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Seeking Peace of Mind: A Case Study Combining Ethics and Accounting

Lauren Ghahremani

Seeking Peace of Mind:
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By

Lauren Ghahremani
University of Arkansas, Fayetteville

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Introduction

In the previous decade, the actions of corrupt individuals related to companies such as Enron, Arthur Andersen, WorldCom, HealthSouth, Adelphia, and Tyco exposed major issues within the accounting profession, calling into question the integrity and credibility of public accounting (Brown). According to Brown, the high profile financial scandals caused the public's confidence in the capital markets to decrease. In response, the AICPA worked diligently with Congress, the SEC and the Financial Accounting Standards Board to enact reforms with the intention of "restoring investor confidence in the financial reporting system" (Castellano). These financial scandals also caused universities and other learning institutions to reflect on the current curriculum and incorporate changes to highlight the importance of ethical practices in the profession (Titard) and prepare students to overcome ethical dilemmas in the accounting profession with multiple alternative solutions (Huss and Patterson). Huss and Patterson, along with many accounting educators and practitioners, suggest a way to achieve this by discussing ethical situations in the form of case studies to practice reacting to and resolving situations in the classroom, before experiencing real ethical dilemmas in the business world. The Review of Literature will explain why embedding ethics education in accounting theory is a necessity for the success of individuals in the accounting profession today. It will also explore how case studies can bridge the gap between technical accounting knowledge and the importance of incorporating ethics into each decision made. A preface to the case study is included to explain the importance of the exercises, and to provide insight into the creation and use of the study. The case study is then presented, and is followed by a section for teaching notes that provides a lesson plan for educators who may choose to use the original case study provided. Lastly, a conclusion portion completes the content of this project. The purpose of this research has been to create original work in the form of a case study that educators and accounting students can benefit from during daily exercises in accounting ethics courses. Education at the collegiate level has a large influence and lasting effect on the success of students in the professional world, and using case studies are an effective and necessary supplement in accounting curriculum to prepare students for the challenging business world (Educating for the Public Trust). As stated by Ellis, "Case studies are analogous to actual experience. Through the study of a case with all its facts and circumstances, a student may begin to acquire the kind of insight that is ultimately solidified through lived experience…one of the best ways to teach the requisite sensitivity to ethics is through the use of remarkable and dramatic cases of ethical malfeasance in accounting."

Review of Literature

It is widely known that attempted fraud has not been eliminated completely at any level of business. According to the Ethics and Compliance: Global Economic Crime Survey 2016 by PricewaterhouseCoopers (PwC), "Survey results show that not only are the number of economic crime risks increasing, so too are the complexity of those risks." The KPMG Forensic Integrity Survey in 2013 stated 73% of employees nationally reported they observed misconduct in the prior year. 56% of those employees reported what they saw could cause "a significant loss of public trust if discovered." This Integrity Survey assessed 42 categories of fraud and misconduct that employees had “first-hand knowledge” or had “personally seen.” The following two findings emphasize the necessity of maintaining professional skepticism, which is exercised in the case study below. According to the same Forensic Integrity Survey, stealing or misappropriating assets increased in 2009 to 2013 from 17% to 30%, respectively, and falsifying or manipulating financial reporting information increased in 2009 to 2013 from 13% to 29%. The authors of this survey stated, “We note that when allegations of organizational misconduct garner attention, the focus often tends to zoom in on one specific problem; however, experience tells us that integrity risks are not neatly segmented, and in fact, at any given time the nature of misconduct risk can be as diverse and fluid as the business itself.” Therefore, it is vital for accounting students entering the business world to be prepared fully to encounter wrongdoing of some kind at some point, whether it is fellow employees or a trusted client performing the illegal activity.

