Beyond Bean Counting: Establishing High Ethical Standards in the Public Accounting Profession*

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ABSTRACT. Business professions are increasingly faced with the question of how to best monitor the ethical behavior of their members. Conflicts could exist between a profession's desire to self-regulate and its accountability to the public at large. This study examines how members of one profession, public accounting, evaluate the relative effectiveness of various self-regulatory and externally imposed mechanisms for promoting a climate of high ethical behavior. Specifically, the roles of independent public accountants, regulatory and rule setting agencies, and undergraduate accounting education are investigated. Of 461 possible respondents, 230 questionnaires (a 49.6% response rate) indicated that the profession's own rule setting body (The American Institute of Certified Public Accountants) and the use of peer review were perceived as the most effective mechanisms, while government regulation was ranked least. Respondents also evaluated the extent to which ethics should be covered in the accounting curriculum. For every course, the CPAs believed a greater emphasis on ethics is appropriate than presently exists. Suggestions for more effectively integrating ethics into accounting courses are made. Finally, respondents were also asked whether in answering the questionnaire they used a definition of ethics as either the "Professional Code of Conduct" or a "moral and philosphical framework for guiding beliefs." Those who viewed ethics as abiding by a professional code had more confidence in the mechanisms addressed in this study to aid the public accounting profession's ability to ensure high ethical standards of conduct. Methodological implications of this distinction for future studies in business ethics are discussed.

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Two important characteristics of a profession such as accounting, law, and medicine are (1) its ongoing relationship with the society it serves and (2) the profession's desire and responsibility for self-regulation. Society empowers a profession to conduct its affairs consistent with the broader set of social values. This can lead to a tension between a profession's pursuit of independence and the public's demand for accountability (Stevenson, 1985; Frankel, 1989). This paper addresses how members of one profession, public accounting, evaluate the relative effectiveness of various self-regulatory and externally imposed mechanisms for balancing these potentially conflicting demands.

Public accounting is an important profession to examine because among the most well-known and central responsibilities of the accounting profession is the attest function. Although management holds the ultimate responsibility for the preparation of the financial statements, the public looks to the firm's auditors to evaluate and certify the reliability of these statements (i.e., the attest function). Thompson and Jones (1990), summarizing the results of several surveys taken during the early 1980s, conclude that the public believed that auditors generally exercise independent and objective judgment in performing such audits.

However, recent events indicate that the public might perceive a breakdown in the ability of a profession to effectively self-regulate the ethical behavior of its members. For example, Congressman Dingell (1986) wrote,

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> It became imperative that Congress investigate the role of the accounting profession, as we saw repeated revelations of illegal conduct of corporate officers, bank failures leading to huge government bailouts, and a series of stock manipulations and conglomerate takeovers that were apparently accomplished with the aid of accounting gimmicks. In each such case one could not help wondering what had become of the independent auditor.

Incidents like those involving EMS Securities, ZZZZ Best, Regina, and the S&L crisis have served to increase pressures from Congress and the SEC for the accounting profession to become more effective in regulating itself. Partly in response to these charges, the profession has witnessed in a relatively short period the release of the Report of the National Commission on Fraudulent Financial Reporting (the Treadway Commission), the issuance of a new Code of Professional Conduct for CPAs, and the promulgation of nine new "expectation gap" auditing standards which are designed to attenuate the gap between what the public expects for audits and what accountants are actually providing. These actions are meant to signal that the public accounting profession is earnest in its efforts to assume greater responsibility for monitoring and guiding the ethical behavior of its members.

The Treadway Commission, a leader in efforts to strengthen the profession's accountability, has identified three major groups in addition to the top management of publicly traded companies as critical in fostering a climate of ethical behavior that would reduce fraudulent financial statement reporting: (1) independent public accountants, (2) regulatory and rule-setting agencies, and (3) the educational system. This study, which is primarily exploratory in nature, attempts to investigate the perceptions of CPAs about the relative effectiveness of these three groups as mechanisms for promoting ethical standards in the public accounting profession. These groups were chosen because the basic debate about establishing and maintaining the ethical behavior of accountants performing their attest function boils down to a question of external versus self-regulation.

