10: Clients and CPAs tend to be more likely to report a violation when they are aware that the violator has violated the code in past situations.

This hypothesis demonstrates consideration for the violator's past ethics behavior. Although a violation witness may not be familiar with the violator and his ethics record, if the witness is aware that the violator has breached the code in the past, a complaint may be more likely.

3.2.2.7 Knowledge of the Enforcement Body

All: Clients and CPAs are more likely to report violations when they are aware of the appropriate authoritative bodies to which a complaint should be made.

Because of cooperation fostered by the Joint Ethics Enforcement Program, enforcement proceedings are initiated by a complaint to the AICPA, a state board of accountancy, or a state society of CPAs.⁸⁰ A client or CPA, however, may recognize an action as a violation of the AICPA code and feel prompted to report it but may not be aware of the enforcement authorities to whom the report should be made.

3.2.3 Supporting Hypotheses

The association hypotheses test for possible relationships between the likelihood of reporting a violation and several factors that may influence the violation witness's decision to report. This section presents several supporting hypotheses that examine those same factors independent of any relation to the likelihood of reporting. Testing these hypotheses in addition to the association hypotheses may reveal relationships and information that otherwise would not be discovered.

⁸⁰ AICPA, 1983, pp. 15-16.

- S1: Clients and CPAs tend to believe that the code is more stringent or more lenient than it actually is.
- S2: Clients and CPAs do not tend to believe that the code is appropriate.
- S3: Clients and CPAs tend to believe that the code is more stringent or more lenient than it should be.
- S4: Clients and CPAs do not tend to contact violators.
- S5: Clients and CPAs do not tend to believe that severe sanctions will result from reported violations.
- S6: Clients and CPAs do not tend to believe that severe sanctions should result from reported violations.
- S7: Clients and CPAs believe that the severity of sanctions resulting from reported violations is less than it should be.
- S8: Clients and CPAs do not tend to believe that the extent of involvement of a complaint initiator is limited to the initial complaint.
- S9: Clients and CPAs do not tend to be aware of the appropriate authoritative bodies to which violations should be reported.

3.2.4 Group Comparison Hypotheses

From the wording of previous hypotheses, one may correctly surmise that the primary populations of interest in this research project are CPAs and clients of CPAs. As discussed in Chapter One, the results of hypothesis testing of these groups may yield different results. CPAs, for example, may be more familiar with the AICPA code than clients because some clients may not employ degreed accountants who have been exposed to the code in formal coursework. An additional group

difference may exist in the likelihood of reporting; i.e., clients may be less likely to report violations committed by their auditors or tax accountants because the client may have benefited from the violation or does not want an ethics violation report to ruin a beneficial business relationship. Consequently, the final set of hypotheses directly compares the subject groups.

In addition to client-CPA comparisons, significant differences may be found by making the following within-group comparisons:

1. Within the client group, employers of degreed accountants may differ from clients who do not employ degreed accountants.
2. Within the CPA group, differences may exist between:
 - auditors and other public accountants (tax practitioners, management consultants, etc.)
 - employees of the "Big 8" accounting firms and other firms.

These group comparisons will be facilitated by the following nine hypotheses:

- GC1:** The subject groups differ in their familiarity with the code.
- GC2:** The subject groups differ in their opinions (perceived appropriateness) of the code.

- GC3:** The subject groups differ in their likelihoods of reporting violations of the code.
- GC4:** The subject groups differ in their likelihoods of contacting violators.
- GC5:** The subject groups differ in their beliefs regarding the extent of sanctions that would result from a violation.
- GC6:** The subject groups differ in their beliefs regarding the extent of sanctions that should result from a violation.
- GC7:** The subject groups differ in their beliefs regarding the extent of involvement of a complaint initiator.
- GC8:** The subject groups differ in their likelihoods of reporting violations when they are aware that the violator has violated the code in past situations.
- GC9:** The subject groups differ in their awareness of the appropriate authoritative bodies to which violations should be reported.

3.3 CONCLUSION

This chapter introduces thirty-one hypotheses relating to the initiation of complaints of violations of the AICPA Code of Professional Ethics. A basic model presented at the beginning of the chapter represents the process of violation reporting as it is assumed to function under the existing enforcement procedures. The two major hypotheses are designed to test the assumptions upon which the model is based. Rejection of the null hypotheses in these two cases would support the contentions of the Anderson Committee and other critics of

the existing system who argue that the current complaint initiation mechanism is ineffective.

The other twenty-nine hypotheses illustrate the exploratory nature of this research project in that they are not based on a model but may expose relationships that may aid in the development of models of violation witness behavior with greater explanatory power.

Other than the major hypotheses, three categories of hypotheses were presented: association, supporting, and comparison. The association hypotheses are designed to test for associations between the likelihood of reporting and factors that may influence a violation witness's decision to file a complaint. The supporting hypotheses examine those same factors employed in the association hypotheses for additional information other than their relation to report likelihood. Last, the group comparison hypotheses compare the ethics knowledge, complaint likelihood, and other factors of different subject groups, particularly clients and CPAs.

In the next chapter, an empirical study will be described that was designed to test the hypotheses developed in this chapter. Consequently, Chapter Four concerns methodology: instrument construction, method of data collection, sample

selection, sample size determination, pretesting, and other related topics.

IV METHODOLOGY

In Chapter Three, hypotheses were developed that relate to the evaluation of the existing complaint-based ethics enforcement system of the AICPA. This chapter describes an empirical study that was designed to test those hypotheses and accordingly includes discussions of the methodological difficulties encountered. Several consequent references are made to studies of the literature review and the guidance that they provided.

4.1 METHOD OF DATA COLLECTION

As noted in Chapter Two, all of the empirical studies identified in the literature review, with the exception of the social psychology field studies, were mail surveys. Although this method of data collection may result in a bias in the data due to non-response, it was used in this research project because:

- Mail surveys allow a wide, representative sample of the subject population to be taken. Other methods, such as personal interviews or controlled experiments, generally concentrate the research effort into smaller samples of persons that agree to be interviewed or participate in

an experiment with a controlled environment. The characteristics of these participants may not be representative of the overall population.⁸¹

- Since ethics may be considered a sensitive topic by some members of the subject groups, a mail survey format may encourage them to be more frank and open than an interview format.⁸²
- The mail survey format gives the respondents the opportunity to answer the questionnaire at their leisure and carefully consider their responses.⁸³
- Clients of public accountants, one of the populations of interest in this research project, are a diverse population since their ranks would include any entity that had been serviced in some way by an accounting firm. Correspondingly, clients are not an organized, well-defined population and assembling a representative client sample in a controlled experiment format would prove difficult.

⁸¹ F.N. Kerlinger, Foundations of Behavioral Research (New York: Holt, Rinehart and Winston, 1964), pp. 407-408.

⁸² J.L. Simon, Basic Research Methods in Social Science (New York: Random House, 1978), p. 199.

⁸³ Ibid.

4.2 INSTRUMENT DEVELOPMENT

The selection of the mail survey format had a significant effect on the design of the instrument. The questionnaire had to be of an adequate length to yield the necessary data to test the hypotheses but not so long that the sample members would refuse to complete it. Many of the suggestions made in Dillman's Mail and Telephone Surveys: the Total Design Method were used in designing the questionnaires so that they would yield the necessary information and be interesting to the study participants.⁸⁴

4.2.1 Separate Knowledge and Reporting Surveys

An important point learned from the ethics literature review was adequate segregation of the categories of information to prevent confounding of respondents' knowledge, compliance, opinions, or other factors. The focuses of this research project are the determination of (1) the populations' knowledge of the AICPA code, (2) the likelihood that they would report observed violations, and (3) factors, such as opinions of rules, that may be associated with the decision to report violations. An attempt to assess all of these factors with

⁸⁴ D.A. Dillman, Mail and Telephone Surveys: the Total Design Method (New York: John Wiley, 1978).

one survey could result in confounded findings because the instrument would ask the respondent to apply his knowledge of the ethics code and also ask what action he would elect to take and his opinion of the applicable Rules of Conduct. The inherent difficulty with such a design is that it fails to consider that a respondent cannot recommend an action or express an opinion in response to a rule that he does not know exists.

In determining the subject's elected action upon witnessing a violation, a less convoluted design would simply involve asking the reader of the instrument what action he would take upon witnessing an action identified by the instrument as a violation. In addition, since the actions are clearly identified by the instrument as violations or non-violations, the subject's opinion of the applicable rule can be assessed by asking whether he believes that the rule is appropriate.

Consequently, two surveys were conducted. The intent of one survey was to assess the subject groups' knowledge of the Code of Professional Ethics. The other survey, drawn from the same populations but employing separate samples, was designed to determine the respondents' likelihood of reporting violations and the factors related to the decision to report.

4.2.2 Instrument Format

Similar to many of the ethics studies reviewed in Chapter Two, case situations were employed in the survey instrument. The rationale for this decision was that cases might enhance potential respondents' interest in the questionnaire and might, through illustration, foster greater subject understanding of the ethical issues of the study.

4.2.2.1 Development of Cases

Because the topic of this study concerns enforcement of the AICPA Code, the cases relate to the Rules of Conduct because they are the only enforceable part of the AICPA Code of Professional Ethics. While the concepts, interpretations, and rulings are part of the code, they are generally considered guidelines to ethical behavior and are not enforceable.⁸⁵

Although the cases developed provide broad coverage of the Rules of Conduct, difficulty was encountered in constructing cases relating to some of the rules. For example, Rule of Conduct 501 dictates that a CPA shall not commit a discreditable act. Since "discreditable act" is not defined in the

⁸⁵ A.A. Arens and J.K. Loebbecke, Auditing: An Integrated Approach (Englewood Cliffs, New Jersey: Prentice-Hall, 1984), pp. 69-72.

rule, construction of a realistic case to test subjects' knowledge or opinion of rule 501 is impossible. Similarly, Rule 202 specifies that a CPA must comply with Generally Accepted Auditing Standards (GAAS) but it is not possible to test a subject's knowledge of this rule without testing his knowledge of GAAS. Because of these and similar limitations, the seventeen cases constructed do not cover all of the Rules of Conduct. Specifically, the following rules were not included in any of the cases:

- Rule 102, Integrity and Objectivity
- Rule 202, Auditing Standards
- Rule 204, Other Technical Standards
- Rule 501, Acts Discreditable

Each of the other nine rules were involved in at least one of the cases presented.

4.2.2.2 Instrument Questions and Presentation

Although the research project was designed essentially to assess one issue, the effectiveness of the complaint-based AICPA ethics enforcement program, four surveys were actually involved:

1. A survey of CPAs to determine their familiarity with the AICPA code.
2. A survey of CPAs to determine the likelihood that they would report observed violations and the factors related to the decision to report.
3. A survey of clients to determine their familiarity with the AICPA code.
4. A survey of clients to determine the likelihood that they would report observed violations and the factors related to the decision to report.

Copies of the four survey questionnaires are in Appendices A, B, C, and D. The cover letter that accompanied the knowledge questionnaires stressed the importance of refraining from using a copy of the AICPA code in answering the questions.

Questions in the Knowledge Instrument: In the questionnaires developed to assess subjects' knowledge, each of the seventeen presented cases was followed by the question:

Did Smith (the hypothetical CPA) act in accordance with the AICPA Code of Professional Ethics?

1. yes
2. no
3. I don't know

Seven of the cases involved violations of the code while the remaining ten cases did not exhibit violations.

The data from these surveys assisted in testing hypotheses M1, S1, and GC1; all of which relate to subject knowledge.

After the case presentations, the questionnaires asked for additional information:

- The client knowledge questionnaire asked whether the company's staff included anyone who had received a four-year accounting degree.
- The CPA knowledge questionnaire asked (1) the CPA's area of specialization (auditing, tax, etc.) and (2) whether employed by a "Big 8" accounting firm.

This additional data was used to test hypothesis GC1 for the applicable subgroups.

Questions in the Reporting Instrument: The reporting questionnaire presented the same seventeen cases as the knowledge questionnaire; however, the cases were segregated into cases wherein an ethics rule was violated (violation cases) and cases wherein no rule was violated (non-violation cases). After the presentation of each non-violation case, the statement would be made:

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

After each violation case was presented, the action would be identified as a violation and the applicable rule would be stated; for example:

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 101, Independence, states that a CPA is not independent if there exists a management or employee relationship with the client.

Consequently, since knowledge was not being sought from the subjects of the reporting survey, the cases were identified as exhibiting a violation or a non-violation. As a result, the subjects knew that their opinions and reactions were being sought, not their familiarity with the code.

The Appropriateness Question: After each case was identified as a violation or a non-violation, the following question was presented:

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. Appropriate. The code, as it relates to this situation, should not be changed.
2. Inappropriate. The code, as it relates to this situation, should be changed.

Analysis of the responses to this question were used in testing hypotheses A1, A2, S2, S3, and GC2; all of which concern the respondents' perceptions of the appropriateness of the code.

For the seven violation cases, three additional questions were asked concerning (1) the action the respondent would take upon witnessing a code violation, (2) the sanction that the respondent believed would occur, and (3) the sanction that the respondent believed should occur.

The Respondent Action Question: The wording of the second question following the violation cases differed slightly between the client and CPA versions of the questionnaire:

(CPAs) If you were a CPA who witnessed this violation committed by Smith (and you recognized it as a violation), would you:

(clients) If you were an employee of (the client depicted in the case) and witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. Contact Smith.
2. Report the violation.
3. Both contact Smith and report the violation.
4. Neither contact Smith nor report the violation.

The format of this question is very similar to one presented on the instrument used in Rusch's study that was reviewed in Chapter Two.⁸⁶

Responses to this question were used in testing hypotheses M2, S4, GC3, and GC4 which relate to contacting the violator and reporting violations. Additionally, these responses aided in testing all of the association hypotheses.

The Perceived Sanction Question: The third question presented after the violation cases concerned the extent of sanctions that the respondent believed would result from the violation:

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. Smith's certificate would be revoked or he would be asked to voluntarily surrender his certificate.
2. Smith's certificate would be suspended.
3. Smith would receive a warning.
4. Smith would receive a less severe penalty than explained in 1, 2, or 3.
5. Smith would receive no penalty.

The hypotheses related to this question are A5, A6, S5, S7, and GC5.

⁸⁶ Rusch, p. 260B.

The Prescribed Sanction Question: The fourth question presented after each violation case was very similar to the third question except that it concerned the sanction that the respondent believed would be appropriate for the violation:

In your opinion, which of the following actions should be taken by the applicable state board of accountancy if this violation were reported:

1. Smith's certificate should be revoked or he should be asked to voluntarily surrender his certificate.
2. Smith's certificate should be suspended.
3. Smith should receive a warning.
4. Smith should receive a less severe penalty than explained in 1, 2, or 3.
5. Smith should receive no penalty.

