Building Ethical Capability for Accounting Professionals

A Needs Analysis Study

Final Report

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EXECUTIVE SUMMARY

The purpose of this project is to identify ethical capability needs of Australian accounting professionals and produce policy recommendations that can inform future measures to improve ethical behaviours and culture in the profession, as well as the design of an ethical capability building program. A program of this kind could be effectively developed and delivered by CPA Australia to its members. The needs analysis findings presented in this project are of interest to CPA members and other accounting professionals, other professional bodies and stakeholders, and to the Australian and international accounting and professional ethics research community.

Using quantitative and qualitative methods for data collection and analysis, this study investigates the current ethical capability needs of accounting professionals in Australia, namely (a) ethical issues; (b) response practices; (c) solution recommendations; and (d) support actions and sources. The target population is represented by accounting professionals who are members of professional accounting bodies such as CPA or CAANZ, as well as non-members; working either in professional services firms consulting for industry or in the accounting functions of organisations operating in various sectors. The data set contains a total of 238 records from 162 questionnaires and 76 interviews.

The main ethical issues mentioned were misleading or inaccurate reporting, lack of transparency in accounting decisions, and breaches of confidentiality; while the most frequent response practices were reported to be saying 'no' to external pressures, seeking advice, and educating either fellow professionals or clients. The most common normative advice provided referred to exercising moral courage, consulting with peers, and reporting the issue to management. The most prominent sources of support were professional bodies, followed by employing organisations, and by regulators and government. Professional bodies were expected to lead the way in education and training, driving social dialogue, and building an ethical culture. On the other hand, regulators were looked upon to improve

policy, increase resourcing and funding, and improve oversight as well as whistleblower protection.

The main themes identified in the study were: fear of losing independence in professional judgement; two competing philosophical positions, i.e. a legal compliance view versus a collaborative, trust-based view of approaching ethics; and the need for solutions to be interdependent, i.e. combine multiple levels and areas of action and support.

Ethical capability needs were grouped into valued attributes and action categories, and further detailed into sets of actions recommended to individual practitioners (self and peers), employing organisations, professional bodies, academic institutions, regulators, government, legislators and the legal system. Based on this input as well as experience of the accounting and professional ethics literature, the study offers: five general policy recommendations (systemic solutions, openness and transparency in inter-stakeholder communications, peer support, participation and empowerment, and service enhancement); recommendations for ethical capability program design (foundational principles, elements of content and structure, articulated components, and follow-up reference sources), as well as suggestions for future research.

1. INTRODUCTION. PROJECT RATIONALE

Ethical or moral competencies are regarded as an essential attribute of any accounting professional (Pimentel *et al.,* 2010). Accountants serve as financial reporters, and accurate financial information is essential to growth in capital markets (Palvi, 2002), which is a source of economic development for any country. The information that accountants provide is crucial in decision making for business managers, investors, government, regulators, and many other stakeholders. Accordingly, ethical improprieties by accountants can be detrimental to society, resulting in distrust by the public and dysfunctions in the economy (O'Connell *et al.,* 2005; Ball, 2009; Thapa & Brown, 2007). Furthermore, due to globalisation, the ethical practices of accounting professionals in any particular jurisdiction can have far reaching implications worldwide, for investors, employees, governments and the public (Leung & Cooper, 2005; Ratnatunga *et al*., 2015; Voinea, 2015).

It is generally recognised that accounting benefits from one of the strongest ethics regimes (i.e. systems of norms, regulations and instruments) among the business-related professions. Accountants follow several codes of ethics to perform their duties in a professional work environment. These codes are set out by the professional bodies of which they are members. In the Australian context, the Accounting Professional and Ethical Standards Board (APESB) develops and issues professional and ethical standards in the public interest that apply to members of Certified Practising Accountants Australia (CPA Australia), Chartered Accountants Australia and New Zealand (CAANZ) and the Institute of Public Accountants (IPA). The *Code of Ethics for Professional Accountants* (APES110) incorporates the content of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA), an independent standard setting body under the auspices of the

International Federation of Accountants (IFAC). Beside standard setting and the promotion of codes of ethics and conduct, professional and regulatory bodies play a crucial role in supporting the accounting ethics regime by delivering ethics education and training programs and by promoting best practices in professional ethics (Buchan, 2005; Murphy, 2016).

However, accounting ethics research has found that, despite the establishment of an advanced ethics regime, accounting professionals are still confronted with moral dilemmas and ethical challenges in their everyday practice (Rossouw *et al*., 2010), and unethical behaviour still occurs, with significant consequences for stakeholders, as recent corporate scandals suggest (Ragatz, 2016; Suzuki & Yamada, 2016). The issue of persistent tensions between professional judgment and transactional interests, which has challenged many professions (Jennings, 2004), continues to be present in accounting as well. These findings may appear surprising if we assume that knowledge of standards and norms is sufficient to ensure ethical action. Studies in moral psychology and behavioural ethics (Rest, 1989; Morales-Sánchez & Cabello-Medina, 2015) have indicated, however, that ethical competence, i.e. the cognitive ability to identify and understand an ethical issue when it arises, should not be confused with ethical performance, i.e. the actual behaviour that enables a decision maker to follow through with an ethical choice. This distinction marks the so-called judgment-action gap (Blasi, 1995; Walker, 2004), which explains why and how, in conditions of adverse pressure, the recommendations provided by ethical competence are superseded by considerations that deviate the decision maker from the original judgment and lead them to undertake unethical action. The concept of ethical capability is construed to make the judgment-action gap explicit and then bridge this gap by identifying and supporting effective ethical action in conditions of adverse pressure.

Ethical capability has generally been defined as the ability to identify and respond effectively to ethical issues (Buller & McEvoy, 2000), by making, implementing and managing ethical

decisions (particularly) when influenced, pressured or forced to do otherwise - either as an organisation (Smith & Perks, 2011; Petrick & Quinn, 2001) or as an individual (Stevens, 2012). Ethical capability has been explored in relation to individual behaviours institutionalised within particular professions - such as medical (Oakley & Cocking, 2001), legal (Parker & Evans, 2013), and youth work (Stevens, 2012), among others. However, to our knowledge, ethical capability is yet to be examined in the context of accounting.

Our study initiates interest in ethical capability building within the accounting profession, by collecting the perceptions of Australian accounting and related professionals with regards to ethical issues encountered in their professional experience, response practices observed, recommended solutions, and support actions and resources needed to enhance and strengthen the ethical capability of individual practitioners and the organisations in which they work. We conceptualise the integrated knowledge of these four areas as knowledge of ethical capability needs. The identification of ethical capability needs initiates a direction of research aimed at informing ethical capability building policies and practices at multiple levels (organisation, industry, sector, profession, community), and leading to recommendations for improving ethical decision making, ethical behaviours and ethical climate within the accounting profession.

2. OBJECTIVES AND SIGNIFICANCE OF THE STUDY

The purpose of this project is to identify ethical capability needs of Australian accounting professionals and produce policy recommendations that can inform future measures to improve ethical behaviours and culture in the profession, as well as the design of an ethical capability building program. A program of this kind could be effectively developed and delivered by CPA Australia to its members.

The needs analysis findings presented in this project are of interest to several stakeholder groups, as follows:

(1) for CPA Australia - to inform the development of its ethics education and training programs and support its efforts in increasing compliance with the profession's code of ethics;

(2) for CPA Australia members – to contribute to improvements in ethical decision making in the specific contexts of the members' professional practice;

(3) for the profession - to support the development of sustainable ethical accounting across sectors, and contribute to maintaining the integrity and public reputation of the accounting profession; and

(4) for the global community – to provide an example of how needs analysis findings can generate recommendations for the design of ethical capability programs worldwide.

3. METHODOLOGY AND SAMPLE DETAILS

As mentioned above, our study focuses on the first step in ethical capability building in the accounting profession, namely identifying ethical capability needs. Hence, the key research question addressed here is: what are the current ethical capability needs of accounting professionals in Australia? This research question structured our data collection efforts into four research areas: (a) ethical issues; (b) response practices; (c) solution recommendations; and (d) support actions and sources.

Following this pattern of enquiry, we have collected the perceptions of practising accountants regarding the most important ethical issues in their profession in the last five years, the response practices they experienced and/or observed, the solutions they consider appropriate, and the actions and sources needed to implement the recommended solutions. Appeal to the perceptions and experiences of the active practitioner is considered to be one of the most valuable sources of evidence for a needs analysis study, as direct accounts of the person experiencing a need have been recognised as essential sources of information about needs (Noddings, 2013).

Data was collected via online and hard copy survey (open-ended questionnaire) and one-on-one interviews. An identical set of nine key open questions was used in both modes. Both survey questionnaires and interviews asked accounting professionals to comment on:

(a) *Ethical issues encountered*, in particular:

- what were the most important ethical issues encountered in their professional practice in the last five years, be it inside or outside their organisation, and whether experienced directly or indirectly;

- why they considered these to be ethical issues; and

- why these issues were important;

(b) ***Response practices***, i.e. how they (or others) have dealt with ethical issues;

(c) ***Solution recommendations***, i.e. how ethical issues should be dealt with; and

(d) ***Support actions and sources***, in particular:

- what support is required by accounting professionals to better deal with ethical issues in their profession; and

- who should provide this support.

The survey/interview schedule was designed and developed through an iterative process, involving feedback from method experts as well as practitioner focus groups. Two focus groups of 8 and, respectively, 12 senior, experienced accounting practitioners representing all three sectors of Australian society (business, government, and non-profit) test-responded to the survey and then participated in open discussions about the appropriateness of the instrument, as both questionnaire interview schedule, for the study's objectives and approach. Their feedback was incorporated in the design of the final version of the instrument.