At least two explanations have been generated for the willingness and ability of accountants to police their audit behavior through ethical standards. The first stems from a view of a profession as a "moral community" that comes together for a shared purpose with a common set of values. This group then serves as a normative reference group with specific guides for conduct against which the individual practitioner aligns his or her own behavior (Frankel, 1989).

A more cynical explanation is based on the principles that (1) the objective criterion guiding an individual's behavior is to maximize one's own self-interest, and (2) groups of individuals know that group cooperation (described as group ethical behavior) maximizes total group interests which in turn produces maximum self-interest (Bollom, 1988). Society requires the attest function of CPAs, and to perform this function, CPAs are expected to be independent and competent. Bollom argues that as a group, CPAs will cooperate in order to continue to achieve their own needs, and therefore, will regulate themselves. For example, to increase both the perceived and actual competence and professionalism of its members, the American Institute of Certified Public Accountants (AICPA) recently enacted a membership requirement that CPAs, as of the year 2000, have 150 hours of education (equivalent to a masters' degree).

The Treadway Commission concurs (1987) that, "Users of financial statements expect auditors to bring to the reporting process technical competence, integrity, independence, and objectivity" (p. 49). The commission also recommends that, "Public accounting firms should recognize and control the organizational and individual pressures that potentially reduce auditing quality" (p. 56). The existence of such conflicting pressures implies that the profession must have strong guidelines for its members to insure that the high expectations of external users will be fulfilled. This sentiment is partially reflected in the new Code of Professional Conduct which includes six principles designed to promote ethical professionalism including both an ethical decision framework and increased attention to competency (through such approaches as continuing education requirements). Although the ultimate responsibility for sound financial reporting continues to lie with the top management of companies, the principles in the code (including "for the public interest" and "due care") imply that CPAs involved in auditing must also take responsibility for the integrity of financial statements. Moreover, the principle of competency suggests that CPAs have an ethical responsibility to obtain and maintain the skills necessary to detect and deter any financial statement manipulations attempted by the management of their audit clients. Therefore, the first objective of this study is to determine the perceived relative effectiveness of self-regulatory mechanisms used by the public accounting profession to encourage and maintain ethical behavior among its members.

A contrary view argues that since audited financial statements are the cornerstone of an efficient and effective capital market, the competent and ethical behavior of accountants is too important to be entrusted to the profession. Instead, the intervention and monitoring of external forces like the government are required. The Treadway Commission (1987) argues that a strong regulatory and legal environment is essential to prevent and detect fraudulent financial reporting. It notes that, "The accounting profession is subject to extensive regulation to ensure that independent public accountants provide reliable accounting and auditing services" (p. 63). An important consideration here is whether the profession considers external regulations effective in achieving and maintaining high ethical standards. The regulation literature (e.g., Stevenson, 1985; Bollom, 1988; and Frankel, 1989) suggests that members of a profession would be skeptical of the effectiveness of external regulators in monitoring the behavior of its members. Accordingly, practitioners were asked about the role and relative effectiveness of external oversight bodies.

Many have argued that the teaching of ethics should play a part in the development of the accounting professional (Bollom, 1988; Beets and Killough, 1990).

> Most students are floundering around seeking a personal code that we (teachers) could help mold. . . . Even if the study of ethics will not motivate one to be ethical, it will make one aware of the ethical dimensions of professional practice and aid in clear thinking in difficult situations (Bollom, p. 59).

The Treadway Commission also recognized the importance of the educational system in influencing the integrity of financial reporting by providing knowledge, skills, and ethical values. The commission maintains that the ethical dimensions of financial reporting should receive more emphasis in the business and accounting curricula. Commenting on the restructuring of the code of ethics (Code of Professional Conduct), Shaub (1988) recommended that research be conducted examining the effects on ethical behavior of education at the undergraduate and continuing professional education levels.

