The Effectivenss of a Complaint-Based Ethics Enforcement System: Evidence from the Accounting Profession

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ABSTRACT. Many professions, in order to enforce their ethics codes, rely on a complaint-based system, whereby persons who observe or discover ethics violations may file a complaint with an authoritative body. The authors assume that this type of system may encourage ethical behavior when practitioners believe that a punishment is likely to result from a failure to adhere to the rules. This perceived likelihood of punishment has three components: detection risk, reporting risk, and sanction risk. A survey of potential violation witnesses related to the accounting profession revealed that the profession's complaint-based enforcement system may not provide practitioners with the necessary disincentive to refrain from code violations.

Many professions have adopted ethics or conduct codes in an effort to guide the behavior of practitioners. These codes consist of rules that define the profession's concept of ethical conduct. To a large extent, however, the success of these codes in fostering the desired behavior is dependent on their enforcement and the sanctions that may result from violations. When presented with an opportunity to profit or fulfill a need by violating an ethics code, individuals may consider the consequences of the action; i.e., will the action be detected, reported, and ultimately result in punishment.

Bayles (1987) indicated that there are at least four methods to encourage or, perhaps, regulate the ethical behavior of the members of a profession. One of these methods is the use of government administrative agencies, such as the Federal Trade Commission (FTC), to oversee the conduct of profession members. This approach to regulation requires a degree of government involvement in the profession and adequate related legislation and law enforcement to ensure the desired practitioner behavior.

An alternative to such government regulation is a civilian board, which would similarly oversee professional behavior. Board members would be chosen from the private sector, possibly practicing members of the profession. Although designed for promulgation of accounting standards rather than professional ethics, the Financial Accounting Standards Board in the U.S. is an example of this type of organization. Members are practitioners selected from different areas of specialization within the accounting discipline.

A third, perhaps less feasible, approach is to expand the liability rules for malpractice to include ethical considerations, thereby making it easier for injured parties to recover damages through litigation. This alternative would also require extensive government involvement in the profession, although the judicial system would be utilized instead of a regulatory agency.

Many fields, such as medicine, psychology, law, engineering, and accounting, employ a fourth method to regulate professionals and encourage their adherence to an ethics code. This method is referred to as a complaint-based enforcement system, because code violations are reported to an authoritative body by someone who witnesses or discovers the act. Disciplinary procedures and sanctions may then follow from the report of the violation.

The effectiveness of this frequently-utilized method has been questionned. Studies by Baldick

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(1980), Davis (1984), Hughson and Kohn (1980), and Shertzer and Morris (1972) have indicated that some professionals may not be familiar with the ethics code to which they are supposed to adhere. Lack of code familiarity might result in code violations simply through practitioner ignorance. Additionally, code violations witnessed by a person will not be reported if that person is not familiar with the code.

Even if an action is recognized as a violation, however, a complaint may not be filed. In separate articles, both Graber (1979) and Bayles (1987) suggested that professionals are reluctant to report code violations committed by their fellow practitioners.

Because of these doubts about the effectiveness of a complaint-based system of ethics enforcement, the authors conducted an empirical examination of these issues as they relate to the accounting profession. A survey of relevant parties provided evidence with relation to many of the inherent factors upon which the success of this type of enforcement system depends.

Enforcement considerations

In establishing a system to foster adherence to rules of an ethics code, an authority will consider the objectives it hopes to accomplish with the code and its enforcement mechanism. Realistically, an ethics code has limited usefulness unless it is accompanied by enforcement provisions for discovering and investigating violations and prescribing appropriate penalties (Lombardi, 1987). Perhaps the greatest benefits that an unenforced ethics code may provide are (1) general suggestions for practitioners regarding the authority's perception of ethics, and (2) a representation that the profession is acting in the interest of those served. Such a representation without enforcement, however, might be considered "window-dressing," i.e., telling the public that their interests will be protected without providing a mechanism for that assurance.