The target population was accounting and closely related professionals – members of professional accounting bodies such as CPA or CAANZ, as well as non-members. Both accountants in professional services firms consulting for industry and those working in the accounting functions of organisations operating in various sectors were included in the sample. The data set contains a total of 238 records from 162 questionnaires and 76 interviews. Table 1 (see Appendix 1) provides a breakdown of the collected sample according to a range of demographic categories such as gender, age, location in Australia (State), type and size of employing organisation, managerial level, type and length of professional membership, and length of professional experience. Our sample exhibits a relatively balanced distribution in gender (cca 60% male and cca 38% female) and age (between 26% and 27% for each of the 18-

30, 31-40 and 41-50 groups). The business sector was the most strongly represented, with accounting and professional services firms at cca 24% and accountants in other private sector corporations at cca 38%. Government and non-profit organisations were also represented (cca 18% and, respectively, cca 17%). Most organisations (over 65%) were large, ie with more than 100 employees. Accountants in executive and senior management represented approximately 40% of the sample, followed by non-management professionals (cca 23%). Around three quarters were members of a professional accounting body, in particular CPA (cca 57%) and CAANZ (38%). Almost 75% have been members for five years or more, and over 80% have had accounting experience in excess of five years. This enabled them to make informed comparisons and evaluative judgments about the evolution of ethical issues in Australian accounting practices over longer periods of time.

Due to time and resource constraints, a larger sample was collected from Victoria than from the other States. However, an important segment of the sample is represented by large organisations with offices in most Australian States. The qualitative data collected through the interviews indicate a relatively high level of homogeneity in terms of culture and practices across branches within these organisations. In addition, all researchers engaged in this study noted that approaching small accounting practices within the given timeframe was visibly more difficult than approaching any other categories of accounting professionals. Further research is needed to focus on small (especially regional and self-employed) accounting practitioners and their specific needs.

Given the exploratory nature of our study and the central importance of direct reference to practitioner experiences as free narratives, our research methodology relies on content analysis principles, which enable us to systematically examine interview and questionnaire communications in the form of oral and written text (Krippendorff, 2004). To interpret our data, we applied a mix of quantitative content analysis (Bazeley & Richards, 2000; Neuendorf, 2017)

with qualitative thematic analysis (Guest *et al.*, 2012). The analytical judgments of three experienced coders were supported by advanced use of QSR-NVivo 11 software.

4. QUANTITATIVE CONTENT ANALYSIS AND RESULTS

This analysis identifies the types of responses under the four areas of enquiry (ethical issues, response practices, solution recommendations, and support actions and sources) and their relative frequency, expressed in percentage of total sample (unless specified otherwise). The key findings under each of four headings are presented below.

4.1 Ethical issues encountered

This section refers to ethical issues explicitly identified by the respondents as being ethical in nature and important. Respondents mentioned a variety of issues, described as situations where an ethical decision is called for. As such situations refer to the potential for unethical decisions to be made, the issues mentioned may not have reflected the actual occurrence of an unethical act. Some respondents offered for discussion up to four different ethical issues. The dominant category of ethical issues described by the respondents was that of misleading reporting of accounts (cca 41%), which included mainly inaccuracy, incompleteness, and questionable re-categorisation. Fraud and tax evasion (cca 14%) was the second most frequently mentioned group of issues. Although some of the issues in this category involved misleading reporting, they were classified separately due to the respondent's emphasis on specific (potential) breaches of the law. A third important category was represented by lack of transparency in accounting decisions (cca 12%). Smaller categories were breach of confidentiality (cca 8%), misrepresenting expertise (cca 7%), overcharging fees or over-servicing clients (cca 7%), and bribery (cca 4%). A wider range of issues is included in Table 2 (see Appendix 1).

In support of their perceptions, some respondents also commented on the actual or potential causes or sources of ethical issues. These were classified into three categories, as indicated in

Table 3 (see Appendix 1): pressure from client (cca 21%), conflict of interests (cca 19%), and pressure from the employing organisation's management or leadership (cca 18%). The conflict of interests category was particularly interesting, revealing concerns with systemic problems, namely problems inherent in the structure of the organisation's internal accounting policies or performance incentives.

Responses to the question 'why do you consider this to be an ethical issue?', presented in Table 4 (see Appendix 1), indicate that the dominant criteria determining whether an issue is of an ethical nature were accuracy and correctness (cca 36%), justice (fairness) and impartiality (cca 35%), completeness and transparency (cca 12%), and negative effects or consequences – mostly on the integrity of the profession (9%) and on clients (cca 5%), and less so on the priorities of the organisation (1%). While accuracy and completeness have been recognised by respondents to be closely related in their work, we can conceptualise them as separate categories, given that accuracy was explicitly and primarily related to the value of truth (and truthfulness) while completeness was related to the value of honesty. Notwithstanding the close semantic relationship between the two concepts, we note a different emphasis being placed on accuracy as predominantly a product of a lack of professional competence, whereas incompleteness was rather perceived to be due to shortcomings in personal character. Furthermore, these results suggest a dominance of principles (cca 84%) over consequences (cca 15%). Combined with grouping responses into explanations based on professional judgment and principles-driven choices (76%) versus explanations based on compliance with rules and standards (24%), as illustrated in Table 5 (see Appendix 1), it can be inferred that adherence to principles tends to be internalised by respondents through ethical reasoning and is not merely a matter of following prescription.

Interestingly, dominance of principles over consequences only reflects respondents' conception of what constitutes the ethical, or what it means to be ethical. Responses to the question 'why is this issue important?' reveal a different picture of the criteria used to prioritise ethical decisions. This time the dominant consideration was contribution to stakeholder and social well-being (cca 18%), followed by preoccupations to maintain professional standards (cca 15%), integrity (cca 11%) and reputation (cca 9%); as well as to maintain public trust (cca 8%), uphold justice (cca 7%), maintain an ethical culture (cca 6%) and speak truth to power (cca 5%). Less frequently mentioned are overriding priorities to: ensure compliance (cca 5%), maintain the organisation's financial performance (cca 5%) or apply the core values of the organisation (cca 2%). We also note that less than 5% of the respondents explicitly invoked the principle of upholding the public interest, which is central to the conceptual framework underpinning APES110. More reasons for attributing importance to ethical issues are listed in Table 6 (see Appendix 1).

4.2 Ethical issue response practices

This section documents how accounting professionals respond to ethical issues that they or fellow professionals are confronted with in their work. Almost 30% of the collected responses indicated a plain refusal to act unethically (saying 'no'). Seeking advice was preferred by approximately 16% of the respondents, while 14% recalled taking a more pro-active educational approach with their peers. Other approaches referred to educating the clients on what course of action is ethical and why it should be taken (cca 12%), reporting the issue to management (cca 12%) and documenting the issue in writing (cca 10%). This data, as summarised in Table 7 (see Appendix 1) refers entirely to the preferred actions of accounting professionals as individual practitioners.

4.3 Solution recommendations

In contrast with the descriptive nature of the response practices area, the solution recommendations area focused on the normative perspective, namely how ethical issues should be dealt with. The resulting recommendations comprise a wide range of responsibilities, placed less on the individual practitioner and more on the employing organisation, the professional body, and regulators. However, respondents did place more demands on themselves and fellow accounting professionals in terms of responsibility for ethical choices – while employers, professional bodies and regulators were deemed more responsible for support and resources. As illustrated in Table 8 (see Appendix 1), exercising moral courage (cca 39%) dominated their expectations, followed by seeking advice from peers (cca 22%). Reporting issues to management (cca 11%) was only slightly preferred to exercising independent professional judgment (cca 9%).

Employers were largely perceived to have an educative role in relation to their employees. Such education should be about upholding accounting standards (cca 32%), building an ethical culture (cca 24%) and increasing compliance and accountability within the organisation (cca 4%). Other expectations were non-educative and referred to improving accounting policy (10%), strengthening oversight mechanisms (cca 8%), introducing or improving whistle-blower protection policies and practices (cca 6%), practising transparency (cca 6%) and applying sanctions (5%). A more comprehensive list of items is presented in Table 9 (see Appendix 1).

Another prominent source of solutions to ethical issues were the professional bodies, with CPAA and CAANZ being the most frequently mentioned. As revealed in the interviews we conducted, this was most often an indication of the confidence placed by accountants in their

professional associations – whose role they regarded as more important in upholding ethical standards than the role of government, regulators and, with some qualifications, their own employers. As presented in Table 10 (see Appendix 1), the key solution areas identified were: educating on professional and ethical standards (cca 36%), increasing oversight and enforcement (cca 23%), improving existing policy (cca 18%) and providing clear guidelines on specific issues (cca 17%). Government regulators were only occasionally mentioned, usually in respect of their role in increasing enforcement and oversight, and improving existing standards. They were not routinely seen as solution providers to ethical issues, except with regard to specific aspects such as whistle-blower protection.

4.4 Support actions and sources

This area focuses on sources and types of support accounting professionals would need in order to themselves exercise better ethical judgment in their work. The range of sources and the extent to which they were expected to provide support are documented in Table 11 (see Appendix 1). The professional accounting bodies were most frequently invoked (cca 34%), with CPA and CAANZ leading the way. Although employers were considered more responsible for solutions (as previously mentioned), support was expected to a larger extent from professional bodies (cca 34%) than from employers (cca 24%). The next sources of support identified were the government and regulators (cca 22%) and, to a significantly lesser extent, universities, with both education and research roles (cca 5%), ethics training organisations (cca 5%) and legal advisors (cca 5%). An interesting category of responses referred to the exemplary supporting role expected to be played by the 'Big 4' accounting services firms (cca 5%), especially in building an ethical culture within the profession. This role was both assumed by accounting professionals inside these firms as well as invested in them by fellow professionals in other sectors and industries.