While some, including Bollom, suggest that ethics should be studied in a separate course, Cohen and Pant (1989) report in their study on ethics coverage that only 18 percent of the responding schools require a business ethics course, and when no course is required, the average number of accounting majors electing such a course is 19 percent. Therefore, this study focuses on incorporating ethics into undergraduate accounting curricula. Practitioners' views concerning the extent to which accounting education should integrate ethics are compared with the views of academics reported in a previous study which investigated the degree to which ethics is being integrated into the accounting curriculum. Recommendations are then presented on how to more effectively integrate ethics into existing courses.

The next section presents the methodology and questionnaire used in this study. This is followed by the results which are presented along the major components of the questionnaire: ethics and the public accounting profession and regulatory groups, and ethics in the undergraduate accounting curriculum. The last section discusses the study's implications for the public accounting profession, and for accounting education.

Methodology of the survey

A questionnaire concerned with the role of the public accounting profession, regulatory groups, and accounting education in influencing the ethical behavior of public accountants was developed from a review of the coverage of ethics and public accounting found in professional journals, and discussions with colleagues and CPAs. The questionnaire also included questions about the coverage in accounting courses which were patterned after an earlier study by Cohen and Pant (1989) that investigated accounting department chairpersons' perceptions of ethics and the curriculum. This will enable us to compare the extent to which practitioners believe ethics should be integrated in accounting instruction with academics' perceptions of what is actually being accomplished.

Subjects

The questionnaires were mailed to a random sample of 481 CPAs listed in a directory published by the Massachusetts Society of CPAs. Twenty of the questionnaires were returned as undeliverable (e.g., no forwarding address or person is retired) leaving a total of 461 possible respondents. One hundred and seventy-two responses were received from the first mailing. A follow-up letter generated an additional 58 responses. The total of 230 completed questionnaires resulted in a response rate of 49.6%. Table 1 presents a demographic description of the respondents by experience, job rank, education, and size and type of CPA firm.

It could be suggested that those practitioners who responded are more interested in ethics issues than the nonrespondents. To test for a nonresponse bias, the "wave" approach was employed. This approach is advocated by Armstrong and Overton (1977) who argue that late respondents are similar to nonrespondents. The responses generated from the second mailing were compared with those from the first mailing. On only two out of 20 possible questions did a t-test show a significant difference at an alpha level of 0.05. These results suggest that there is no significant nonresponse bias. Since there is also little difference in the responses across the two mailings, all subsequent data analysis is performed using the aggregate sample.

Results

Ethics and the public accounting profession

Eleven questions were asked to elicit the respondents' views concerning the effectiveness of various public accounting and regulatory mechanisms in establishing high ethical standards for the public accounting profession. Each of the questions used a seven-point scale anchored by (1) "Not Effective" and (7) "Very Effective". The results are presented in Table II.

The results of ANOVA indicated that there was a significant difference in the perceived effectiveness of the various mechanisms ($p < 0.001$). An exami-

TABLE I
Demographic background

	Number	Percent
I. *Number of years experience*:		
1–10 Years	76	33
11–20 Years	75	33
21–30 Years	49	21
Over 30 Years	23	10
No Response	7	3
Total	230	100
II. *Rank of respondent*:		
Senior	13	6
Manager	51	22
Principal	67	29
Partner	85	37
Private Sector	5	2
No Response	9	4
Total	230	100
III. *Number of professionals in office*:		
1–14	112	49
15–100	39	17
> 100	70	30
No Response	9	4
Total	230	100
IV. *Highest educational degree*:		
Bachelor	138	60
Masters	72	31
Doctorate	1	0*
JD	7	3
No Response	12	6
Total	230	100
V. *Company affiliation*:		
Big-Six	67	29
Non Big-Six	149	65
Private Sector	5	2
No Response	9	4
	230	100

* Because all percentages are rounded, this figure (0.4%) appears as 0.