On the other hand, an authority that promulgates ethics rules probably does not realistically expect that an enforcement system will prevent all violations. Such a system would be costly because of the personnel required to detect violations, process and investigate reports of wrong-doing, and decide on appropriate sanctions.

Consequently, most authorities want an enforcement system that will, for a reasonable cost, instill a sense of duty within profession members to operate within the parameters of the ethics code. Although many professionals are likely to adhere to an ethics code as a result of their personal integrity, others may not obey the rules unless they believe that they are likely to suffer a loss if they violate the code.

An individual's adherence to an ethics code, then, can be attributed to conscience and fear of detection and punishment (Bollom, 1988). Authoritative bodies, however, are limited in their ability to genuinely affect an individual's conscience or personal integrity. Activities that might influence profession members' integrity include (1) publication of persuasive articles in trade journals and (2) encouragement of ethics training at the college level and in continuing professional education courses (Goldman, 1987).

Possibly because of the difficulties encountered in reforming personal morals and measuring the success of efforts intended to accomplish that task, some authoritative bodies have chosen to enforce their ethics codes by capitalizing on practitioners' risk preferences. Unethical behavior may be discouraged when authoritative bodies persuade individuals that code violations will result in punitive actions. This perception of loss, however, may vary depending on the method of code enforcement. A complaint-based system, for example, has many components which a potential code violator may consider.

Dynamics of a complaint-based enforcement system

In a profession governed by a complaint-based enforcement system, a practitioner's perceived likelihood of loss has three components: detection risk, reporting risk, and sanction risk. The first of these, detection risk, is the risk that a code violation will be detected. Detection of a violation would entail (1) the observance of the act or discovering evidence of its occurrence, and (2) familiarity of the witness or evidence discoverer with the ethics code.

In determining the probability of detection, one must consider the nature of the professional's practice and the parties likely to detect a violation. Practitioners may learn of others' ethics violations through clients or business contacts. Studies, however, in the fields of psychology (Baldick, 1980),

counseling (Shertzer and Morris, 1972), engineering (Hughson and Kohn, 1980) and accounting (Davis, 1984) indicate that many practitioners are not familiar with the ethics rules that govern their profession.

Clients are in direct contact with their own practitioners and potentially could observe, first-hand, departures from a code. A potential problem, however, with depending on clients for violation detection is the extent of their familiarity with the ethics code of the profession to which the practitioner belongs. For example, are lawyers' clients familiar with the American Bar Association's Model Rules of Professional Conduct?

Regardless of their code familiarity, practitioners and clients are the parties that are most likely to observe or discover violations, although members of the general public may occasionally be in a position to detect an unethical action. In a study of the records of an accounting regulatory agency, Thuresson *et al.* (1985) found that over two-thirds of the complaints concerning ethical issues were filed by practitioners. The other complaints were initiated by clients or a state board.

The second component that a practitioner may consider before breaking an ethics rule is the reporting risk, i.e., the possibility that the one who detects a violation will report it to an appropriate authority. As with detection risk, the chance that an ethics violation will be reported is dependent on the person who witnesses or discovers the questionable act.

In some situations, clients may be reluctant or unwilling to report an unethical act committed by the professional that serves them. Were a client to file a complaint against a practitioner, the business relationship, which might be satisfactory to the client, would certainly be strained. Additionally, clients are not likely to report practitioner violations which benefit the client. Bayles (1987) reasoned that a patient is not going to report a physician who improperly prescribes narcotics to support the patient's habit.

Similarly, practitioners may be reluctant to report ethics violations committed by their peers. A survey of government accountants, for example, revealed that more than 40 percent of the respondents believed that taking no action upon witnessing a code violation was appropriate (Loeb, 1974). Such reluctance to file complaints against fellow practitioners may stem from (1) fear of incurring anger of the offending professional, (2) fear of lowered esteem by other practitioners, (3) the possibility of initiating an action that would impair another person's livelihood, and (4) a knowledge of one's own shortcomings (Graber, 1979).