With regard to professional bodies, the key areas of support identified were education and training (cca 37%), driving social dialogue (cca 21%), building ethical culture and capabilities within the profession (cca 15%), strengthening advice services (cca 11%), informing and publishing (cca 9%), and resourcing and funding (cca 7%). More information is available in Table 12 (Appendix 1). In the case of regulators (see Table 13, Appendix 1), the key support areas invoked were improving policy (cca 33%), resourcing and funding (cca 20%), increasing oversight (cca 19%), improving whistle-blower protection (cca 18%) and increasing enforcement (cca 10%).

Overall, the content analysis findings indicate that, with respect to ethics, accounting professionals across the sectors share three main concerns and priorities:

- seeking longer-term solutions to common ethical issues;
- educating and being educated to evaluate ethically charged situations and to enhance the ethical culture and capabilities of their organisations; and,
- generally improving the existing standards and regulatory systems.

5. QUALITATIVE THEMATIC ANALYSIS AND RESULTS

Our thematic analysis has identified three main themes that emerged in discussions with the respondents about ethical capability needs. These themes can be described as: loss of independence in professional judgment; philosophical positioning; and interdependent solutions. All three themes are present across the key research areas identifying ethical issues, response practices, solution recommendations, and support actions and sources. This illustrates how thematic analysis contextualises and nuances the various types of responses identified through quantitative content analysis.

5.1 Loss of independence in professional judgment

Fear of losing independence appeared as the most acute feeling expressed by the respondents. This fear was pervasive in a recurrent concern for maintaining objectivity and resisting pressure to act in ways that would distort the accuracy of facts:

> 'making sure that… our independence… is not impaired by clients trying to direct scope and trying to change procedures performed to pre-empt a particular outcome of a piece of work…'
>
> 'being leaned on to not say something that was, the way it was…'
>
> 'they would want me to sign things off... [that] I didn't want to sign…'

The threat of independence loss was felt not only around commercially powerful clients but also in the context of employment relations:

> 'it's almost thought it's [a] career limiting move to tell people things they don't want to hear…'

In both contexts, loss of independence was perceived as loss of professional identity, or de-professionalisation:

> 'Is your accountant really an independent person…? Or is he just your employee and following your orders…? …An accounts person [who does] data entry for you[?]'
>
> 'So, I think it's gonna go back to what the function of accounting and accountants is in society, which I think does tie to public interest, … the idea of the common good… [S]tart asking questions about… what do we need of our accountants in order to make sure that they do act in the public interest and the common good… what are the capabilities that the accountants need to have in order to meet our objective which is a public objective not just for them to be working for their clients or their employers…'

The most prominent pressure context is the one created by commercial interests (either of a client or an employing organisation) that come in conflict with the professional principles:

> 'the sort of overarching… ethical dilemma is how do we balance financial benefits… versus what might be better for society and our stakeholders.'

Some categories of organisations and individuals were regarded as more vulnerable to loss of independence than others. Smaller firms, for example, were seen as experiencing fear of losing clients more intensely. Reasons invoked were lack of information and resources, less experience in how to design internal controls, and being more isolated from opportunities to obtain advice and guidance:

'I can imagine that the big firms have that kind of infrastructure and that support… I'm not sure there would be… that depth with… smaller firms… to provide that guidance on ethics and integrity… And then you've got accountants who're working out in businesses rather than being surrounded by other accountants… I'm not quite sure where they can get the same level of input…'

'…smaller firms… don't have the resources and… the mechanisms to do it.'

'there is no information regarding internal control… that is readily available to people like myself.'

'I'd hate to be the sole practitioner stuck out in a suburban or regional office when I'm confronted with those sorts of issues.'

'I think in SMEs you are very isolated. How do you make the effort to get that information? I think it has to come from the individual… but I think it also needs to come from the Institute as well to encourage… this group … There are a lot of SMEs around so maybe they need to have a dedicated resource…

Among individual practitioners, young accountants at the beginning of their career were also considered a vulnerable group, as they could be more easily influenced into unethical behaviour due to a perceived lack of choice or power:

> 'some of the younger accountants [may] say "I've been told [I] have to"… but they need to understand options, and I think this is a big problem… because of the competitive environment of companies… in a lot of pressure… just to achieve the results or change the outcomes…'
>
> 'it's very difficult for someone who's just started university to really be independent and make that decision because they would most of the time be very concerned about their career opportunities within the organisation.'

The loss of independence theme epitomises the type of emotional reactions triggered by the respondents' experiences of ethical issues. Such reactions were often complemented by, and combined with, reasoned reflections on these experiences.

5.2 Philosophical positioning

By philosophical positioning we mean a respondent's fundamental understanding or interpretation of the nature of ethics; which then informs their perception of ethical issues, their appraisal of the magnitude and implications of specific issues, and their approach to generating solutions. In this respect, the responses we collected can be classified into two distinct, equally prominent categories: a legal compliance view; and a collaborative (or trust-based) view.

5.2.1 The legal compliance view

Within the legal compliance view, ethics was understood as a cognitive source of legal compliance. Therefore, fear of retribution was often deemed to be the most effective approach to inducing ethical behaviour:

> 'So, probably there needs to be something put into the system whereby people think that there is a chance that they will be found out if they do the wrong thing and that they will then need to justify it. I think if they feel they can get away with it, [it] will just get worse and worse.'

In this view, the behaviour of individual practitioners was guided and guarded by well-designed instruments of prescription and oversight:

> 'I will say, for example, policies and procedures that could serve as a template for people to work on. That's one thing. The second thing could be auditing procedures for examining fraud and corruption.'

Ethics training was often recommended as a mandatory component of the continuing professional development of qualified accountants, in some cases with a stipulated minimum number of hours required per year:

> 'to manage risks and achieve compliance is everybody's responsibility… there is a role… for the profession… for leadership management…'

> '…there are some CPD areas to be addressed in ethics as continuing obligations…'
>
> 'I really believe that anybody in accounting or accounting related activities should somewhere on the line have to do an ethics course or read something about ethics on a yearly basis, because if I sign up each year when I pay fees that I comply with something, I think a lot of people sign that without knowing what they comply with…'
>
> '[Professional bodies] can say "Hey, you've got to do 30 hours a year, why don't you come and spend some time looking at best [ethical] practice…"'

There was also a distinct level of confidence in the governance frameworks and ethical standards already in place:

> 'The support within my firm is more than adequate to deal with this kind of issues. There are… very structured mechanisms in place to deal with these things on a risk base.'
>
> '[we have] a framework for fraud and corruption investigation and maintenance of ethical standards.'

However, while some respondents considered existing frameworks to be effective, others regarded compliance as an ongoing responsibility distributed across different agents.

The typical solution recommendations generated in this view were training in ethical standards and codes of conduct, reference to governance principles and frameworks, and seeking advice through a whistle-blower hotline.

Overall, within the legal compliance view there was a sense that regulation should be increased. Some respondents favoured government regulation and had little trust in the profession's own ability to regulate internally:

> 'The government has to do that… [the] accounting profession talks about autonomy and self-governing and it is a disaster because it is conflicted... we don't have enough credibility to set our own regulations and we don't enforce them…'

However, as also illustrated in the content analysis, more respondents were confident in self-regulatory efforts but expected such efforts to be distributed across the whole profession and centralised at the level of professional bodies:

> 'Well, all we can do is strengthen regulation, strengthen self-regulation but make sure we focus on the system, the institutions, and not one or two individuals…'

Whether favouring external or internal regulation, some respondents in this group believed that support for whistle-blowers should be increased and improved both at the level of Commonwealth legislation and within organisations that employ accountants:

> 'People who call out wrong doing end up getting sacked… whilst we allow that to happen… we are never going to really value ethical behaviour because they are penalised for being ethical, and that to me is just a travesty.'
>
> 'if any accountant or any auditor is working for any company that doesn't have a whistle-blowing policy you shouldn't be working for that company. Because if the company does not support whistle-blowing there is something severely wrong in its corporate governance…'

Given that being unethical was perceived as equivalent to breaking the law, there was a shared belief that breaches of ethical principles should attract severe penalties:

> '[the priority is] making sure the consequences are real for individuals that are engaging in such behaviour... it is creating the tone [that this] sort of behaviour [is] unacceptable.'
>
> 'the only way to stop it is to explain what are the repercussions of doing the wrong thing because if you are doing something not knowing it is wrong that is different it is ok then you can't judge mistakes, everybody can do but people who are doing the wrong thing knowing they are doing the wrong thing the only way is penalising them… it has to be a scare tactic.'

Professional bodies are regarded as having an essential role in seeking deterrence through disciplinary action:

> '[The] professional body … [should be] prepared to terminate membership… cancel or suspend membership… for a certain period.'
>
> 'They can also increase penalties for professional misconduct that is not just a fine but probably a loss of your CPA or CA designation if you're found to be engaging in misconduct.'

Specific to the legal compliance view was an implicit sense that improvement efforts should concentrate on developing more accurate measures of ethical behaviour.

5.2.2 The collaborative view

Within the collaborative or trust based view, the emphasis was on ethical capability being created through collaboration across the accounting profession. Hence, an honest and open culture within the employing organisation was regarded as essential in supporting ethical behaviour in individuals, and this factor was considered to be more important than regulation:

> '…learning about things is through examples and sharing the confidential environment about experiences that senior managers and staff had to try and show that we are open to talk about these things and there is a path to resolving them, sometimes it is difficult and really challenging, but there is a path, and that helps…'

Instead of focus on improving standards and legislation, respondents in this group preferred communicative supports such as an ethics advice hotline. It was believed that, especially when provided by professional bodies, such hotlines can play an important role in developing ethical capability:

> 'well, the professional bodies could easily do it... [as an] external independent place you can go to … if you rang up someone and said this is my dilemma…'

Another solution valued by this group was peer support, including peer review of work, mainly from outside one's own organisation. The perceived benefits of this approach were appeal to wider experience, removal of pressure from organisational politics, and confidentiality:

'to be able to ring a mate, call a friend and say hey on anonymous basis this has occurred, what is your guts telling you, because my guts is telling me this. Usually if you have to make this call, it is confirmation of you are hearing something that you do not hear in any event, but you just need someone as well so once, so having a good professional network, and having some people in that network who have the same values as you do who are going to give you wise council…'

'I think that having, having someone you can actually refer to in a safe environment… where you can actually discuss the issue without risk of legal implications, you know, risks or ramifications but often of professional perspective of what are my options, this is what I'm thinking, this is what I'm feeling, I need to talk to someone about this.'