TABLE II
Ethics and the public accounting profession (Scale employed: 1 = not effective, 7 = very effective)

Question	Mean	Std. Dev.
1. How effective do you believe the state board of accountancy is in establishing high ethical standards for the public accounting profession?	4.2	1.5
2. How effective do you believe the state society of CPA's is in establishing high ethical standards for the public accounting profession?	4.7	1.4
3. How effective do you believe the AICPA is in establishing high ethical standards for the public accounting profession?	5.4	1.3
4. How effective do you believe the peer review process is in establishing high ethical standards for the public accounting profession?	4.9	1.5
5. How effective will the Report of the National Commission on Fraudulent Financial Reporting be in establishing high ethical standards for the public accounting profession?	4.1	1.3
6. How effective would government regulation be in establishing high ethical standards for the public accounting profession?	3.0	1.7
7. How effective do you perceive mandatory continuing education is in establishing high ethical standards for the public accounting profession?	4.4.	1.5
8. How effective would requiring an ethics course as a component of mandatory continuing education be in establishing high ethical standards for the public accounting profession?	4.3	1.6
9. How effective is the requirement that auditing firms report all disagreements with management to the board of directors or audit committee in establishing high ethical standards for the public accounting profession?	4.6	1.5
10. How effective is the SEC requirement that auditing firms report other services and fees to the board of directors or audit committee in establishing high ethical standards for the public accounting profession?	3.9	1.6
11. How effective is the SEC requirement that firms rotate their audit partners every seven years in establishing high ethical standards for the public accounting profession?	4.3	1.6

nation of Table II indicates that the American Institute of Certified Public Accountants (AICPA) is perceived to be the most effective mechanism for establishing ethical standards. The mean (standard deviation) response is 5.4 (1.3). In contrast, government regulation is deemed to be the least effective mechanism with a mean response of only 3.0 (1.7). A Scheffe's posterior multiple comparison test demonstrates that the responses to these questions were statistically different from all other questions ($p < 0.05$). These results suggest that public accountants believe they could more effectively monitor their own behavior than could externally imposed government regulations.

Pearson (1987), in a survey of experienced public accountants (a majority having more than 15 years of auditing experience) found that respondents perceived that there are at least some deficiencies existing in practice. For example, approximately 60 percent of the respondents indicated that, at least occasionally, an audit engagement is completed where the auditors do not have the appropriate training and/or experience. Similarly, Finn, Chonko, and Hunt (1988) in a survey of senior level members of the AICPA (95 percent of the respondents were either partners or sole proprietors) reported that conflicts of interest and independence was the second most frequently encountered ethical problem confronted by CPAs is practice (client proposals for tax alteration and tax fraud was the most frequent).

To combat substandard and independence-impaired audits, a change in the revised AICPA's Plan to Restructure Professional Standards (a recommendation to increase professionalism and ethical behavior) is to require quality review for all accounting firms engaged in public practice. The AICPA has recently approved this recommendation, making peer review mandatory. Accordingly, respondents were asked about the perceived effectiveness of peer review in establishing high ethical standards. The mean (standard deviation) response was 4.9 (1.5) which suggests that peer review is believed to be a relatively effective mechanism.

The perceived effectiveness of peer review could be a function of the size of the respondent's firm. According to research conducted for the commission, 84 percent of audits of public companies are conducted by national public accounting firms. However, a significant majority (75 percent) of cases brought by the SEC against public accountants involved non-national firms. The Treadway Commiaaion attributes these audit failures to the inadequate training firms. The Treadway Commission attributes these audit failures to the inadequate training and supervision of audit staff and the failure to properly modify audit programs for specialized industries. Palmrose (1988) in an investigation of litigation involving the largest eight accounting firms ("Big Eight") and non-Big Eight firms, concluded that non-Big Eight firms experienced a higher degree of litigation than Big Eight firms. She argues that this supports the contention that the Big Eight are quality differentiated auditors. Moreover, White *et al.* (1988) in a study of current practices in peer review, concluded that peer review has the greatest impact on smaller firms because of the proportional increase in the costs of the review and the subsequent changes in the firms' quality controls.

