

Virginia- Approved Ethics 2026: Integrity, a Foundation for Success



Learning objectives

Program level:

Basic

Field of study:

Behavioral ethics

Program prerequisite:

None

Advance preparation:

None

After completing this course, the learner should be able to:

- + Recognize ethical dilemmas, violations, and consequences
- + Identify organizations that influence ethical standards and expectations
- + Recognize the role of regulations, policies, and standards in business ethics
- + Describe the foundational theory of ethics
- + Recognize signs of employee and financial reporting fraud

Program content

This course will be an overview of:

- + How unethical behavior can ruin careers, bring debilitating fines to companies, and lead to prison terms for executives and others
- + How regulation and compliance influence the standards and expectations for ethical behavior
- + How a sound understanding of ethical theory may help in identifying unethical employees or fraudulent behavior
- + Ethics considerations regarding the future of work

Major topic/ concept index

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- Ethical violations take different forms
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- Tesla
- Hallmarks of ethical organizations

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Major topic/ concept index

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Ethics and the future of work

- Ethics and the future of work
- Examples

1

Introduction



Introduction



Definitions for consideration

> Ethics

- “Principles of conduct governing an individual or a group.”³²

> Business ethics

- “The moral principles, policies, and values that govern the way companies and individuals engage in business activity.”³³

> Accounting ethics

- “The study of moral values and judgments as they apply to accountancy.”³⁴

Introduction

Ethical violations take different forms¹²

- Financial reporting fraud
- Embezzlement/misappropriation of assets
- Improper use of customer/employee data
- Dishonesty surrounding company practices, goods, or services
- Compromise of human rights or well-being for financial gain



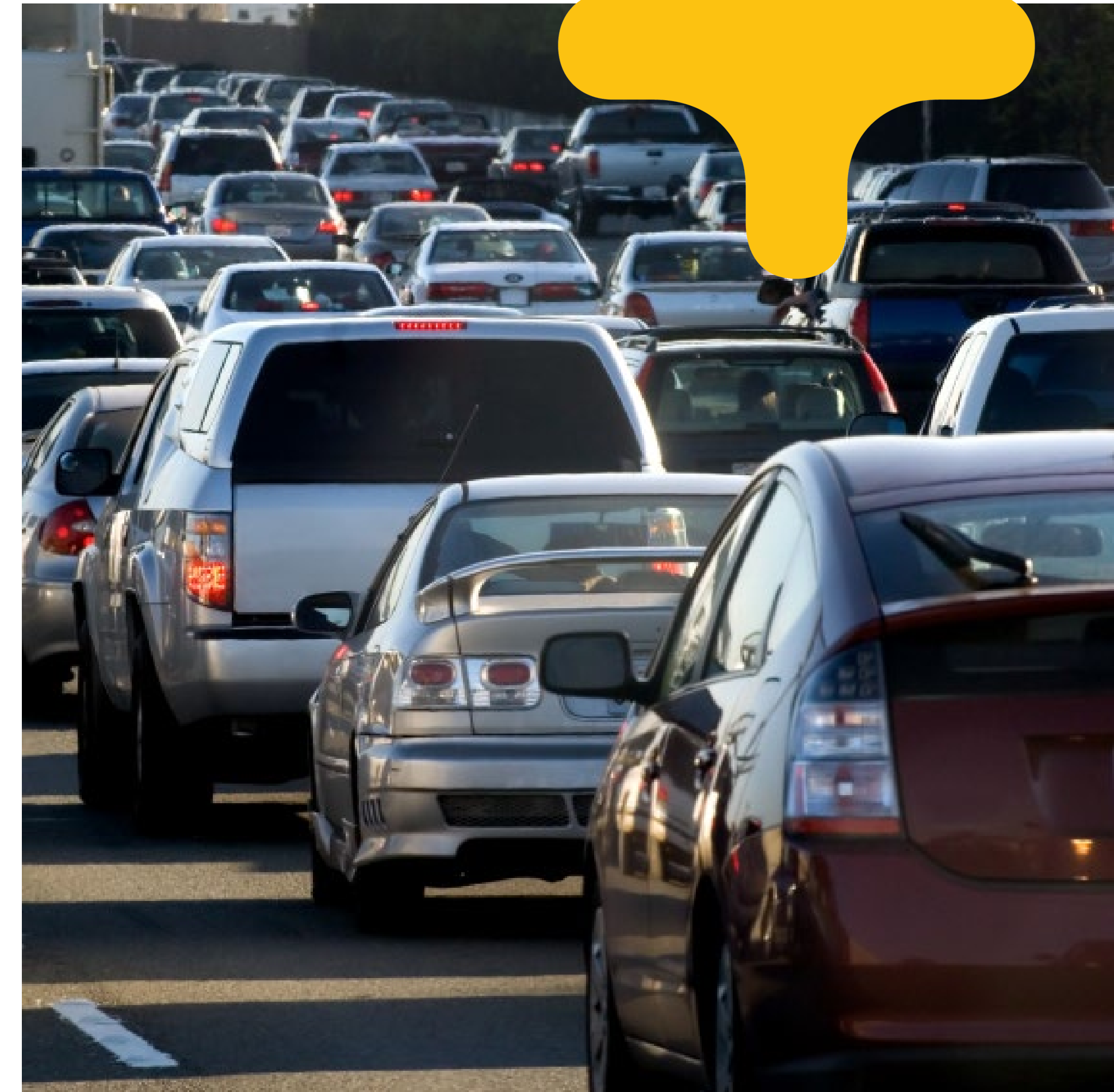
Source: Olivier Le Moal/Shutterstock.com

Introduction

Toyota²³

January 2021: Systemic violation of the U.S. Environmental Protection Agency (EPA) standards

- Toyota was found guilty of violating EPA emission-reporting requirements for the period of 2005–2015.
 - Reporting period violations possibly could have extended beyond 2015.
 - It is estimated that millions of vehicles had emission-related defects.
- A civil penalty of \$180 million was assessed against the company.



Source: Tashka/iStockphoto

Introduction



Robinhood Financial, LLC^{18,31,39}

December 2020: Control of trading options

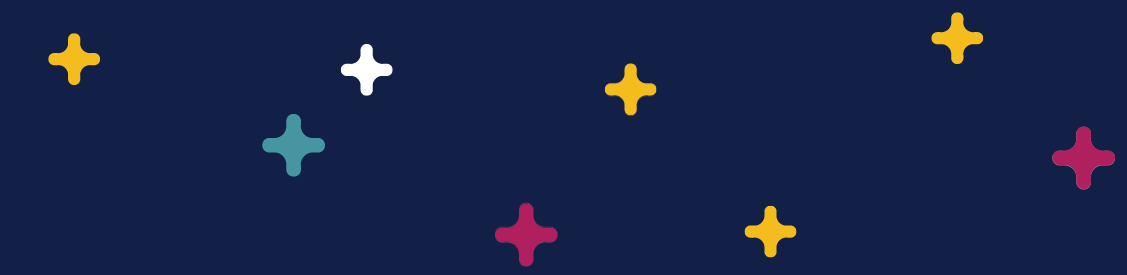
Massachusetts security regulators contend that Robinhood Financial, LLC, targeted novice investors but failed to put appropriate controls in place to protect them.

- The lack of appropriate controls allegedly exposed investors to unnecessary trading risks.
- The complaint indicates that the company did not meet the fiduciary standard, which requires broker-dealers to act in the best interest of their clients.
- The complaint alleges that the company attracted inexperienced investors through the use of a gamification approach to investing.
 - The company settled a wrongful death suit for 20-year-old Alex Kearns, who killed himself after Robinhood did not respond to his inquiries about a perceived \$730,000 debt.



Alert: In January 2024, Robinhood settled with the Massachusetts Securities Division and agreed to pay a fine of \$7.5 million.

Introduction



Activision Blizzard^{21,40}

July 2021: Sexual harassment and discrimination

- Activision Blizzard was sued by labor regulators in California for allegedly discriminating against female employees.
 - The suit alleges that few females are ever promoted to higher management levels in the company, and females who do achieve promotions have lower compensation packages than male counterparts.
- The company was also accused of having a "pervasive 'frat boy' workplace culture."
 - The company's culture was considered to support harassment, as well as discriminatory actions.



Alert: In December 2023, Activision Blizzard reached a settlement with the California Civil Rights Department and agreed to pay approximately \$55 million for relief to workers and litigation costs.



Source: ineskoleva/iStockphoto

Introduction



Meta Platforms^{4,41}

October 2021: Whistleblower Frances Haugen

- Frances Haugen, a former Facebook product manager, testified before federal lawmakers that Facebook (now Meta) "prioritizes profit over safety."
 - In her testimony, Haugen said that Facebook builds its algorithms to encourage divisive content.
 - Haugen emphasized a lack of safety controls for children, with some criticism that profit prioritization has resulted in intentional targeting of children regarding certain products.
- Haugen maintains that Meta is not focusing on its current problems, but instead is prioritizing its effort to create an open virtual ecosystem.



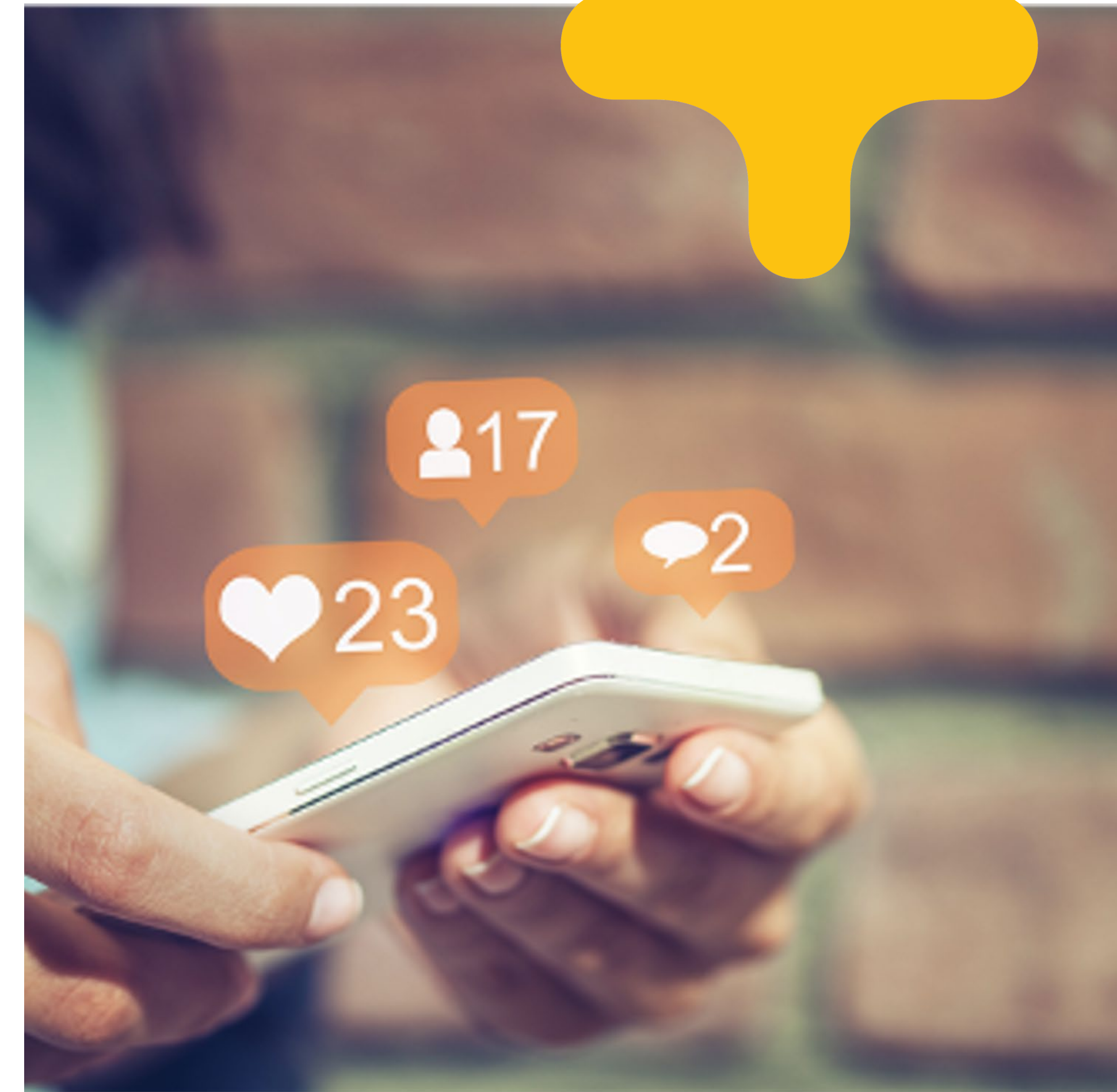
Alert: In October 2023, 42 states sued Meta for exploitation and manipulation of young users.