'It's the only thing I felt lacking as an accounting professional. Because my training was with me, I knew what to do, I tried my best to handle the situation. Probably a senior person, a person senior to me but not working in my organisation. And somebody whom I'd know had to keep discussions confidential and advise me would have been great.

Thus, professional collaboration was perceived as central to maintaining ethics and integrity. It was also considered that, for such collaboration to be effective, commercial or market competitive interests may have to be set aside:

> 'you talk to the other accountant in town within the confidentiality rules and say, "I've got this issue and I may need someone to stand up with me on this one". That's a collegiate thing based on good ethical practice.

Within the collaborative view, it was widely believed that trust among accounting professionals should be encouraged, and that improvements in dealing with ethical issues should focus on expanding collaborative professional networks.

While most respondents adopted the legal compliance view or the collaborative (trust based) view without additional explanation, some interviewees were acutely aware of both views existing, in tension, in their professional practice, and were critical of the legal compliance view as not being sufficiently constructive or solution oriented…

> 'professional bodies work off far too much stick and not enough carrot… [they] just focus on hitting members over the head with potential " Oh it will get you in trouble…"… "Don't do this, don't do this, don't do this…" rather than looking at something in a positive way and saying "well we understand these are the challenges you face and here's some ideas"… practical ways to combat it, or deal with it, or help you get through it…"

…or as insufficient for independent ethical judgement:

> 'the question is what does it mean… for somebody to be a good accountant, as opposed to what are the ethical obligations that we have. So the two are quite distinct questions… if we ask what are the ethical obligations that to me is a kind of compliance view and people would go to you and say, well, I need to be independent from my client so I need to have the right amount of skill, for example, and I need to recognize confidentiality. Yes, we both hold ethical obligations but the other question is what does it mean to be a good accountant, and then that goes beyond those obligations, and says okay, to be a good accountant is to actually make sure you're doing your job in the public interest, and in a lot of cases… there are those conflicts that the accountant needs to be able to stand back and say hang on this is not in the public interest and I need to withdraw from that. Of course, it's not easy to do, and so what we need is, maybe look at… the capabilities that the accountants need to be able to have… and what support needs to be in place to do that. I think this gives us an alternative… way of looking at it.'

Here we find clearly expressed the intuition that ethical capability is the bridging element that enables a well-taught individual to translate their regulatory competence into ethical action.

5.3 Interdependent solutions

While the first two themes focus on psychological states and reflective reasoning, this theme is indicative of practical understandings of problem solving processes. Interestingly, despite differences in philosophical positioning, across the board, respondents frequently identified solutions that linked the level of individual behaviours with that of organisational culture and

industry-wide strategic action. These multi-dimensional solutions combined training and education with culture building and leadership.

Solutions proposed by this group betrayed little confidence in training in the absence of leadership and behavioural change:

> 'you train people as much as you like but it doesn't mean that you are going to change their behaviour…'

This type of position was often informed by observations about the strong impact of an organisation's culture on individual behaviours. The role modelling influence of an organisation's leaders was also highlighted in relation to culture shaping and communication:

> '…like any organisation, it depends on the culture of the firm. If you have a good ethical culture and you set the tone from the top, well it permeates down the firm. If the partners are a bit slippery or a bit sloppy, or they don't maintain ethical standards, then that will permeate down the firm. So it's really the culture of the organisation...'
>
> 'Storytelling is one way to communicate this sort of things… heroes can make a big difference. We don't have heroes in accounting. We don't have a lot of people to look up to. It tends to be the grey suit and the white tie. So I think we can use more of that.'

Senior professionals were seen to have a unique responsibility in mentoring younger accountants in need of advice and guidance:

> 'they have to find a balance from the top down and really, really making sure that the young generation is being guided and supported to go through that process.'

In addition, professional bodies were regarded as playing a key role in advocating for ethical leadership and influencing leadership behaviours:

> 'I definitely think there's a role for the accounting professions, I am talking about CPA Australia or CA… to play a real role in advocacy. Particularly with [the] code of ethics… for professional members… I think by providing those professional affiliations and [expecting] members to live to a certain standard, in a way it sets a level of protection for the industry as a whole.'

In sum, we note that accounting professionals in all sectors of Australian society, whether favouring a legal compliance or a trust based approach to ethics, tend to place a high value on their autonomy in professional judgment and to think systemically about the interdependencies that exist between individuals, organisations and the professional community as a whole.

6. ETHICAL CAPABILITY NEEDS: SYNOPSIS

Documented in terms of ethical issues, response practices, solution recommendations and support actions and sources, ethical capability needs can be theoretically conceptualised as valued attributes that need to be developed to assist accounting professionals in bridging judgement-action gaps in ethical decision making. In practice, this conceptualisation translates into goals or objectives to be attained, which can also be further specified in the form of performance criteria, indicators or targets for ethical capability improvement and enhancement. While a systematic specification of these values and objectives into concrete actions and measures is beyond the scope of this study, the insights collected here provide a solid experiential basis for informing future, contextualised policy analyses. Below we present a summary of the valued attributes and action categories endorsed and recommended by the respondents.

6.1 Valued attributes

Our study has identified, based on experiential accounts of Australian accounting practitioners, the following valued attributes that need to be upheld, protected, promoted and developed in ethical professional accounting practice:

- **accuracy** (truth)

- **autonomy** (independence) in professional judgment

- **competence** (as informed understanding of ethical issues)

- **courage** (to affirm professional values against external pressures)

- **honesty** (as directness and lack of duplicity)

- **integrity** (walking the talk)

- **learning** (as adaptive internalisation of experience)

- **openness** (as willingness to communicate, consult and debate alternative views)

- **power** (to adopt right action without fear of retribution)

- **reasoning** and **reflection** (on ethical principles and practical consequences)

- **reputation** (supported by public trust)

- **responsibility** (for consequences of decisions and actions)

- **systemic thinking** (as anticipation of consequences for multiple stakeholders at multiple levels)

- **trust** (in one's own professional judgment, in peer advice, in support institutions)

Mostly understood as applying to the ideal individual practitioner, these attributes are also, at times, projected by the respondents onto their managers and superiors, their employing organisations, the professional bodies, the regulators, the government and other relevant social agents. The mind map sketched in Figure 1 (Appendix 2) suggests some fundamental relationships among them.

6.2 Action categories

Action categories are most appropriately expressed as verbs. Therefore, we have summarised them as follows:

• **advise**	• **enforce**
• **advocate**	• **foster** (ethical organisational culture)
• **assess and manage risks**	• **fund and resource**
• **collaborate and cooperate**	• **mentor and provide role models**
• **communicate**	• **monitor and oversee (accountability systems)**
• **consult**	• **protect and support** (e.g. whistleblowing, other vulnerable areas or groups)
• **comply**	• **provide peer support**
• **empower and engage**	• **regulate** (e.g. create norms, set standards, formulate incentives)
• **educate and train**	

Figure 2 (Appendix 2) contains a mind map of these action categories. The most prominent and recurrent recommendations for action directly provided by the respondents referred to regulation and enforcement, education and training, advice and mentoring. In terms of regulation and enforcement, respondents favoured improvements in the existing legislation and policies at government and professional levels (such as strengthening whistle-blower protection and simplifying accounting standards) and maintaining ethics breach investigation services.

Education and training most often included mandatory ethics training, the development of case study banks for experience-based complex ethical situations, the design and delivery of multi-media based ethics training programs, the intensification of associated soft skills training (such as critical thinking, ethical reasoning, communication and conflict management), and the

publication of anonymised real cases of ethical breaches as well as best ethical practice, with evaluations of ethical issues involved and alternative solutions. Advice and mentoring related to suggestions about increasing availability of professional advice services, maintaining expert ethics hotlines, and coordinating national, State or local mentoring networks and peer-to-peer resolution groups. Most of these actions are expressed in relation to what institutional structures, in particular professional bodies and regulators, can address. A breakdown of policy recommendations made by the respondents and addressed to individual practitioners, employing organisations (in particular managers and superiors), professional bodies, regulators, government and, respectively, academic institutions is provided below.

6.2.1 Actions recommended to individual practitioners (self and peers)

To enhance ethical capabilities in accounting practices, respondents urged themselves and fellow practitioners to adopt a more critical mindset in professional judgement. The features of this critical mindset would be: reflecting on one's own assumptions and biases; make one's assumptions explicit when recommending a particular way of reporting, decision or course of action; separating emotions from facts when making a professional judgement; and being consistent in applying facts to circumstances, in drawing conclusions, and in providing advice.

Overall, there was a strong emphasis on making a personal choice to live by personal and professional values. This would mean: upholding one's social responsibility for accurate financial reporting to shareholders/investors and to the public – a premise perceived as central to the social contract between accounting professionals and the wider community; not allowing complacency, or transfer of responsibility, to set in – by remaining diligent, sceptical, and alert to ethical issues; honour the trust placed in the profession, and be trustworthy in their approach

to professional judgement. It would also involve, in some responses, exercising professional self-discipline and following higher personal ethics standards than required by compliance processes. It was perceived that this approach would be more effective in building ethical capabilities than the mere application of external regulation, and that it would be more proactive and constructive in setting living, practical examples of desirable ethical behaviour. Approaches to conflicts of values and priorities, in particular to the traditional tension between professional principles and commercial interests, ranged from taking courage to assert higher ethical grounds where appropriate, e.g. by saying 'no' to unethical requests from clients or supervisors and superiors, to resigning when personal values do not align with the business priorities of the employing organisation. Here we noted considerable anxiety around significant personal loss in having to make tough choices.