Responses to this question were used to test hypotheses A7, A8, S6, S7, and GC6.

Additional Questions: After the cases were presented, additional questions were displayed on the last page of the instrument. Some of these were the same questions that appeared on the knowledge instruments and facilitated subgroup comparisons between Big 8 and small accounting firms, auditors and other CPAs, and clients who employed degreed accountants and clients who did not. The three other questions were:

- What do you suspect is the extent of involvement of someone that reports a violation of the AICPA Code of Professional Ethics:
 1. The initial involvement is all that is required of the complaint initiator.
 2. The complaint initiator would be asked to provide written forms in addition to the initial complaint.

3. The complaint initiator would be asked to provide oral and written testimony in addition to the initial complaint.
 4. The extent of involvement would be greater than indicated in 1, 2, or 3.
- Would you be more likely to report a violation of the AICPA Code if you were aware that the violating CPA had NOT acted in accordance with the Code in past situations?
 1. Yes, I would be more likely to report.
 2. No, I would not be more likely to report.
 - To whom would you report violations of the AICPA Code of Professional Ethics? (open-ended)

The first of these questions concerns the respondents' perceptions of the extent of involvement of a complaint initiator. Responses to this question were used to test hypotheses A9, S8, and GC7. The effect of the violator's past ethics behavior was the subject of the second question and was used in testing hypothesis A10. The last question was open-ended and requested that the respondent fill in the authority to whom he would report violations of the AICPA code. The related hypotheses were A11, S9, and GC8.

4.2.3 Pretest

Prior to administering these questionnaires, a pretest was conducted to identify refinements needed or problems with the instruments. Specifically, there were three objectives in conducting the test:

- to identify errors and weaknesses in the instruments
- to use the data to test the statistical analysis
- to obtain an estimate of the average time required to complete the instruments.

Pretest participants were solicited from graduate business degree programs at Virginia Polytechnic Institute and State University (VPI). Letters requesting participation in the pretest, without indicating the topic, were sent to students in the following programs:

- Ph.D. in Business (Accounting)
- Master of Accountancy
- Master of Business Administration (only those students with undergraduate business degrees)

The pretest was conducted on the VPI campus with 41 participants. This number included six undergraduate accounting students, all of whom had completed an auditing course (which includes discussion regarding the AICPA code). The pretest session proceeded in the following sequence:

1. Participants were given copies of the knowledge questionnaire and instructed to complete it, add suggestions and comments, and raise their hands upon completion.

2. When they indicated completion of the knowledge questionnaire, it was taken from them and they were given copies of the reporting questionnaire with instructions to complete it and add suggestions and comments.

The usefulness of the pretest was manifested in several ways. Many beneficial suggestions were made regarding the wording of the cases, the format of the instruments, and additional information and questions that could be sought from the respondents to enhance the analysis. Several of these suggestions were subsequently used to modify and improve the questionnaires.

Additionally, an estimate of the time required to complete the instruments was obtained. On average, the knowledge questionnaire required about twenty minutes to complete while completion of the reporting questionnaire took approximately twenty-five minutes. These estimates were mentioned in the cover letter of the mailed questionnaires because a potential respondent might be more likely to complete a mailed questionnaire if he was informed that the process would take less than half an hour of his time.

Another benefit gained from the pretest was an opportunity to conduct the planned statistical analysis on a subset of the pretest data. Surrogate groups were constructed through

the use of demographic data from the pretest responses. The CPA surrogate group was composed of subjects that had completed an auditing course and had at least one year of accounting experience. The client surrogate group was composed of subjects who had not had an auditing course and had at least one year of non-accounting business experience. Statistical analysis using these two groups revealed weaknesses in the programs developed to analyze the data and also indicated logic and wording problems with the hypotheses.

4.3 SAMPLE SELECTION

Upon development of final versions of the instruments, the focus of the research shifted to defining populations and obtaining subject lists of CPAs and clients. The study was limited to the state of Virginia because (1) subjects might be more willing to respond to a survey conducted by a local academic institution and (2) subject lists of Virginia CPAs and clients were readily available at no cost. The consequent disadvantage, however, of limiting the study to one geographic location is the inability to generalize the results to wider, national populations although one may argue, with limited empirical support, that Virginia's clients and CPAs

would not differ significantly from the corresponding national populations.⁸⁷

To obtain a state-wide list of clients, Standard and Poors' Register of Corporations, Directors, and Executives was used.⁸⁸ This publication lists all publicly-held corporations in the nation and all privately-held corporations whose annual sales exceed one million dollars. If the company retains an accounting firm, the firm's name is included in the corporation description. Hence, a corporation that lists an accounting firm is a client. Consequently, although smaller corporations and individuals were excluded from the study, the population of Virginia clients was defined as those companies located in Virginia whose accounting firm's name was included in the corporation description.

The subject list for Virginia CPAs was taken from the membership directory of the Virginia Society of CPAs. This directory was adjusted, however, to eliminate:

- associate members (not CPAs)

⁸⁷ Whisnant's dissertation, which was reviewed in Chapter Two, indicated that CPAs practicing in different states shared the same opinion with regard to two of the Rules of Conduct.

⁸⁸ Standard and Poors, Register of Corporations, Directors, and Executives, (New York: Standard and Poors, 1986).

- members not in public practice
- members whose business addresses were not in Virginia

After these populations were defined, systematic sampling was employed to select the samples of subjects that would be mailed questionnaires. Each population was sampled twice, without replacement, so that samples could be obtained for both the knowledge and reporting surveys.

4.4 STATISTICAL ANALYSIS

The statistical analysis of this study employed nonparametric statistics and two other methods that do not require assumptions of normality. These methods are the Wilcoxon signed-rank test, the Wilcoxon rank sum test, the chi-square test of homogeneity, and the large sample test for proportions.

The Wilcoxon signed-rank test is a nonparametric method of analyzing differences between pairs of measurements.⁸⁹ One use of the signed-rank test is demonstrated in the testing of hypothesis S1. To test this hypothesis, the proportion of correctly-identified violation cases for each subject is compared with the proportion of non-violation cases that were

⁸⁹ Lyman Ott, An Introduction to Statistical Methods and Data Analysis, (Boston: Duxbury Press, 1984), p. 161.

correctly identified. If the sample tends to identify violations with greater accuracy than non-violations then the conclusion can be made that the population tends to believe that the code is more stringent than it actually is.

The most common use of the signed-rank test in this project, however, is the comparison of a subject proportion to a random response. This method is similar to Shertzer and Morris' comparison of subject responses to those that would have occurred by chance.⁹⁰

An illustration of this method in the survey can be provided by an analysis of the testing of Hypothesis M1. This hypothesis concerns the familiarity of a subject group with the AICPA code. In responding to a case, the subject's response was either correct (the subject was familiar with the Rule of Conduct that relates to that case) or incorrect (the subject was not familiar with the rule). The subject's proportion of cases correctly evaluated was compared to the proportion of cases that would be correct if each answer were chosen at random. Since there were only two alternative answers to each case and only one was correct, the random proportion of correctly-evaluated cases would be .5. Consequently, if the subjects' proportions of correctly-

⁹⁰ Shertzer and Morris, pp. 202-203.

evaluated cases were consistently less than .5, the null would be rejected and the statement could be made that the subject group does not tend to be familiar with the AICPA code.

Similarly, hypothesis M1 was tested for individual cases; e.g., are CPAs familiar with the rule that applies to the first case? The large sample test for proportions facilitates this analysis.

The other two measures employed by this project, Wilcoxon rank sum test and chi-square test of homogeneity, are used primarily to make comparisons between groups. The Wilcoxon rank sum test provides a measure for testing whether two populations are identical.⁹¹

Continuing the previous example as an illustration of the use of the rank sum measure, clients and CPAs were compared for their familiarity with the AICPA code (Hypothesis GCl). This was accomplished by calculating the proportions of correctly-evaluated cases for all clients and CPAs and then comparing the group proportions. If CPAs consistently evaluated cases with greater accuracy than clients, the null would

⁹¹ Ott, p. 146.

be rejected and the statement would be made that the subject groups differ in their familiarity with the code.

Comparisons were also made on an individual case basis by using the chi-square test of homogeneity. This method involved the construction of two-by-two tables that enumerated the number of clients and CPAs that evaluated a particular case correctly and the number that evaluated the case incorrectly.

4.5 SAMPLE SIZE DETERMINATION

Of the four statistical methods used in the study, the large sample test for proportions and the Wilcoxon measures are relatively flexible with regard to sample size. Tables for a sample size as small as ten are available for use with the Wilcoxon tests.⁹² The chi-square test of homogeneity, however, has more stringent sample size requirements. No expected chi-square cell value should be less than one and no more than twenty percent of the expected cell values should be less than five.⁹³ To avoid expected cell values smaller than five, an estimate was made that each subject group should have at least 25 respondents. Consequently, for the

⁹² Ibid., p. 714.

⁹³ Ibid., p. 180.

use of the designated statistical models, 50 CPA respondents (25x2 surveys) and 50 clients would be necessary.

Assuming a response rate from both subject groups of 20% and equal response rates for the two surveys, it was estimated that 125 questionnaires should be mailed to potential respondents in each survey group ($25/.2=125$). Because clients might not have as much interest in accounting ethics as CPAs, the client sample size was boosted an additional 20% to 150 questionnaires per survey. In total, then, 550 questionnaires were mailed with the rationale that if at least 20% were returned, the statistical methods could be used with confidence.⁹⁴

4.6 TESTS OF NON-RESPONSE BIAS AND "CHEATING"

As indicated at the beginning of this chapter, a disadvantage of the mail survey method of data collection is the possible existence of a non-response bias. An additional problem with a mail survey designed to assess knowledge is the possibility of "cheating;" i.e., using a copy of the AICPA code to answer the knowledge questionnaire. To test the data for the presence of these two problems, two methods were developed.

⁹⁴ (125 CPAs x 2 surveys)+(150 clients x 2 surveys)

In performing the survey, three mailings were conducted as suggested by Dillman.⁹⁵ Three weeks after the first mailing, a second questionnaire was sent to those subjects who had not answered the first. Four weeks later, a third questionnaire was mailed to those who had not answered the first two. The primary reason for the second and third mailing was to increase the overall response rate but also provided information regarding non-response bias.

Commenting on the increase in response rates that multiple mailings afford, Dillman stated:

Without follow-up mailings, response rates would be less than half those normally attained by the Total Design Method...⁹⁶

One may plausibly argue, then, that were there no second or third mailings, fifty percent of the respondents would not respond and, hence, would be non-respondents. Consequently, a comparison of the responses to the first mailing and the subsequent mailings could yield evidence regarding the existence of a non-response bias. This test was conducted by segmenting the responses to the first and later mailings and testing the group comparison hypotheses using the subject groups: early respondents and late respondents.

⁹⁵ Dillman, pp. 180-183.

⁹⁶ Ibid., p. 180.

In addition to the comparison of early and late respondents, a second test for non-response bias was conducted which also may indicate whether respondents were "cheating" on the knowledge survey; i.e., using a copy of the AICPA code to complete the questionnaire. Permission was obtained to administer the instruments to a group of CPAs who attended the Sixteenth Annual Virginia Accounting and Auditing Conference at VPI. Prior to the conference, members of the defined population of VSCPA members who planned to attend were mailed letters asking their participation in a research session. The letters did not specify the topic of the session; consequently, the participants did not know beforehand that the research questionnaire concerned ethics. The CPAs who participated in the session completed the same instrument that was mailed to the research sample. Again using the group comparison hypotheses, any significant differences between the mailed responses and the responses of the conference attendees could indicate a non-response bias in the mailed responses. Additionally, if the mailed responses to the knowledge survey indicated that the respondents were significantly more familiar with the AICPA code than the conference participants, "cheating" on the part of the mail respondents might be a reason for the difference.

4.7 SUMMARY

In this chapter, the methodology for testing the hypotheses was described including method of data collection, instrument development, sample selection, and statistical methods. In regard to each of these topics, decisions concerning alternative methods were made and the criteria for these choices was described.

Two mail surveys were conducted; one to examine knowledge of the AICPA Code of Professional Ethics and another to determine whether subjects tend to report violations and factors related to the decision to report. Each survey was administered to two subject groups: CPAs and clients of accounting firms.

The research instrument employed case analyses because of the belief that a case situation depicting a practical application of an ethics rule would foster subject understanding and interest. The cases were developed to relate to the AICPA Rules of Conduct rather than the concepts, interpretations, or rulings because only the rules are enforceable. The cases were followed by questions which were designed to facilitate hypothesis testing. The questions and cases were refined after pretesting.

The samples were limited to the state of Virginia because of greater expected response from local CPAs and clients and the availability and inexpensiveness of Virginia subject lists. By systematic sampling, the client sample was taken from Standard and Poors' Register of Corporations, Directors, and Executives and the CPAs were selected from the membership directory of the Virginia Society of CPAs.

Four statistical methods were employed in hypothesis testing: the Wilcoxon signed-rank test, the Wilcoxon rank sum test, the chi-square test of homogeneity, and the large sample test for proportions. Through calculations using the minimum sample sizes recommended for the use of these methods, a sample size of 550 was calculated which was composed of 300 surveys mailed to clients (150 per survey) and 250 mailed to CPAs (125 per survey).

Because of the possibility of a non-response bias resulting from the mail survey, two tests designed to detect such a bias were employed. The first test compared the responses of the first mailing to the responses from the later mailings. The rationale for this test was that those who responded to the later mailings may have been non-respondents had there been no additional mailings. The second test compared the mailed responses to responses of attendees of a conference that were part of the defined population of CPAs. In addition

to a non-response bias, any differences between the subject groups of this latter test may be the result of cheating on the part of the mail respondents; i.e., they may have used a copy of the AICPA code to complete their questionnaire.

In the next chapter, the results of the hypothesis testing and the statistical analysis are presented.

V
ANALYSIS OF RESULTS

In the third chapter, hypotheses were presented concerning the effectiveness of the complaint-based ethics enforcement system of the AICPA. The following chapter described the methodology used to test those hypotheses. In this chapter, the results of the survey and hypothesis testing are presented.

5.1 THE RESPONSE

As explained in the preceding chapter, a concern with using a mail survey was the possibility that too few questionnaires would be returned to justify the use of the intended statistics procedures. Reflecting this concern, the sample size was calculated, in Chapter Four, assuming that a response rate of at least twenty percent could be achieved.

Fortunately, response rates in excess of twenty percent were achieved by all four surveys:

- The survey of CPAs to determine their familiarity with the AICPA code resulted in a response rate of 79.2 percent. Of 125 questionnaires mailed, 99 usable questionnaires were returned.