The third component in a professional's perceived loss resulting from an ethics code violation is sanction risk. This is the risk that a punishment will be prescribed for a practitioner's transgression. Sanction risk will vary among the professions depending on whether the regulating authority is given the power to prescribe punishment and whether the authority aggressively uses that power. If an authority has not been empowered to levy sanctions, its response to a reported violation may be an appeal or warning to the violator. On the other hand, an authority that can prescribe sanctions may choose to do so rarely because the effect of such punishments as license suspension or revocation may be too severe.

An important difference between sanction risk and the detection and reporting risks lies in the parties on which the risks depend. In a complaint-based enforcement system, the detection and reporting risks are determined by those who discover violations. Sanction risk, on the other hand, is controlled by the sanctioning authority. Consequently, when an authority adopts a complaint-based enforcement system, it is implicitly delegating a significant portion of the responsibility for the operation of the system to violation witnesses, who may not be familiar with the code and may not be motivated to report observed violations even if familiarity could be assumed. Under this type of system, the only risk that the authority can directly control is sanction risk.

The three risk factors, detection risk (*DR*), reporting risk (*RR*), and sanction risk (*SR*), can be multiplied to derive the risk of loss that a potential code violator faces under a complaint-based enforcement system:

$$\text{Risk of Loss} = DR \times RR \times SR$$

Because of the multiplicative relationship, if any of the risks are zero, the overall risk of loss is also zero. As a hypothetical example, assume that a particular profession has a widely publicized ethics code, and practitioners and clients are familiar with it. These potential violation witnesses, however, believe that

many of the rules are inappropriate and the sanctions that have been prescribed have been too harsh. As a consequence, violations are detected but rarely reported. In this circumstance, the detection and sanction risks may be close to one, but the reporting risk may be close to zero. This situation would result in an overall risk of loss close to zero, because a violator will not suffer a loss if the unethical act is not reported.

As mentioned previously, a practitioner may consider his or her perception of the overall risk of loss when tempted by a situation where a code violation will provide benefits. If the professional considers any of the risks to be insignificant, the likelihood of a violation may be greater.

In an effort to provide greater insight into the risks associated with a complaint-based enforcement system, the authors conducted a study of ethics enforcement in the accounting profession.

Recent changes in accountants' ethics enforcement

In the accounting profession, the rules of the Code of Professional Conduct are promulgated by the American Institute of Certified Public Accountants (AICPA), a national, private organization whose members are CPAs. CPA licenses, however, are granted by state governments through state accounting boards. Each board enforces the state's accounting ethics code which is typically quite similar to that of the AICPA. Both the AICPA and the state boards have the authority to prescribe sanctions, but only a state board can suspend or revoke a CPA's license to practice. Loss of membership is the most severe sanction that may be administered by the AICPA. Such member expulsions are publicized in an AICPA newsletter, but may not have a material effect on practitioner behavior since AICPA membership is not required to practice public accounting.

Until 1988, the ethics rules of the accounting profession were enforced only through the complaint-based systems of the AICPA and the individual states. As a result of a recent referendum, however, a potentially significant dimension was added to the AICPA's enforcement system with the adoption of mandatory peer reviews. The primary intended focus of these reviews is the quality of service provided by practitioners. The AICPA has recognized, however, that ethical behavior is a significant determinant of client and public service (AICPA, 1986). As a consequence, some peer reviews may result in reviewers filing ethics complaints with the AICPA, although the ethics enforcement system continues to be primarily dependent on complaints from other sources.

Apart from detecting violations, the review system may also affect an individual's likelihood of unethical behavior. In anticipation of periodic reviews by peer professionals, practitioners may be reluctant to act unethically, although many violations would not create evidence that would later be discovered by a reviewer.