Continuous self-improvement in ethical behaviour was highly regarded, and key recommended actions to achieve this were to: regularly refer to the professional codes as a guide; discuss any ethical ethical issues with the direct supervisor, as soon as they are encountered or experienced; and seek independent (including legal) advice and support, outside the organisation, if and when internal support is not forthcoming. Valued not just as personal gain but as an integral part of ethical capability building within the profession, self-improvement was combined with efforts in supporting others, such as clients and peers.

Thus, clients could be assisted by: sharing information transparently, and educating the public more generally about the professional principles of accounting; preparing and sharing learning materials with clients, which educate about best practice; negotiating a reasonable top-down approach to client relationship management; and creating trustworthy referral systems. In terms of supporting peers, experienced accountants should provide advice and guidance to juniors (and, in some cases, monitor their performance), as well as create and maintain an open culture

of discussing ethical issues when they arise. More generally, accountants at all levels should: seek to strengthen peer accountability across the industry, by keeping oneself and fellow professionals to account; but, at the same time, share own ethical dilemma experiences with peers, thus showing them they are not alone. They should also take and share responsibility for creating an ethical culture at work, by: utilising the ethical advice support available within industry and sharing awareness of it with their peers; creating and maintaining informal networks, inside or outside the organisation, for professional advice and support; and, where appropriate, forming risk management advice groups.

6.2.2 Actions recommended to employing organisations

Respondents directed the vast majority of their recommendations under this category to their managers and supervisors, at all levels of the organisation. Specifically, they expected their superiors to demonstrate a sound understanding of the special role they play in building an ethical culture in the organisation. This level of understanding was seen to reach beyond an awareness of ethical issues and towards being conscious of the exemplary function of a leader's behaviour, as well as towards anticipating the effects of various performance policies and strategies on the ethical behaviour of employees and the ethical culture of the organisation. Setting unrealistic performance targets, having outcome measures not well aligned with intended outcomes, and failing to grasp the ethical impact of new technologies were some of the examples mentioned. Managers were seen to have a crucial role in building an ethical organisational culture to drive employees' decisions in ethically charged situations – where an ethical organisational culture was understood as a culture of business decisions informed by ethical considerations in significant ways.

With respect to personal example and role modelling, respondents had some specific suggestions to offer. One recommendation was for senior management to resist external influences and pressures, such as those from powerful clients, and prioritise acting ethically over keeping them satisfied. This meant not pressuring employees into manipulating data and making unethical reporting decisions and, instead, encouraging and supporting the professional accountants to say 'no' to unethical requests from clients. Some respondents suggested that such pressure could even occur indirectly, and may possibly be unintended – as in cases where accountants were directed to take on more clients than they could handle, and increased volumes of work became the norm for the business. Managers were also expected to: apply principles of ethical behaviour equally to all members of the organisation, including themselves; practise open communication with staff and inclusive decision making as features of their general approach to leadership; support whistleblowing, as morally justified, when it occurs, to the extent of standing by the whistleblower if need be; and initiate and drive top-down cultural and behavioural change in the organisation.

Communication with staff also emerged as a solid group of recommendations. These referred to: listening to any ethical concerns raised by employees; regularly discussing ethical issues with employees, whether formally (through meetings) or informally; making their ethics expectations clearer and engaging in more transparent business practices; and, generally, adopting and applying an open communication strategy.

In the areas of advice, training, education and coaching, managers were expected to: adopt (and support) ethical guidelines that should drive internal audits of the organisation's accounting practices; provide advice on how to deal with ethical dilemmas; organise regular ethics and risk training programs to employees (be they accountants or not); and organise stronger training and professional development programs more generally, aimed at teaching accountants how to be

more accountable.

Regarding policy development, respondents pointed out that, in order to be effective, ethical capability relevant policy should be practical and realistic. While establishing an ethics framework and having clear policies is essential, it was felt that this does not by itself guarantee an environment and culture of ethical behaviour and decision making in the organisation. More subtle aspects of policy referred to: creating appropriate incentives for ethical client relationship management (e.g. having clear ethical guidelines for setting client fees); empowering accountants to make ethical decisions, through well-balanced delegation and support; publicly rewarding ethical behaviour; developing fair and effective whistleblowing policies (including the sensitive and supportive management of an internal hotline for whistleblowers); and ensuring that organisational structures were inductive of ethical, rather than unethical, behaviours. Periodic reviews of internal policies and processes were seen as a necessary, integral part of consistent policy development to support ethical capability building in the organisation.

In the context of constructive efforts to foster an ethical culture, respondents also regarded intransigence against unethical behaviour as an important role for managers. This intransigence was expected throughout the development and implementation of evidence-based internal control mechanisms (whether internally or in collaboration with other agents in the industry) – by setting clear, strict and specific guidelines against unethical behaviour, in particular corruption leading to fraud; by personally driving disciplinary actions against unethical behaviour; and by applying tougher penalties (such as termination of employment).

6.2.3 Actions recommended to professional bodies

Overall, respondents expressed a high level of confidence in their professional bodies – looking up to them not only for professional identity but also for support in dealing with conflicts between professional principles and commercial interests. They regarded professional bodies as key drivers of self-regulation resource development, playing a crucial role in increasing the profession's capacity to self-regulate and maintain its social reputation.

Professional bodies were also seen as important drivers of research as directly relevant to accounting practice. Hence, they were urged to conduct more research into ethical issues in the profession, in particular risk assessment and behavioural trends research targeted at specific issues (e.g. the impact of organisational performance incentives on ethical decision making).

However, the most prominent roles assigned by respondents to professional bodies were in the areas of advice and education. In relation to advice, it was suggested that the highly respected current advice services provided by the professional bodies should be advertised more widely, especially among small firms accounting practices in rural and remote areas. Ethics advice sheets should be published on their websites, and requested advice to members should be more timely. There was interest in having an ongoing confidential expert ethics advice hotline provided to members, and having the professional bodies promote the service and encourage members to use it on a regular basis. In some cases, advice and complaint management were strongly interconnected, so that the ethics hotline (to include a confidential, independent whistleblower hotline) was also perceived as the front line of an effective system for receiving, handling and resolving complaints about breaches of professional ethics.

Regarding education, this was mainly interpreted as a multi-dimensional role, ranging from basic training to complex, long-term culture change. The professional bodies were perceived as

key drivers of the profession's overall ethics education and culture building efforts. While some respondents focused on formal ethics training as a mandatory requirement (e.g. as part of continuing professional development, with minima varying from 2 to 10 hours per year), others emphasised flexibility and availability of online resources (e.g. easily accessible refresher courses and other materials to assist self-directed learning). Ideally, ethics training should be based on repositories of real life case studies and examples shared by experienced members, and take place through combinations of intensive face-to-face workshops and online learning (in other words, blended learning), to include multi-media, role play and simulation activities. Authentic problem-based analyses of anonymised examples of breaches (as well as best practices), with evaluations of the ethical issues involved and possible solutions, should be made available through regular channels of communication to members. To increase relevance and applicability, ethics training should also be combined with soft skills training, in particular critical thinking, communication and conflict management. The training should be designed as a support and resource not only for the individual professional but also for employers, especially organisations operating in industries other than professional accounting services, which employ accountants for internal corporate functions. Frequent evaluations of member training programs, using appropriate criteria for effective improvement, would strengthen the content and reputation of the professional qualification.

Provisions of peer network support and service by professional bodies were highlighted as important complements to advice and education. Such support varied from creating a safe environment where accountants can openly discuss ethical issues to coordinating a national mentoring network and/or program for members, and for accounting professionals more generally; establishing a peer-to-peer ethical resolution group; creating a panel of approved expert auditors for the non-profit sector; reducing litigation risks for members (e.g. by providing a litigation protection service or a litigation defence fund); and maintaining a mediation and

arbitration service for members in matters of ethical and professional conduct, directed and delivered by fellow practitioners.

In terms of policy development, professional bodies were considered to have a pivotal role in formulating clear guidelines for ethical behaviour, maintaining a well-designed code of professional conduct, promoting and enhancing ethical standards above legal compliance requirements, and creating procedures for the resolution of ethical issues in organisations.

Enforcement activities were often discussed together with policy development. Professional bodies were expected, from both legal compliance and trust-based perspectives, to improve their approaches to holding accountants accountable for their actions. Some respondents felt that professional bodies should act more like regulators – not only because they have more intimate knowledge of the complexities of the profession but also because they have better access to professionals through membership and can motivate them in more constructive, collaborative ways.

Increasing enforcement through professional bodies was sometimes seen as central to enhancing the profession's self-regulatory capacity. It was suggested that professional bodies should: conduct regular audits of accounting practices in the profession (via registered fellow practitioners); maintain a dedicated ethics breach investigation service; and apply stricter sanctions against members' breaches of the professional code of conduct.

Distinctive of professional bodies was their leading public role in community consultation and advocacy on behalf of the accounting profession as a whole. This role involved: creating and disseminating public knowledge about actual and desirable ethical behaviours in the profession – thus educating the public (as potential clients) about ethical behaviour in professional accounting; submitting the ethical standards of the accounting profession to wider social

discussion – and, in doing so, driving and shaping public debates around ethical issues in the accounting profession; organising regular open (online) forums on ethical issues; collaborating with academic institutions and other education oriented organisations to enhance the standards of professional accounting training and expertise; and lobbying the government, on behalf of members and the profession, to improve existing legislation, regulations and standards (e.g. whistleblower protection, standards simplification).