To examine whether the size of the respondent's CPA firm had an influence on perceived effectiveness, the respondents affiliated with larger firms (defined as the upper quartile of firm size) were compared with the respondents affiliated with smaller firms (defined as the lower quartile of firm size). Using an alpha level of 0.05, a t-test found no statistically significant difference. Similarly, no statistically significant difference was found when the sample was divided into respondents from Big Six and non-Big Six Firms (mergers have shrunk the Big Eight into the Big Six). One possible explanation for the lack of a size effect is that even small firms might perceive that the potential benefits of peer review (e.g., less future litigation for faulty audits, client retention, and increased professional reputation) exceed the expected costs.

Continuing professional education was recognized by the Treadway Commission as having an important effect on the quality of work performed by independent public accountants including sensitizing accountants to pertinent ethical issues. This would seem to be especially important in light of Beets and Killough's (1990) findings that, when presenting CPAs with hypothetical cases involving unethical behavior, in approximately one quarter of the cases, the CPAs surveyed incorrectly evaluated whether the actions described violated the Code of Professional Conduct. Thus, there appears to be a need via such means as continuing education to increase the knowledge of ethics among CPAs. On the question of the effectiveness of mandatory continuing education, the mean (standard deviation) response was 4.4 (1.5). Surprisingly, respondents did not believe that requiring ethics courses as an integral part of continuing education would be any more effective in establishing high ethical standards (a mean of 4.3 and a standard deviation of 1.6).

The power to grant and revoke the CPAs license lies with the state. Moreover, public accountants must also abide by an individual state's code of conduct. Perceptions about the effectiveness of state boards and state societies in regulating ethical standards was also studied. A t-test found that the state society was thought to be more effective than the state boards of accountancy with a mean (standard deviation) response of 4.7 (1.4) for the state society and 4.2 (1.5) for state boards. This is interesting in light of the Treadway Commission's call for "enhanced enforcement by state boards of accountancy". The commission recommended that the state boards adopt a positive enforcement program and play a more proactive role in establishing the climate for ethical behavior on the part of practicing public accountants.

The AICPS's Division for CPA firms consists of an SEC Practice Section and a Public Company Practice Section. Membership in either section obligates firms to meet certain requirements that affect the ethical standards of the public accounting profession. Three expectations examined here require that auditing firms (1) report disagreements with management to the board of directors of audit committees, (2) report other services and fees to the board of directors or audit committees, and (3) implement a rotation of audit partners every seven years. All three expectations are mechanisms to enhance both the reality and perceptions of auditor independence. For example, Pearson (1985) argues that strengthened audit committees will result in financial statements users having a more appropriate perception of auditor independence. The results of ANOVA found the perceptions of respondents to be significantly different ($p < 0.01$). An examination of Table II indicates that reporting other services and fees was viewed as the least effective mechanism of these three requirements (a mean response of 3.9 with a standard deviation of 1.6).

One explanation for this result is that management advisory services have become such an integral and growing component of a CPA firm's business. Actions that might adversely affect these fees would perhaps be looked upon unfavorably. For example, the failure of Arthur Anderson and Price Waterhouse to merge has been attributed to the possible conflict of interest between the consulting activities of Arthur Anderson (the largest of any consulting firm) and auditing activities of Price Waterhouse which leads the accounting profession in total revenue generated from auditing public clients. Alternatively, in a study conducted for the Treadway Commission on the expansion of nonaudit services and auditor independence, Edwards (1987) concludes that there "is no established evidence that independence had been impaired or fraudulent financial reporting abetted where an audit firm also performed management advisory services" (p. 102). In fact, Edwards argues that some management advisory services such as information systems design may actually help in the prevention of fraudulent financial reporting. Finally, users of financial statements may perceive little or no ethical conflict in public accountants performing both MAS and independent audit function. Support for this is suggested in an experimental study conducted by Pany and Reckers (1988) on the effect of MAS services on financial analysts' and loan officers' use of audited financial statements. The authors conclude,

> that auditor provided MAS exerts little, if any, effect on typical investment or credit granting decisions, on perception of financial statement reliability, or on perceptions of auditor independence (p. 38).