- The survey of CPAs to determine the likelihood that they would report observed violations and the factors related to the decision to report yielded a response rate of 63.2 percent. Of 125 questionnaires mailed, 79 usable questionnaires were returned.
- The survey of clients to determine their familiarity with the AICPA code resulted in a response rate of 68.7 percent. Of 150 questionnaires mailed, 103 usable questionnaires were returned.
- The survey of clients to determine the likelihood that they would report observed violations and the factors related to the decision to report yielded a response rate of 60 percent. Of 150 questionnaires mailed, 90 usable questionnaires were returned.

Combining the response rates for the four surveys yields an overall response rate of 67.3 percent for the study; i.e., 370 usable questionnaires were returned from the 550 mailed. Consequently, the survey yielded an adequate volume of responses to justify the use of the statistical methods.

As explained in Chapter Four, there were three separate mailings. The second mailing was sent to those who did not respond to the first; the third mailing was sent to those who did not respond to the first two mailings. In response to the first mailing (September 2, 1986), 216 usable questionnaires

were returned, yielding an initial response rate of 39.3 percent (216/550). 77 additional responses resulted from the second mailing (September 23, 1986), increasing the response rate to 53.3 percent (293/550). Coincidentally, the third mailing (October 21, 1986), sent by certified mail, yielded exactly 77 more questionnaires. Therefore, the final response rate was 67.3 percent (370/550).

5.2 MAJOR HYPOTHESES

The primary focus of this study is the effectiveness of the complaint-based enforcement system of the AICPA Code of Professional Ethics. In Chapter Three, a basic model of the enforcement system was developed and two hypotheses, called major hypotheses, were presented to test two of the three underlying assumptions of the model. Consequently, rejection of either of the major hypotheses would provide evidence that the existing system is ineffective.

5.2.1 Hypothesis M1: Code Familiarity

The first major hypothesis concerned the familiarity of the two primary subject groups, CPAs and clients, with the AICPA code. As explained in Chapter Four, one of the surveys (referred to as the knowledge survey) presented cases and the

respondents were asked whether the hypothetical case practitioner acted in accordance with the code.

CPAs tended to respond correctly 77.2 percent of the time; i.e., the mean group score of correctly evaluated cases for the CPA group was 77.2 percent. The corresponding group score for clients, however, was 54.8 percent.

Even though clients' mean score was less than that of the CPAs, however, the hypothesis M1 p-values for both groups were greater than .999 as indicated in Table 1. This means that at almost any level of significance, the M1 null hypothesis, subject group members tend to be familiar with the AICPA code, cannot be rejected.

Table 2 presents the hypothesis M1 p-values for each of the seventeen cases presented. For the CPA group, only one of the cases resulted in p-values of less than .10; the p-value for case 10 was less than .001 indicating that CPAs erroneously tend to believe that failure to report an observed violation of the AICPA code is, itself, a violation.

As the client mean score suggests, clients' p-values for individual cases tended to be lower than CPAs.' Specifically, clients' p-values were less than .10 for six cases related to the rules of conduct concerning form of practice and name,

Table 1. P-values for Major Hypotheses (Aggregate)

Hypothesis	CPAs	Clients
M1: Code familiarity	>.999	>.999
M2: Violation Reporting	.378	.012

Table 2. P-values for Hypothesis M1 (Individual Cases):
Familiarity With the Code

Case	Violation or Non-violation	Applicable Rule or Topic	CPAs	Clients
1	V	Commissions	>.999	>.999
2	N	Offers of employment	.935	.755
3	V	Contingent fees	>.999	>.999
4	V	Form of practice & name	>.999	.069
5	N	Client confidentiality	>.999	>.999
6	V	Independence	>.999	>.999
7	V	Independence	.997	.312
8	N	Advertising	>.999	.002
9	N	Encroachment	.990	.012
10	N	Failure to report viol.	<.001	<.001
11	N	Client confidentiality	>.999	>.999
12	N	Accounting principles	.242	<.001
13	N	Incompatible occupations	>.999	>.999
14	V	General standards	>.999	.002
15	N	Independence	>.999	>.999
16	N	Form of practice & name	>.999	.993
17	V	Independence	>.999	.382

advertising, encroachment, accounting principles, and general standards as well as the case, mentioned above, that CPAs evaluated incorrectly.

Overall, these results suggest that one may conclude, except in a few individual circumstances, that CPAs and clients are familiar with the AICPA code.

5.2.2 Hypothesis M2: Violation Reporting

The second major hypothesis is concerned with whether a CPA or client who witnessed a violation and recognized it as a violation would report it. To discern this information, another survey of CPAs and clients was conducted. In this second survey (referred to as the reporting survey), the same seventeen cases were presented that were in the knowledge survey but they were identified as violations or non-violations and the respondent was asked what action he would take upon witnessing a violation.

On average, CPAs indicated that they would report an observed violation 51 percent of the time; i.e., the mean proportion of violations that each CPA indicated that he would report was 51 percent. Clients indicated that they would report observed violations only 42.1 percent of the time.

Referring again to Table 1, the level of significance for the M2 null hypothesis was .378 for CPAs and .012 for clients. It can then be concluded that clients do not tend to report witnessed violations. With a p-value of .378, however, it cannot be concluded that CPAs do not tend to report witnessed violations. Although this is not conclusive evidence that CPAs tend to report violations, the point estimate of 51 percent reporting suggests that a majority do report such violations.

Table 3 presents p-values for hypothesis M2 for each of the seven violation cases presented in the reporting questionnaire. Analysis of these values indicates that, of the rules represented by case violations, CPAs are not as likely to report violations of the rules regarding contingent fees, vouching for the achievability of forecasts (general standards), and purchasing an immaterial amount of a client's common stock (independence). Similarly, clients are not as likely to report in those same situations as well as in a case involving a fictitious firm name (form of practice and name).

5.2.3 Implications for the Model

As explained previously, the major hypotheses were designed to test the model of the complaint-based enforcement system of the AICPA that was presented in Chapter Three. Rejection

Table 3. P-values for Hypothesis M2 (Individual Cases):
Tendency to Report Violations

Case	Applicable Rule	CPAs	Clients
1	Contingent fees	.129	.046
2	Commissions	.288	.375
3	Independence	.028	<.001
4	Form of practice & name	.456	<.001
5	General standards	.047	<.001
6	Independence	>.999	.993
7	Independence	.984	.918

of the null hypotheses of either M1 or M2 would provide support for the contention that the enforcement mechanism was not functioning as intended. The results indicate that neither of the null hypotheses were rejected for the CPA group, suggesting effective operation of the model for that population. Consequently, it would be erroneous to conclude that (1) CPAs are not familiar with the AICPA code or (2) CPAs would not report witnessed violations.

The effective operation of the model was not, however, supported by the client subject group. Even though the null hypothesis M1 (code familiarity) was not rejected, null hypothesis M2 was rejected indicating that clients do not tend to report witnessed violations.

5.3 ASSOCIATION HYPOTHESES

Using data from the reporting survey, the association hypotheses were designed to test for the existence of associations between the likelihood of reporting a witnessed violation and factors that might be related to the decision to report. The results of these tests may indicate which factors should be included in a sophisticated complaint initiation model.

As discussed in Chapter Three, the first eight association hypotheses are discussed in sets of two as necessitated by the use of the Wilcoxon signed-rank test, the applicable statistical method.

5.3.1 Hypotheses A1 and A2: Appropriateness

As indicated in Table 4, the p-values for hypotheses A1 and A2 for the CPA group are less than .05 indicating a significant association between reporting and perceived code appropriateness. Stated more explicitly, at a significance level of .05 or greater, CPAs tend to be more likely to report violations when they consider the applicable rules to be appropriate and they tend to be less likely to report violations when they consider the applicable rules to be inappropriate.

The A1 and A2 results for the client group are not as conclusive. The p-values indicate that clients tend to be less likely to report violations when they consider the applicable rules to be inappropriate; however, a client p-value for hypothesis A1 of .583 does not indicate that clients are more likely to report violations when they consider the applicable Rule of Conduct to be appropriate.

Table 4. P-values for Association Hypotheses

Hypothesis	Reporting Association Factor	CPAs	Clients
A1	Appropriateness	.044	.583
A2	Appropriateness	<.001	<.001
A3	Violator contact	.001	<.001
A4	Violator contact	.149	.916
A5	Perceived sanction severity	<.001	<.001
A6	Perceived sanction severity	.085	<.001
A7	Prescribed sanction severity	<.001	<.001
A8	Prescribed sanction severity	.005	<.001
A9	Initiator's involvement	.600	.367
A10	Violator's ethics record	<.001	<.001
A11	Familiarity with authorities	.144	.038

5.3.2 Hypotheses A3 and A4: Violator Contact

As with the previous set of hypotheses, results of testing hypotheses A3 and A4 yield evidence of an association for the CPA group but related results for the client group are more difficult to interpret.

For the CPAs, the p-value for hypothesis A3 is .001 indicating that when CPAs contact the violator, they tend not to report the violation, also. The p-value for the complementary hypothesis, A4, is .149 indicating limited support for the statement that CPAs tend to report violations when they do not contact the violator.

The client p-values for hypotheses A3 and A4 are <.001 and .916, respectively, indicating that clients are not likely to report a violation regardless of whether they would contact the violator.

5.3.3 Hypotheses A5 and A6: Perceived Sanction Severity

Conclusions relating to the perceived sanction severity set of hypotheses are less confounded than those of the prior two sets of hypotheses. For both the CPA and client groups the null hypotheses would be rejected for significance levels of 8.5 percent or more. This suggests that for both groups there

is a significant association between the likelihood of reporting violations and the perceived extent of sanction severity. Specifically, the groups tend to be more likely to report violations when they believe the violations will result in severe sanctions and they tend to be less likely to report violations when they believe the violations will not result in severe sanctions.

5.3.4 Hypotheses A7 and A8: Prescribed Sanction Severity

Hypotheses A7 and A8 are very similar to the previous set of hypotheses regarding perceived sanction severity and, correspondingly, the results of testing Hypotheses A7 and A8 are similar.

For CPAs and clients, both null hypotheses would be rejected at significance levels of .005 or more. Consequently, the conclusions can be drawn that (1) clients and CPAs tend to be more likely to report violations when they believe the sanctions should be severe and (2) clients and CPAs tend to be less likely to report violations when they believe the sanctions should not be severe.

5.3.5 Hypothesis A9: Initiator's Involvement

As the p-values from Table 4 indicate, neither clients nor CPAs tend to be more likely to report violations when their perceived extent of involvement is limited to the initial complaint. Consequently, an association between likelihood of reporting and perceived initiator involvement was not found.

5.3.6 Hypothesis A10: Violator's Ethics Record

The p-values relating to hypothesis A10 indicate that in deciding whether to report violations, both clients and CPAs consider the violator's past ethics record. Both groups tend to be more likely to report a violation when they are aware that the violator has violated the code in past situations.

5.3.7 Hypothesis A11: Familiarity with Authorities

With a hypothesis A11 p-value of .038, the statement can be made that clients are generally more likely to report violations when they are aware of the appropriate authoritative bodies to which a complaint should be made. The corresponding p-value for CPAs is .144 indicating limited support for an association between the likelihood of reporting and knowledge

of an appropriate authority to which a violation should be reported.

5.3.8 Conclusions Regarding Associations

Results of testing the association hypotheses indicate several factors that should be considered in a more sophisticated version of the model of the AICPA complaint initiation system. These factors exhibit significant associations with the likelihood of reporting violations; thus, inclusion of these factors in the model could increase its explanatory power. The results also suggest, however, that there should be separate models for the two subject groups examined, CPAs and clients, because the members of each group apparently consider different factors in making the decision to report a violation. Based on evidence of association, the results indicate that a CPA considers the following factors in making a decision to report:

- appropriateness of the applicable rule
- whether the violation witness has contacted the violator
- the perception of the sanction severity that will result if the violation is reported
- the belief regarding the sanction severity that should result if the violation is reported
- the violator's ethics record

- knowledge of an appropriate authority to which a violation should be reported

For the client subject group, evidence of associations were found for the same factors except for appropriateness of the applicable rule and whether they have contacted the violator.

Of the possible associations tested, only one demonstrated no significant association for either group; the results indicated that the likelihood of reporting is not affected by the perceived extent of involvement of a complaint initiator.

5.4 SUPPORTING HYPOTHESES

The supporting hypotheses examine many of the same factors that were identified in the association hypotheses. These supporting hypotheses, however, do not examine associations between the factors and reporting. While these hypotheses are not directly related to the model of the AICPA complaint initiation system, they reveal information regarding the subjects' opinions and potential actions regarding the code.

5.4.1 Hypothesis S1: Perceived Code Stringency

As indicated in Table 5, the p-values for hypothesis S1 are <.001 for CPAs and .006 for clients indicating that both

groups tend to believe that the AICPA code is more stringent than it actually is. Rejection of the null hypothesis S1 indicates that clients and CPAs tended to believe that a disproportionate number of the cases presented on the knowledge questionnaire were violations.

5.4.2 Hypothesis S2: Appropriateness

The p-values for hypothesis S2, from Table 5, are both close to one, indicating rejection of the hypothesis that clients and CPAs do not tend to believe that the code is appropriate. On average, CPAs indicated that they believed the AICPA code to be appropriate in regard to the cases presented 84.8 percent of the time. Similarly, clients considered the code appropriate 81.9 percent of the time.

Analysis of the data in Table 6 indicates that hypothesis S2 is also rejected for each case by the CPA group, indicating their beliefs in the appropriateness of all applicable rules of conduct. Clients were similarly supportive of the ethics rules except the rule prohibiting the adoption of a fictitious name by a CPA firm. The clients also indicated that it was inappropriate not to have a rule requiring CPAs to report observed violations.

Table 5. P-values for Supporting Hypotheses (Aggregate)

Hypothesis	Topic	CPAs	Clients
S1	Perceived code stringency	<.001	.006
S2	Appropriateness	>.999	>.999
S3	Prescribed code stringency	.082	.002
S4	Violator contact	.003	.881
S5	Perceived sanction severity	<.001	<.001
S6	Prescribed sanction severity	<.001	<.001
S7	Perceived sanction equity	.044	.591
S8	Initiator's involvement	.025	<.001
S9	Familiarity with authorities	>.999	.800

Table 6. P-values for Hypothesis S2 (Individual Cases):
Appropriateness

Case	Applicable Rule or Topic	CPAs	Clients
1	Contingent fees	>.999	>.999
2	Commissions	>.999	>.999
3	Independence	>.999	.978
4	Form of practice & name	>.999	.036
5	General standards	>.999	>.999
6	Independence	>.999	>.999
7	Independence	>.999	>.999
8	Solicitation	.984	>.999
9	Client confidentiality	>.999	>.999
10	Client confidentiality	>.999	>.999
11	Failure to report violation	>.999	.001
12	Independence	>.999	>.999
13	Accounting principles	>.999	>.999
14	Employment offers	>.999	>.999
15	Incompatible occupations	>.999	>.999
16	Advertising	.997	>.999
17	Form of practice & name	>.999	>.999

5.4.3 Hypothesis S3: Prescribed Code Stringency

As indicated in Table 5, CPA and client p-values for hypothesis S3 are .082 and .002, respectively, suggesting that the subject groups tend to believe that the AICPA code is more stringent or more lenient than it should be. Further analysis of the data, however, indicates that the two groups hold opposing views regarding the stringency of the code. CPAs tend to believe that the code is too lenient while clients tend to believe that the code is too stringent.