Stephen Loeb introduced a List of Possible Goals of Accounting Education Ethics Education’ in his research, adapted from Daniel Callahan. The seven goals listed are:

1. Relate accounting education to moral issues
2. Recognize issues in accounting that have ethical implications
3. Develop “a sense of moral obligation” or responsibility
4. Develop the abilities needed to deal with ethical conflicts or dilemmas
5. Learn to deal with the uncertainties of the accounting profession
6. “Set the stage for” a change in ethical behavior
7. Appreciate and understand the history and composition of all aspects of accounting ethics and their relationship to the general field of ethics

Loeb stated, “Case discussion and role playing might be used to address all seven goals.” Goldberg and Centers define ethical fading as, “the process by which ethical aspects of a decision fade from the mind.” For example, prior to the financial scandals unfolding, it was confirmed that individuals selling subprime mortgages believed to be making sound business decisions, not potentially unethical decisions (Goldberg and Centers). To help prevent accounting students from separating ethics from business, or in the case of this research, ethics from accounting, researchers agree that changes in the accounting curriculum to include exercises and discussions of ethical dilemmas faced by real accounting professionals is beneficial by allowing students to identify and react to ethical dilemmas (Huss and Patterson). In a similar argument, Titard believes, “Professors should give students in upper-level accounting classes the opportunity to apply their knowledge of the scandals through critical-thinking exercises that encourage them to explore the economic, social, political, and ethical implications of accounting decisions.”

In the classroom, simply memorizing codes of conduct and knowing the laws associated with accounting practices does not allow students to explore the possibility of different perspectives, learn how to incorporate moral reasoning into each accounting judgment call, or understand the effect organizational culture and pressure from the client could have on “decision making and subsequent implementation” (Fisher and Swanson). Instead of memorizing codes of ethics, Fisher and Swanson suggest that educators implement comprehensive learning objectives meant to increase the overall ethics education experience. For example, Fisher and Swanson provided the learning objective, “Analyze behavior of accountants with respect to codes of conduct. Determine whether described actions violate the codes. Identify what the accountant could have done differently to avoid violations.” This proposed learning objective could be achieved through a case study exercise. Furthermore, there is a lack of understanding by accounting students of the responsibility of accounting professionals (Educating for the Public Trust pg.6). Again, this gap can be closed through case study exercises that answer questions that also meet the proposed learning objective “Understand the effect that accounting decisions can have on stakeholders. Understand the role of accounting in the economy and society” (Fisher and Swanson).

According to an article titled “Educating for the Public Trust” published by PricewaterhouseCoopers, there are several areas that need added attention in the accounting curriculum to prepare students for the professional realm. In particular, “fostering students’ ability to solve problems in complex business environments where the best answer is difficult to identify” (pg. 6). Accounting students with high marks have been trained throughout their academic career to find the correct answers on tests and bubble in that one correct answer. Students should practice having to make difficult decisions and understand problems that may have more than one possible solution, which is referred to as assessing “gray” areas (Educating for the Public Trust pg. 11). This can be done through case study exercises. According to Huss and Patterson, “The moral obligation and ethical dilemma-problem solving skills honed in a classroom setting can then be applied to situations encountered in personal and professional worlds. However, this is not meant to imply that all ethical dilemmas can be resolved with a single solution. Rather, the situation may present various alternative solutions.”

A Preface to the Case Study

In broad terms, a case study requires students to identify the general facts associated with the case, accounting and ethical, identify stakeholders and related issues, identify potential consequences of actions, and provide alternative solutions to the issues (Stewart). In a study done by Matthew Keefer, he found that students with less experience “provided a simple action and justification for their resolutions” when completing case study analyses. Keefer did not find that students were challenged or searching for “creative alternatives” to the problems, as is one purpose of the case study. A separate argument made is that presenting a case study with predetermined moral dilemmas and solutions is contradictory to the exercise (Stewart; Rest 1986). With these arguments in mind, the presentation of case studies in classrooms needs to be executed with the proper audience who are given room to expand their thinking beyond textbook answers. Students must be encouraged to brainstorm and accept ideas that are different than their own, and pushed to think on multiple levels, simulating what the profession would expect accounting students to achieve as practitioners (Muskavitch). According to Mastracchio Jr., “The nature of work performed by CPAs requires the highest level of ethics, as the users of financial statements rely on the judgment of accounting who prepare the statements and the opinion of the auditors who audit them.” Through the use of case study exercises, accounting students are learning to “move from a debits and credits approach to an accounting education that focuses not only on technical rules but also on producing competent individuals with a functioning moral compass" (Titard).