One additional question was open-ended and asked respondents to "Please list any other actions which could help in establishing high ethical standards for the public accounting profession." For the 55 who answered this question, the most frequent response indicated that ethical standards and values are established in the home. This result would imply that, for at least some respondents, ethical behavior is viewed as a norm to be learned early on in one's life rather than something that can be regulated into existence.

Interpretation of ethics

One factor that might have affected subjects' response is their interpretation of ethics. For example, if the perception of ethics involves only abiding by a code of professional conduct, subjects might respond differently than if ethics is interpreted as a broader philosophical framework. Accordingly, we asked subjects to identify the concept of ethics they used when responding to questions. Of the 230 respondents, 80 (35%) answered, "Ethics as defined by the AICPA's Professional Code of Conduct". Another 141 (61%) replied, "Ethics as a moral and philosophical framework for guiding beliefs". Nine (4%) did not respond. A comparison between the two respondent groups indicated significant difference ($p < 0.05$) existed on the perceived effectiveness of the state board of accountancy, of requiring an ethics course as a component of mandatory continuing education, of reporting other services and fees to the board of directors or audit committee, and of rotating audit partners every seven years. For each question, the group that defined ethics in terms of the AICPA's Professional Code of Conduct believed that the mechanism in question was more effective. This finding will be elaborated upon in the discussion and conclusion section.

Comparison with previous research on educators' perceptions

The second part of the questionnaire examined respondents' views regarding the extent to which ethics should be covered in the accounting curriculum. In their study involving accounting department chairpersons, Cohen and Pant (1989) investigated the extent to which ethical issues receive coverage across a set of accounting courses. Table III summarizes the results from that study and compares them to the practitioners' responses here.

For every course, the practitioners' group believed that ethics should be covered significantly more than what presently exists ($p < 0.01$). One reason for this difference may be found in the results from the study by Cohen and Pant (1989) which suggested that academics believe very few tangible incentives (e.g., promotion and compensation) are available for faculties to make the effort to incorporate ethical issues in their accounting courses. Furthermore, Hosmer (1985) argues that one reason that academics may be reluctant to integrate ethics into their courses is because ethics issues are perceived to be "soft" and unscientific.

Additionally, the rank order of practitioners' beliefs about ethics coverage in accounting courses is relatively consistent with the rank order of the actual coverage as reported by academics. The Spearman rank correlation between the academics' evaluations and the practitioners' evaluations is 0.80 ($p < 0.01$). Moreover, both practitioners and academics indicate that exposure to ethical issues is most important in the auditing course. This consensus is reassuring since the credibility of the attest function of an audit is often viewed as contingent on the profession maintaining high levels of integrity in fact and perception.[1]

One purpose of undergraduate accounting education is to prepare students to embark on a professional career in accounting. The fact that accounting practitioners believe significantly more ethics should be integrated than currently exists raises the question of what can or should academics do to close this "expectation gap" in accounting education. The

TABLE III

Coverage of ethics in accounting course (Scale employed: 1 = no coverage, 7 = great degree of coverage)

	Faculty ($N = 145$)*			Practitioners ($N = 230$)*		
Course	Mean	Std. Dev.	Rank	Mean	Std. Dev.	Rank
Accounting Info Systems	2.2	1.4	9	3.6	1.9	8
Accounting Theory	2.9	1.6	3	4.2	2.0	5
Advanced Accounting	2.4	1.4	7	4.0	2.0	6
Auditing	5.3	1.5	1	6.0	1.6	1
Cost Accounting	2.3	1.4	8	3.5	1.8	9
Financial Accounting	2.6	1.4	5	4.6	1.9	4
Intermediate Accounting	2.8	1.5	4	3.8	1.8	7
Management Accounting	2.5	1.4	6	4.6	1.9	3
Taxes	3.3	1.5	2	5.3	1.8	2

* Faculty were asked the extent to which ethics is being covered while practitioners were asked the extent to which ethics should be covered.

answer lies in going beyond a rule-based education and exposing students to the complexity of ethical dilemmas in all accounting courses. One approach, discussed by Cohen and Pant (1988) in relationship to cost and management accounting is that after an accounting instructor reviews the technical aspects of the accounting measure (e.g., return on investment) he/she should systematically raise the short term and long term behavioral issues and both the grey and the black and white ethical issues. For example, when reviewing the return on investment measure, the instructor can discuss the ethical dilemma of rejecting investments which help the overall company's profitability but reduces the managers' segment return on investment.