5.4.4 Hypothesis S4: Violator Contact

The hypothesis S4 p-value for the CPA group is .003 indicating that CPAs do not tend to contact violators of the code. As an average percentage, CPAs reported that they would not contact the violators 61.1 percent of the time. Considering the individual cases wherein the code was violated, Table 7 indicates that the p-values are greater than .10 in two of the seven cases. The consequent implication is that CPAs may be more likely to contact violators if the violation involved contingent fees or vouching for the achievability of a forecast.

Clients, on the other hand, have a hypothesis S4 p-value of .881 suggesting a failure to reject the hypothesis that cli-

Table 7. P-values for Hypothesis S4 (Individual Cases):
Tendency to Contact Violators

Case	Applicable Rule	CPAs	Clients
1	Contingent fees	.326	.998
2	Commissions	.072	.702
3	Independence	.005	.666
4	Form of practice & name	<.001	.001
5	General standards	.367	.955
6	Independence	.005	.916
7	Independence	.005	.705

ents tend to contact violators. Clients indicated that they would contact the violating CPA 54.1 percent of the time. A review of the p-values for the individual cases, from Table 7, reveals that in only one situation, wherein a CPA firm adopted a fictitious name, would clients fail to contact the violator.

5.4.5 Hypothesis S5: Perceived Sanction Severity

The hypothesis S5 p-values, from Table 5, indicate rejection of the statement that CPAs and clients tend to believe that severe sanctions will result from reported violations. As explained in Chapter Three, a severe sanction is defined, for the purpose of this study, as license revocation or suspension. Descriptive statistics associated with this hypothesis indicate that the surveyed accountants believed a severe sanction would result from a reported violation 22.6 percent of the time while clients believed that severe sanctions would result 29.5 percent of the time.

Analysis of Table 8, which presents the individual hypothesis S5 p-values for the violation cases, indicates that both subject groups failed to reject the null for one of the cases. This suggests that clients and CPAs believe that the sanctions would be severe for a CPA who continues to serve as a client's auditor after accepting an employment position

with the client. In addition, clients failed to reject the null for the case wherein a CPA made a material joint investment with an officer of a client company. Both of these cases involve Rule of Conduct 101, Independence.

5.4.6 Hypothesis S6: Prescribed Sanction Severity

As with hypothesis S5, both groups' p-values for hypothesis S6 are less than .001. This suggests that clients and CPAs tend to believe that severe sanctions should not result from reported violations. Related descriptive statistics reveal that 32.2 percent of the time, CPAs believe that severe sanctions should result from reported violations. Similarly, clients believe that severe sanctions should result from reported violations 35.6 percent of the time.

Table 9 displays the hypothesis S6 p-values for the individual violation cases. A review of this table indicates that, like hypothesis S5 which is similar in wording and nature, the only two cases for which the subjects believe the sanctions should be severe are cases 6 and 7 regarding independence.

Table 8. P-values for Hypothesis S5 (Individual Cases):
Perceived Sanction Severity

Case	Applicable Rule	CPAs	Clients
1	Contingent fees	<.001	<.001
2	Commissions	<.001	<.001
3	Independence	<.001	<.001
4	Form of practice & name	<.001	<.001
5	General standards	<.001	<.001
6	Independence	.928	.946
7	Independence	.072	.834

Table 9. P-values for Hypothesis S6 (Individual Cases):
Prescribed Sanction Severity

Case	Applicable Rule	CPAs	Clients
1	Contingent fees	<.001	.004
2	Commissions	<.001	.017
3	Independence	<.001	<.001
4	Form of practice & name	<.001	<.001
5	General standards	<.001	<.001
6	Independence	.997	.999
7	Independence	.367	.979

5.4.7 Hypothesis S7: Perceived Sanction Equity

As indicated in Table 5, the hypothesis S7 p-value for the CPA group is .044 indicating that CPAs believe that the severity of sanctions resulting from reported violations is less than it should be; i.e., sanctions should be more severe than they currently are. Clients, however, do not hold a similar belief; their related p-value is .591 indicating failure to reject the hypothesis that clients do not believe that the severity of sanctions resulting from reported violations is less than it should be.

5.4.8 Hypothesis S8: Initiator's Involvement

Hypothesis S8 p-values for both CPAs and clients indicate rejection of the null and consequently suggest that members of both groups tend to believe that the extent of involvement of a complaint initiator is not limited to the initial complaint. Specifically, 61.3 percent of the CPAs and 75.9 percent of the clients believed that the extent of involvement would be greater than the initial complaint.

5.4.9 Hypothesis S9: Familiarity with Authorities

As enumerated in Table 5, the p-values for hypothesis S9 are close to one, indicating failure to reject the null hypoth-

esis that clients and CPAs tend to be aware of an appropriate authoritative body to which violations should be reported. Of the CPAs surveyed, 8.9 percent were not aware of an authoritative body to which violations should be reported. 45.6 percent of the clients surveyed were not aware of an appropriate authoritative body.

5.4.10 Conclusions Regarding the Supporting Hypotheses

Although conclusions regarding the supporting hypotheses cannot be easily integrated with each other, several independent findings are noteworthy:

- Both CPAs and clients believe that the AICPA Code of Professional Ethics is more stringent than it actually is.
- Both CPAs and clients tend to believe that the code is appropriate.
- CPAs believe that the code is more lenient than it should be while clients believe it is more stringent than it should be.⁹⁷

⁹⁷ An apparent contradiction in these findings concerns the results of testing hypotheses S2 and S3. The related findings are (S2) both CPAs and clients tend to believe the code is appropriate and (S3) CPAs believe the code is more lenient than it should be while clients believe it is more stringent than it should be. Statistical analysis for hypothesis S2 involved a comparison of (a)

- CPAs do not tend to contact violators of the code; clients do.
- Both CPAs and clients believe that severe sanctions will not result from reported violations; nor do they believe that severe sanctions should result from violations. CPAs, however, tend to believe that sanctions should be more severe than they are.
- Both CPAs and clients tend to believe that the extent of involvement of a complaint initiator will be greater than the initial complaint.

the proportion of cases for which the respondents believed the rule was appropriate (appropriateness proportion) to (b) the random proportion, .5. Analysis of data for S3 employed the same statistical method, the Wilcoxon signed-rank test, to compare, for each subject, the appropriateness proportion for cases exhibiting code violations to cases wherein no violation was exhibited. If respondents, as a group, indicated that the rules relating to violation cases were more appropriate than the rules relating to non-violation cases, the group believed that the code was too lenient.

For example, one hypothetical CPA indicated that she believed the rules were appropriate for 6 of 7 violation cases and 5 of 10 non-violation cases. Overall, she considers the code appropriate; in 11 of 17 cases the rules were judged appropriate. However, rules related to violation cases were considered appropriate with greater frequency (6 of 7) than rules related to non-violation cases (5 of 10). Consequently, while this CPA feels that the overall code is appropriate, she also believes that the code is too lenient. This example, then, can be extended to the overall findings where CPAs tend to believe that the code is appropriate and also tend to believe that the code is too lenient.

- Both CPAs and clients tend to be aware of appropriate authoritative bodies to which violations should be reported.

5.5 GROUP COMPARISON HYPOTHESES

Several groups and sub-groups were involved in the survey and the data was analyzed for significant differences between these groups. The two primary groups of the survey were CPAs and clients and these two groups were further divided:

- CPAs were divided in two different manners; (1) employees of the "Big 8" accounting firms were compared to employees of smaller firms, and (2) CPAs who indicated that their area of expertise was auditing were compared to those who indicated a different area of expertise (tax, management consulting, etc.).
- Clients were divided into those that employed degreed accountants and those that did not.

5.5.1 Comparisons between CPAs and Clients

In Chapter Three, nine group comparison hypotheses were presented. Table 10 presents the p-values associated with those hypotheses as they were used in the comparison of CPAs and clients.

Table 10. P-values for Group Comparison Hypotheses (Aggregate): Accountants vs. Clients

Hypothesis	Topic	P	Direction
GC1	Code familiarity	<.001	A>C
GC2	Appropriateness	.076	A>C
GC3	Likelihood of reporting	.078	A>C
GC4	Likelihood of contacting	.011	C>A
GC5	Perceived sanction severity	.138	C>A
GC6	Prescribed sanction severity	.459	
GC7	Initiator's involvement	.046	C>A
GC8	Effect of violator's record	.806	
GC9	Familiarity with authorities	<.001	A>C

A - accountants

C - clients

A brief review of those p-values reveals that the groups differ significantly on six of the nine hypothesis tests when the level of significance is defined to be .10. The three hypotheses wherein the groups are not significantly different indicate that clients and CPAs do not differ in regard to:

- the severity of sanctions that they believe will result from reported violations
- the severity of sanctions that they believe should result from reported violations
- the likelihood of reporting violations when they are aware that the violator has violated the code in past situations.

On the other hand, as previously mentioned, CPAs and clients were found to be different, at the .10 significance level, on six of the tests suggesting the following conclusions:

- CPAs tend to be more familiar with the AICPA code than clients.
- CPAs tend to believe that the code is appropriate more often than clients.
- CPAs are more likely than clients to report violations.
- Clients are more likely than CPAs to contact violators.

- Clients are more likely than CPAs to believe that the extent of involvement of a complaint initiator will extend beyond the initial complaint.
- CPAs tend to be more familiar than clients with the appropriate authorities to which violations should be reported.

5.5.2 Comparisons Between Big 8 and Smaller Firms

Table 11 is similar to Table 10 in that it presents the results of group comparison hypotheses but Table 11 reports on the comparison of employees of Big 8 accounting firms to those of smaller firms. A brief review of the table reveals that the smallest p-value is .289 suggesting that there are no significant differences between the two groups.

5.5.3 Comparisons Between Auditors and Other Public Accountants

Table 12 enumerates the results of comparison hypothesis testing between CPAs who specialize in auditing and CPAs who profess expertise in other areas. This table indicates that the tests of only two hypotheses resulted in p-values less than .10. These two tests suggest that auditors are more likely than other CPAs to believe that severe sanctions would and should result from reported violations.

Table 11. P-values for Group Comparison Hypotheses (Aggregate): Big 8 Firms vs. Smaller Firms

Hypothesis Topic		P
GC1	Code familiarity	.854
GC2	Appropriateness	.608
GC3	Likelihood of reporting	.710
GC4	Likelihood of contacting	.889
GC5	Perceived sanction severity	.700
GC6	Prescribed sanction severity	.697
GC7	Initiator's involvement	.289
GC8	Effect of violator's record	.532
GC9	Familiarity with authorities	.944

Table 12. P-values for Group Comparison Hypotheses (Aggregate): Auditors vs. Other Public Accountants

Hypothesis	Topic	P	Direction
GC1	Code familiarity	.425	
GC2	Appropriateness	.517	
GC3	Likelihood of reporting	.996	
GC4	Likelihood of contacting	.617	
GC5	Perceived sanction severity	.057	Au>OA
GC6	Prescribed sanction severity	.041	Au>OA
GC7	Initiator's involvement	.192	OA>Au
GC8	Effect of violator's record	.941	
GC9	Familiarity with authorities	.771	

Au - auditors

OA - other public accountants

5.5.4 Comparisons Between Clients Employing Degreed Accountants and Other Clients

Of the nine group comparison hypotheses, only GC1 and GC9, as indicated on Table 13, resulted in p-values less than .10 suggesting significant differences in the group members' knowledge regarding knowledge or familiarity:

- Clients employing degreed accountants are more familiar with the AICPA code than those who do not employ degreed accountants.
- Clients employing degreed accountants are more familiar with the appropriate authoritative bodies to which violations should be reported than clients who do not employ degreed accountants.

5.5.5 Conclusions Regarding the Group Comparison Hypotheses

At the .10 significance level, the primary subject groups of the study, CPAs and clients, differed significantly on six of the nine comparison tests. Within-group comparisons, however, did not yield as many significant differences. Within the CPA group, employees of Big 8 accounting firms did not differ significantly on any of the nine factors from employees of smaller firms. Also within the CPA group, auditors

Table 13. P-values for Group Comparison Hypotheses (Aggregate): Clients Employing Degreed Accountants vs. Other Clients

Hypothesis	Topic	P	Direction
GC1	Code familiarity	.003	DA>OC
GC2	Appropriateness	.877	
GC3	Likelihood of reporting	.298	
GC4	Likelihood of contacting	.212	
GC5	Perceived sanction severity	.934	
GC6	Prescribed sanction severity	.597	
GC7	Initiator's involvement	.143	OC>DA
GC8	Effect of violator's record	.301	
GC9	Familiarity with authorities	<.001	DA>OC

DA - clients employing degreed accountants

OC - other clients

differed from other public accountants only on two points, their perceived and prescribed sanction severity.

Within-group comparisons for clients, similarly, revealed few significant differences; those clients that employ degreed accountants were found to be more familiar with both the AICPA code and the appropriate authorities to which the violations should be reported than clients who do not employ degreed accountants.

5.6 TESTS FOR NON-RESPONSE BIAS

As discussed in Chapter Four, two tests were conducted that were designed to test for the existence of a non-response bias in the survey data. One of these tests used the group comparison hypotheses to examine differences between the mailed responses from the CPA group and responses to the same questionnaire administered to a group of CPAs in public practice that attended a conference at VPI.

The results of this test are summarized in Table 14. The smallest p-value of the nine comparison hypothesis tests is .200 suggesting that there are no significant differences between the mail respondents and the conference attendees. Consequently, this test yields no evidence of a non-response

bias or "cheating;" i.e., using a copy of the AICPA code to complete the knowledge questionnaire.

It must be pointed out, however, that of the thirty-three conference attendees that agreed to participate in the study, nine had attended an ethics seminar at the conference prior to completing the research questionnaire. One of the topics of discussion at the ethics seminar was the AICPA Code of Professional Ethics. Consequently, the results of testing hypothesis GC1, code familiarity, may have differed from the p-value of .970 had those individuals completed the survey questionnaire prior to attending the ethics seminar. The other group comparisons are probably not significantly affected by this factor because they concern either the respondent's personal opinion of the code or topics that were not addressed by the ethics seminar.

The second non-response bias test again utilized the group comparison hypotheses to examine differences between groups. In this test, the responses to the first mailing of the survey instrument were compared to the responses to the second and third mailings. The rationale for this test, as explained in Chapter Four, is that respondents to the later mailings may not have responded at all had there not been additional mailings; hence, respondents to later mailings might have been non-respondents had there been no later mailings.