The revised enforcement system is the product of a special AICPA committee that was appointed to evaluate the relevance of ethics standards to professionalism, integrity, service, and the public interest (AICPA, 1986). A major conclusion made by this committee was that the complaint-based nature of the enforcement system was not sufficient to promote 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 . . .
> (AICPA, 1986, p.19)

Research method

Because of doubts about the effectiveness of a complaint-based enforcement system, a survey of CPAs and clients of public accountants was conducted to provide evidence with regard to the three components of risk: detection, reporting, and sanction. The study consisted of two separate mail surveys that were administered simultaneously. Each survey employed both CPAs and clients; consequently, two independent samples were drawn from each population.

One survey (referred to as the knowledge survey) was designed to examine an aspect of detection risk; i.e., are potential violation witnesses familiar with the AICPA Code of Professional Conduct? The survey questionnaire presented several case situations pertaining to the ethics rules, and respondents were

asked whether the hypothetical CPA in each case situation acted in accordance with the AICPA Code. In an effort to assess respondents' code familiarity and not their access to reference materials, they were asked to evaluate each case situation without referring to a copy of the code.

The questionnaire of the other survey (referred to as the reporting and sanction survey) presented the same cases but additionally indicated whether the action taken by the hypothetical CPA was a violation of the AICPA Code. If the code was violated, the related rule was specified. To provide evidence with regard to reporting and sanction risks, the subjects were then asked (1) whether they would report the violation if they witnessed it, and (2) what sanction they suspected would result if the violation were reported.

The reason for sampling each population twice was to avoid the confounded findings that might have resulted if one survey questionnaire was used to assess (1) the action that respondents would take upon witnessing a violation and (2) their code familiarity. To determine actions that respondents would take upon witnessing violations, they had to be given information about the related rule or their response would be biased by their knowledge or lack thereof. In assessing respondents' familiarity with the code, however, a questionnaire would bias the responses if information about the rules was included. Consequently, because of these design incompatibilities, two separate surveys of each population were conducted.

The questionnaires were pretested using students enrolled in graduate degree programs at Virginia Polytechnic Institute and State University (VPI). The final version of the questionnaires was mailed to a random sample of CPAs and clients in one geographical region of the U.S., the state of Virginia.

Of 125 questionnaires mailed to CPAs in the knowledge survey, 99 usable questionnaires were returned, yielding a response rate of 79.2 percent. One hundred and three of the 150 knowledge questionnaires were returned by clients for a response rate of 68.7 percent.

With regard to the reporting and sanction survey, the CPA group returned 79 of 125 questionnaires, yielding a response rate of 63.2 percent. Clients returned 90 of 150 reporting and sanction surveys for a response rate of 60 percent.

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., respondents could have used copies of the AICPA Code to answer the knowledge questionnaire although they were explicitly asked to refrain from doing so. To test the data for the presence of these two problems, two methods were developed. One of these tests used the Wilcoxon rank sum test to compare the responses from the CPA group and the responses to the same questionnaire administered to a group of CPAs that attended a conference at VPI. The second test compared the responses to the first mailing of the survey instrument to those of the second and third mailings. The constructs of code familiarity and likelihood of reporting were compared for the groups, and no significant differences were noted (all p-values exceeded 0.25). Consequently, neither test yielded significant evidence of a non-response bias or cheating.

Results

Results related to detection risk

As discussed earlier, detection of a code violation requires (1) observation of the act or discovering evidence of its occurrence, and (2) familiarity of the witness or evidence discoverer with the ethics code. The research project was not designed to measure the first of these components of detection risk, the likelihood of witnessing or discovering code violations. This component, although difficult to measure empirically, could be a significant determinant of detection risk. One CPA respondent wrote on the back of his questionnaire:

> Most of the violations described would not be witnessed . . . 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.