It is important to note that Fleming conducted a study that examined accounting students' responses to ethical dilemmas relating to audit and corporate accounting to evaluate if their moral reasoning differed between the two. Fleming stated, "The issue is important because an audit-based emphasis on ethics in accounting curricula may produce student's with myopic, audit-centric view of ethics that does not transfer to resolving ethical dilemmas in other accounting contexts." The study concluded that accounting students struggle to link ethical knowledge that is audit-based to ethical dilemmas in other realms. The case study titled "Seeking Peace of Mind" below is related to events that occurred in the audit context. It is recommended that users of this case study be introduced to other case studies that challenge students' ethical knowledge outside of the audit context to help students expand their moral reasoning abilities.

"Seeking Peace of Mind" is based on true events. With permission of the interviewee for the case study, specific information was inserted and omitted for the purpose of being an effective exercise for students. As stated above, the course level of participating accounting students does affect the outcome of answers, due to understanding of the technical accounting content. "Seeking Peace of Mind" is intended for use by students in an Intermediate Accounting II course or higher. The case study is recommended to be used in a variety of accounting courses, including Audit and Assurance Services, any course that integrates accounting and ethical principles, such as Honors Accounting Colloquium at the University of Arkansas, or an ethics course at the Graduate level. Users of "Seeking Peace of Mind" are not limited to the findings provided in the teaching notes; the teaching notes are to be used as a guideline for educators and students.

*IRB protocol for this research was determined to not be human subject research as defined by 45 CFR 46. Official determination letter is attached following the Works Cited.

Seeking Peace of Mind

Matt, a Senior Manager for a small CPA firm, had not been able to sleep through the night in weeks. Due to economic hard times, and unexpected turnover, the firm was understaffed and overworked with the busy season approaching. Matt was responsible for standard managerial duties such as scheduling and budgeting, but had recently taken over several other roles because of the turnover, so he felt pressure from a lot of angles to fulfill all of his responsibilities.

Sustainable Directions had been a client for seven years and it was the first account the firm's Partner had won. Sustainable Directions is a privately held company that supports environmental conservation by offering products made of 100% recyclable materials. During the decline, Sustainable Directions was still able to provide job opportunities, and offered continuous support to the community. Sustainable Directions was important to the CPA firm not only because of the Partner, but also because the client provided 30% of the firm's income.

Matt laid awake thinking about the potential issues that could arise during Sustainable Directions' audit. Last year, for example, several long, involved meetings took place regarding inventory. Sustainable Directions stored its raw materials inventory in heaps. The Engagement team disagreed with the way Management measured and valued the raw materials, and they proposed an adjustment to inventory at year-end. After a lot of back and forth between the two, Sustainable Directions agreed to the adjustment. But following this agreement, the CFO left and has since been replaced.

In the six years Matt had been on the audit, the company had four CFOs and three Controllers come and go. The turnover rate concerned Matt. However, he reminded himself that economic decline was affecting his firm, and that could be the case with Sustainable Directions as well. He closed his eyes finally and put his worries to rest.

Much to Matt's surprise, the planning phase of the audit passed by quickly and he felt confident transitioning into fieldwork. He met with Sustainable Directions' Management to arrange when his firm would be on site again and scheduled to return several months later.

When Matt and the Engagement team returned, Sustainable Directions' issues from the past appeared to be back. Most of the information Matt's team needed from Management was not readily available, and if it was, it contained errors. For example, the client provided the Accounts Receivable Reconciliation, but January did not tie to prior year. During cut-off testing for inventory, inventory that was received after year-end was included in the detailed listing for the current year. As a result of the work not being prepared correctly, adjustments needed to be made, which Management was not fond of doing.

The audit faced several problems due to these issues. Because Management did not have the work completed, the Engagement team could not get the evidence needed for testing in a timely manner. Management apologized and blamed the delay on the unanticipated turnover.

Matt met once more with the CFO and Controller to have a discussion about the state of the audit. Matt explained the major errors found above scope and that the Engagement team had to lower the scope and do further testing, which would extend the finish date of the audit.

The audit deadline was approaching and Matt was not confident that his team could outrun the timing issue. Matt began to question the ethics of Management. Were their actions fraudulent or a matter of incompetence?