Introduction

Luckin Coffee¹¹

April 2020: Inflated financial statements

- Luckin Coffee was a Beijing-based company that relied heavily on its mobile app and discounted prices to attract customers.
- The company, started in 2017, grew quickly.
 - By early 2020, it had a valuation of \$4.2 billion and 4,500 stores.
- In April of 2020, the company admitted that its financial statement included \$310 million in fictitious cash in-flow.
 - The company paid \$180 million to the U.S. Securities and Exchange Commission in a settlement, as well as having its stock delisted and its leadership team reorganized.



Source: sondem/Shutterstock.com

Introduction



Twitter¹¹

July 15, 2020: Security breach by employee

- Graham Ivan Clark, a teenager from Florida, convinced a Twitter employee to provide him credentials in order to reset account passwords and email addresses.
- The security breach resulted in a Bitcoin scam being tweeted, requiring Twitter to shut down all verified accounts as part of finding where the breach occurred.
- Twitter moved to limit employees' access to confidential information in order to enact more appropriate security measures.

Introduction

Tesla¹¹

April 2020: COVID-19 lockdown

- Tesla called back workers to its Fremont factory in defiance of the area's COVID-19 lockdown.
 - The company was prevented from opening by local officials.
- Tesla sued to get out of the lockdown based on conflicting statements from the Alameda County officials.
 - Tesla resumed production prior to the suit being settled, but on May 13 officials announced that it approved the company's plan to reopen.
 - Workers started to complain that the facility was not safe and many immediately started to test positive for COVID-19.



Source: shironosov/iStockphoto

Introduction



Hallmarks of ethical organizations¹⁰

Characteristics of ethical organizations

- Management leads by example
 - The behavior of top management will provide employees insight into the behavior that the company deems is acceptable by its employees.
- Communication
 - Clear expectations regarding ethical conduct need to be communicated to employees.
 - The creation of a corporate code of ethics provides clarity to employees on the company's ethical expectations.



Source: Olivier Le Moal/iStockphoto



Hallmarks of ethical organizations¹⁰ (continued)

- Ethics training program
 - Companies with formal training programs show that corporate ethics are a priority.
 - Situational examples can provide guidance to employees regarding how to handle common ethical dilemmas.
- Reinforcement of desired behavior
 - Feedback regarding ethical behavior should be included in an employee's annual review.
 - ✓ Rewards and recognition for ethical behavior provide reinforcement of the behaviors that support the company's ethical culture.



Hallmarks of ethical organizations¹⁰ (continued)

- Employee protection
 - Support employees who report unethical behavior.
 - Employees are often concerned about losing a job or other retaliation when reporting unethical behavior.
 - ✓ A third party can provide an objective option for employees to report any concerns to.



Hallmarks of ethical organizations^{10,42} (continued)

- Committing to all stakeholder groups
 - Balancing a commitment to all stakeholder groups drives businesses to build a culture of integrity. These stakeholders might include a company's:
 - Employees
 - Customers
 - Own reputation and brand
 - Shareholders
 - Communities
 - Respecting all these groups means that businesses—and their employees—make decisions that can withstand public scrutiny.

2

Integrity and compliance



Integrity and compliance



Integrity and compliance²⁴

- › The law requires companies to demonstrate a public commitment to integrity and ethical decision-making.
- › All companies listed on the New York Stock Exchange and the Nasdaq must now adopt a code of business conduct and make the code available to the public.
- › By helping the public identify corporations with a commitment to integrity, legislation seeks to restore public confidence in business practices.



Key point: Companies must ensure **transparency** and accountability.

Integrity and compliance



Securities and Exchange Commission (SEC)²⁵

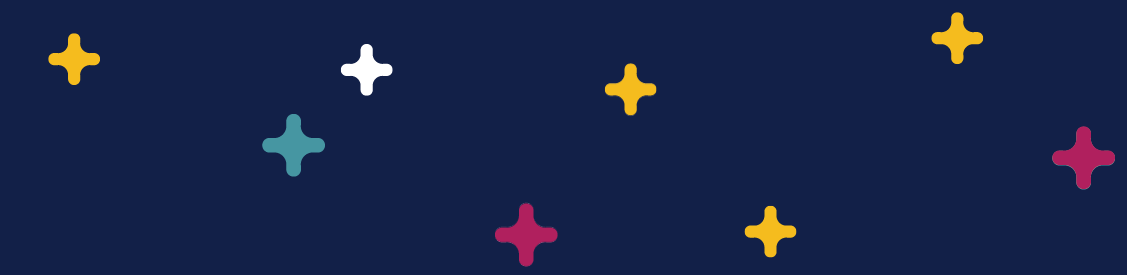
The mission and purpose of the SEC includes:

- Investor protection
- Maintenance of fair, orderly, and efficient markets
- Facilitation of capital formation



Key point: Companies offering securities to the public must register and file with the SEC.

Integrity and compliance



Securities and Exchange Commission (SEC)²⁶ (continued)

The **Division of Corporation Finance** helps to ensure that investors receive access to important financial information to support investment decisions. The website provides information including:

- Accounting and financial reporting guidance
- Compliance and disclosure interpretations
- EDGAR filer guidance
- Financial reporting manual
- Staff accounting and legal bulletins

Integrity and compliance



Securities and Exchange Commission (SEC)²⁷ (continued)

The **Division of Enforcement** of the SEC recommends and initiates investigations related to illegal or improper securities-related behavior. Consequences may include civil action, administrative action, and criminal charges. The division gathers information and evidence from sources including:

- Investor complaints
- Market surveillance
- Regulatory agencies
- Industry sources
- Media reports

Integrity and compliance



Securities and Exchange Commission (SEC)²⁷ (continued)

The following violations may result in an investigation by the SEC:

- › Misrepresenting or omitting material information in securities filings
- › Manipulating the market price of securities
- › Embezzling monies or securities from customers
- › Treating customers unfairly
- › Insider trading
- › Selling unregistered securities

Integrity and compliance

Sarbanes-Oxley Act (SOX)²⁸

The Sarbanes-Oxley Act (SOX) was signed by President Bush in 2002 in response to the massive corporate frauds and scandals in the early 2000s. The legislation aimed to:

- Promote corporate responsibility
- Improve financial reporting and disclosures
- Prevent financial fraud



Note: SOX created the Public Company Accounting Oversight Board (PCAOB) to monitor the auditing profession, specifically the firms auditing companies offering publicly traded securities.



Source: DNY59/iStockphoto

Integrity and compliance



Public Company Accounting Oversight Board (PCAOB)²⁰

The Public Company Accounting Oversight Board (PCAOB), created by SOX, enforces rules and regulations related to ethics and independence for public accounting firms.

- Prohibits registered public accounting firm employees and partners from knowingly or recklessly contributing to regulatory violations (Rule 3502)
- Requires the employees and partners of a registered public accounting firm to maintain independence, in both fact and appearance, from audit clients during the audit and the period of professional engagement (Rule 3520)

Integrity and compliance



Public Company Accounting Oversight Board (PCAOB)²⁰ (continued)

- Requires **audit committee** preapproval of various tax-related services and non-audit services related to internal controls over the financial reporting process (Rules 3524 and 3525)
- Mandates communications between the independent public accounting firm and the entity's audit committee related to relationships that could potentially impair independence (Rule 3526)

Integrity and compliance

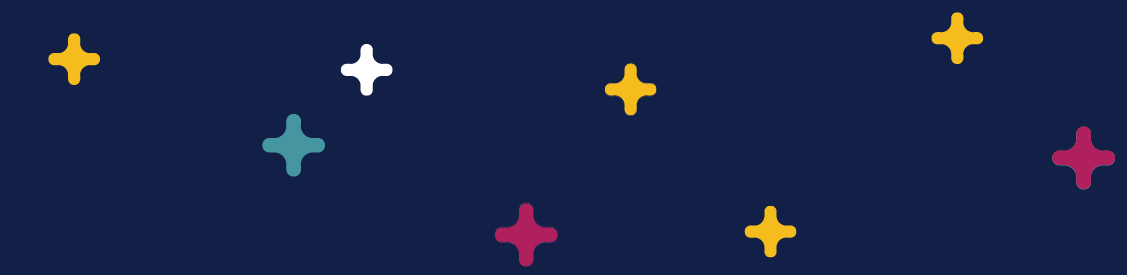


Public Company Accounting Oversight Board (PCAOB)²⁰ (continued)

The audit committee is responsible for establishing procedures for (17 CFR Sec. 240.10A-3(b)(3)):

- Receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters
- Confidential, anonymous submission by employees of concerns regarding questionable business practices, accounting, or auditing matters

Integrity and compliance



Dodd-Frank²⁸

The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed by President Obama in 2010 following the financial crisis in 2008.

Major provisions relate to:

- Consumer protection
- Trading and financial product regulations
- Corporate governance
- Transparency and disclosure
- Whistleblower programs (Sec. 922 of the Dodd-Frank Act)

Integrity and compliance



2013 COSO framework¹⁴

The *Internal Control—Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission published in 1992 has been used extensively for internal control evaluations subsequent to SOX.

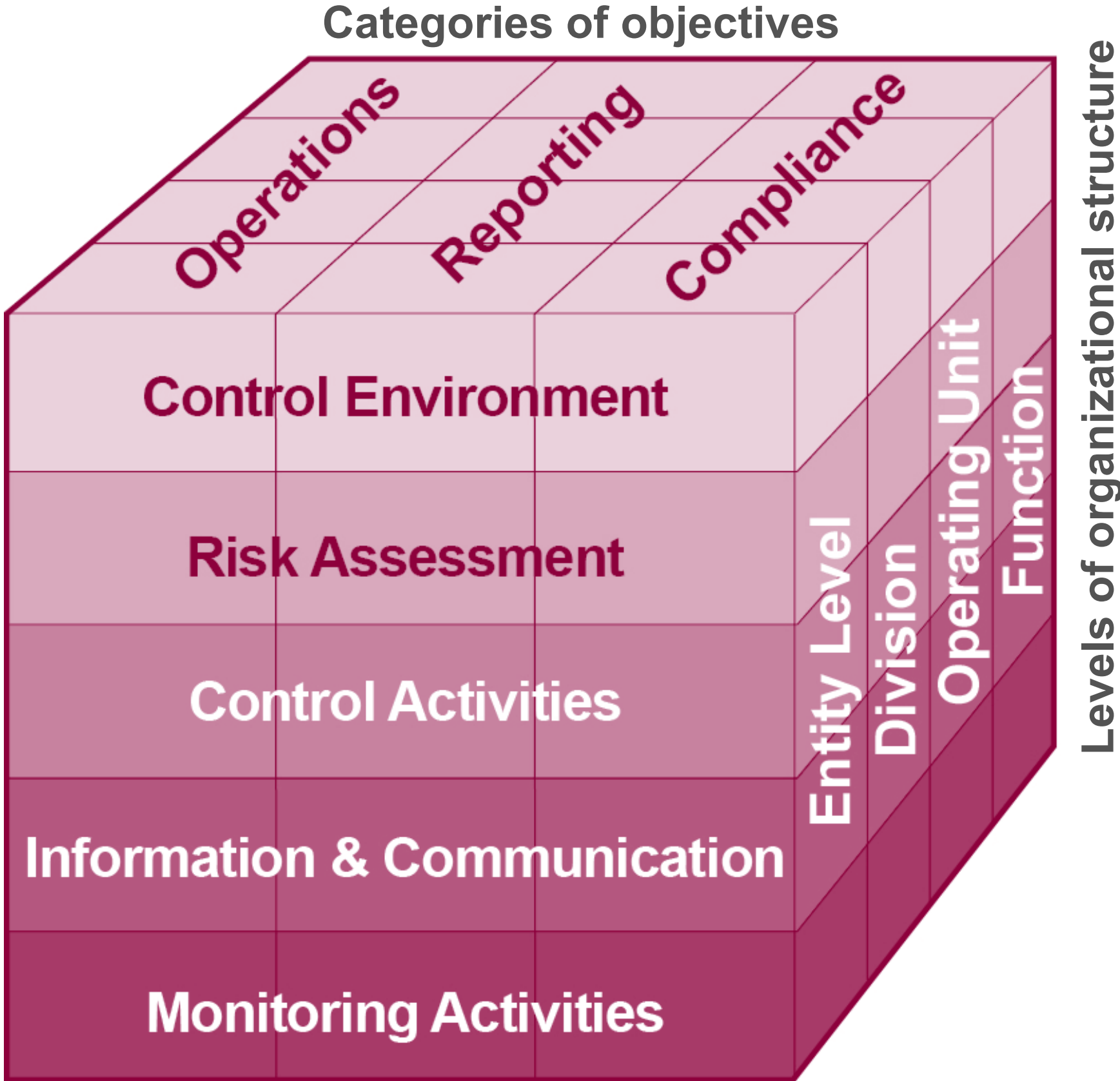
In 2013, COSO published an updated version of the *Internal Control—Integrated Framework* in order to refresh and modernize the content. Major goals of this initiative included:

- Streamlining the original framework
- Codifying underlying principles
- Focusing on operations and compliance objectives
- Enhancing usability

Integrity and compliance

COSO cube¹⁴

The five elements of the COSO Internal Control Framework are control environment, risk assessment, information and communication, monitoring, and existing control activities. They are represented by the acronym **CRIME**.



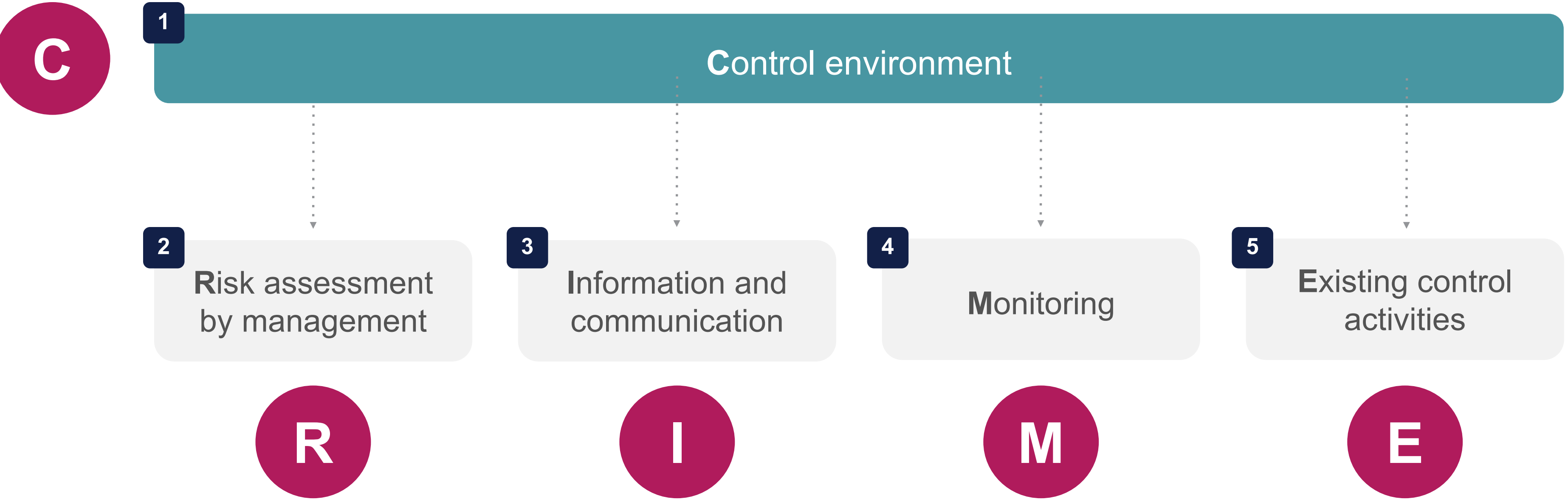
Components of internal control

Source: Internal Control—Integrated Framework Principles, © 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission.

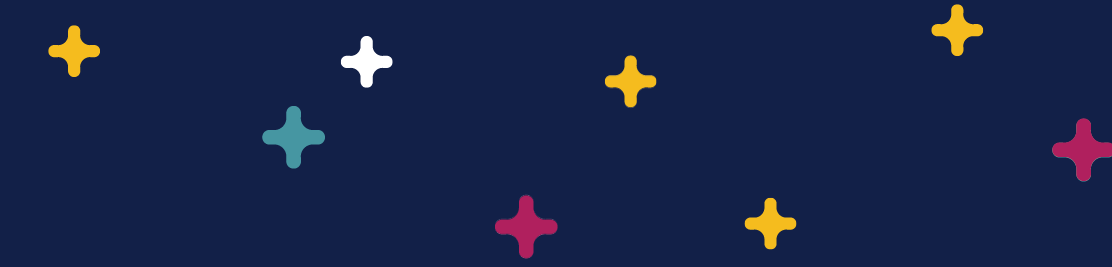
Integrity and compliance



COSO cube: Internal control components¹⁴ (continued)



Integrity and compliance



Control environment^{14,15}

The **control environment**:

- Sets the tone of an organization, influencing the control consciousness of its people
- Provides discipline and structure as the foundation for all other components of internal control
- Originates with, and is generated by, management and the board of directors

Integrity and compliance



Control environment^{14,15} (continued)

The control environment includes such factors as:

- Integrity and ethical values of the people who create, administer, and monitor internal controls, particularly as to the attitude, awareness, and actions of management and the board of directors
- The control environment is affected by both the substance of controls and the collective effect of control environment factors, such as written policy statements and codes of conduct, management's actions to reduce the occurrence of unethical acts, and management's reaction to violations
- Management's commitment to competence as reflected in the knowledge and skills required for particular jobs
- Participation of the board of directors or audit committee, including an assessment of the committee's knowledge, experience, stature, and independence from management, and the extent of its involvement

Integrity and compliance



Control environment^{14,15} (continued)

- Management's philosophy and operating style
 - This is particularly important with respect to its approach to risk taking, its attitudes and actions toward financial reporting and information processing, and its emphasis on meeting financial and operating goals.
- Assignment of authority, responsibility, and accountability
- Organizational structure
 - The framework within which the entity plans, executes, controls, and monitors its activities, including the establishment of key areas of authority, responsibility, and lines of reporting.
- Human resource policies and practices related to hiring, orientation, training, evaluating, promoting, compensating, and remedial activities

3

**Rules of
professional
conduct**



Rules of professional conduct

AICPA Code of Professional Conduct²

The **AICPA Code of Professional Conduct** (the Code) provides standards and expectations for ethical behavior in the accounting field. The Code is divided into three parts (ET 1.000, par. .01):

1 Part 1: Members in Public Practice

2 Part 2: Members in Business

3 Part 3: Other Members



Update: 2026 PEEC Update: Independence guidance clarified for SSAE engagements, introducing "period covered by the attest report." Effective June 15, 2026 (early adoption permitted). See ET §1.200.001.



Key point: The AICPA Code of Professional Conduct applies to members of the AICPA (ET 0.100.010, par. 02). Furthermore, 37 boards of accountancy have also adopted these rules.⁴³



Source: seb_ra/iStockphoto

Rules of professional conduct

AICPA Code of Professional Conduct² (continued)

Virtues or principles underlying good professional conduct

1. Responsibilities (ET 0.300.020)
2. The public interest (ET 0.300.030)
3. Integrity (ET 0.300.040)
4. Objectivity and independence (ET 0.300.050)
5. Due care (ET 0.300.060)
6. Scope and nature of services (ET 0.300.070)



Key point: The Principles of the Code “guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage” (ET .0300.010, par. 02).



Source: SDI Productions/iStockphoto

Rules of professional conduct

AICPA Code of Professional Conduct² (continued)

Members may encounter a variety of situations that create **threats** to compliance with established rules.

- Some of these situations will be addressed in the Code by specific rules and interpretations.
 - When a member encounters situations that are not specifically addressed, the member must evaluate whether the "relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to the member's compliance with the rules that is not at an acceptable level" (ET 1.000.010, par. .01).
 - Members must apply the **conceptual framework** to address such **threats** and determine whether they can be reduced to an acceptable level through the application of **safeguards** (ET 1.000.010, par. .01).



Key point: The Code explains that there are some relationships and circumstances that pose such substantial threats that no safeguards can reduce the threat to an acceptable level (ET 1.000.010, par. .02).



Update:

For SSAE engagements: Apply updated PEEC independence interpretations when evaluating threats (effective June 15, 2026).

Rules of professional conduct

AICPA Code of Professional Conduct² (continued)

Members should apply the conceptual framework using a basic three-step approach.

1

Step One: Identify threats (ET 1.000.010, par. .07)

- Threats include the relationships or circumstances that could compromise a member's compliance with the rules or make it appear to an outside party that rules were violated.

2

Step Two: Evaluate the significance of threats

- Members should assess both qualitative and quantitative factors when evaluating the significance of an identified threat.

3

Step Three: Identify and apply safeguards

- Safeguards are the actions or measures that may eliminate a threat or reduce it to an acceptable level at which a reasonable third party would conclude that the member's compliance with rules has not been compromised.
- The identification and application of safeguards vary depending on the circumstances and require a substantial level of professional judgment.

Rules of professional conduct



AICPA Code of Professional Conduct² (continued)

The Code classifies threats into seven broad categories (ET 1.000.010, par. .10–.16).

1. Adverse interest threat

- A member may not act objectively due to the member's interest being opposed to the interests of the client.

2. Advocacy threat

- A member could promote the client's position or interests to the point that the member's independence and/or objectivity are compromised.

3. Familiarity threat

- A member could become overly accepting of a client's work or overly sympathetic to the client's interests due to a close or long-standing relationship with the client.

Rules of professional conduct



AICPA Code of Professional Conduct² (continued)

4. Management participation threat

- A member may assume the role of client management or engage in management responsibilities during the commission of non-attest services.

5. Self-interest threat

- A member may stand to receive financial or nonfinancial benefits associated with a relationship or interest in a client or persons associated with the client.

Rules of professional conduct



AICPA Code of Professional Conduct² (continued)

6. Self-review threat

- A member may not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member or an individual in the member's firm, and the member may rely on that service or judgment in developing a judgment associated with another service.

7. Undue influence threat

- A member may subordinate judgment to an individual associated with a client or another third party based on the individual's expertise, reputation, aggressive personality, or techniques to exercise excessive influence over the member.

Rules of professional conduct



AICPA Code of Professional Conduct² (continued)

Members may be able to use safeguards in order to eliminate identified threats or reduce them to an acceptable level (ET 1.000.010, par. .18).

Safeguards fall into three broad categories:

- 1 Safeguards created by the profession, legislation, or regulation
- 2 Safeguards implemented by the client
- 3 Safeguards implemented by the firm, including procedures and policies to implement professional and/or regulatory requirements



Key point: A member may *not* rely solely on safeguards implemented by the client to eliminate or reduce a significant threat to an acceptable level.