Although this study was not designed to determine the likelihood of violation observation or discovery,

it was designed to assess the familiarity of potential violation witnesses with the AICPA Code. This paper earlier identified practitioners and clients as the parties that may be most likely to observe or discover violations of an ethics code.

On average, CPAs were able to correctly identify whether a case presented a violation of the code 77.2 percent of the time; that is, the average score of correctly-evaluated cases for the CPA group was 77.2 percent. The corresponding group score for clients was 54.8 percent.

Table I gives a brief description of the knowledge survey cases and includes the percentages of CPAs and clients who evaluated each case correctly. Although Table I lists the violations and non-violations separately, the cases were presented in the questionnaire in random order with violations interspersed with non-violations.

As one might suspect, CPAs consistently evaluated cases with greater accuracy than clients (Wilcoxon rank sum test, p-value less than 0.001). A possible explanation for this is that CPAs have most likely been exposed to the AICPA Code in their college coursework and through association with other accountants. While the client questionnaires were addressed to corporate controllers and financial officers, those in smaller corporations may not have had accounting degrees and would therefore be less likely to be familiar with the code. To examine this possibility, the client group was subdivided into those staffs included at least one person who had received a four-year accounting degree and those who employed no degreed accountants. As expected, clients who employed degreed accountants were significantly more familiar with the code than clients who did not (Wilcoxon rank sum test, p-value = 0.003).

Additional analysis of Table I reveals variation in the accuracy of case evaluation. Four of the cases were correctly evaluated by at least 98 percent of the

TABLE I
Results of the knowledge survey

Cases involving violations of the AICPA Code	percent of respondents who evaluated the case correctly	
	CPAs	clients
1. A CPA paid another professional to refer potential clients to him.	92.9	71.8
2. A CPA accepted a tax preparation engagement for a contingent fee; i.e., the fee would increase as the amount of tax liability decreased.	94.6	75.7
3. A group of CPAs operated their public accounting business under a ficitious firm name, "Tax Professionals," rather than using a name consisting of the partners' last names.	80.8	42.7
4. A CPA vouched for the achievability of a financial forecast which he had prepared for a client.	69.7	35.9
5. A CPA accepted an employment position with an audit client and continued to serve as the client's independent auditor.	98.0	82.5
6. A CPA bought a few shares of common stock of an audit client corporation.	63.6	47.6
7. A CPA made a joint investment with an officer of an audit client company.	70.7	48.5

Table I (Continued)

Cases involving violations of the AICPA Code	percent of respondents who evaluated the case correctly	
	CPAs	clients
Cases in which the AICPA Code was not violated		
8. A CPA made an employment offer to an employee of another CPA without consulting the current employer.	57.6	53.4
9. A CPA complied with a subpoena and testified in legal proceedings in which an audit client was the defendant.	98.0	71.8
10. A CPA bought a full-page newspaper advertisement that included an explanation of the services offered and the associated fees.	77.8	35.9
11. A CPA informed a corporation that he could provide services for a smaller fee than was being charged by the current auditor, another CPA.	61.6	38.8
12. A CPA observed another CPA performing an act that was clearly a violation of the AICPA Code. The violation witness did not report it.	25.3	1.9
13. A CPA had two clients that transacted with each other. Although the CPA knew that the seller was buying property at a relatively low price and selling it at a relatively high price, the CPA did not inform the buyer of the large mark-up.	98.0	77.7
14. A CPA decided that adherence to a particular accounting standard would cause a client's financial statements to be misleading. Although the audit report described the departure and why it was necessary, it also indicated that the statements were in conformity with standards.	46.5	31.1
15. A CPA that was a employee of a corporation also maintained a public accounting firm that had no business dealings with his employer or that corporation's employees, suppliers, or customers.	93.9	84.5
16. A CPA received a home mortgage loan from a bank that was a client. The loan terms were the same as those offered to all bank customers.	83.8	68.9
17. A group of CPAs organized their public accounting business as a professional corporation rather than a partnership.	99.0	62.1
	$n = 99$	$n = 103$