Table 14. P-values for Group Comparison Hypotheses (Aggregate): Mail Respondents (CPAs) vs. Conference Attendees

Hypothesis	Topic	P
GC1	Code familiarity	.970
GC2	Appropriateness	.606
GC3	Likelihood of reporting	.947
GC4	Likelihood of contacting	.200
GC5	Perceived sanction severity	.904
GC6	Prescribed sanction severity	.379
GC7	Initiator's involvement	.447
GC8	Effect of violator's record	.255
GC9	Familiarity with authorities	.735

The results of the group comparison hypothesis tests for early and late CPA respondents are presented in Table 15. Analysis of this table indicates that two of the p-values are less than .10 suggesting that late CPA respondents are more likely than early CPA respondents to believe that sanctions resulting from reported violation would and should be severe.

The same comparisons were made for the client group as reported on Table 16. These tests resulted in three p-values that were less than .10; these results suggest that:

- Early client respondents are more likely to contact violators than late client respondents.
- Early client respondents are more likely than late client respondents to believe that the extent of involvement of a complaint initiator will be greater than the initial complaint.
- Early client respondents are more likely than late client respondents to report a violation when they are aware that the violator has violated the code in past situations.

In summary, the results of these non-response bias tests are mixed. The comparison of CPA mail respondents to CPA conference attendees revealed no significant differences but simi-

Table 15. P-values for Group Comparison Hypotheses (Aggregate): CPAs - Early vs. Late Respondents

Hypothesis	Topic	P	Direction
GC1	Code familiarity	.253	
GC2	Appropriateness	.932	
GC3	Likelihood of reporting	.318	
GC4	Likelihood of contacting	.545	
GC5	Perceived sanction severity	.035	L>E
GC6	Prescribed sanction severity	.038	L>E
GC7	Initiator's involvement	.150	L>E
GC8	Effect of violator's record	.276	
GC9	Familiarity with authorities	.951	

E - early respondents (CPAs)

L - late respondents (CPAs)

Table 16. P-values for Group Comparison Hypotheses (Aggregate): Clients - Early vs. Late Respondents

Hypothesis	Topic	P	Direction
GC1	Code familiarity	.598	
GC2	Appropriateness	.275	
GC3	Likelihood of reporting	.416	
GC4	Likelihood of contacting	.016	E>L
GC5	Perceived sanction severity	.908	
GC6	Prescribed sanction severity	.626	
GC7	Initiator's involvement	.015	E>L
GC8	Effect of violator's record	.019	E>L
GC9	Familiarity with authorities	.803	

E - early respondents (clients)

L - late respondents (clients)

lar comparisons between early and late respondents revealed two significant differences for the CPA group and three significant differences for the client group. Consequently, these results provide some evidence that those who responded to the survey may have differed in some respects from those who did not. These differences, however, only existed for two or three of the nine comparison factors considered.

5.7 CONCLUSION

This chapter has presented the results of testing thirty-one hypotheses related to the enforcement of the AICPA Code of Professional Ethics. The sixth and final chapter discusses the conclusions that may be drawn from the research results and the implications of the research for the AICPA, other enforcement authorities, and the profession in general. In addition, the research limitations are explained and possible areas for future accounting ethics research are identified.

VI SUMMARY, IMPLICATIONS, AND LIMITATIONS

The results of hypothesis testing were presented in Chapter Five as well as descriptive statistics related to the research issues. This sixth and final chapter includes a synopsis of the major findings of the project, a discussion of the implications of the findings for the AICPA and other authorities that are involved with the enforcement of the AICPA Code of Professional Ethics, an explanation of the research limitations, and suggestions for future research regarding enforcement of the code.

6.1 SUMMARY OF MAJOR FINDINGS

The major findings of the hypothesis testing are summarized in the following statements:

1. Regarding code familiarity, CPAs correctly evaluated slightly more than 75 percent of the cases; clients correctly evaluated about 55 percent of the cases.
2. Clients do not tend to report witnessed violations of the code. Only a slight majority of surveyed CPAs indicated that they would report.
3. CPAs are more likely to report witnessed violations if:
 - they believe that the violated rule is appropriate

- they have not contacted the violator
 - they believe that a severe sanction will result if the violation is reported
 - they believe that a severe sanction should result if the violation is reported
 - they are aware that the violator has violated the code in past situations
 - they have knowledge of an appropriate authority to which a violation should be reported
4. Clients' likelihoods of reporting witnessed violations are associated with the same factors listed for the CPA group except for appropriateness of the applicable rule and whether they have contacted the violator.
 5. Both CPAs and clients tend to believe that the code is more stringent than it actually is.
 6. CPAs tend to believe that the code is more lenient than it should be while clients tend to believe it is more stringent than it should be.
 7. Both CPAs and clients tend to believe that the code is appropriate although CPAs tend to believe that the code is appropriate more often than clients.
 8. Clients tend to contact violators of the code; CPAs do not.
 9. Both CPAs and clients tend to believe that severe sanctions will not and should not result from reported violations.

10. CPAs tend to believe that sanctions should be more severe than they are; clients do not.
11. Both CPAs and clients tend to believe that the extent of involvement of a complaint initiator will be greater than the initial complaint although clients are more likely to have that belief than CPAs.
12. Both CPAs and clients tend to be aware of appropriate authoritative bodies to which violations should be reported although CPAs are more familiar with the appropriate authorities than clients.
13. There are no perceptible differences, on the research issues, between employees of "Big 8" accounting firms and smaller firms.
14. Of the research issues, the only differences between auditors and other public accountants, such as tax practitioners and management consultants, are that auditors are more likely to believe that severe sanctions would and should result from reported violations.
15. Of the research issues, the only differences between clients who employ degreed accountants and those who do not are that the former are more familiar with the code and the appropriate authorities to which violations should be reported.

6.2 IMPLICATIONS FOR THE ACCOUNTING PROFESSION

There are many implications of the preceding research results for the accounting profession. The following sections specifically consider the implications for two groups:

- The ramifications of the research for the AICPA are discussed because this organization is responsible for changes to the Code of Professional Ethics. Additionally, the study results are considered in light of the changes suggested by the Anderson Committee.
- There are also implications for those authoritative bodies that sanction violators of the AICPA code: state boards of accountancy, state accounting societies, and the AICPA.

6.2.1 Implications for the AICPA

The research implications for the AICPA can be segmented into three parts: (1) an evaluation of the effectiveness of the current complaint-based enforcement system, (2) CPAs' and clients' opinions of the AICPA code, and (3) CPAs' and clients' lack of familiarity with the code and enforcement procedures.

6.2.1.1 Evaluation of the Current Complaint-based System

Chapter One included a description of the Anderson Report, which was issued to AICPA members in the summer of 1986. This report proposed an ethics enforcement system based on periodic quality assurance reviews of accounting firms as a replacement for the current complaint-based system. Since the inferences of weaknesses in the existing system made by the Anderson Report were apparently not supported by empirical research, the suggestion was made that the report may be an overreaction by the AICPA to governmental concerns regarding ethics and the institute's fear of loss of autonomy.

To empirically test the need for a revision of the AICPA code, a model of the existing complaint-based enforcement system was developed in Chapter Three. This basic model is based on three assumptions: (1) violations are witnessed or evidence is created that will subsequently be discovered, (2) violation witnesses and those who discover evidence of violations will correctly identify the actions as violations, and (3) violation witnesses and those who discover evidence of violations will report them to an appropriate authoritative body. For a complaint to be filed, all three assumptions must be satisfied.

Major hypotheses M1 (code familiarity) and M2 (violation reporting) were developed to test the model and the results were presented in Chapter Five. These results suggest that the model functions as intended for CPAs, one of the two groups that were identified in Chapter One as primary sources for complaints regarding violations of the AICPA code. Analysis indicated failure to reject the hypotheses that CPAs tend to be familiar with the AICPA code (M1) and tend to report witnessed violations of the code (M2). The behavior of clients of public accounting firms, however, was not supportive of the model. Clients correctly evaluated only about 55 percent of the cases in the knowledge survey and they tended not to report observed violations.

Consequently, since the research indicates that clients cannot be relied on to report violations, the need for a change from the complaint-based system depends on whether CPAs, alone, are in a position to observe and report violations. Practically, CPAs are usually not in a position to witness or discover evidence of another CPA's violation of the AICPA code except when a client changes accounting firms and the successor accountant learns of the predecessor's actions from the client and the existing workpapers. CPAs could learn of a violation from other practitioners or business contacts but might be reluctant to take action based on hearsay. One CPA survey respondent wrote on the back of his questionnaire:

Most of the violations described would not be witnessed by other CPAs unless the company changed accountants. It seems to me that the only violations ever brought out are those by CPAs convicted of crimes. I have come across some situations recently where I had no proof of a violation but suspected something was amiss. I don't really know what procedures should be followed.

In summary, while the study was not designed to determine the practicality of an enforcement system based on quality assurance reviews, as suggested by the Anderson Report, the research results fail to provide support for the effectiveness of the current complaint-based enforcement system of the AICPA Code of Professional Ethics. Of the two primary sources of violation complaints, one group, clients, tends not to report violations. The other group, CPAs, demonstrates familiarity with the code and a point estimate of 51 percent reporting suggests that a majority report witnessed violations. CPAs, however, are rarely in a position to witness a violation or obtain evidence that a violation existed. Consequently, the research results support a departure from the current complaint-based system but do not address the effectiveness of the provisions of the Anderson Report.

6.2.1.2 CPAs' and Clients' Opinions of the AICPA Rules of Conduct

Carey and Doherty contended that the rules of conduct of the AICPA Code of Professional Ethics should not be so idealistic

that practitioners do not consider them practical. The code should be designed, in part, to encourage ideal behavior, but its detailed rules need to be practical and enforceable.⁹⁸ Similarly, upon completion of an ethics survey of CPAs, Loeb concluded:

The survey indicates again that in a profession relying on self-policy, adherence to the several parts of a code of ethics depends to a substantial degree on the broad acceptance of the provisions of the code. Attempts to prescribe standards far in advance of the thinking of the group may produce deviations from those standards and may result in disrespect for the body of standards as a whole.⁹⁹

These sources, consequently, suggest that the AICPA ethics code must be broadly accepted and respected by practitioners for the system to function effectively.

Considering these comments, the research results offer an encouraging vote of confidence to the AICPA regarding CPAs' and clients' opinions of the rules of conduct; both CPAs and clients tend to believe that the code is appropriate. Even stronger evidence for support of the rules is found by considering the responses to the individual cases presented on the questionnaire. For every case presented, CPAs tended to believe that the applicable rule was appropriate.

⁹⁸ J.L. Carey and W.O. Doherty, Ethical Standards of the Accounting Profession (New York: AICPA, 1966), p. 6.

⁹⁹ S.E. Loeb, "A Survey of Ethical Behavior in the Accounting Profession," Journal of Accounting Research, Autumn 1971, p. 301.

These findings should be even more encouraging for the AICPA when the results of the association hypotheses, A1 and A2, are also considered. The results of testing these hypotheses indicate that CPAs tend to be more likely to report violations when they consider the applicable rules to be appropriate and less likely to report violations when they consider the applicable rules to be inappropriate.

The positive aspect of this association for the AICPA is that practitioners currently tend to consider the rules to be appropriate and, hence, are more likely to report observed violations. The negative aspect of this association, however, is that changing the code, as suggested by the Anderson Report, may be risky because if practitioners perceive the revised rules to be inappropriate, they are not as likely to report observed violations.

Last, even though CPAs tend, overall, to believe that the AICPA code is appropriate, they also tend to believe that the code is more lenient than it should be. Similarly, clients tend, overall, to believe that the code is appropriate although they also tend to believe that the code is more stringent than it should be.

6.2.1.3 Familiarity with the Code and Enforcement Procedures

The research results indicated several areas wherein the subjects' familiarity with aspects of the AICPA Code of Professional Ethics and its enforcement system could be improved to enhance the effectiveness of the system.

First, although both CPAs and clients tend, overall, to be familiar with the AICPA code, both groups also tend to believe that the code is more stringent than it actually is. Additionally, the descriptive statistics indicated that CPAs tended to be familiar with the applicable rules of conduct 77.2 percent of the time. Clients were familiar with the applicable rule only 54.8 percent of the time.

A similar situation is evident in the results of testing hypothesis S9. While both groups tend to be aware of an appropriate authority to which violations should be reported, 8.9 percent of the CPAs and 45.6 percent of the clients were not aware of an appropriate authority.

Although, as indicated, clients and CPAs demonstrate familiarity with the code and the enforcement authorities, efforts to further enhance the familiarity of these groups with the AICPA code and its enforcement system, e.g., through manda-

tory continuing professional education (CPE) courses for CPAs, would improve the effectiveness of the ethics system.

In directing its educational efforts toward the groups that displayed a relative lack of ethics knowledge, the AICPA should focus, in particular, on clients because they were found to be significantly less familiar with the code than CPAs. Within the client group, those clients that do not employ degreed accountants are significantly less familiar with the code than clients who do employ degreed accountants. Within-group comparisons of the CPA group indicate no need for the AICPA to concentrate its education efforts on any of the tested segments of professional accountants: no differences were found in ethics knowledge between (1) CPAs employed by "big 8" accounting firms and those employed by smaller firms and (2) auditors and other public accountants.

In addition to attempting to increase clients' and CPAs' familiarity with the AICPA code and the appropriate enforcement authorities, the results of testing hypothesis C10 suggest that the institute should improve its current efforts to inform potential complaint initiators of those CPAs who have violated the code. Findings indicated that both CPAs and clients tend to be more likely to report a violation when they are aware that the violator has violated the code in past situations.

Currently, the AICPA publishes the names of violators of the AICPA code in a semi-monthly publication, The CPA Letter. This publication, however, is only received by members of the AICPA; consequently, the ethics system would be more effective if clients and CPAs who are not members of the AICPA received the same information.

6.2.2 Implications for Enforcement Authorities

The research findings have additional implications for the authoritative bodies (the AICPA, state boards of accountancy, and state accounting societies) responsible for enforcing the provisions of the AICPA Code of Professional Ethics.

First, analysis of the descriptive statistics related to hypothesis M2 (violation reporting) indicates that CPAs, on average, would report an observed violation only 51 percent of the time. The corresponding percentage for clients is even lower: clients indicated that they would report violations only 42.1 percent of the time.

These statistics should concern the enforcement authorities because they indicate that roughly half of the observed violations may not be reported. Given the current complaint-based system, this finding is of particular concern because if violations are not reported by CPAs or clients, they will

probably not be brought to the attention of an enforcement authority.

Additionally, adoption of the provisions of the Anderson Report would not mitigate the importance of these findings because the proposed system would still include complaint processing although the system would depend primarily on quality assurance reviews.