Rules of professional conduct



AICPA Code of Professional Conduct² (continued)

Safeguards created by the profession, legislation, or regulation include (ET 1.000.010, par. .21):

- Required education or training
- Professional standards
- Disciplinary actions
- External reviews of quality control
- Legislation stipulating specific requirements or prohibitions for members
- Professional licensure requirements
- Professional resources to address ethical issues

Rules of professional conduct



AICPA Code of Professional Conduct² (continued)

Safeguards implemented by the client that could support or supplement other safeguards include (ET 1.000.010, par. .22):

- Adequate skill, knowledge, or experience of client staff
- Management's tone at the top
- Appropriate policies and procedures surrounding financial reporting, legal compliance, corporate governance, and ethical conduct
- Active and attentive audit committee
- Policies aimed to ensure that firms are not contracted to provide services that would create independence violations or the impairment of objectivity

Rules of professional conduct



AICPA Code of Professional Conduct² (continued)

Safeguards implemented by the firm may include (ET 1.000.010, par. .23):

- Policies and procedures to effectively monitor engagement quality control, policy compliance, and firm relationships
- Rotation of partners, managers, or other engagement team members
- Ongoing training and management communication
- Standards for disciplinary action to address policy violations
- Involvement of review partners or consulting partners
- Consultation with experts to assist in highly technical or subjective areas
- Client acceptance and continuation policies to prevent association with clients that could compromise the member or firm's compliance with rules

Rules of professional conduct



AICPA Code of Professional Conduct^{2,44} (continued)

The Code addresses potential ethical conflicts. An ethical conflict arises if a member encounters either (ET 1.000.020, par. .01):

- obstacles to following an appropriate course of action as the result of internal or external pressures; or
- conflicts in applying relevant professional or legal standards.

Example: Ethical conflict

A member suspects fraud within a client's management team. However, reporting the suspected fraud could compromise the member's responsibility to maintain client confidentiality.



Note: If conflicts involve independence on SSAE engagements, refer to PEEC's 2026 clarifications (effective 6/15/26).



Reference: For detailed analysis of 2026 PEEC and Circular 230 changes, see Journal of Accountancy (Dec. 2024-Jan. 2025) and [IRS.gov/circulars](https://www.irs.gov/circulars).

Rules of professional conduct

AICPA Code of Professional Conduct² (continued)

When a member encounters an ethical conflict, the member should pursue the action that will best achieve compliance with established rules and regulations (ET 1.000.020, par. .02):

- The member should consider the following factors (not an all-inclusive list):
 - Relevant facts and circumstances, including applicable rules, laws, or regulations
 - Identified ethical issues
 - Established internal procedures



Key point: Members should consult with appropriate parties and be prepared to justify any departures that the member thinks are appropriate in applying the relevant rules and regulations.



Source: artisteer/iStockphoto

Rules of professional conduct



Circular 230 practice before the IRS^{35,36}

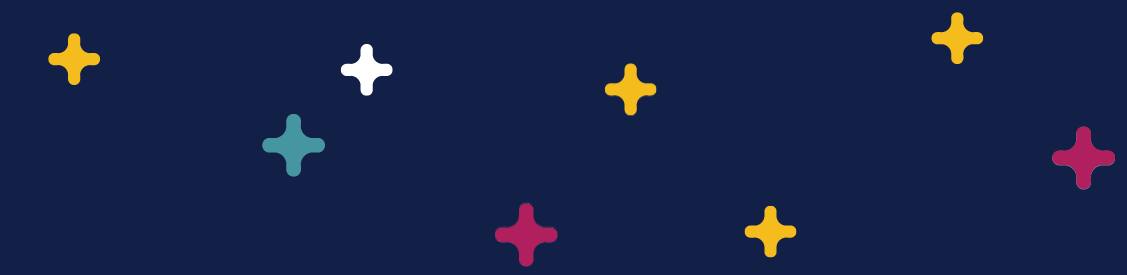
- For tax professionals, Section 330 of Title 31 of the U.S. Code authorizes the Department of the Treasury (and therefore the Internal Revenue Service (IRS)) to regulate individuals who represent taxpayers in audits and other tax controversies with the IRS.
- Before admission to represent taxpayers, the IRS may require tax professionals to demonstrate the following characteristics.
 - Good character
 - Good reputation
 - Necessary qualifications
 - Competence

Form 2848 (Rev. January 2021) Department of the Treasury Internal Revenue Service	Power of Attorney and Declaration of Representative ▶ Go to www.irs.gov/Form2848 for instructions and the latest information.	OMB No. 1545-0150 For IRS Use Only Received by: Name _____ Telephone _____ Function _____ Date / /
Part I Power of Attorney Caution: A separate Form 2848 must be completed for each taxpayer. Form 2848 will not be honored for any purpose other than representation before the IRS.		
1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.		
Taxpayer name and address		Taxpayer identification number(s)
		Daytime telephone number Plan number (if applicable)
hereby appoints the following representative(s) as attorney(s)-in-fact:		
2 Representative(s) must sign and date this form on page 2, Part II.		
Name and address		CAF No. _____ PTIN _____ Telephone No. _____ Fax No. _____
Check if to be sent copies of notices and communications <input type="checkbox"/>		Check if new: Address <input type="checkbox"/> Telephone No. <input type="checkbox"/> Fax No. <input type="checkbox"/>



Alert: Proposed Changes to Monitor: IRS/Treasury proposed amendments (Dec. 2024) would add technological competency requirements and reposition certain contingent fees as disreputable conduct. Not final as of early 2026—verify status before citing.

Rules of professional conduct



Circular 230 practice before the IRS^{36,37,38} (continued)

- The Treasury Regulations governing tax representation are listed in the publication titled “Treasury Department Circular No. 230, Regulations Governing Practice before the Internal Revenue Service” (commonly referred to as Circular 230).
- The following practitioners are eligible to practice before the IRS and are subject to Circular 230 when acting as taxpayer representatives.
 - Attorneys
 - Certified public accountants (CPAs)
 - Enrolled agents (EAs)
 - Enrolled actuaries (limited practice rights)
 - Enrolled retirement plan agents (limited practice rights)
 - Unenrolled tax return preparers (limited practice rights)

Part II Declaration of Representative				
Under penalties of perjury, by my signature below I declare that:				
<ul style="list-style-type: none"> • I am not currently suspended or disbarred from practice, or ineligible for practice, before the Internal Revenue Service; • I am subject to regulations in Circular 230 (31 CFR, Subtitle A, Part 10), as amended, governing practice before the Internal Revenue Service; • I am authorized to represent the taxpayer identified in Part I for the matter(s) specified there; and • I am one of the following: <ul style="list-style-type: none"> a Attorney—a member in good standing of the bar of the highest court of the jurisdiction shown below. b Certified Public Accountant—a holder of an active license to practice as a certified public accountant in the jurisdiction shown below. c Enrolled Agent—enrolled as an agent by the IRS per the requirements of Circular 230. d Officer—a bona fide officer of the taxpayer organization. e Full-Time Employee—a full-time employee of the taxpayer. f Family Member—a member of the taxpayer's immediate family (spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother, or sister). g Enrolled Actuary—enrolled as an actuary by the Joint Board for the Enrollment of Actuaries under 29 U.S.C. 1242 (the authority to practice before the IRS is limited by section 10.3(d) of Circular 230). h Unenrolled Return Preparer—Authority to practice before the IRS is limited. An unenrolled return preparer may represent, provided the preparer (1) prepared and signed the return or claim for refund (or prepared if there is no signature space on the form); (2) was eligible to sign the return or claim for refund; (3) has a valid PTIN; and (4) possesses the required Annual Filing Season Program Record of Completion(s). See Special Rules and Requirements for Unenrolled Return Preparers in the instructions for additional information. k Qualifying Student or Law Graduate—receives permission to represent taxpayers before the IRS by virtue of his/her status as a law, business, or accounting student, or law graduate working in a LITC or STCP. See instructions for Part II for additional information and requirements. r Enrolled Retirement Plan Agent—enrolled as a retirement plan agent under the requirements of Circular 230 (the authority to practice before the Internal Revenue Service is limited by section 10.3(e)). 				
<p>► IF THIS DECLARATION OF REPRESENTATIVE IS NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THE POWER OF ATTORNEY. REPRESENTATIVES MUST SIGN IN THE ORDER LISTED IN PART I, LINE 2.</p> <p>Note: For designations d–f, enter your title, position, or relationship to the taxpayer in the “Licensing jurisdiction” column.</p>				
Designation— Insert above letter (a–r).	Licensing jurisdiction (State) or other licensing authority (if applicable)	Bar, license, certification, registration, or enrollment number (if applicable)	Signature	Date

Rules of professional conduct



Circular 230 practice before the IRS^{37,38} (continued)

- Subpart B of Circular 230 lists various duties and restrictions when practicing before the IRS.
 - Promptly submit requested documents to the IRS unless they are “privileged” (Sec. 10.20)
 - Notify clients of errors and omissions on previously filed tax returns (or other documents) and advise clients of the potential consequences for noncompliance (e.g., penalties) (Sec. 10.21)
 - Exercise due diligence when preparing tax returns or other documents and when communicating with clients and the IRS (Sec. 10.22)



Note: Privileged communication includes tax advice between a Circular 230 practitioner and a taxpayer if the communication would be considered privileged between a taxpayer and an attorney. This protection only applies to noncriminal tax matters before the IRS and noncriminal tax proceedings in federal court (IRC Sec. 7525).

Rules of professional conduct



Circular 230 practice before the IRS³⁷ (continued)

- Subpart B of Circular 230 lists various duties and restrictions when practicing before the IRS (continued).
 - Do not unreasonably delay the IRS (Sec. 10.23).
 - Do not charge “unconscionable” fees (Sec. 10.27).
 - Promptly return client documents upon request (Sec. 10.28).
 - Do not represent clients when there is a conflict of interest unless the practitioner can provide competent and diligent representation to the affected clients (Sec. 10.29).



Alert: If finalized, certain contingent fee arrangements may be repositioned as disreputable conduct. Proposed Dec. 2024; verify final rule status.

Rules of professional conduct



Circular 230 practice before the IRS^{36,37} (continued)

- Subpart B of Circular 230 lists various duties and restrictions when practicing before the IRS (continued).
 - Do not engage in deceptive advertising (Sec. 10.30).
 - Do not endorse or negotiate any taxpayer checks (Sec. 10.31).
 - Communicate clearly with the client on the terms of the engagement (Sec. 10.33).
 - Make sure conclusions are supported by the law and the facts (Sec. 10.33, 10.37).

Form 2848 (Rev. 1-2021)

Page **2**

b Specific acts not authorized. My representative(s) is (are) not authorized to endorse or otherwise negotiate any check (including directing or accepting payment by any means, electronic or otherwise, into an account owned or controlled by the representative(s) or any firm or other entity with whom the representative(s) is (are) associated) issued by the government in respect of a federal tax liability.
List any other specific deletions to the acts otherwise authorized in this power of attorney (see instructions for line 5b):

Rules of professional conduct



Circular 230 practice before the IRS³⁷ (continued)

- Subpart B of Circular 230 lists various duties and restrictions when practicing before the IRS (continued).
 - Act fairly and with integrity (Sec. 10.33).
 - Make reasonable inquiries when client information appears to be incorrect, inconsistent, or incomplete (Sec. 10.34).
 - Possess the necessary competence before accepting engagements or make efforts to gain the required knowledge and skills by studying the applicable law or consulting with experts (Sec. 10.35).