CPAs although four other cases were correctly evaluated by less than 65 percent of the group. One reason for this variability may be the frequency with which the AICPA Code of Professional Conduct has been revised. When rules are modified frequently, practitioners' code familiarity may suffer due to

confusion regarding the behavior that is considered ethical at the time. Eleven years ago, the actions depicted in cases 8, 10, and 11 were violations of the code, but such behavior is now permitted. The code was also modified in 1988 after this survey took place. As a result of these recent changes, the actions depicted in cases 1, 2, 3, and 4 are no longer prohibited by the AICPA Code.

An additional observation concerns case 12 which stands out from the other cases because of the relatively small percentages of CPAs and clients who evaluated the case correctly. In this scenario, a CPA observed another CPA performing an act that was clearly a violation of the AICPA Code, but the witness did not report it. Failure to report an observed violation is not, in itself, a violation of the AICPA Code, although nearly 75 percent of the CPAs and 98 percent of the clients believed such an act of omission was a code violation.

The ethics codes of some professions require practitioners who witness violations to report them. An attorney, for example, has a duty to report another lawyer's rule violation that raises a substantial question as to the violator's honesty, trustworthiness or fitness as a lawyer (Aronson, 1986). The effectiveness of this rule is unproven, however, because it is a recent modification of a rule which seldom resulted in discipline for failure to report another lawyer's infractions (Wernz, 1986).

A final test of the data from the knowledge survey indicated that the respondents believed that a disproportionate number of cases presented code violations. Both CPAs and clients believed that the AICPA Code was more stringent than it actually was (Wilcoxon signed-rank test, p-value = 0.006).

Results related to reporting risk

Reporting risk was earlier identified as the risk that

TABLE II
Likelihood of reporting

Violation description	percent of respondents who indicated they would report the violation: CPAs	clients
1. A CPA paid another professional to refer potential clients to him.	46.8	48.3
2. A CPA accepted a tax preparation engagement for a contingent fee; i.e., the fee would increase as the amount of tax liability decreased.	43.6	41.1
3. A group of CPAs operated their public accounting business under a fictitious firm name, "Tax Professionals," rather than using a name consisting of the partners' last names.	49.4	20.7
4. A CPA vouched for the achievability of a financial forecast which he had prepared for a client.	40.5	27.3
5. A CPA accepted an employment position with an audit client and continued to serve as the client's independent auditor.	74.7	62.9
6. A CPA bought a few shares of common stock of an audit client corporation.	39.2	28.4
7. A CPA made a joint investment with an officer of an audit client company.	62.0	57.5
	$n = 79$	$n = 90$

the one who detects a violation will then report it to an appropriate authority. Consequently, as with detection risk, reporting risk is dependent on the persons who witness or discover violations.

On average, CPAs indicated that they would report observed violations 50.9 percent of the time; that is, the average proportion of violations that each CPA indicated that he or she would report was 50.9 percent. Clients indicated that they would report observed violations only 40.9 percent of the time.

Table II presents the case-by-case results of the reporting and sanction survey that relate to reporting risk. With only one exception, the percentages for CPAs are again higher than those of the client group, signifying that CPAs indicated that they would report observed violations with greater frequency than did clients (Wilcoxon rank sum test, p-value = 0.078).

As with the data from the knowledge survey, there is a noteworthy case-by-case variation in the percentages of subjects that indicated they would report violations. Such variations may signify that both CPAs and clients consider some violations more worthy of reporting than others. For example, the percentages related to cases 5 and 6 are 74.7 and 39.2, respectively, for the CPA group. The associated implication is that CPAs consider a situation in which a CPA purchases a few shares of client common stock to be a violation which is less worthy of reporting than a situation where a CPA serves as both employee and independent auditor for a corporation.