6.2.4 Actions recommended to academic institutions

Academic institutions, especially universities delivering accredited accounting education programs, were generally expected to collaborate more with professional bodies in the enhancement of ethical standards, e.g. in developing partnerships that deliver online ethics programs for junior accountants. It was considered that tertiary accounting programs, at both undergraduate and postgraduate levels, should teach ethics more regularly and embed it in other subjects, in more meaningful ways (e.g. not just as through one-off ethics lectures in specialist units). In preparing young graduates to act ethically and responsibly, they should illustrate how ethical professional practices could be enhanced, e.g. by teaching ethical risk in ways that enable students (as future practitioners) to resist organisational pressures. Generally, universities should play a more active role in providing an independent education and research forum for ethics guidance, advice and policy development input.

6.2.4 Actions recommended to regulators

Respondents suggested that regulators should: deploy more resources in conducting audit reviews; adopt more effective measures in enhancing the independence of audits; and be more

active in increasing (their own and the public's) awareness of future changes that may occur due to new technological developments. There were calls for adopting stricter regulations, as well as for providing constructive solutions beyond prohibitive rules. The most frequently invoked regulators were Commonwealth Government agencies such as the Australian Taxation Office (ATO) and the Australian Securities and Investments Commission (ASIC).

It was recommended that the ATO should deploy more resources to audit against unethical behaviour in tax accounting; provide clear, easy-to-understand guidelines for managing ethical issues arising from specific taxation reporting processes, and educate clients and the public about these guidelines. In addition, ASIC was urged to engage more resources in monitoring unethical behaviours in accounting, and in conducting more effective prosecutions against fraud.

6.2.5 Actions recommended to government, legislators and the legal system

Respondents' most frequent recommendation to government was to provide more funding and resources to regulatory agencies such as ASIC and ATO, to monitor and enforce accounting ethics standards. The government was also perceived to have a key role in funding external auditors' salaries, to enhance their independence; in strengthening whistleblower protection and in communicating the relevant legislation to the public; and (together with the legal system) in applying stricter penalties for white collar crimes.

It was deemed that legislation could be further developed in the direction of: increasing the independence of professional accountants (e.g. by clearly separating audit from non-audit services, and the financial reporting role from other accounting roles); improving whistleblower

protection overall; and streamlining taxation regulations.

In sum, the above recommendations were often provided by the respondents not in separately directed categories, as presented here, but from the perspective that the different social agents should work together, in partnership, to enhance ethical capabilities in the accounting profession. The Australian community as a whole was regarded as an important (albeit more diffuse) player.

7. POLICY RECOMMENDATIONS: GENERAL

Inspired by the suggestions provided by the respondents in this study, we highlight below five policy principles that should be upheld, as a matter of priority, by all social agents involved in building, maintaining and enhancing the ethical capabilities of the accounting profession. These policy principles are: seeking systemic solutions; maintaining openness and transparency in inter-stakeholder communications; encouraging peer support; fostering participation and empowerment; and enhancing ethics advice services.

7.1 Systemic solutions

Given that a systemic solution addresses the root causes of a phenomenon and is therefore more likely to have far reaching and enduring outcomes (Mainardi, 2005), the interdependencies between individual and group behaviours, organisational culture and regulatory frameworks require that ethical capability building should be supported by efforts to identify, develop and implement practices that enhance the ethical regime of the accounting profession as a whole, and not only separate parts of it. These practices would rely on leverage points, namely 'places in the system where a small change could lead to a large shift in behaviour' (Meadows, 2009). Relevant examples of such practices in our context are: the advancement of policies and procedures that explicitly avoid, and safeguard against, conflicts of interests; the recruitment of accounting professionals with well-developed ethical values and a systemic understanding of consequences in ethical decision making; and emphasis on ethical performance as part of accountants' continuing professional development (further elaborated in section 8).

7.2 Openness and transparency in inter-stakeholder communications

Fostering open information-sharing practices across the accounting professional community makes ethics advice and support easier to access and more affordable, and reduces information asymmetries among various stakeholder groups. Hence, the consistent application of this policy principle is likely to encourage a culture of equality, opportunity and fairness. Section 6 above presents a wide range of measures inspired by this principle – suggesting that accounting ethics related information should circulate freely, through multiple channels, in a timely manner, and be easy to understand.

7.3 Peer support

In analysing and integrating the data collected in this study, it has become clear that peer support is considered, across the board, as a foundational element of ethical capability building. Accounting professionals from all categories communicated, either explicitly or implicitly, that peer support is the most common factor that makes the difference between feeling isolated (or disempowered) and tackling difficult ethical decisions with confidence. Maintaining peer support networks within the profession and facilitating independent peer reviews have been identified as effective policies in other accounting contexts as well (see McManus & Subramaniam, 2009). We therefore recommend this principle as central to any ethical capability building policy.

7.4 Participation and empowerment

During the interviews we conducted, it became apparent that the perceived lack of power and involvement in key decision processes was a major obstacle in an individual professional's ability to bridge the gap between ethical competence and ethical performance, and in some cases (as in more junior practitioners), in their ability to identify ethical issues in the first place. If a practitioner believed that ethical choices were made, or to be made, in a context in which they were not included and where they had no say, then their motivation and preparedness to contemplate how certain ethical decisions could or should be made were significantly reduced.

Extant research (see Rossouw *et al*., 2010) suggests that involving accounting professionals, especially when at lower levels in the organisation, in managerial level decisions, and delegating higher-responsibility tasks that they can own and think through, equips them for tackling difficult ethical situations better than any prescription based training. Consequently, we recommend policies that encourage participation and empowerment, such as: involving practitioners at all levels in ongoing reflections and discussions of the professional standards; eliciting their input in the redrafting and rewriting of these standards; and adopting a collaborative-deliberative approach to the analysis and appraisal of past breaches of professional codes.

7.5 Service enhancement

We note that service enhancement (e.g. professional advice and consulting) was not regarded by the respondents as something only within the purview and responsibility of professional bodies. It was assumed to be 'everyone's business' – an effort to be shared with organisations

employing accountants, regulators and educational institutions; whether in terms of developing service content or in terms of providing support resources. Some respondents noted that the current professional associations could work more closely together in enhancing the ethical capabilities of accountants. This suggests that ethical capability building policies should include advice service enhancement provisions whose implementation relies on cross-institutional partnerships.

8. POLICY RECOMMENDATIONS: DESIGNING AN ETHICAL CAPABILITY BUILDING PROGRAM

In addition to general policy recommendations, in this section we formulate a set of guidelines and principles for the development of an Ethical Capability Building (ECB) Program. In section 6 we document the pressures that prevent accounting professionals from bridging the judgment-action gap (or, in other words, the gap between ethical competence and ethical performance) in ethical decision making. These accounts illustrate and explain why traditional ethics training is not sufficient to build ethical capabilities. An ECB Program is therefore designed to go beyond ethical competence objectives and emphasise practical decision making and behaviour change. The ECB Program elements outlined below refer to: foundational educational principles; elements of content; elements of structure; and articulated components. We recommend that an ECB Program should be guided and structured by the valued attributes (Figure 1, Appendix 2) and action categories (Figure 2, Appendix 2) identified and discussed in section 6 – while also adapted to the specific needs of the participants.

8.1 Foundational principles of an ECB Program

In line with our broader policy recommendation that systemic solutions should be preferred to local solutions, an ECB Program should first and foremost **encourage a holistic understanding of accounting as a profession**. In aiming to create value for a wide variety of stakeholders, accounting professionals should approach their profession as a system of values and beliefs supported by a system of social institutions. ECB Programs would therefore benefit from being designed in partnerships among relevant institutions within the profession.

As these systems are interdependent, strong ethical leadership is required to develop adequate

knowledge of the systemic consequences of unethical actions, encourage openness and transparency, and role model desirable professional behaviours. The **development of ethical leadership and systemic responsibility** should be a priority goal for any ECB Program.

In turn, ethical leadership should be supported by **advanced critical thinking skills**, thus enhancing accounting professionals' ability to discern when to trust and form beliefs, and when to ask questions. An ECB Program should provide opportunities for ongoing application of critical thinking skills, including among senior accountants, to avoid authoritative entrenchment of habitual practices and to encourage critical (self)-reflection.

Peer support and accountability should also be prioritised, to enhance the profession's capacity for self-regulation. Peer networking practices would be perfectly aligned with a systemic approach, and should therefore be included in an ECB Program.

In terms of content and structure, ECB Programs should deliberately favour **a two-step process**, to include both **norm awareness** (which is competence based) and **practical reinforcement** (which is performance based). This process should be combined with an integration of ethics into issues of broader interest to professional accountants. A **practical orientation** should dominate the educational approach – hence activities such as participation in the development of professional standards and learning in authentic work contexts would be effective in developing application skills, and should be included.

ECB Programs should encourage **diversity and flexibility**, therefore they should allow for **customisation to specific needs** – such as those of young accounting graduates, small firms, or accountants in rural and remote areas.

8.2 Elements of content

Based on the foundational principles outlined above, an ECB Program could include the following types of activities:

- Critical discussions emphasising the key features of the professional code of conduct, their rationale and history;

- Critical discussions and applications of ethical frameworks, decision guides and tools traditionally used in the profession;

- Real-life behavioural case studies in trade-offs management, using problem based learning techniques – e.g. how to seek external advice without breaching organisational confidentiality;

- Scenario building and storytelling activities that engage the moral imagination of participants to generate alternative courses of action;

- Learning-by-doing activities, e.g. individual written reflections on specific accounting standards; preparation of submissions for amendments of codes of conduct and other regulatory frameworks; and

- In-context (job and/or role specific) advice from senior accountants with extensive experience, in all areas of the profession – either through guest visits, or using previous publications and approved communications.