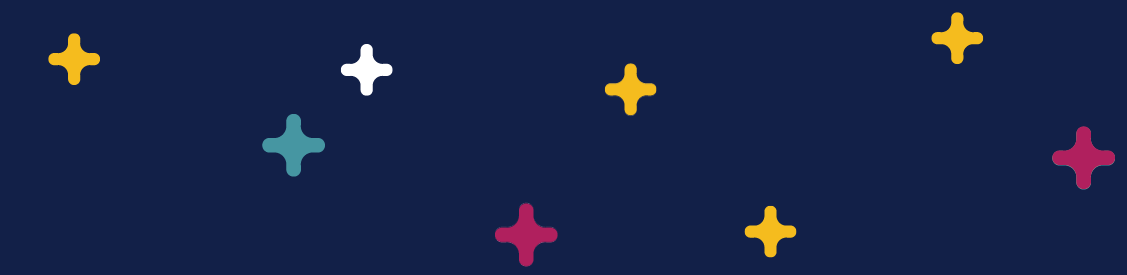
Rules of professional conduct



Circular 230 practice before the IRS³⁷ (continued)

- The IRS may sanction a tax practitioner for “incompetence and disreputable conduct.”
- Sec. 10.51 of Subpart C of Circular 230 lists examples of incompetence and disreputable conduct (not an all-inclusive list).
 - Conviction of a federal tax crime
 - Conviction of a crime involving dishonesty or breach of trust
 - Conviction of a federal or state law felony for conduct rendering the practitioner unfit to practice before the IRS
 - Providing false or misleading information to the IRS

Rules of professional conduct



Circular 230 practice before the IRS³⁷ (continued)

- Sec. 10.51 of Subpart C of Circular 230 lists examples of incompetence and disreputable conduct (not an all-inclusive list) (continued).
 - False advertising
 - Tax evasion
 - Assisting a client in violating any federal tax law
 - Misappropriation of client funds intended to pay a tax liability

Rules of professional conduct



Circular 230 practice before the IRS³⁷ (continued)

- Sec. 10.51 of Subpart C of Circular 230 lists examples of incompetence and disreputable conduct (not an all-inclusive list) (continued).
 - Attempts to influence the IRS through threats or bribery
 - Disbarment or suspension from practice as an attorney or CPA
 - Knowingly aiding a suspended or disbarred individual to practice before the IRS
 - Abusive language or false statements in connection with practice before the IRS

Rules of professional conduct



Circular 230 practice before the IRS³⁷ (continued)

- Sec. 10.51 of Subpart C of Circular 230 lists examples of incompetence and disreputable conduct (not an all-inclusive list) (continued).
 - Giving false opinions that knowingly misstate the tax law
 - Willfully failing to sign a tax return
 - Willfully disclosing tax return information

Rules of professional conduct



Circular 230 practice before the IRS³⁷ (continued)

- Sec. 10.51 of Subpart C of Circular 230 lists examples of incompetence and disreputable conduct (not an all-inclusive list) (continued).
 - Willfully failing to file a return electronically (when required)
 - Willfully preparing a tax return without a preparer tax identification number (PTIN)
 - Willfully representing a client before the IRS when the practitioner is not authorized to do so

Paid Preparer Use Only	Preparer's name	Preparer's signature	Date	PTIN	Check if: <input type="checkbox"/> Self-employed
	Firm's name				Phone no.
	Firm's address				Firm's EIN



Reference: Form 1040, U.S. Individual Income Tax Return.
<https://www.irs.gov/forms-pubs/about-form-1040>

4

Ethical foundations



Ethical foundations



Theoretical foundations of ethics²²

Ethics constitutes the branch of philosophy focusing on human conduct or choices and the judgment of such actions as being right or wrong.

- Numerous theories exist in the philosophy of ethics. These theories are sometimes grouped into broad categories:
 - Consequentialism
 - Deontology
 - Natural law
 - Virtue ethics

Ethical foundations



Theoretical foundations of ethics²² (continued)

Consequentialism

- Theories propose that the appropriateness of a given action is dependent on the consequences.
- A common example is utilitarianism, which supports the idea of the "greatest good for the greatest number."

Deontology

- Theories are based primarily on the work of Immanuel Kant.
- Deontology proposes that acts are either right or wrong based on moral law; consequences could be irrelevant.

Ethical foundations



Theoretical foundations of ethics²² (continued)

+ Natural law

- Theories focus on human nature.
- The goals of human fulfillment and flourishing serve as the basis for determining whether an action is right or wrong.

+ Virtue ethics

- Consists of two broad approaches:
 - Certain character traits are appropriate and praiseworthy, while others are inappropriate and blameworthy.
 - "Practical wisdom" allows individuals to choose courses of action that are desirable and right.

Ethical foundations



Judgment and values⁷

Business ethics have evolved due to societal changes.

- The following are the business ethics issues from the 1960s to the 2000s.
 - 1960s: Saw a shift from individualism to prioritizing social issues.
 - 1970s–1980s: The government responded to defense contractor scandals with stricter policies and increased compliance requirements.
 - 1990s: Environmental issues became a reflection of a company's ethical priorities.
 - 2000s: Ethical issues focus on cybercrime and privacy issues.

Ethical foundations



The ethical decision-making process¹⁷

A five-point approach to ethical decision making

1 Step 1: Identify the ethical issues

- Consider the impact on everyone the decision affects.
 - Will some group(s) be damaged?
 - Will benefits be unevenly distributed between impacted groups?
- Consider if this is a legal or efficiency issue.



The ethical decision-making process¹⁷ (continued)

2 Step 2: Get the facts

- Identify the relevant facts.
 - Are there enough known facts to make an appropriate decision?
- Identify the individuals and groups that have an important interest in this issue.
 - Does this issue matter equally to all individuals and groups?
- Identify the options
 - Consult with all individuals and groups that potentially will be impacted by the decision.



The ethical decision-making process¹⁷ (continued)

3 Step 3: Evaluate alternative actions

- Evaluate options by asking questions such as:
 - Are the rights of everyone impacted being respected?
 - Does the option treat everyone fairly?
 - Does the option do the most good/least harm?
 - Does the option provide the maximum benefit to the community in general?
 - Does the option reflect the personal ethics of the decision maker?
 - Does the option consider the relationships, concerns, and feelings of everyone potentially impacted?

Ethical foundations



The ethical decision-making process¹⁷ (continued)

4 Step 4: Choose an option and test it

- After Step 3 is completed, choose an option.
- Consider not only the option, but how it can best be implemented.

5 Step 5: Implement the option chosen and evaluate the outcome

- Consider how the option chosen is performed.
- Consider any follow-up actions that should be taken.



Ethical foundations



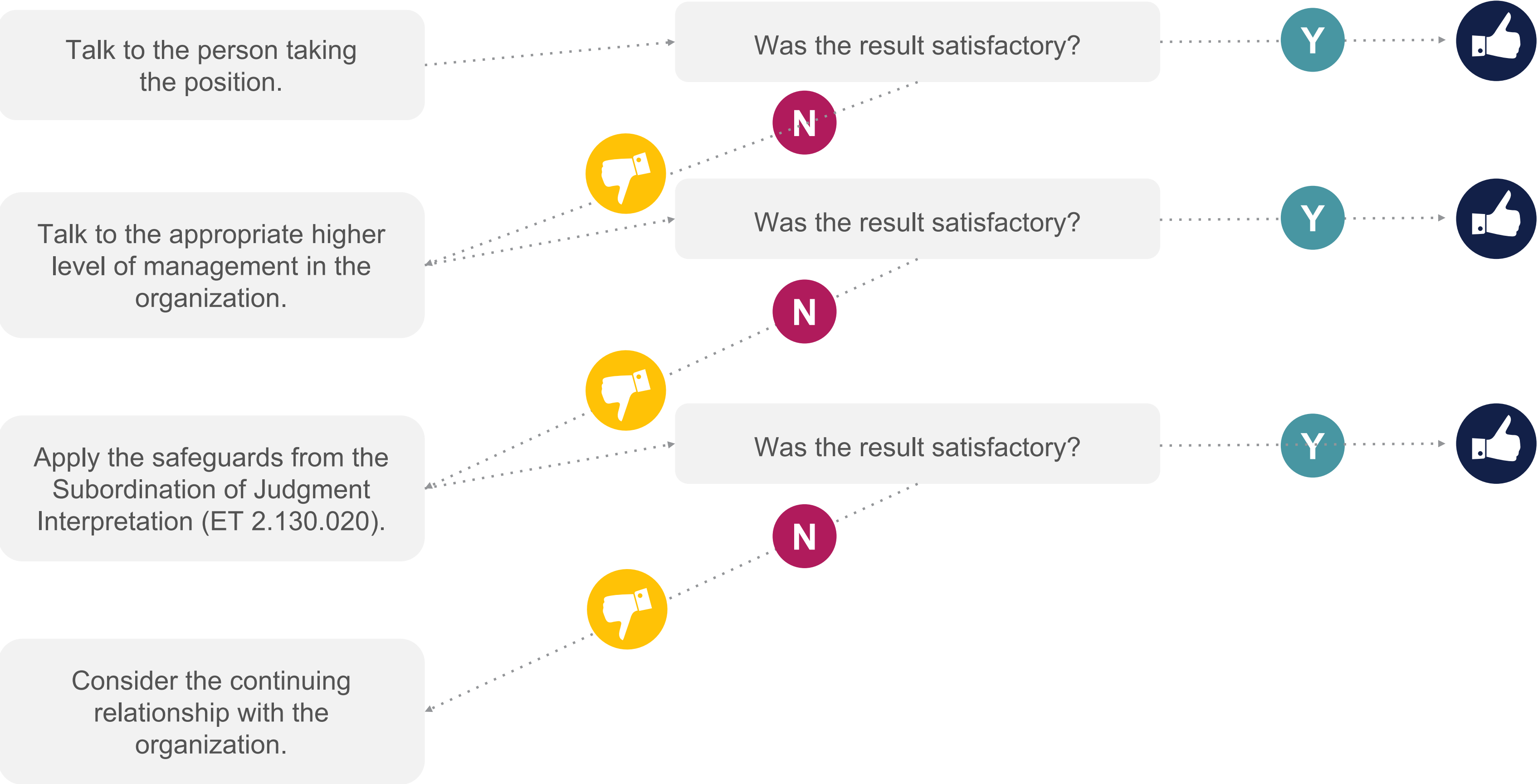
AICPA ethics decision tree for CPAs in business³



Ethical foundations



AICPA ethics decision tree for CPAs in business³ (continued)



Ethical foundations



AICPA ethics decision tree for CPAs in business^{2,3} (continued)

Subordination of judgment safeguards (ET 2.130.020, par. .08)

- The CPA should:
 - Determine whether the organization's policies have additional requirements for reporting differences of opinion.
 - Determine whether he or she is responsible for communicating to third parties, such as regulatory authorities or the organization's external accountant.



Note: When determining responsibility for communicating to third parties, the CPA should also take into consideration other standards, including Confidential Information Obtained from Employment or Volunteer Activities (ET 2.400.070), Acts Discreditable Rule (ET 2.400.001), Obligation of a Member to His or Her Employer's External Accountant (ET 2.130.030), and the Integrity and Objectivity Rule (ET 2.100.001).

Ethical foundations



AICPA ethics decision tree for CPAs in business^{2,3} (continued)

Subordination of judgment safeguards (ET 2.130.020, par. .08) (continued)

- The CPA should (continued)
 - Discuss his or her responsibilities with legal counsel.
 - Document his or her understanding of the facts, relevant law, and professional standards.
 - Document parties spoken to and the related conversations.

Ethical foundations

Possible ethical types in the workplace¹⁹

Knowing the way in which you handle ethical situations in the workplace can be important. One business ethics expert describes four ethical types in the workplace:

+ Conformist

- The employee who always follows the rules and does not question those in authority. This person may be hesitant to report a supervisor or manager who is breaking an ethical standard.

+ Negotiator

- An employee who tries to make up the rules according to the situation. This employee will likely encounter trouble in the ethical decision area because they develop their own interpretation of good ethical behavior according to the circumstances.



Source: SolStock/iStockphoto

Ethical foundations



Possible ethical types in the workplace¹⁹ (continued)

Navigator

- This employee, when confronted with a situation in which people are behaving unethically, is able to rely on an innate ethical sense to guide their actions, even if these decisions aren't easy. This person has a sound moral compass, which provides the flexibility to make choices (even unpopular ones). The navigator's ethical sense provides the employee with qualities of leadership. Other people respect and count on this person. The navigator will succeed in most organizations but will leave a company that is unethical.

Wiggler

- This employee just does not give a lot of thought to what is right and makes decisions that are most advantageous to himself or herself.