Consequently, these authorities should attempt to encourage observers of code violations to file complaints regardless of whether the provisions of the Anderson Committee are adopted. One possible incentive to encourage CPAs to report observed violations would be the adoption of an additional rule of conduct that would require a CPA that observed a violation to report it. As indicated in the preceding chapter, clients tend to believe that the failure to have such a rule is inappropriate.

A second and, perhaps, more alarming set of findings concerns the subject groups' perceptions of sanctions that are levied against violators. The results of testing hypotheses S5 and S6 indicate that both CPAs and clients tend to believe that reported violations will not and should not result in severe

sanctions.¹⁰⁰ Testing hypotheses A5, A6, A7, and A8 indicated that for both subject groups there are significant associations between the likelihood of reporting violations and the perceived and prescribed extent of sanction severity. Specifically, results for hypotheses A5 and A6 suggest that a violation witness is more likely to report the violation when he believes a severe sanction will result and he is less likely to report a violation when he believes a severe sanction will not result. Tests of hypotheses A7 and A8 yielded similar findings.

The consequent combined findings of hypotheses S5, S6, A5, A6, A7, and A8 are that both CPAs and clients do not believe that severe sanctions will result or should result from violations and, as a result of this belief, they are less likely to report observed violations.

As a result, the enforcement authorities should consider the following possibilities:

- Clients' and CPAs' perceptions of the severity of sanctions may not be realistic. If the enforcement authorities believe that the actual severity of sanctions is

¹⁰⁰ Severe sanctions were defined, for the purposes of the study, as license revocation or suspension.

greater than potential complaint initiators' perceptions, efforts should be made to increase the awareness of the actual extent of sanctions that would result from reported violations. Because of the association previously indicated, such enhanced awareness would result in a greater likelihood of complaint initiation.

- The authorities should consider whether sanctions are stringent enough. The results of testing hypothesis S7 indicated that CPAs tend to believe that sanctions should be more severe than they currently are. If sanctions are too lenient, potential complaint initiators may not feel that it is worth their effort to report a violation.

6.3 RESEARCH LIMITATIONS

In Chapter Three, a model of the current ethics enforcement system of the AICPA was presented. The effective functioning of the model, it was stated, depended on the validity of three underlying assumptions. The survey was designed, however, to examine only two of the assumptions: (1) violation witnesses will correctly identify actions as violations and (2) violation witnesses will report the violations to appropriate enforcement authorities.

A consequent limitation of the study is the failure to examine the third model assumption: violations are witnessed or

evidence is created that will subsequently be discovered. The reporting survey questionnaire only asked what action would be taken upon witnessing a violation. Consideration was not given to the actions resulting from a suspicion that a violation had occurred without actual observation. A respondent quoted earlier in this chapter suggested that this assumption was not realistic; i.e., that most violations would not be witnessed.

Another limitation of the study was mentioned in Chapter Five and concerned the administration of the survey questionnaires to conference attendees. On the same day that the questionnaires were administered to them, nine of the thirty-three attendees who agreed to participate in the study had attended a seminar on accounting ethics prior to completion of the questionnaires. Failure to identify those participants who attended the ethics seminar resulted in somewhat confounded results. This limitation, however, should only affect those tests concerning knowledge because the extent of knowledge of those persons that attended the ethics seminar may have increased. The majority of research tests and hypotheses, however, dealt with opinions and actions of the participants; therefore, the results of related tests were probably unaffected by the ethics seminar.

A final limitation concerns non-response bias. As explained in Chapter Four, mail survey was the method of data collection chosen for the study because (1) it facilitates a wide, representative sample of the population, (2) ethics is a sensitive topic and a mail survey might encourage more frank responses, (3) mail surveys give respondents the opportunity to carefully consider their responses, and (4) it would be difficult to assemble a representative group of clients for participation in a controlled experiment format. The disadvantage, however, of the use of the mail survey format is that those who respond to the survey may differ from those who do not respond thereby limiting the representativeness of the sample and the generalizability of the results.

Consequently, as described in Chapter Four, two tests were designed to determine whether there was evidence of a non-response bias in the research data. One of these tests, comparison of the responses of conference attendees and CPA mail respondents, revealed no significant differences between the two groups. The other test, however, that compared the responses of early and late respondents revealed two significant differences for the CPA group and three significant differences for the client group out of nine comparison factors considered.

The research limitation and resulting conclusion regarding non-response bias is that one of the two tests provided evidence that those who responded to the survey differed in some respects from those who did not.

6.4 SUGGESTIONS FOR FUTURE RESEARCH

In the process of conducting the survey and analyzing the results, several ideas emerged that could be used to extend or enhance the findings of this study.

First, since there was some evidence of a non-response bias, consideration should be given to an alternative method of data collection. A controlled experiment format would eliminate problems with non-response although, as discussed in Chapter Four, it would be difficult to assemble a representative group of clients. An alternative format was utilized in some social psychology studies that were discussed in Chapter Two wherein crimes were committed in the presence of a person and that person's behavior was observed. As discussed previously, the application of such a method to the enforcement system of the AICPA would be difficult.

Second, a study examining the correlation between legal decisions and sanctions administered by the ethics enforcement authorities might provide additional insights into the

enforcement of the AICPA code. Some of the survey respondents, such as the one quoted earlier in this chapter, suggested that this correlation might be significant. Another respondent stated:

I recently assisted a client in reporting violations of professional ethics by their former CPA. The response to these complaints has been less than attentive and leads me to believe that short of a criminal conviction, there is no other basis for action by either the AICPA or the state board.

A third suggestion for future research is to ask respondents or participants to indicate the last course, seminar, or CPE program that they attended where the AICPA Code of Professional Ethics was discussed. The effect, if any, of such instruction upon CPAs' knowledge, opinions, and attitudes could then be determined by segmenting respondents who had recently attended such a course from those who had not and then comparing the two groups.

Fourth, consideration should be given to sampling national populations of CPAs and clients. The samples for the study were drawn from the populations of clients and CPAs in the state of Virginia. While there is no reason to believe that the results would be different if the samples had been drawn from nationwide populations, the results cannot be generalized to all CPAs and clients.

The last suggestion for future research is to utilize the findings of this study to develop and test a more sophisticated model of the complaint initiation process. The research findings presented in Chapter Five indicated that several factors are associated with a violation witness's decision to report a violation. Inclusion of these factors within the model could enhance its explanatory power.

6.5 CONCLUSION

In conclusion, while accounting practitioners and their clients tend to believe that the individual rules of conduct are appropriate, responses from these parties indicate that the complaint-based enforcement system of the AICPA Code of Professional Ethics is not effective. Of the two primary sources of violation complaints, CPAs and clients, only CPAs failed to reject the major (null) hypotheses of the model of complaint initiation: the subject group tends to be familiar with the code (M1) and the subject group tends to report violations (M2). Even though null hypothesis M2 was not rejected, however, CPAs indicated that they would report violations only 51 percent of the time. Additionally, CPAs may rarely be in a position to witness violations. Consequently, while the research was not designed to determine the effectiveness of an enforcement system based on quality assurance reviews, as suggested by the Anderson Report, the

results indicate significant deficiencies in the current system.

The weaknesses in the current system could be alleviated by the AICPA, state accounting boards, and state accounting societies through efforts to increase:

- familiarity with the code and the enforcement authorities to which violations should be reported
- awareness of those who violate the code
- awareness of the sanctions levied against violators

Additionally, since there is a greater likelihood of a violation report if it will result in a sanction that will restrict the violator's right to practice, the enforcement authorities should consider whether existing sanctions are appropriate.

Failure to consider these research findings could have eventual denigrating effects on the accounting profession. Ideally, a profession does not need a code of ethics; the members should collectively act in the interest of the profession and society. Adoption of a code of professional ethics, however, is a realistic admission by the profession to society that specific guidance regarding ethical behavior is necessary. Unfortunately, an additional step is requisite:

the profession must also assume the responsibility of enforcing the code of ethics. Without this last step, the practitioners' and, ultimately, the society's respect for the profession may be lost.

BIBLIOGRAPHY

- Adair, J.G., T.W. Dushenko, and R.C.L. Lindsay, "Ethical Regulations and Their Impact on Research Practice," American Psychologist (January 1985), pp.59-72.
- American Institute of Certified Public Accountants (AICPA), Joint Ethics Enforcement Program Manual of Procedures. New York: AICPA (1983).
- AICPA, Personal Letter from K.A. Lewis, Professional Ethics Division (December 18, 1985).
- AICPA Special Committee on Standards of Professional Conduct for CPAs, Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment. New York: AICPA (1986).
- Anderson, G.C. and R.C. Ellyson, "Restructuring Professional Standards: the Anderson Report," Journal of Accountancy (September 1986), pp.92-104.
- Arens, A.A. and J.K. Loebbecke, Auditing: An Integrated Approach. Englewood Cliffs, New Jersey: Prentice-Hall (1984).
- Baldick, T.L., "Ethical Discrimination Ability of Intern Psychologists: a Function of Training in Ethics," Professional Psychology (April 1980), pp.276-282.
- Barr, J.A.M., "A Comparison of Counselor-trainee and Practicing Counselor Awareness of the Ethical Standards as Set Forth by the American Personnel and Guidance Association," Dissertation Abstracts International (July 1971), pp.167A-168A.
- Bedingfield, J.P. and S.E. Loeb, "Attitudes of Professors Toward Accounting Ethics," Accounting Review (July 1973), pp.603-605.
- Bialkin, K.J., "Government Antitrust Enforcement and the Rules of Conduct," Journal of Accountancy (May 1987), pp.105-109.
- Bickman, L., "Attitude Toward an Authority and the Reporting of a Crime," Sociometry (January 1976), pp.76-82.

- Bishop, A.C. and R.H. Tondkar, "Development of a Professional Code of Ethics," Journal of Accountancy (May 1987), pp.97-100.
- Byrd, S.D., "The Arkansas Public Accountant and the American Institute of Certified Public Accountants' Code of Professional Ethics," Dissertation, University of Arkansas (1979).
- Carey, J.L., The Rise of the Accounting Profession, Vol. 1. New York: AICPA (1969).
- Carey, J.L., "The Realities of Professional Ethics," Ethics in the Accounting Profession. New York: John Wiley & Sons (1978), pp.81-93.
- Carey, J.L. and W.O. Doherty, Ethical Standards of the Accounting Profession. New York: AICPA (1966).
- Casler, D.J., "Accounting and Professional Ethics: 1887-1917," The Illinois CPA (Spring 1963), pp.50-63.
- Chatfield, M., A History of Accounting Thought. Hinsdale, Illinois: Dryden Press (1974).
- Davis, R.R., "Ethical Behavior Reexamined," CPA Journal (December 1984), pp.32-36.
- Dillman, D.A., Mail and Telephone Surveys: the Total Design Method. New York: John Wiley (1978).
- Graber, D.E., "Ethics Enforcement - How Effective?," CPA Journal (September 1979), pp.11-17.
- Guiffre, W.A., "The Ethics of Secondary School Principals and Conformity to a Written Code of Ethics," Dissertation Abstracts International (November 1978), p.2651A.
- Kerlinger, F.N., Foundations of Behavioral Research. New York: Holt, Rinehart and Winston (1964).
- Kunitake, W.K. and C.E. White, "Ethics for Independent Auditors," Journal of Accounting, Auditing, and Finance (Summer 1986), pp.222-231.
- Loeb, S.E., "Incompatible Occupations for CPAs - an Inquiry into Compliance," New York Certified Public Accountant (June 1971), pp.433-437.

- Loeb, S.E., "A Survey of Ethical Behavior in the Accounting Profession," Journal of Accounting Research (Autumn 1971), pp.287-306.
- Loeb, S.E., "Enforcement of the Code of Ethics: A Survey," Accounting Review (January 1972), pp.1-10.
- Loeb, S.E., "The FGAA Code of Ethics: an Empirical Examination," Federal Accountant (March 1974), pp.36-45.
- Merrick, Jr., R.D., "Ethical Boundaries and Psychotherapy: An Examination of the Impact of Availability and Awareness of Professional Standards on Psychologists' Perceptions of Ethical Issues in the Provision of Psychotherapy," Dissertation Abstracts International (March 1982), p.3829B.
- Ostlund, A.C., "Advertising - In the Public Interest?," Journal of Accountancy (January 1978), pp.57-64.
- Ott, L., An Introduction to Statistical Methods and Data Analysis. Boston: Duxbury Press (1984).
- Rusch, P.A.C., "An Empirical Study of the Willingness of Psychologists to Report Ethical Violations," Dissertation Abstracts International (July 1982), p.260B.
- Shea, D.B., "Perceptions of Ethical Standards in the Student Affairs Profession," Dissertation Abstracts International (October 1984), pp.1054A-1055A.
- Shertzer, B. and K. Morris, "APGA Members' Ethical Discriminatory Ability," Counselor Education and Supervision (March 1972), pp.200-206.
- Simon, J.L., Basic Research Methods in Social Science. New York: Random House (1978).
- Standard and Poors, Register of Corporations, Directors, and Executives. New York: Standard and Poors (1986).
- Subcommittee on Oversight and Investigations, Hearings. Washington: U.S. Government Printing Office (1985).
- Subcommittee on Reports, Accounting, and Management, The Accounting Establishment. Washington: U.S. Government Printing Office (1977).
- Subcommittee on Reports, Accounting, and Management, Hearings. Washington: U.S. Government Printing Office (1977).

Thuresson, L.K., K. St. Pierre, and D. Gottschalk, "An Analysis of State Sanctions Against Virginia Certified Public Accountants," Virginia Accountant (December 1985), pp.24-27.

Whisnant, S.R., "The Attitudes of Accountants and Other Specialists Employed by CPA Firms to the Ethical Issues of Marketing Professional Services," Dissertation Abstracts International (June 1977), pp.7820A-7821A.

Wood, T.D. and D.A. Ball, "New Rule 502 and Effective Advertising by CPAs," Journal of Accountancy (June 1978), pp.61-67.

APPENDIX A
CPA Knowledge Questionnaire

Accounting Ethics

... are they enforced?

This survey is part of a project to determine whether audit clients and Certified Public Accountants are familiar with the AICPA Code of Professional Ethics and if they would report observed violations of the code. Please answer all questions by circling your selected response. Although Tom Smith, CPA (a fictional practitioner) appears in most cases, do not consider any cumulative effect of his participation in multiple code violations: consider each case independently of the others. If you wish to comment on any questions or qualify your answers, please feel free to use the space in the margins. Your comments will be read and taken into account.

Thank you for your help.

S. Douglas Beets
Ph.D. student, Department of Accounting - 1a
Virginia Polytechnic Institute and State University
Blacksburg, Virginia 24061

PLEASE CIRCLE THE NUMBER OF YOUR SELECTED RESPONSE.