Results related to sanction risk

The third of the components that comprise the perceived loss of a potential rule violator is sanction risk, the risk that a reported violation will ultimately result in a punishment. Unlike detection and reporting risk, sanction risk is determined by the authorities within the profession that are empowered to prescribe punishments for violations of ethics rules. In the accounting profession, the AICPA has the power to expel members, and state accounting boards may suspend or revoke CPAs' licenses. Because state boards have the ability to levy a wide range of sanctions, the questionnaire asked respondents to indicate what sanction, if any, they believed would ultimately be prescribed by the state accounting board if the violation was reported.

Given the seven case situations described in Table III, the CPA respondents believed reported violations would result in sanctions for the offending CPAs 32 percent of the time. Clients, on the other hand, believed that a sanction of some type would result 38 percent of the time. Perceived sanction severity, however, did not differ significantly between the groups (Wilcoxon rank sum test, p-value = 0.138).

In evaluating these results, one must consider that this data reflects the respondents' perception of the sanctions that would result from violations. The extent of sanctions that might actually result from violations could differ frim the respondents' perceptions. In attempting to evaluate, however, the factors that influence the behavior of potential code violators, their perception of the punishment that would result from their actions may be more important than the actual sanction.

Based on the percentages in Table III, the offenses which respondents most frequently believed would result in sanctions are those in which the independence of the CPA was impaired. Auditing is one of the services offered by public accountants. Most audit engagements involve an examination of the client's financial statements, accounting records, and system of internal controls and operations so that the auditor can express an opinion on the fairness of the financial statements. An important premise of the auditor-client relationship is that the auditor is objective in forming an opinion and, consequently, is independent of the influence or pressure which a client may exert. In cases 5, 6, and 7, the hypothetical CPA violated AICPA rules that were promulgated to promote auditor independence, and a larger percentage of respondents believed that a sanction would result from these violations than from the other cases. The implication of this finding is that CPAs and clients may believe that state accounting boards consider a departure from the independence rules more serious than a departure from the other rules.

Since the reporting and sanction questionnaire asked respondents both what action they would take upon observing a violation and what penalty they believed would result from the same violation, the data was analyzed for evidence of an association between these factors. Both CPAs and clients were found to be more likely to report violations when they believed the violations would result in severe

TABLE III
Likelihood of a sanction

Violation description	percent of respondents who believed that a sanction would result from the violation	
	CPAs	clients
1. A CPA paid another professional to refer potential clients to him.	22.8	34.1
2. A CPA accepted a tax preparation engagement for a contingent fee; i.e., the fee would increase as the amount of tax liability decreased.	21.5	33.3
3. A group of CPAs operated their public accounting business under a fictitious firm name, "Tax Professionals," rather than using a name consisting of the partners' last names.	24.1	18.8
4. A CPA vouched for the achievability of a financial forecast which he had prepared for a client.	21.5	31.0
5. A CPA accepted an employment position with an audit client and continued to serve as the client's independent auditor.	59.5	60.9
6. A CPA bought a few shares of common stock of an audit client corporation.	29.1	25.6
7. A CPA made a joint investment with an officer of an audit client company.	45.6	62.1
	$n = 79$	$n = 90$

sanctions, such as license suspension or revocation, and less likely to report violations when they believed the violations would not result in severe sanctions (Wilcoxon signed-rank, p-value = 0.085). Respondents may have felt that reporting an infraction is not worthwhile if the resulting sanction will be lenient.

Synthesis and conclusions

When a profession chooses to enforce its ethics code through a system which is set in motion by complaints filed by someone who has witnessed or discovered a code violation, reliance is implicitly placed on (1) the integrity of practitioners in refraining from violating the rules and (2) practitioners' fear of punishment. In focusing on the latter of these two factors, the authors contended that someone who is tempted to break an ethics rule considers the likelihood of his or her violation resulting in some form of sanction.