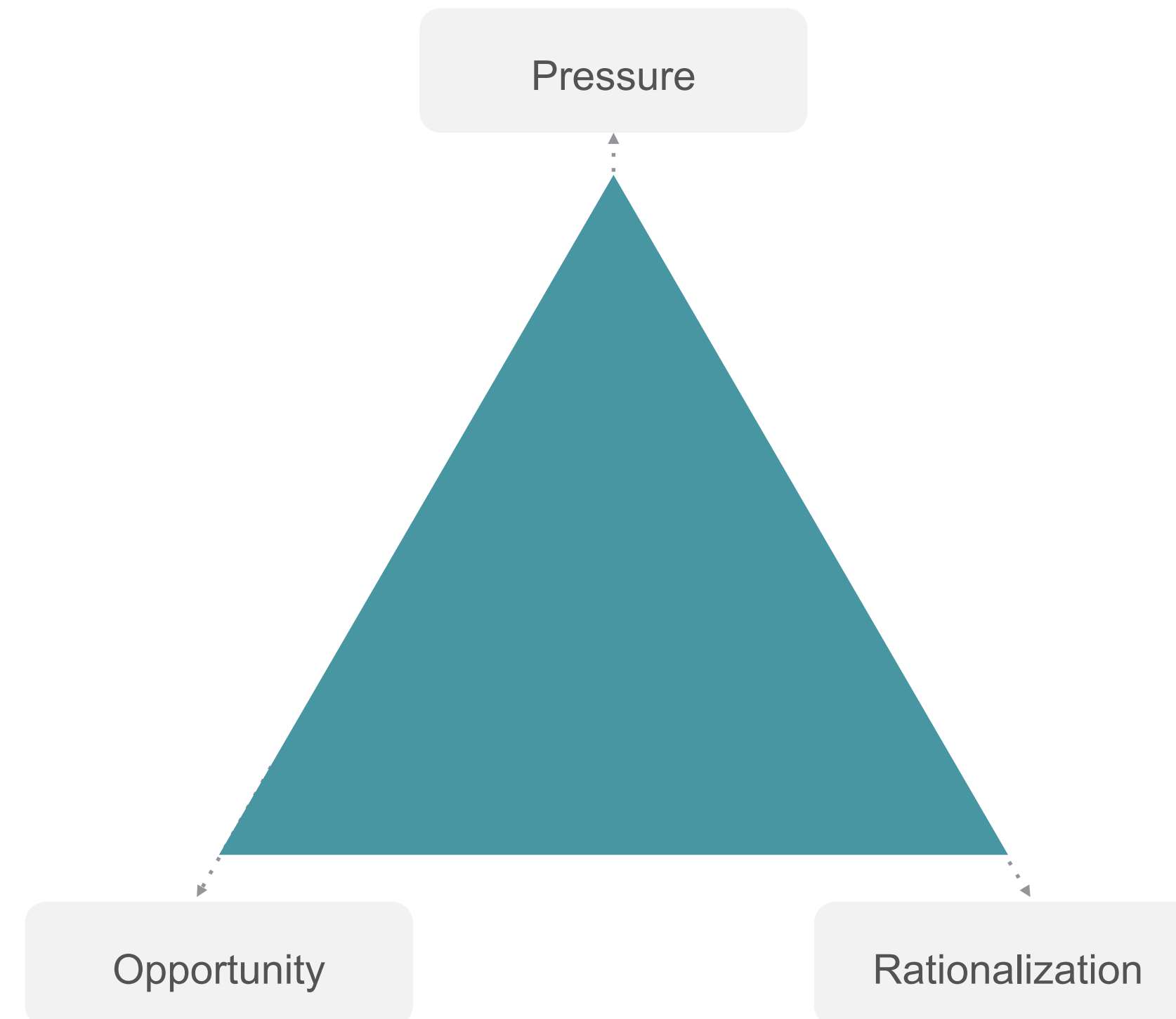
Ethical foundations



The fraud triangle¹

The theory of the fraud triangle proposes that three key elements must be present in order for fraud to occur:

- Pressure
- Opportunity
- Rationalization





The fraud triangle¹ (continued)

1

Pressure

- In the fraud triangle, pressure generally refers to some stressor that the perpetrator feels, which motivates that person to commit a fraudulent or unethical act. Common examples of pressure include:
 - Financial hardship (excessive debt, medical bills, etc.)
 - Gambling addiction
 - Problems with drugs or alcohol
 - Marital problems or affairs
 - Unrealistic living standards (i.e., living beyond one's means)



The fraud triangle¹ (continued)



Opportunity

In order for a person to commit fraud, the person must have the opportunity to perpetrate the act without being immediately detected.

- Common sources of opportunity include:
 - Lack of separation of duties
 - Poor corporate culture or "tone at the top"
 - Lack of established or properly monitored internal controls



Key point: Opportunity is the key element of the fraud triangle over which management has maximum control. Management may not be able to control the personal pressures facing an employee or that employee's ability to rationalize inappropriate behavior, but it can establish a sound internal control system to prevent and detect unethical behavior.

Examples

Separation of duties: The same employee may have both custody of assets and the associated recordkeeping responsibilities.

Corporate culture: Management does not demonstrate, communicate, or enforce the importance of ethical conduct.



The fraud triangle¹ (continued)

3

Rationalization

- Individuals find various ways to justify their unethical behavior. Common examples of rationalization for misappropriation of assets fraud include:
 - "I'm not stealing; I'm just borrowing. I will pay the money back."
 - "I deserve the money because I am not fairly compensated for the work that I do."
 - "The company and/or managers deserve this because they treat their workers, customers, etc., poorly."
 - "The company makes so much money; the little bit that I take doesn't even matter to them."

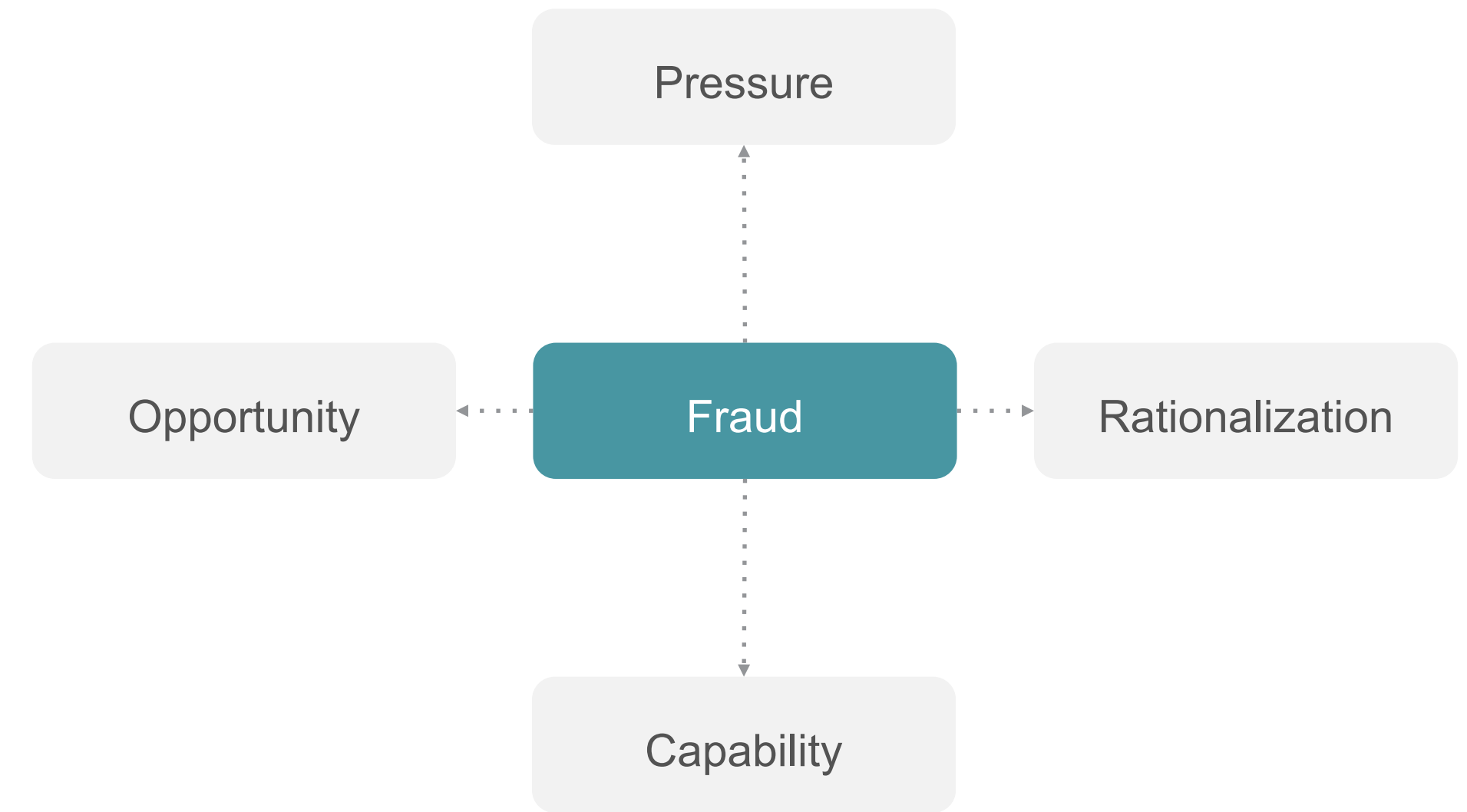


Note: Rationalizations for financial reporting fraud may differ, as this type of fraud involves the intentional misstatement of financial statements normally perpetrated by executive management. Rationalizations may be more self-focused, self-serving, or fear-based.

Ethical foundations

The fraud triangle¹ (continued)

In recent years, some experts have suggested that there is actually a fourth element to the fraud triangle—**capability**. This makes it a "fraud diamond."





The fraud triangle¹ (continued)

4

Capability

The element of capability focuses on the individual and his or her personal character traits.

- In order for a fraud to be successfully perpetrated, the fraudster must have:
 - Traits that make the person capable of committing the fraud
 - The ability to engage in bad behavior, cover up misdeeds, and go about business as normal without attracting attention or being overcome with guilt
 - The ability to recognize and capitalize on the opportunity
 - The aptitude and technical know-how to understand business processes, bypass existing controls, alter or falsify records and documentation, and communicate or explain away any irregularities

Ethical foundations



Employee fraud⁹

Management must be diligent in monitoring behavior and processes.
Common signs of employee fraud include:

- › Missing documentation
- › Employee complaints
- › Excessive purchases
- › Inventory shortages
- › Excessive voids or returns
- › Duplicate payments
- › Even-dollar invoice amounts
- › Irregular invoice volumes
- › Invoice amounts just below approval thresholds
- › Mail drop or "ghost" addresses

Ethical foundations



Financial reporting fraud^{5,9}

Signs of financial statement reporting fraud include:

- › Unexpected material changes in receivable balances
- › Increase in receivable aging
- › Unexpected or unexplained increases in revenues
- › Unusually low sales discounts
- › Low cash collections compared with reported revenues
- › Insufficient charges to inventory
- › Inventory trends that do not agree with sales
- › Unusual off-balance sheet relationships
- › Unnecessarily complex accounting policies or financial disclosures
- › Trends that do not fall in line with industry averages or expectations

Ethical foundations

Actions to prevent and detect unethical behavior⁶

Although it may be impossible to completely eliminate fraud, management should implement best practices to reduce risk:

- ✓ **Establish the control environment (i.e., "Tone at the top")**
 - Set an example in the organization by displaying ethical behavior.
 - Communicate the importance of appropriate business conduct.
 - Develop and promote a code of conduct or code of ethics for the organization.



Source: JohnnyGreig/iStockphoto

Ethical foundations



Actions to prevent and detect unethical behavior⁶ (continued)

- ✓ **Establish sound internal controls**
 - Ensure that policies and/or compensation structure do not create undue pressure on employees to produce short-term results or make questionable choices.
 - Develop both manual and automated internal controls to promote operational efficiency and reduce the risk of undetected fraudulent actions.



Actions to prevent and detect unethical behavior⁶ (continued)

✓ Monitor existing controls and employee behavior

- Maintain an independent team of internal auditors to review, evaluate, and test existing internal controls.
- Modify existing controls as needed when business processes or systems change.
- Create an atmosphere that fosters continuous improvement.
- Encourage managers to stay involved in the day-to-day business processes and get to know employees on an individual level.
- Maintain adequate oversight at all levels of the business.
- Ensure that employees and managers are treated and compensated fairly.

5

Case studies



Case studies



Case study 1

Tonya Cramer is a tax accountant for Magnetic Dynamics. She has a master's degree in accounting and has worked for the company for seven years. Her areas of responsibility include sales and use taxes and property taxes. She prepares and maintains a variety of tax schedules for both internal and external use and advises upper management on tax-saving strategies.