Case 1. Susan Jones, a lawyer, informed Tom Smith, CPA, that several of her clients had asked her for the name of a CPA competent in tax preparation. After negotiation, Smith paid Jones a fixed annual fee to refer potential tax clients to him.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 2. Tom Smith, CPA, learned that Sandra Ball, an employee of another CPA, was extremely competent in audit and tax matters. Without consulting Ball's employer, Smith offered Ball an employment position for a salary that was higher than what she was being paid at the time.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 3. Tom Smith, CPA, agreed to assist HRY Corporation in their tax liability calculations and tax return preparation. For this engagement, HRY Corp. agreed to pay Smith a fee that would increase as the amount of the tax liability decreased; that is, the smaller the tax liability, the larger the fee paid to Smith.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 4. Four CPAs who were all members of the AICPA decided to jointly form a public accounting business and decided to operate their partnership under the firm name, "Tax Professionals."

Did the CPAs act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 5. Tom Smith, CPA, audited the financial statements of WSK Corporation which was the defendant in legal proceedings regarding a product liability suit. Smith was served an enforceable subpoena to testify regarding WSK Corp. Smith complied with the subpoena and testified.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 6. While Tom Smith, CPA, was serving as the auditor of the financial statements of QRT Corporation, QRT fired their systems analyst (a part-time position) and advertised to find a new one. Smith, in need of a part-time job and having considerable expertise and experience in the area of systems analysis, applied for the position and was hired as an employee of QRT Corporation. After being hired by QRT, Smith continued to serve as auditor of QRT's financial statements.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 7. While serving as auditor of XYZ Corporation's financial statements, Tom Smith, CPA, bought five shares of XYZ Corporation common stock for \$14 per share. XYZ Corporation had 230,000 shares of common stock outstanding and dividends per share averaged \$2 each year.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 8. Tom Smith, CPA, bought a full-page advertisement in a local newspaper. This advertisement included an explanation of the services offered by Smith and the associated fees charged for such services.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 9. Tom Smith, CPA, arranged a visit with the board of directors of GGT Corporation for the sole purpose of informing them that he could provide auditing services for GGT Corp. for a lower fee than was being charged by GGT Corporation's current auditor, another CPA.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 10. Tom Smith, CPA, observed another CPA performing an act that was clearly a violation of the AICPA Code of Professional Ethics. Although he knew the action was a violation, Smith did not report the violation.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 11. While Tom Smith, CPA, was auditor of the financial statements of CBG Company and HRB Company, CBG Co. sold real estate to HRB Co. for prices which HRB Co. later contended were too high considering CBG Company's costs. Although Smith knew of the prices charged by CBG Co. and costs related to those properties sold, Smith did not inform HRB Company of the comparatively low costs incurred by CBG Co. and the subsequent large mark-ups charged by CBG Co.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 12. Tom Smith, CPA, audited the financial statements of YRP Corporation and decided that adherence to one of the Statements on Financial Accounting Standards (SFAS) would cause YRP Corporation's financial statements to be misleading. Although Smith's audit report disclosed the departure, the approximate effects of the departure, and the reasons why he felt that compliance with the SFAS would have made the financial statements misleading, he subsequently stated that the financial statements were in conformity with Generally Accepted Accounting Principles.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 13. Tom Smith, CPA, was a full-time employee of MVT Corporation, a large manufacturer of replacement automotive parts. At the same time, Smith maintained a small public accounting practice which had no business dealings with MVT Corp. or any of its employees, suppliers, or customers.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 14. Tom Smith, CPA, was engaged as the auditor of WRV Company, an electronic components manufacturer, for several years. Smith also audited several other electronic components manufacturers and had performed management advisory services for many of them. As a result, Smith was very familiar with the industry. Recently, WRV Co. engaged Smith to assist the company in the construction of a five-year financial forecast. After completion of the forecast, the controller of WRV Co. received a business letter from Smith that made suggestions regarding the use of the forecast and explained that because of his experience with WRV Co. and the industry, Smith was confident that the forecast could be achieved.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 15. While serving as auditor of National Bank's financial statements, Tom Smith, CPA, applied for and received a home mortgage loan through National Bank. The terms of the loan were the same terms offered to all customers of National Bank.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 16. Three CPAs decided to jointly form a public accounting business and organized that business as a professional corporation rather than as a partnership.

Did these CPAs act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 17. While serving as auditor of the financial statements of ABC Corporation, Tom Smith, CPA, made a joint investment with Sam Jones, vice president of ABC Corp. They purchased 66% of ERT Company's common stock.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-
-

Please answer the following questions:

Question 1. As a CPA, which of the following duties requires the majority of your time (on an annual basis)?

1. AUDITING
 2. MANAGEMENT CONSULTING
 3. TAX
 4. OTHER, please specify:
-

Question 2. Is your employer one of the "Big 8" accounting firms?

1. YES
2. NO

APPENDIX B
CPA Reporting Questionnaire

Accounting Ethics

... are they enforced?

This survey is part of a project to determine whether audit clients and Certified Public Accountants are familiar with the AICPA Code of Professional Ethics and if they would report observed violations of the code. Please answer all questions by circling your selected response. Although Tom Smith, CPA (a fictional practitioner) appears in most cases, do not consider any cumulative effect of his participation in multiple code violations: consider each case independently of the others. If you wish to comment on any questions or qualify your answers, please feel free to use the space in the margins. Your comments will be read and taken into account.

Thank you for your help.

S. Douglas Beets
Ph.D. student, Department of Accounting - 2a
Virginia Polytechnic Institute and State University
Blacksburg, Virginia 24061

PLEASE CIRCLE THE NUMBER OF YOUR SELECTED RESPONSE.

CASES WHEREIN THE AICPA CODE OF PROFESSIONAL ETHICS WAS VIOLATED

Case 1. Tom Smith, CPA, agreed to assist HRY Corporation in their tax liability calculations and tax return preparation. For this engagement, HRY Corp. agreed to pay Smith a fee that would increase as the amount of the tax liability decreased; that is, the smaller the tax liability, the larger the fee paid to Smith.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 302, Contingent Fees, states that a CPA shall not offer services on a basis contingent with findings.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were a CPA who witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 2. Susan Jones, a lawyer, informed Tom Smith, CPA, that several of her clients had asked her for the name of a CPA competent in tax preparation. After negotiation, Smith paid Jones a fixed annual fee to refer potential tax clients to him.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 503, Commissions, states that a CPA shall not pay commissions to obtain clients.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were a CPA who witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 3. While serving as auditor of XYZ Corporation's financial statements, Tom Smith, CPA, bought five shares of XYZ Corporation common stock for \$14 per share. XYZ Corporation had 230,000 shares of common stock outstanding and dividends per share averaged \$2 each year.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 101, Independence, states that a CPA is not independent if he has any direct financial interest in the client.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were a CPA who witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 4. Four CPAs who were all members of the AICPA decided to jointly form a public accounting business and decided to operate their partnership under the firm name, "Tax Professionals."

The action taken by the CPAs in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 505, Form of Practice and Name, states that a CPA shall not practice under a firm name that includes a fictitious name.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were a CPA who witnessed this violation committed by these CPAs (and you recognized it as a violation), would you:

1. CONTACT THE VIOLATORS.
2. REPORT THE VIOLATION.
3. BOTH CONTACT THE VIOLATORS AND REPORT THE VIOLATION.
4. NEITHER CONTACT THE VIOLATORS NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. THE VIOLATORS' CERTIFICATES WOULD BE REVOKED OR THEY WOULD BE ASKED TO VOLUNTARILY SURRENDER THEIR CERTIFICATES.
2. THE VIOLATORS' CERTIFICATES WOULD BE SUSPENDED.
3. THE VIOLATORS WOULD RECEIVE A WARNING.
4. THE VIOLATORS WOULD RECEIVE LESS SEVERE PENALTIES THAN EXPLAINED IN 1, 2, OR 3.
5. THE VIOLATORS WOULD RECEIVE NO PENALTIES.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. THE VIOLATORS' CERTIFICATES SHOULD BE REVOKED OR THEY SHOULD BE ASKED TO VOLUNTARILY SURRENDER THEIR CERTIFICATES.
2. THE VIOLATORS' CERTIFICATES SHOULD BE SUSPENDED.
3. THE VIOLATORS SHOULD RECEIVE A WARNING.
4. THE VIOLATORS SHOULD RECEIVE LESS SEVERE PENALTIES THAN EXPLAINED IN 1, 2, OR 3.
5. THE VIOLATORS SHOULD RECEIVE NO PENALTIES.

Case 5. Tom Smith, CPA, was engaged as the auditor of WRV Company, an electronic components manufacturer, for several years. Smith also audited several other electronic components manufacturers and had performed management advisory services for many of them. As a result, Smith was very familiar with the industry. Recently, WRV Co. engaged Smith to assist the company in the construction of a five-year financial forecast. After completion of the forecast, the controller of WRV Co. received a business letter from Smith that made suggestions regarding the use of the forecast and explained that because of his experience with WRV Co. and the industry, Smith was confident that the forecast could be achieved.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 201, General Standards, states that a CPA shall not allow his name to be associated with a forecast in such a manner that it appears the CPA is vouching for the achievability of the forecast.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were a CPA who witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 6. While Tom Smith, CPA, was serving as the auditor of the financial statements of QRT Corporation, QRT fired their systems analyst (a part-time position) and advertised to find a new one. Smith, in need of a part-time job and having considerable expertise and experience in the area of systems analysis, applied for the position and was hired as an employee of QRT Corporation. After being hired by QRT, Smith continued to serve as auditor of QRT's financial statements.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 101, Independence, states that a CPA is not independent if there exists a management or employee relationship with the client.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were a CPA who witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 7. While serving as auditor of the financial statements of ABC Corporation, Tom Smith, CPA, made a joint investment with Sam Jones, vice president of ABC Corp. They purchased 66% of ERT Company's common stock.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 101, Independence, states that a CPA is not independent if he has any material joint investment with a client or an officer of the client company.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were a CPA who witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

CASES WHEREIN THE AICPA CODE OF PROFESSIONAL ETHICS WAS NOT VIOLATED

Case 8. Tom Smith, CPA, arranged a visit with the board of directors of GGT Corporation for the sole purpose of informing them that he could provide auditing services for GGT Corp. for a lower fee than was being charged by GGT Corporation's current auditor, another CPA.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 9. Tom Smith, CPA, audited the financial statements of WSK Corporation which was the defendant in legal proceedings regarding a product liability suit. Smith was served an enforceable subpoena to testify regarding WSK Corp. Smith complied with the subpoena and testified.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 10. While Tom Smith, CPA, was auditor of the financial statements of CBG Company and HRB Company, CBG Co. sold real estate to HRB Co. for prices which HRB Co. later contended were too high considering CBG Company's costs. Although Smith knew of the prices charged by CBG Co. and costs related to those properties sold, Smith did not inform HRB Company of the comparatively low costs incurred by CBG Co. and the subsequent large mark-ups charged by CBG Co.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 11. Tom Smith, CPA, observed another CPA performing an act that was clearly a violation of the AICPA Code of Professional Ethics. Although he knew the action was a violation, Smith did not report the violation.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

Case 12. While serving as auditor of National Bank's financial statements, Tom Smith, CPA, applied for and received a home mortgage loan through National Bank. The terms of the loan were the same terms offered to all customers of National Bank.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 13. Tom Smith, CPA, audited the financial statements of YRP Corporation and decided that adherence to one of the Statements on Financial Accounting Standards (SFAS) would cause YRP Corporation's financial statements to be misleading. Although Smith's audit report disclosed the departure, the approximate effects of the departure, and the reasons why he felt that compliance with the SFAS would have made the financial statements misleading, he subsequently stated that the financial statements were in conformity with Generally Accepted Accounting Principles.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 14. Tom Smith, CPA, learned that Sandra Ball, an employee of another CPA, was extremely competent in audit and tax matters. Without consulting Ball's employer, Smith offered Ball an employment position for a salary that was higher than what she was being paid at the time.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 15. Tom Smith, CPA, was a full-time employee of MVT Corporation, a large manufacturer of replacement automotive parts. At the same time, Smith maintained a small public accounting practice which had no business dealings with MVT Corp. or any of its employees, suppliers, or customers.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

Case 16. Tom Smith, CPA, bought a full-page advertisement in a local newspaper. This advertisement included an explanation of the services offered by Smith and the associated fees charged for such services.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 17. Three CPAs decided to jointly form a public accounting business and organized that business as a professional corporation rather than as a partnership.

The action taken by the CPAs in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-
-

Please answer the following questions:

Question 1. What do you suspect is the extent of involvement of someone that reports a violation of the AICPA Code of Professional Ethics:

1. The initial complaint is all that is required of the complaint initiator.
2. The complaint initiator would be asked to provide written forms in addition to the initial complaint.
3. The complaint initiator would be asked to provide oral and written testimony in addition to the initial complaint.
4. The extent of involvement would be greater than indicated in 1,2, or 3.

Question 2. Would you be more likely to report a violation of the AICPA Code if you were aware that the violating CPA had NOT acted in accordance with the Code in past situations?

1. YES, I would be more likely to report.
2. NO, I would NOT be more likely to report.

Question 3. Is your employer one of the "Big 8" accounting firms?

1. YES
2. NO

Question 4. To whom would you report violations of the AICPA Code of Professional Ethics?

Question 5. As a CPA, which of the following duties requires the majority of your time (on an annual basis)?

1. AUDITING
 2. MANAGEMENT CONSULTING
 3. TAX
 4. OTHER, please specify:
-

APPENDIX C
Client Knowledge Questionnaire

Accounting Ethics

... are they enforced?

This survey is part of a project to determine whether audit clients and Certified Public Accountants are familiar with the AICPA Code of Professional Ethics and if they would report observed violations of the code. Please answer all questions by circling your selected response. Although Tom Smith, CPA (a fictional practitioner) appears in most cases, do not consider any cumulative effect of his participation in multiple code violations: consider each case independently of the others. If you wish to comment on any questions or qualify your answers, please feel free to use the space in the margins. Your comments will be read and taken into account.

Thank you for your help.

S. Douglas Beets
Ph.D. student, Department of Accounting - 1c
Virginia Polytechnic Institute and State University
Blacksburg, Virginia 24061

PLEASE CIRCLE THE NUMBER OF YOUR SELECTED RESPONSE.

Case 1. Susan Jones, a lawyer, informed Tom Smith, CPA, that several of her clients had asked her for the name of a CPA competent in tax preparation. After negotiation, Smith paid Jones a fixed annual fee to refer potential tax clients to him.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 2. Tom Smith, CPA, learned that Sandra Ball, an employee of another CPA, was extremely competent in audit and tax matters. Without consulting Ball's employer, Smith offered Ball an employment position for a salary that was higher than what she was being paid at the time.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 3. Tom Smith, CPA, agreed to assist HRY Corporation in their tax liability calculations and tax return preparation. For this engagement, HRY Corp. agreed to pay Smith a fee that would increase as the amount of the tax liability decreased; that is, the smaller the tax liability, the larger the fee paid to Smith.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 4. Four CPAs who were all members of the AICPA decided to jointly form a public accounting business and decided to operate their partnership under the firm name, "Tax Professionals."