This likelihood of loss can be broken down into three components: detection risk, reporting risk, and sanction risk. Because of the multiplicative relationship of these factors, the overall risk of loss will be insignificant if any of the three component risks is insignificant. As a consequence, a complaint-based system may not be effective if potential violators suspect that any of these risks are minor.

These risks will, of course, vary from one profession to another. The population of potential violation observers of the medical profession may differ significantly from those who may observe violations of the engineering profession. Similarly, the sanctioning authorities of different professions

may have different motivations and may differ in their propensities to levy sanctions.

This research project gathered evidence relating to these risks as they are manifested in the accounting profession. While some of the inferences drawn from the research data may reflect on the complaint-based enforcement systems of all professions, conclusions may be accurately extended only to the accounting profession. An additional limitation of the research design is its examination of populations in only one geographical area, although one may argue that accountants and clients may not differ significantly from one region to another.

With regard to detection risk, the knowledge survey revealed that CPAs, on average, correctly evaluated slightly more than 75 percent of the cases; clients correctly evaluated about 55 percent of the cases. These percentages suggest that as many as one fourth of witnessed violations are not recognized as violations by observers of the infractions. The actual percentage of undetected violations, however, may be higher because some code violations are not witnessed or discovered.

The reporting and sanction risks were addressed by another survey of CPAs and clients. The research findings relating to reporting risk indicate that CPAs would report only about one half of the code violations presented in the questionnaire; clients indicated that they would report only about 40 percent. The consequent implication is that even if CPAs and clients recognized 100 percent of the violations that they witnessed, less than half would be reported.

Evidence concerning the sanctions that are prescribed by accounting boards suggests that sanction risk may be lower than reporting risk. When asked what form of sanction, if any, would result from reported case violations, CPAs and clients believed that some form of sanction would be levied about one-third of the time, on average. This means that potential violation witnesses believe that even if all ethics code violations are detected and reported, the state accounting boards will levy some form of sanction approximately one-third of the time.

Although the survey has provided evidence with regard to each of the three risks, the identified limitations of the project preclude the definition of exact, numeric probabilities that can be defined as detection, reporting, and sanction risks. Likewise, since the component risks cannot be accurately identified, the overall risk of loss of a potential code violator cannot be determined.

The data that the survey generated, however, does not reflect well on the effectiveness of the complaint-based ethics enforcement system of the accounting profession. More than one-fourth of the violations may not be detected. Less than one-half of those who witness ethics code violations would report them. Members of the profession believe that sanctions would be prescribed for about one-third of the reported violations. Considering the combined effect of each of these findings, a CPA who is tempted to break an ethics rule may be undeterred by the possibility of punishment.

As mentioned previously, the AICPA recently modified its ethics enforcement system by requiring its members to undergo peer reviews, although the system will continue to be complaint-based. While this project was not designed to evaluate the effect of peer review on ethical behavior, the findings indicate that a departure from a system that was solely based on complaints may have been warranted.

Recommendations for research

This study and analysis revealed several topics that should be addressed by future research. First, the extension of this research to other professions would provide interesting comparisons to the field of accounting and would generate additional evidence regarding the effectiveness of other complaint-based systems.

Second, the perceived importance of the various ethics rules was not determined in the survey. Perceived rule importance could be a significant determinant of the likelihood of reporting a violation of a rule.

A third topic which should be analyzed in future ethics research is practitioner experience. This factor was also omitted from the survey and could possibly be a correlated with knowledge of the code, the likelihood of reporting an observed violation, and perceptions regarding sanctions.

Fourth, future research regarding the behavior of violation observers should consider their risk aversion. Reporting risk, as identified in this study, may also be a function of the observers' personal risk

aversion and their ability to confidently present objective, incriminating evidence of a violation.

Last, there may be a significant association between a complaint and a practitioner's conviction of a crime. The CPA respondent, quoted earlier, stated that reported violations seem to result from criminal convictions.

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