As the company is quite large and the end-of-year filing is complex, management historically contracted a regional accounting firm to complete the end-of-year tax work and filings. Due to recent budget cuts, management decided to eliminate expenses associated with engaging the accounting firm, instead assigning that work in-house.

Jim Brady, the CFO, calls Tonya into his office to communicate this decision and delegate responsibility to her for performing the year-end tax work and filing necessary tax forms. Furthermore, assume the company has received a notice that the IRS is auditing one of its prior year tax returns, and Jim asks Tonya to represent the company during the examination. He feels that she has ample experience and is confident that she can take on these new responsibilities. Jim tells Tonya that the company would pay for extra CPE training courses to make her feel more comfortable with the new role.

What are the ethical issues?

Are there any issues or pressures complicating Tonya's dilemma?



Case study 1 (continued)

What are the ethical issues?

The ethical issue Tonya faces in this scenario is the question of whether she is competent to perform the newly assigned tasks. While Tonya completes sales and use taxes and property tax returns, that does not indicate that she has the expertise to file the end-of-year return.

Accountants have an ethical obligation to assume responsibilities and perform work only in areas in which they are competent to do so. If Tonya knows she does not have the expertise needed to complete the year-end tax work, the result of choosing to move forward, despite a lack of relevant experience, may be Tonya's compromised professional integrity.

Related to the IRS audit, there are Circular 230 implications. Even if Tonya is not a CPA or an EA, she is still authorized under Circular 230, Sec. 10.7(c)(1)(ii), to represent the company as a full-time employee. However, does she meet the competence standard of Sec. 10.35? Will taking some continuing education courses prepare Tonya enough for the IRS audit? If Tonya is found to violate this standard, her limited practice rights to represent the company could be removed. If Tonya is a CPA or an EA, she could be suspended or disbarred and prevented from acting as a representative in the future (for her company or other clients) (Sec. 10.50 and 10.52).

Tonya should consider the other stakeholders involved, including the business owners, managers, employees, and the taxing authorities.

Are there any issues or pressures complicating Tonya's dilemma?

Since the CFO views Tonya as having the expertise to handle this responsibility, she has job pressure from the CFO. Tonya may be concerned that she will be fired or demoted if she is unable to complete the tasks successfully.

Case studies



Case study 2

Marco Fontes is on the board of directors and audit committee for Wayne Publishing Inc., a medium-sized, privately held corporation. The company has used the same public accounting firm for its annual financial statement audit for the past six years. However, the board feels that the fees are quite high and has decided to accept offers from other public accounting firms in the area.

The board has narrowed the candidates to three local firms based on the firms' experience and cost estimates. Marco feels very confident that all firms are being evaluated objectively. However, he wonders if he should tell the other board members that his nephew is a managing partner at one of the three firms under consideration.

Marco has not said anything thus far because he wanted to ensure that his nephew's firm had a fair chance at getting the job.

What are the ethical issues?

Are there any issues or pressures complicating Marco's dilemma?

Case studies



Case study 2 (continued)

What are the ethical issues?

The primary ethical issue in this case is independence.

Because Marco is a member of the board of directors and the audit committee, it is imperative that he be independent from the external financial statement auditors. By virtue of Marco's position within the company and the fact that his nephew is a managing partner of the firm in question, Marco is putting the company and his nephew at increased risk of violating independence requirements.

The ethical issue extends beyond the selection of the audit company. Should Marco's nephew's company be selected as the auditing firm, Marco's position on the board of directors and the audit committee could be considered problematic in the generation of independent audited statements.

Are there any issues or pressures complicating Marco's dilemma?

Marco could be feeling pressure from his family in this case to either help his nephew's firm or, at the very least, not hurt the firm's business.

Case studies



Case study 3

Joshua, an enrolled agent, has prepared the tax returns for Jacob and Emily, a married couple, for the last 20 years. Joshua's relationship with Jacob and Emily goes back even further as they attended high school together and have been close friends ever since.

The couple is under audit for the previous three tax years, and the IRS determines there is a large amount of underreported income. Joshua is representing the couple in the audit. In the same year, Emily files for divorce and claims she did not know anything about the underreported income. Since she was unaware of the income, Emily wants to request innocent spouse relief.

What are the ethical issues?

Are there any issues or pressures complicating Joshua's dilemma?



Case study 3 (continued)

What are the ethical issues?

When a married couple files a joint return, both spouses are liable for any taxes due under IRC Sec. 6013(d)(3)). However, IRC Sec. 6015 provides relief from the joint tax liability to an “innocent spouse.”

If Emily is granted innocent spouse relief, only Jacob will be held liable for the additional tax liability. Can Joshua still represent both Jacob and Emily before the IRS, given the circumstances? There appears to be a conflict of interest, and Sec. 10.29 of Circular 230 precludes Joshua from representing both taxpayers unless he believes he can competently represent them (and receives their approval in writing). Since Emily’s request for innocent spouse relief negatively impacts Jacob, Joshua will have a difficult time representing the interests of both taxpayers.

Are there any issues or pressures complicating Joshua's dilemma?

Joshua is friends with both Jacob and Emily, and his decision on representation may impact his personal relationships.

Case studies



Case study 4

Springfield Devices, a publicly traded technology company, has a major customer, TechPlus, a privately owned company. At year-end, Springfield is showing that the TechPlus accounts receivable balance is 50 percent of its total accounts receivable balance. Normally, TechPlus represents about 30 percent of Springfield's outstanding accounts receivable amount.

Dina is a senior accountant at Springfield Devices, with responsibility for financial reporting.

While the CFO has accepted the accounts receivable aging report without question, Dina is uncomfortable with accepting the report as correct due to the significant increase. She feels there may be a mistake in billing.

She has no real evidence to substantiate this suspicion.

What are the ethical issues?

Are there any issues or pressures complicating Dina's dilemma?



Case study 4 (continued)

What are the ethical issues?

Dina's primary potential ethical issue is integrity. She suspects that the financial reporting associated with Springfield's accounts receivable is significantly overstated.

Since Dina feels there may be an overstatement, she has an obligation to perform further research. Should her research show that the accounts receivable information is correct, there is no ethical issue.

Some of the more obvious stakeholders in this scenario include stockholders, creditors, and employees.

Are there any issues or pressures complicating Dina's dilemma?

Dina may be facing substantial pressure from the CFO to accept the report because he has already approved it. She may also be facing pressure from the billing area, since her suspicion would indicate a problem within that area. Questioning the judgment of the executive leaders or managers in other areas may be viewed as overstepping her boundaries.

Case studies



Case study 5

Lorena, an enrolled agent, is representing a new client who is being audited by the IRS for a return she did not prepare. The IRS auditor asks for a mileage log to support the client's auto expense deduction on Schedule C, Profit or Loss From Business. The client states that he used the vehicle 100% for business, and he produces a log with 10,000 business miles. According to the client, he just used the vehicle to drive between his home and the customer locations. In reviewing the client's tax return, Lorena notices he did not have a qualified home office, and she confirms this information with the client.

What are the ethical issues?

Are there any issues or pressures complicating Lorena's dilemma?



Case study 5 (continued)

What are the ethical issues?

When a self-employed individual drives between home and client locations, these miles are generally nondeductible commuting miles unless the individual's residence has a qualified home office (Reg. Sec. 1.262-1(b)(5); Rev. Rul. 99-7). Since the client did not have a qualified home office, the miles he included are nondeductible commuting miles.

Sec. 10.34(d) of Circular 230 allows a tax practitioner to rely on information provided by a client without verification. However, if the practitioner believes the information is incorrect, inconsistent, or incomplete, the practitioner cannot accept the information as provided and must make reasonable inquiries.

Sec. 10.51(a)(4) lists "giving false or misleading information" to the IRS as an example of incompetence and disreputable conduct, which could result in a sanction being imposed on the practitioner.

If Lorena accepts the client's mileage log, which she knows to be incorrect, she could be held in violation of Sec. 10.34(d) and potentially guilty of incompetence and disreputable conduct under Sec. 10.51(a)(4) for providing false or misleading information to the IRS.

Are there any issues or pressures complicating Lorena's dilemma?

Lorena may feel pressure to please the new client by not questioning the information.

Case studies



Case study 6

Okita Azumi is the director of Internal Audit for Pride Paper Products, an international publicly traded firm. After much lobbying, Okita was finally given approval to hire another employee for her department. She currently has two staff-level internal auditors. This new hire would be a third staff-level internal auditor. Primary responsibilities would include internal control testing with 50 percent travel. She prefers a candidate with a CPA license, experience in both public and corporate accounting, and some knowledge of the paper industry.

After sorting through more than 50 resumes, Okita narrowed it down to three candidates who met all or most of her preferred qualifications. She interviewed James, Benji, and Marcia. On paper, Marcia was by far the most qualified candidate. Not only does Marcia have a strong background in public and corporate accounting, she even has experience auditing in the paper industry. As an added bonus, Marcia is also a Certified Internal Auditor (CIA). In fact, Okita had basically made up her mind but wanted to go ahead and interview James and Benji to ensure that she appeared objective.

Okita completed all three interviews and now feels very torn in her hiring decision. When she met Marcia, she was quite surprised by her age. Although Okita certainly couldn't ask in the interview, she estimated Marcia to be at least 65 years old. Okita is concerned that Marcia is simply too old to be a good fit for this position.

What are the ethical issues?

Are there any issues or pressures complicating Okita's dilemma?

Case studies



Case study 6 (continued)

What are the ethical issues?

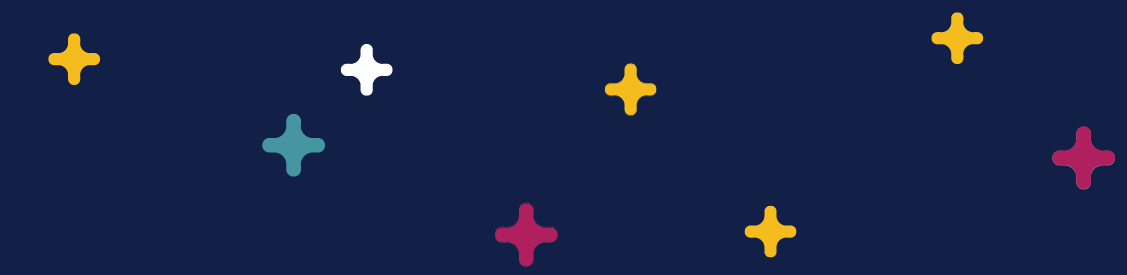
Okita is required to adhere to professional standards, including nondiscrimination in hiring.

In fact, Okita's case is somewhat unique in that, in addition to ethical issues, she may actually have a legal issue. The Age Discrimination in Employment Act (ADEA) is a federal law meant to protect workers over the age of 40 from discrimination in hiring and employment.

Are there any issues or pressures complicating Okita's dilemma?

Okita likely has some personal pressure in this scenario, as the potential employee will be in her department. If the employee underperforms, it will reflect negatively on Okita and could impact her earnings and advancement potential.

Case studies



Case study 7

Powell Chemicals Inc. is a large, privately held manufacturing company operating primarily in Well Springs, North Dakota. Powell employs 420 people in a town with a total population of 9,800 people.

Recently, Powell has come under increasing pressure to make its waste disposal practices more environmentally friendly. Unfortunately, those with regulatory authority seem to lack knowledge of the basic processes used in the chemical manufacturing industry. Management feels that its current practices are responsible and do not put the town's citizens at substantial risk. If it makes the suggested improvements to the disposal procedures, it will increase the operating costs by 20 percent. The company performed an analysis and determined that it cannot absorb these additional costs and continue to operate profitably. The company would be forced to reduce its workforce by 100 employees.

Management, in consultation with its board of directors, is of the opinion that the workforce reduction would have a much greater negative impact on the community than the current level of pollution related to chemical disposal. The chairman and CEO, Barbara Walsh, plans to present her case before local government officials on Tuesday.

What are the ethical issues?

Are there any issues or pressures complicating Barbara's dilemma?

Case studies



Case study 7 (continued)

What are the ethical issues?

Ethical issues in this case could include integrity, social responsibility to the community, and fiscal responsibility to shareholders and employees.