Did the CPAs act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 5. Tom Smith, CPA, audited the financial statements of WSK Corporation which was the defendant in legal proceedings regarding a product liability suit. Smith was served an enforceable subpoena to testify regarding WSK Corp. Smith complied with the subpoena and testified.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 6. While Tom Smith, CPA, was serving as the auditor of the financial statements of QRT Corporation, QRT fired their systems analyst (a part-time position) and advertised to find a new one. Smith, in need of a part-time job and having considerable expertise and experience in the area of systems analysis, applied for the position and was hired as an employee of QRT Corporation. After being hired by QRT, Smith continued to serve as auditor of QRT's financial statements.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 7. While serving as auditor of XYZ Corporation's financial statements, Tom Smith, CPA, bought five shares of XYZ Corporation common stock for \$14 per share. XYZ Corporation had 230,000 shares of common stock outstanding and dividends per share averaged \$2 each year.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 8. Tom Smith, CPA, bought a full-page advertisement in a local newspaper. This advertisement included an explanation of the services offered by Smith and the associated fees charged for such services.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 9. Tom Smith, CPA, arranged a visit with the board of directors of GGT Corporation for the sole purpose of informing them that he could provide auditing services for GGT Corp. for a lower fee than was being charged by GGT Corporation's current auditor, another CPA.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 10. Tom Smith, CPA, observed another CPA performing an act that was clearly a violation of the AICPA Code of Professional Ethics. Although he knew the action was a violation, Smith did not report the violation.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 11. While Tom Smith, CPA, was auditor of the financial statements of CBG Company and HRB Company, CBG Co. sold real estate to HRB Co. for prices which HRB Co. later contended were too high considering CBG Company's costs. Although Smith knew of the prices charged by CBG Co. and costs related to those properties sold, Smith did not inform HRB Company of the comparatively low costs incurred by CBG Co. and the subsequent large mark-ups charged by CBG Co.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 12. Tom Smith, CPA, audited the financial statements of YRP Corporation and decided that adherence to one of the Statements on Financial Accounting Standards (SFAS) would cause YRP Corporation's financial statements to be misleading. Although Smith's audit report disclosed the departure, the approximate effects of the departure, and the reasons why he felt that compliance with the SFAS would have made the financial statements misleading, he subsequently stated that the financial statements were in conformity with Generally Accepted Accounting Principles.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 13. Tom Smith, CPA, was a full-time employee of MVT Corporation, a large manufacturer of replacement automotive parts. At the same time, Smith maintained a small public accounting practice which had no business dealings with MVT Corp. or any of its employees, suppliers, or customers.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 14. Tom Smith, CPA, was engaged as the auditor of WRV Company, an electronic components manufacturer, for several years. Smith also audited several other electronic components manufacturers and had performed management advisory services for many of them. As a result, Smith was very familiar with the industry. Recently, WRV Co. engaged Smith to assist the company in the construction of a five-year financial forecast. After completion of the forecast, the controller of WRV Co. received a business letter from Smith that made suggestions regarding the use of the forecast and explained that because of his experience with WRV Co. and the industry, Smith was confident that the forecast could be achieved.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 15. While serving as auditor of National Bank's financial statements, Tom Smith, CPA, applied for and received a home mortgage loan through National Bank. The terms of the loan were the same terms offered to all customers of National Bank.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 16. Three CPAs decided to jointly form a public accounting business and organized that business as a professional corporation rather than as a partnership.

Did these CPAs act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-

Case 17. While serving as auditor of the financial statements of ABC Corporation, Tom Smith, CPA, made a joint investment with Sam Jones, vice president of ABC Corp. They purchased 66% of ERT Company's common stock.

Did Smith act in accordance with the AICPA Code of Professional Ethics?

1. YES
 2. NO
 3. I DON'T KNOW
-
-

Please answer the following questions:

Question 1. Does your corporation's staff include anyone who has received a four-year accounting degree?

1. YES
2. NO

Question 2. Are your corporation's financial statements audited by an independent auditor every year?

1. YES
2. NO

APPENDIX D
Client Reporting Questionnaire

Accounting Ethics

... are they enforced?

This survey is part of a project to determine whether audit clients and Certified Public Accountants are familiar with the AICPA Code of Professional Ethics and if they would report observed violations of the code. Please answer all questions by circling your selected response. Although Tom Smith, CPA (a fictional practitioner) appears in most cases, do not consider any cumulative effect of his participation in multiple code violations: consider each case independently of the others. If you wish to comment on any questions or qualify your answers, please feel free to use the space in the margins. Your comments will be read and taken into account.

Thank you for your help.

S. Douglas Beets
Ph.D. student, Department of Accounting - 2c
Virginia Polytechnic Institute and State University
Blacksburg, Virginia 24061

PLEASE CIRCLE THE NUMBER OF YOUR SELECTED RESPONSE.

CASES WHEREIN THE AICPA CODE OF PROFESSIONAL ETHICS WAS VIOLATED

Case 1. Tom Smith, CPA, agreed to assist HRY Corporation in their tax liability calculations and tax return preparation. For this engagement, HRY Corp. agreed to pay Smith a fee that would increase as the amount of the tax liability decreased; that is, the smaller the tax liability, the larger the fee paid to Smith.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 302, Contingent Fees, states that a CPA shall not offer services on a basis contingent with findings.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were an employee of HRY Corporation and witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 2. Susan Jones, a lawyer, informed Tom Smith, CPA, that several of her clients had asked her for the name of a CPA competent in tax preparation. After negotiation, Smith paid Jones a fixed annual fee to refer potential tax clients to him.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 503, Commissions, states that a CPA shall not pay commissions to obtain clients.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were an employee of one of Smith's clients and witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 3. While serving as auditor of XYZ Corporation's financial statements, Tom Smith, CPA, bought five shares of XYZ Corporation common stock for \$14 per share. XYZ Corporation had 230,000 shares of common stock outstanding and dividends per share averaged \$2 each year.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 101, Independence, states that a CPA is not independent if he has any direct financial interest in the client.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were an employee of XYZ Corporation and witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 4. Four CPAs who were all members of the AICPA decided to jointly form a public accounting business and decided to operate their partnership under the firm name, "Tax Professionals."

The action taken by the CPAs in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 505, Form of Practice and Name, states that a CPA shall not practice under a firm name that includes a fictitious name.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were an employee of a client of this accounting firm and witnessed this violation committed by these CPAs (and you recognized it as a violation), would you:

1. CONTACT THE VIOLATORS.
2. REPORT THE VIOLATION.
3. BOTH CONTACT THE VIOLATORS AND REPORT THE VIOLATION.
4. NEITHER CONTACT THE VIOLATORS NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. THE VIOLATORS' CERTIFICATES WOULD BE REVOKED OR THEY WOULD BE ASKED TO VOLUNTARILY SURRENDER THEIR CERTIFICATES.
2. THE VIOLATORS' CERTIFICATES WOULD BE SUSPENDED.
3. THE VIOLATORS WOULD RECEIVE A WARNING.
4. THE VIOLATORS WOULD RECEIVE LESS SEVERE PENALTIES THAN EXPLAINED IN 1, 2, OR 3.
5. THE VIOLATORS WOULD RECEIVE NO PENALTIES.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. THE VIOLATORS' CERTIFICATES SHOULD BE REVOKED OR THEY SHOULD BE ASKED TO VOLUNTARILY SURRENDER THEIR CERTIFICATES.
2. THE VIOLATORS' CERTIFICATES SHOULD BE SUSPENDED.
3. THE VIOLATORS SHOULD RECEIVE A WARNING.
4. THE VIOLATORS SHOULD RECEIVE LESS SEVERE PENALTIES THAN EXPLAINED IN 1, 2, OR 3.
5. THE VIOLATORS SHOULD RECEIVE NO PENALTIES.

Case 5. Tom Smith, CPA, was engaged as the auditor of WRV Company, an electronic components manufacturer, for several years. Smith also audited several other electronic components manufacturers and had performed management advisory services for many of them. As a result, Smith was very familiar with the industry. Recently, WRV Co. engaged Smith to assist the company in the construction of a five-year financial forecast. After completion of the forecast, the controller of WRV Co. received a business letter from Smith that made suggestions regarding the use of the forecast and explained that because of his experience with WRV Co. and the industry, Smith was confident that the forecast could be achieved.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 201, General Standards, states that a CPA shall not allow his name to be associated with a forecast in such a manner that it appears the CPA is vouching for the achievability of the forecast.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were an employee of WRV Company and witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 6. While Tom Smith, CPA, was serving as the auditor of the financial statements of QRT Corporation, QRT fired their systems analyst (a part-time position) and advertised to find a new one. Smith, in need of a part-time job and having considerable expertise and experience in the area of systems analysis, applied for the position and was hired as an employee of QRT Corporation. After being hired by QRT, Smith continued to serve as auditor of QRT's financial statements.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 101, Independence, states that a CPA is not independent if there exists a management or employee relationship with the client.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were an employee of QRT Corporation and witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

Case 7. While serving as auditor of the financial statements of ABC Corporation, Tom Smith, CPA, made a joint investment with Sam Jones, vice president of ABC Corp. They purchased 66% of ERT Company's common stock.

The action taken by Smith in this situation would be considered a violation of the AICPA Code of Professional Ethics because Rule of Conduct 101, Independence, states that a CPA is not independent if he has any material joint investment with a client or an officer of the client company.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

If you were an employee of ABC Corporation and witnessed this violation committed by Smith (and you recognized it as a violation), would you:

1. CONTACT SMITH.
2. REPORT THE VIOLATION.
3. BOTH CONTACT SMITH AND REPORT THE VIOLATION.
4. NEITHER CONTACT SMITH NOR REPORT THE VIOLATION.

If this violation were reported, which of the following actions do you suspect would be taken by the applicable state board of accountancy:

1. SMITH'S CERTIFICATE WOULD BE REVOKED OR HE WOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE WOULD BE SUSPENDED.
3. SMITH WOULD RECEIVE A WARNING.
4. SMITH WOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH WOULD RECEIVE NO PENALTY.

In your opinion, which of the following actions *should be taken* by the applicable state board of accountancy if this violation were reported:

1. SMITH'S CERTIFICATE SHOULD BE REVOKED OR HE SHOULD BE ASKED TO VOLUNTARILY SURRENDER HIS CERTIFICATE.
2. SMITH'S CERTIFICATE SHOULD BE SUSPENDED.
3. SMITH SHOULD RECEIVE A WARNING.
4. SMITH SHOULD RECEIVE A LESS SEVERE PENALTY THAN EXPLAINED IN 1, 2, OR 3.
5. SMITH SHOULD RECEIVE NO PENALTY.

CASES WHEREIN THE AICPA CODE OF PROFESSIONAL ETHICS WAS NOT VIOLATED

Case 8. Tom Smith, CPA, arranged a visit with the board of directors of GGT Corporation for the sole purpose of informing them that he could provide auditing services for GGT Corp. for a lower fee than was being charged by GGT Corporation's current auditor, another CPA.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 9. Tom Smith, CPA, audited the financial statements of WSK Corporation which was the defendant in legal proceedings regarding a product liability suit. Smith was served an enforceable subpoena to testify regarding WSK Corp. Smith complied with the subpoena and testified.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 10. While Tom Smith, CPA, was auditor of the financial statements of CBG Company and IIRB Company, CBG Co. sold real estate to IIRB Co. for prices which HRB Co. later contended were too high considering CBG Company's costs. Although Smith knew of the prices charged by CBG Co. and costs related to those properties sold, Smith did not inform HRB Company of the comparatively low costs incurred by CBG Co. and the subsequent large mark-ups charged by CBG Co.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 11. Tom Smith, CPA, observed another CPA performing an act that was clearly a violation of the AICPA Code of Professional Ethics. Although he knew the action was a violation, Smith did not report the violation.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

Case 12. While serving as auditor of National Bank's financial statements, Tom Smith, CPA, applied for and received a home mortgage loan through National Bank. The terms of the loan were the same terms offered to all customers of National Bank.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 13. Tom Smith, CPA, audited the financial statements of YRP Corporation and decided that adherence to one of the Statements on Financial Accounting Standards (SFAS) would cause YRP Corporation's financial statements to be misleading. Although Smith's audit report disclosed the departure, the approximate effects of the departure, and the reasons why he felt that compliance with the SFAS would have made the financial statements misleading, he subsequently stated that the financial statements were in conformity with Generally Accepted Accounting Principles.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 14. Tom Smith, CPA, learned that Sandra Ball, an employee of another CPA, was extremely competent in audit and tax matters. Without consulting Ball's employer, Smith offered Ball an employment position for a salary that was higher than what she was being paid at the time.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 15. Tom Smith, CPA, was a full-time employee of MVT Corporation, a large manufacturer of replacement automotive parts. At the same time, Smith maintained a small public accounting practice which had no business dealings with MVT Corp. or any of its employees, suppliers, or customers.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.

Case 16. Tom Smith, CPA, bought a full-page advertisement in a local newspaper. This advertisement included an explanation of the services offered by Smith and the associated fees charged for such services.

The action taken by Smith in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-

Case 17. Three CPAs decided to jointly form a public accounting business and organized that business as a professional corporation rather than as a partnership.

The action taken by the CPAs in this situation would not be considered a violation of the AICPA Code of Professional Ethics.

In your opinion, is the AICPA Code of Professional Ethics, as it relates to this particular situation, appropriate or inappropriate?

1. APPROPRIATE. The code, as it relates to this situation, should not be changed.
 2. INAPPROPRIATE. The code, as it relates to this situation, should be changed.
-
-

Please answer the following questions:

Question 1. What do you suspect is the extent of involvement of someone that reports a violation of the AICPA Code of Professional Ethics:

1. The initial complaint is all that is required of the complaint initiator.
2. The complaint initiator would be asked to provide written forms in addition to the initial complaint.
3. The complaint initiator would be asked to provide oral and written testimony in addition to the initial complaint.
4. The extent of involvement would be greater than indicated in 1,2, or 3.

Question 2. Would you be more likely to report a violation of the AICPA Code if you were aware that the violating CPA had NOT acted in accordance with the Code in past situations?

1. YES, I would be more likely to report.
2. NO, I would NOT be more likely to report.

Question 3. Does your corporation's staff include anyone who has received a four-year accounting degree?

1. YES
2. NO

Question 4. To whom would you report violations of the AICPA Code of Professional Ethics?

Question 5. Are your corporation's financial statements audited by an independent auditor every year?

1. YES
2. NO

**The vita has been removed from
the scanned document**