The auditing course is replete with examples of ethical dilemmas. Issues should be raised concerning how to reconcile the objectivity required to fulfill the attest function and the need to compete for and retain potential or existing clients. The business side of auditing, which also includes the pressure to control costs or to accept clients who have had disagreements on audit opinions with previous auditors, should be emphasized to our students. This could also be done through the use of cases (see Mintz, 1990), articles from the financial press or by ethics videos prepared by groups like the American Accounting Association and the National Association of Accountants.

The issues of tax fraud and non-compliance issues permeates all tax topics. As discussed by Pearson (1987), the number one ethical issue confronted by accounting professionals is how to respond to clients who want to falsify the tax returns. Tax topics lend themselves to the earlier mentioned framework which discusses black and white ethical issues (e.g., falsifying numbers) and grey issues (e.g., the taking of a questionable deduction). The professor could also sensitize students to issues such as why people comply or don't comply with the tax law, and the effects of disagreeing with the client on the profitability of a CPA's tax practice.

The financial accounting courses (i.e., accounting theory, advanced accounting, financial accounting, and intermediate accounting) could discuss the subjective nature of accounting rules. For example, the issue of disclosure often involves the judgment of what is material. Materiality could be different in the eyes of the beholder resulting in a conflict about whether to put an item in the financial statement or bury the information in a footnote. Similarly, decisions involving estimates such as bad debt expense, depreciable lives of assets, and the timing of the recognition of revenue could all be manipulated by the preparers of the financial information. Ethical conflicts like these can be shown to students in even the most seemingly cut and dry applications of financial accounting rules. Resolution of the conflicts could be couched in stakeholder analysis or even in traditional philosophical frameworks. For example, the use of the utilitarianism concept is amenable to accounting students because it lends itself to a traditional cost/benefit mode of thinking. Accounting academics do not face a lack of ethical issues, but rather a lack of teaching materials such as textbooks, exam questions, and cases to draw upon in presenting ethical accounting issues in the classroom.

Discussion and conclusions

Results of this study indicate public accountants believe that the self-regulating activities of the profession will have the strongest impact on raising ethical standards. In-house activities such as peer review, and self-governing bodies like the AICPA and state societies are seen to be the most effective mechanisms of those examined. Current trends suggest that increased government regulation appears likely. The Treadway Commission (1987) has called for a stronger, more effective regulatory and legal environment. Dingell's house subcommittee's 1988 legislative proposals incorporate several of the commission's recommendations. However, in contrast to such growing pressures for government regulation, the respondents found this mechanism less powerful than the profession's own efforts in influencing its ethical behavior. Apparently, recent steps including approving the new code of conduct and issuing the nine "expectation gap" standards provide confidence that the AICPA will continue to demonstrate a leadership role in strengthening the profession's ethical standards.

One aspect of self-regulation, peer review, was previously speculated to be more costly for small firms. The October 10, 1988 *Accounting Today* reported increased costs of quality reviews conducted for the Private Companies Practice Section. For example, sole practitioners and firms with 2 to 5 professionals experienced greater than 10 percent cost increases in 1987 over 1986. Despite this reported rise in the costs of such reviews, the respondents from smaller firms in this study did not perceive peer review to be less effective as a mechanism for establishing high ethical standards in the profession than respondents from larger firms. Even with the current (1990) $1200 minimum fee for a peer review, it appears that a cost/benefit analysis supports implementation of mandatory peer review for CPAs. This has important implications for other business professionals contemplating some type of peer review. These professions may be able to use similar cost benefit analysis to support implementations of mandatory mechanisms for establishing high ethical behavior.