To build a culture of integrity, the company needs to balance its commitment to all stakeholder groups. In this scenario, the company has evaluated its commitment to employees (continued employment), community (environmental), government (environmental), and shareholders (financial). The company has determined that the community/government analysis of its operations is not supported by data, and the internal analysis does not see reducing environmental impact as the priority. The company is giving priority to its employees and shareholders in its ethical decision-making approach.

Are there any issues or pressures complicating Barbara's dilemma?

Barbara is likely facing many pressures. The government and community are pressuring the organization to change their processes to a more environmentally friendly approach. Meanwhile, the shareholders want to see reasonable profits. The employees also have some level of expectation of continued employment.

6

Ethics and the future of work



Ethics and the future of work

Ethics and the future of work^{8,29}

As how work is done changes, the ethical issues facing management also change. These challenges include:

- The change in how work is done through the increased use of technology and artificial intelligence (AI).
 - Technology changes impact not only how the work is done but where the work is done, as the number of remote workers increases.
- The increased use of contractors and independent workers instead of employees.
- Navigating the changing legal and regulatory environment.
- Addressing pressures from external parties regarding social justice and environmental issues.



Source: piranka/iStockphoto

Ethics and the future of work



Ethics and the future of work^{8,29,30} (continued)

Artificial intelligence (AI) and workers

- One of the primary ethical challenges regarding artificial intelligence has to do with its impact on workers.
- Companies that use AI to drive efficiencies need to determine if the use of technology results in the elimination of jobs or the reassignment of workers to an area in which they can add greater value.
- AI has been shown to not eliminate the need for workers, but to eliminate the need for certain job categories.
- AI can be used to monitor and observe the actions of employees in real time.
 - This use of AI can be viewed negatively by employees and have an adverse impact on the company's culture.



Note: In many cases, lower-skill jobs are being eliminated and replaced with higher-skill jobs. This could be seen as an ethical dilemma that would further the wealth gap in the nation as the employees working in the eliminated categories may not be competent or qualified to work in the newly created roles.

Ethics and the future of work



Ethics and the future of work^{8,30} (continued)

When integrating technology, the company should evaluate the following:

- ✓ If the technology increases discriminatory bias
- ✓ How the private information of workers is protected
- ✓ If the decision to use technology is explainable
- ✓ How people are held accountable for decisions regarding the use of technology

Ethics and the future of work



Ethics and the future of work²⁹ (continued)

AI and information

- A problem related to AI involves the system's ability to create false information. AI can create fake information that is difficult to discern from true information in the areas of:
 - Images
 - Videos
 - Conversations
 - Other content



Note: Auditors often rely on electronic files such as document images for evidence. If the reliability of such evidence is called into question, that could be a significant (and difficult to solve) problem for the auditors.



Alert: Two attorneys were fined by a judge for submitting fake court cases generated by ChatGPT (*Mata v. Avianca, Inc.*, 1:2022cv01461, S.D.N.Y. (2023)).

Ethics and the future of work



Ethics and the future of work^{29,30} (continued)

Automated incorrect information can be spread quickly on the internet.

Companies should consider the distribution of false information in the same risk category as cyberattacks and create plans to eliminate or mitigate its damage.

- Crimes related to the distribution of false information include:
 - Propaganda
 - Disinformation
 - Malicious interference
 - Blackmail

Ethics and the future of work



Ethics and the future of work¹³ (continued)

Remote work: Security and surveillance

- Companies must make sure that the private data handled by company employees is protected.
 - As audits are done remotely and more employees work from home, including the use of a variety of different devices—both those provided by the company and the employee's personal devices—the company needs to implement new ways to keep data secure.
- While businesses need to monitor the computer work of remote employees for both security and job performance, it creates an ethical question regarding the electronic privacy rights of these employees.
 - Employers need to provide employees notification regarding their right to surveillance.



Note: Employers do not have the right to monitor an employee's personal devices without the employee's permission. However, should an employee decline to provide the employer permission to monitor, the employee is not legally protected should the employer decide that this type of surveillance is a condition of employment.

Ethics and the future of work



Ethics and the future of work^{29,30} (continued)

AI and intelligent machines

- As machines increase in intelligence, it raises questions regarding how they are governed or held accountable for their actions.
 - Accountability for damage created by intelligent machines will increasingly become an ethical issue.
 - Should the machine be held accountable for incorrect actions, or should the people responsible for the machine be held accountable?



Note: The killing of a pedestrian by an autonomous vehicle in March 2018 generated great concern by the public. As the use of intelligent machines increases, the likelihood of accidents created by the machines increases.

Ethics and the future of work



Ethics and the future of work⁸ (continued)

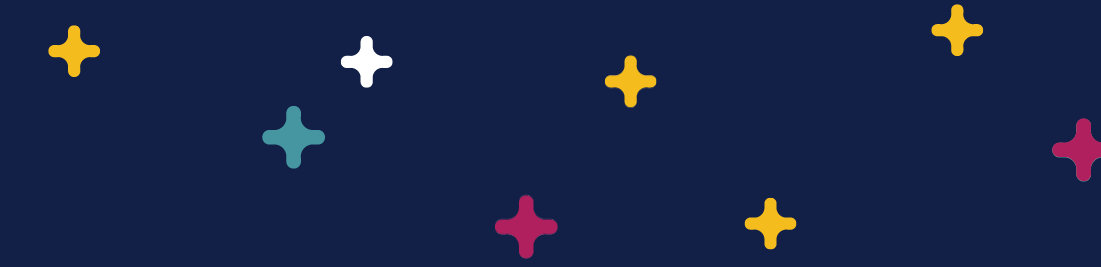
Changes in workforce composition

Companies need to determine how to schedule workflow as AI creates a blended workforce of technology and employees.

The growth of the alternative workforce—those workers who are self-employed—creates a growing ethical issue when integrating technology into the workflow.

- Currently, ethical concerns regarding the alternative workforce include:
 - Fair pay
 - Health care
 - Other benefits

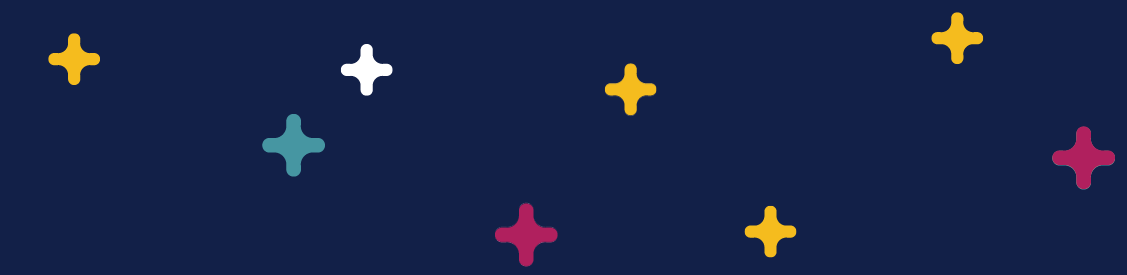
Ethics and the future of work



Ethics and the future of work^{8,16} (continued)

- The impact of technology on the alternative workforce adds additional areas of ethical consideration.
- While companies recognize that ethical issues with the alternative workforce exist, as this segment grows most companies are not prepared to appropriately address this situation, including the impact of technology on those workers.
 - Companies should take a strategic approach to how the alternative workforce is used, as it is a critical source of labor.

Ethics and the future of work



Ethics and the future of work⁸ (continued)

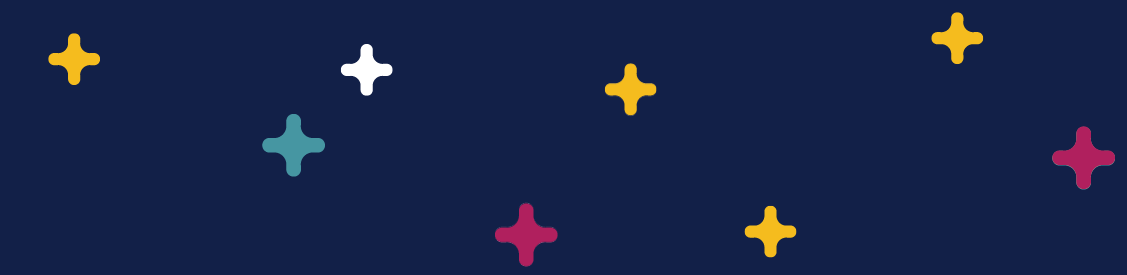
Legal and regulatory requirements

- Legal and regulatory requirements pose a problem for businesses as they typically lag in relation to workplace and technology issues.
- Related legal and regulatory issues become a global concern with new technologies, such as the use of digital currencies.
 - Global agreements regarding ethical standards are difficult to achieve as culture impacts what is/is not ethically acceptable.



Note: While the government enacts laws and regulations in order to set a baseline for ethical behavior, the company is the main entity for the development of policies and procedures intended to guide employees' ethical behavior.

Ethics and the future of work



Ethics and the future of work¹⁶ (continued)

External stakeholders

Pressure from external stakeholders to prioritize ethical responsibility continues to grow.

As organizations design their workflows, they are being challenged to consider many issues that may not be directly related to their core business operations. These areas include:

- Access to health care
- Inequality
- Climate change



Source: Nazan Akpolat/iStockphoto

Ethics and the future of work



Examples

Case study 1

LTM Technology is a software development company. It employs 500 employees.

The company is currently investigating the ability to automate an area of its production. This area includes 200 employees, so reduction in this area would significantly improve the company's profits.

The employees who would be impacted are some of the company's lower-wage earners. These employees are also 80 percent women and 85 percent minorities.

The CEO and CFO are meeting to consider the feasibility of using this automation and how implementation would be undertaken if the move to automate is deemed appropriate.

What are the ethical issues?

Are there any issues or pressures complicating LTM Technology's case?

Ethics and the future of work



Examples (continued)

Case study 1 (continued)

What are the ethical issues?

While the company could reduce labor costs by automating, the disparate impact on women and minorities is something that the CEO and CFO should consider when making a decision.

When considering the implementation of new technology, the CEO and CFO should also consider how the company can reassign workers and preserve as many jobs as possible. Women, in particular Hispanic women, face the highest level of risk of job loss to technology. The CEO and CFO can demonstrate that an ethical corporate culture is a priority by recognizing the need to preserve jobs.

Are there any issues or pressures complicating LTM Technology's case?

The CEO and CFO will face financial pressure from shareholders to achieve the highest profit they can from the implementation of the technology. They will also face pressure from employees to preserve jobs. Balancing the interests of all impacted stakeholders allows senior leadership to demonstrate that an ethical corporate culture is a priority.

Ethics and the future of work



Examples (continued)

Case study 2

ABC Controls is considering an automated monitoring system. This system would monitor employees' computer usage and calculate the time that employees spend on specific job-related tasks. The system would also accumulate information regarding non-business use and when the computer is not in use.

The CEO and CFO think this monitoring system would help them better evaluate the time involved in the various tasks employees perform. By obtaining an average of the time spent on individual tasks, they would be able to determine if too much time was spent on non-value-added tasks and eliminate or reduce the time necessary. Using this information to create a more efficient workflow would help the company improve its profit picture.

What are the ethical issues?

Are there any issues or pressures complicating ABC Controls' case?

Ethics and the future of work



Examples (continued)

Case study 2 (continued)

What are the ethical issues?

While the CEO and CFO are considering the business application of the implementation of the monitoring system, they are not considering the negative impact it may have on employees' attitudes. Employees would most likely see this as excessive oversight. This monitoring could negatively impact the company's culture, resulting in reduced efficiency. It could also place unnecessary stress on employees who feel the need to perform above a reasonable level.

Are there any issues or pressures complicating ABC Controls' case?

Shareholders would apply pressure to achieve the increased efficiencies and profit that the CEO and CFO anticipate would be the result of implementing the monitoring system.

Employees would pressure the CEO and CFO to avoid implementation of the monitoring system.

In the ethical decision-making process, the CEO and CFO should consider the interests of both the employees and the shareholders. Focusing on the specific tasks in the workflow and not on aspects outside of the workflow could allow the company to address inefficiencies in the workflow, increase profits for shareholders, and avoid the negative perception of monitoring overreach and the potential negative impact on the company's culture.

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Thank you.

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