8.3 Elements of structure

Taking into account the foundational principles and content orientation outlined above, an ECB Program could adopt the following structural elements:

- Integrate orientation, induction and refresher training components in long-term professional development schedules;

- Include categories of professionals who do not enjoy easy access to ethics education (e.g. small firms, accountants in rural and remote areas);

- Combine delivery modes to include intensive face-to-face workshops as well as e-learning activities, blended learning, flipped and virtual classrooms;

- Increase the frequency of ethical reflection opportunities in professional development activities; and

- Include activities and resources that teach accounting professionals how to themselves educate employees in their organisations on ethical issues at work.

8.4 Articulated components

In line with the systemic nature of an ECB approach, direct educational activities like the ones suggested above should be interspersed and integrated with facilities and resources that should accompany an ECB Program throughout its delivery and beyond. Some examples of these could be:

- Open public discussion fora to facilitate vacarious learning (ie from the experiences of others)

- Social networking events, creating opportunities for accounting professionals of different backgrounds, sectors and types of practice to meet and share experiences;

- Peer advice and support networks;

- Mentoring networks, whereby senior professionals provide guidance to juniors;

- Dissemination of guidelines and benchmarks for ethical behaviour not only to qualified members of professional associations but also to organisations employing accountants; and

- Internships and professional placements (e.g. for accounting graduates and junior accountants).

Business and professional ethics education literature is rich in methodological approaches and resources that could support an ECB Program as outlined here. Some of the more developed and reputable methodologies are: *learning by doing*, developed in the context of service learning in accounting by Rama and others (2007); *educating for responsibility*, which emphasises the systemic leadership mindset (McDonald, 2013); and *giving voice to values*, an elaborate program focusing on values-driven leadership and ethical conflict management in the workplace (Gentile, 2010).

9. FUTURE RESEARCH

While it is too early to summarise the full range of implications that can be derived from our findings, we note that the ethics-related concerns of accounting professionals have far reaching implications not only for themselves as individuals and practitioners but also for the organisations they work in, the professional bodies, the regulators, consumers of professional accounting services, and Australian society in general. It is therefore important that this research be continued and complemented with in-depth qualitative investigations that could generate more comprehensive insights into the complexities of ethics-related experiences and the ethical capability needs of accounting professionals. The results of this research should also be widely disseminated so that the Australian community develops advanced awareness and understanding of the challenges the accounting profession is confronted with – and, as a consequence, becomes more supportive of its efforts to deliver on its social mandate.

Our recommendations are largely based on the direct reporting of perceptions of accounting professionals regarding their experiences of ethical issues in the last five years. However, there is clear scope for a more comprehensive evaluation of ethical capability needs, linking these preliminary findings with theoretical and empirical insights from the extant behavioural and normative ethics literature worldwide. Our study has also identified that more data from other Australian States, beyond Victoria, should be added; and that some future studies in this research direction should be specifically designed to target ethical capability needs in small and medium sized enterprises, particularly in local accounting practices.

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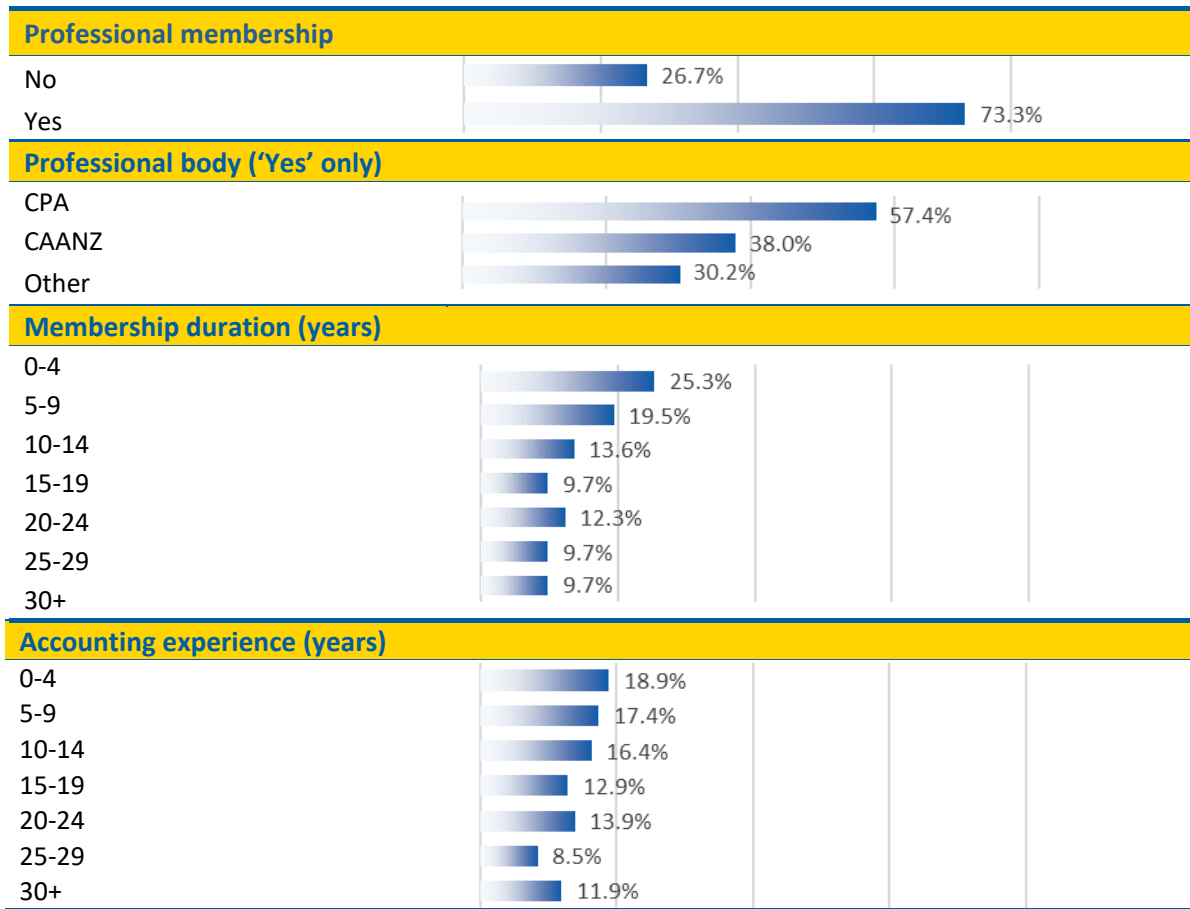Neuendorf, K. A. (2017). *The Content Analysis Guidebook*. Los Angeles: Sage Publications.

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APPENDIX 1

Table 1: Respondent profile

Gender	
Male	59.7%
Female	37.8%
Prefer not to specify	2.6%
Age	
18-29	27.3%
30-39	27.3%
40-49	26.3%
50-59	12.7%
60-69	5.9%
70 +	0.5%
Location	
Australian Capital Territory	4.3%
New South Wales	12.3%
Northern Territory	1.2%
Queensland	11.7%
South Australia	9.3%
Tasmania	5.6%
Victoria	45.1%
Western Australia	10.5%
Employing organisation - type	
Accounting/Professional Services	23.5%
Corporation/Private Sector	37.7%
Government/Public Sector	17.9%
Self-Employed	3.7%
Other	17.3%
Employing organisation – size (no of employees)	
0-19	6.2%
20-99	26.5%
100-499	32.1%
500+	35.2%
Managerial level	
Executive / Senior Management	40.1%
Middle Management	18.9%
Junior Management	17.9%
Professional / Non-Management	23.1%

Table 1: Respondent profile (continued)

Professional membership	
No	26.7%
Yes	73.3%

Professional body ('Yes' only)	
CPA	57.4%
CAANZ	38.0%
Other	30.2%

Membership duration (years)	
0-4	25.3%
5-9	19.5%
10-14	13.6%
15-19	9.7%
20-24	12.3%
25-29	9.7%
30+	9.7%

Accounting experience (years)	
0-4	18.9%
5-9	17.4%
10-14	16.4%
15-19	12.9%
20-24	13.9%
25-29	8.5%
30+	11.9%

Table 2: Ethical issues encountered

Issue	
Misleading reporting	40.88%
Fraud / Tax evasion	13.87%
Lack of transparency in accounting decisions	11.68%
Breach of confidentiality	8.03%
Misrepresentation of expertise / Cheating	7.30%
Overcharge of fees to client / Overservicing	6.57%
Bribery	4.38%
Favouritism or bias	2.19%
Cover-up of accounting errors	2.19%
Misuse of funds	1.46%
Insider trading	1.46%
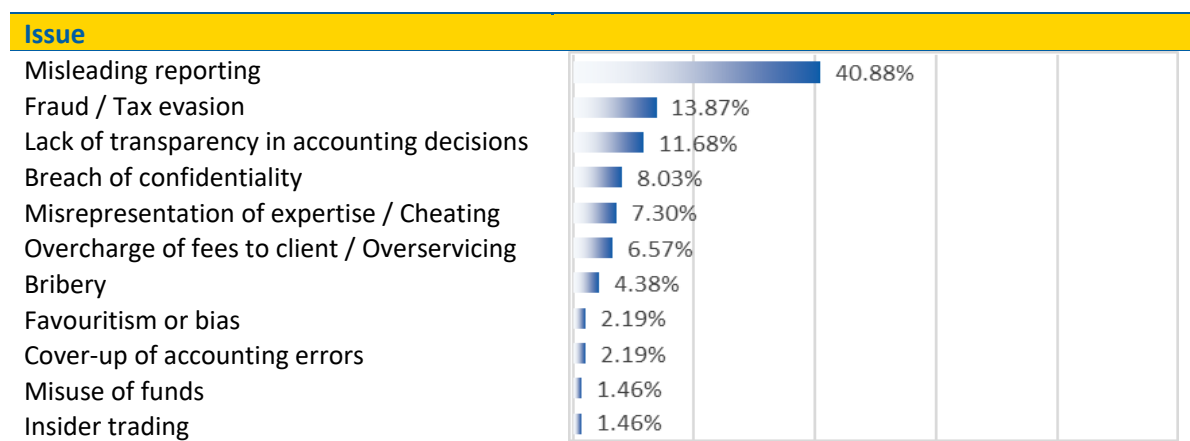
Table 3: Causes of ethical issues