The results of this study also suggest that practitioners have high expectations about the extent of ethics coverage in all accounting courses relative to the current coverage. Hoffman and Moore (1982) and Cohen and Pant (1989) report a trend toward increased integration of ethics into the business school curriculum. It appears that academics are moving beyond a "rule- based" approach to teaching accounting. The Change Commission has been mandated by the American Accounting Association to bring about changes in the academic preparation of accountants consistent with improving their capabilities for success in the accounting profession. This translates to expanding the accounting curriculum to include nontechnical areas like ethics coverage in order to enhance the competence of accountants especially with reference to the attest function.

However, questions still exist concerning what specifically can be done to further integrate ethics into the accounting curriculum. External groups like the commission have provided a model to build on. This model suggests that changes must be made to the reward systems in academia, the format and context of professional examinations, the orientation of accounting textbooks, as well as the degree of emphasis on cognitive and conceptual issues in the accounting curriculum. Moreover, to achieve the maximum impact on students, these changes should also be made to the entire business curriculum where integration of ethics is appropriate.

Another finding of interest is that CPAs differed regarding the amount of faith they placed in the system according to their definition of ethics. Those who viewed ethics as abiding by a professional code had more confidence in the mechanisms addressed in this study to aid the profession's ability to insure high ethical standards of conduct. When ethics is defined in a broader philosophical context, it appears that issues are perceived to be more complex and less easily solved. One explanation for such a high level of confidence in its self-policing ability stems from the accounting profession's long standing tradition of codes of ethics and self regulation. Ethical rules were first adopted by the American Association of Public Accountants in 1905 and a code of ethics was promulgated in 1917. This proactive stance continues to be reflected in the most recent restructuring of the code of Professional Conduct and the issuance of the nine "expectation gap" auditing standards.

The revised Code of Professional Conduct builds on the "do's" and "don't's" rules of the old code by adding six principles. The principles are designed to create an atmosphere that promotes ethical behavior rather than reacting to the violations of the law. Frankel (1989) has identified three types of codes of professional ethics (1) an "aspirational" code providing goals reaching towards higher personal fulfillment, (2) an "educational" code providing explanations and interpretations supporting the required practices, and (3) a "regulatory" code providing clarifications meant to serve in settling grievances. The expanded Code of Professional Ethics contains elements of all three types and should be effective in enhancing the accounting profession's reputation by increasing professionalism and acting as an effective deterrent to unethical behavior.

The finding regarding differences in answers based on respondents' interpretation of ethics has important methodological implications for business ethics research. There appears to be a need to examine, and perhaps control for, the definition of ethics used by subjects in these studies. For example, one common approach in this research is to present subjects with various ethical vignettes and ask them on a semantic different type scale whether a behavior is ethical/unethical. The results of this study indicate that responses may differ if ethics is interpreted as complying with a profession or company's code of ethics as opposed to a philosophical framework. From a methodological perspective, this problem is more likely to surface when respondents are in professions with a strong tradition of explicit professional codes of ethics. An interesting future methodological study could explicitly manipulate the definition of ethics as an independent variable to determine its effect on whether respondents perceive an action to be ethical or unethical.

It is encouraging that such a high level of interest regarding ethics by public accountants was demonstrated in the degree of response to this survey. A relatively high response rate (50 percent) was achieved, and 24 percent of the respondents went beyond the scaled responses by expressing their views in additional and at times lengthy written statements. This result suggests that a strong interest in professional ethical issues is not limited to advisory bodies like the commission and the AICPA but is of paramount importance to the rank and file members of the public accounting profession. It is hoped that the results of this study will shed light on the public accounting professions' efforts to maintain and improve the proper milieu that will effectively guide the ethical behavior of CPAs as they approach the 21st century.

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Notes

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1 Responses of the practitioners in the area of ethics and accounting education were also analyzed based on practitioner's interpretation of ethics. The results from the t-tests revealed at the 0.05 level of significance that when comparing the two groups, the respondents who interpreted ethics as the AICPA's Professional Code of Conduct believed that ethics should be integrated to a greater extent in the auditing course. The earlier study on academics did not ask them for their interpretation of ethics. Accordingly, no comparisons could be made on this issue between the practitioners and the academics.

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