Cause	
Pressure from client	21.43%
Conflict of interests	18.91%
Pressure from management/board	17.65%
Other/Not stated	42.02%

Table 4: Reasons for identifying an issue as ethics-related

Reason	
Accuracy/Correctness/**Truth**	36.50%
Justice/Fairness/**Impartiality**	35.50%
Completeness/Transparency/**Honesty**	12.50%
Negative effects on legislation/**Compliance**	9.00%
Negative effects on people/**Care**	5.50%
Negative effects on organisation/**Business case**	1.00%

Table 5: Independent ethical reasoning vs Compliance

Internalisation	
Values-based choice	76.00%
Compliance	24.00%

Table 6: Reasons for identifying an issue as important

Reason	
Contribute to stakeholder/social well-being	18.28%
Maintain professional standards	15.41%
Maintain professional integrity	11.47%
Maintain professional reputation	8.96%
Maintain public trust	7.53%
Uphold justice	6.81%
Maintain ethical culture	6.09%
Speak truth to power	5.73%
Maintain organisational performance/profitability	5.38%
Ensure accountability/compliance	5.38%
Uphold public interest	4.66%
Manage risks	2.51%
Apply core values of the organisation	1.79%

Table 7: Ethical issue response actions

Action	
Resisted pressure / Said 'no'	29.66%
Sought advice	16.35%
Educated fellow professionals	14.07%
Educated client	11.79%
Reported issue to management	11.79%
Documented events in writing	10.27%
Resigned	3.80%
Admitted mistake	1.52%
Compromised within legal limits	0.76%

Table 8: Solution recommendations – individual practitioners

Recommendation	
Exercise moral courage	36.23%
Seek advice from peers	22.46%
Report issue to management	10.87%
Exercise professional judgment	9.42%
Be aware of issue	7.97%
Document issue in writing	6.52%
Uphold public interest principle	6.52%

Table 9: Solution recommendations – employing organisation

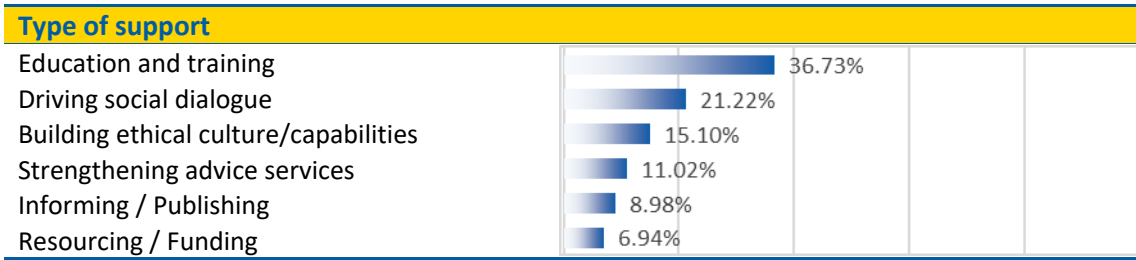| Recommendation	
Educate in accounting standards and accountability	32.31%
Educate to build ethical culture	24.23%
Improve accounting policy	10.00%
Strengthen oversight mechanisms	8.46%
Practise transparency	5.77%
Introduce/Improve whistlblower protection	5.77%
Apply sanctions	5.00%
Develop ethics-supportive performance incentives	3.08%
Recruit ethical employees	2.31%
Change business model	1.92%
Provide confidential advice	1.15%

Table 10: Solution recommendations – professional bodies

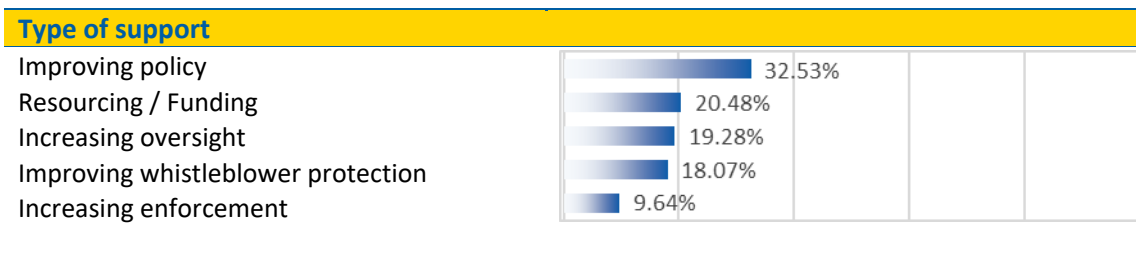| Recommendation	
Educate on professional and ethical standards	35.66%
Increase oversight and enforcement	23.26%
Improve existing standards/policy	17.83%
Provide clear guidelines	17.05%
Publicise issues and sanctions	6.20%

Table 11: Sources of support

Support source	
Professional bodies	34.44%
Employing organisation	23.65%
Government/regulators	22.41%
Universities	4.98%
Ethics training organisations	4.98%
'Big 4' firms	4.98%
Legal advisors	4.56%

Table 12: Types of support needed – professional bodies

Type of support			
Education and training	36.73%		
Driving social dialogue	21.22%		
Building ethical culture/capabilities	15.10%		
Strengthening advice services	11.02%		
Informing / Publishing	8.98%		
Resourcing / Funding	6.94%		

Table 13: Types of support needed – regulators

Type of support			
Improving policy	32.53%		
Resourcing / Funding	20.48%		
Increasing oversight	19.28%		
Improving whistleblower protection	18.07%		
Increasing enforcement	9.64%		

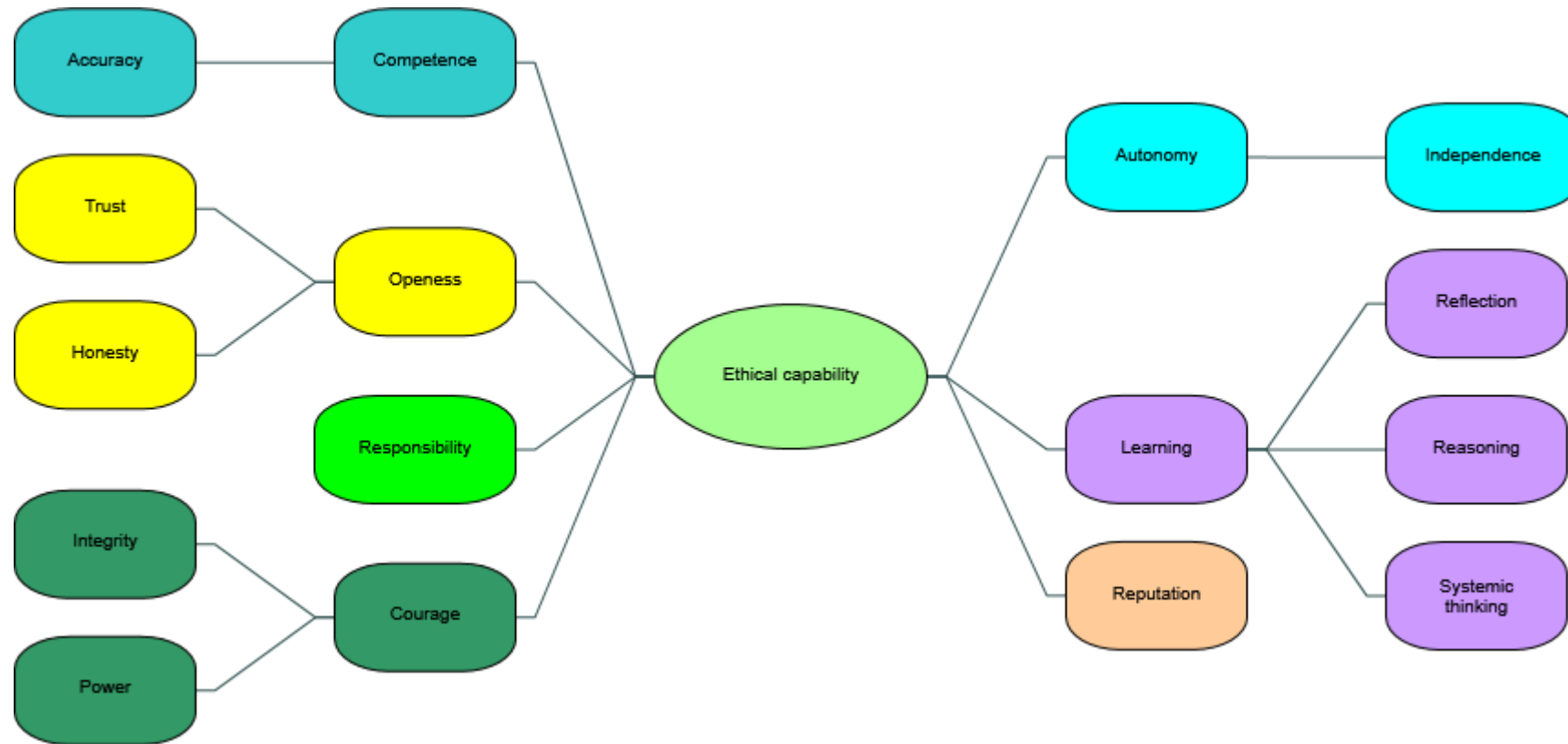**Figure 1: Valued attributes for ethical capability building**

Figure 2: Action categories for ethical capability building