Management was very firm during the meeting that Sustainable Directions must receive a clean opinion to receive funds and grants from the government, which benefit the community as well as the company. Sustainable Directions uses Matt's firm in every line of service, and he knows what losing this account would mean. Matt feels conflicted and wants peace of mind.

Who are the internal stakeholders? Who are the external stakeholders?

What are the ethical issues?

What are the accounting issues?

What could the client have done better? What could the firm have done better?

Is this fraud or incompetence?

If the conclusion were that Sustainable Directions' problems were the result of fraud, what should Matt and his firm's solution be? If the conclusion were that Sustainable Directions' problems were the result of incompetence, what should Matt and his firm's solutions be? What are other possible outcomes and solutions?

*Left intentionally blank for students to complete. Answer key below.

Before 12/31 Cut-Off	Document Examined	Reference Number	Document Amount	Part Number	Properly Included	Properly Excluded	Improperly Included	Improperly Excluded
Receipt	Invoice	1004789	10,204.00	718927AF				
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	Bill of Lading	511135						
Shipment	Invoice	s72418	10,405.00	875218AF				
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	Bill of Lading	51110254						
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Inventory Detail listed by amount as of 12/31

Amount	Part Number
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12,333.00	62514AF
18,720.00	025674AF
11,634.00	625184AF
14,873.00	625841AF
19,235.00	120584AF
1,923.00	0329527AF
9,234.00	4120397AF
13,278.00	548726AF
17,234.00	03285741AF
9,625.00	985324AF
8,319.00	785631AF
12,444.00	0956324AF
19,250.00	632014AF
2,457.00	874523AF
21,235.00	3210589AF
4,998.00	8745219AF

Teaching Notes

Addressing the Stakeholders

Addressing who the stakeholders are in this scenario is not meant to be a difficult task for students. Students should, however, be challenged to think of everyone who is affected by this situation, whether they are a main character in the case or not even mentioned. This question is important for students to answer because it exercises their ability to think further than what is in front of them. This is an important skill to master, because in the professional world, people's actions never just affect those directly involved, which was demonstrated in the Enron scandal. Those individuals did not consider that their actions would affect the jobs and lives of so many.

Matt

Matt is the Senior Manager/Supervisor of the Sustainable Directions audit. If time permits, have student's explain why Matt is a stakeholder, to ensure they fully grasp his role in this scenario. Matt is a stakeholder because it is his job to oversee that the audit gets completed, and smooth over the issues that may arise. Matt is invested because he feels the well-being of his small CPA firm depends on the success of this audit.

Engagement Team

Similar to Matt, it is the Engagement team's job to ensure the audit gets completed to the best of their abilities. The CPA firm was identified as small, and due to the economic decline, the employees of the firm may feel uneasy about their job security. Because of this, they want to keep the client happy, as well as their superiors.

CPA Firm Employees

The small CPA firm's employees are stakeholders, not only because Sustainable Directions is a client, but also because losing this client would lose 30% of the firm's income causing layoffs. Although the employees are not mentioned, it can be implied from the 2nd paragraph that the Sustainable Directions audit affects the entire CPA firm's success.

Management

Management is mentioned throughout the scenario, and should be identified as a stakeholder. The CFO and Controller can be lumped into this section. Obviously, upper management of any business is invested in the success of their company. It is Management's job to run Sustainable Directions effectively and efficiently.

Sustainable Directions Employees

Sustainable Directions employees are not directly mentioned in the scenario, but they are affected by the success or failure of Sustainable Directions, and are therefore a stakeholder in this case. Economic decline can lead to layoffs, and since this Company is known for excessive turnover, employees are most likely insecure about maintaining their jobs.

Government

In the last paragraph, it mentions that the state gives grants and funding to Sustainable Directions, depending on the success of the audit. The government is a stakeholder because it invests money in Sustainable Directions. The state does not want to administer money to a company that is not producing strong financials, which is standard for investors everywhere. This is important for student's to identify so they see the necessary role of auditor's and accountants: to ensure that financials are accurate. Failing to do so in the early 2000s lead to the demise of consumer trust in the accounting profession. This exercise is to help students avoid making those same mistakes in the future.

Buyers and Suppliers

Sustainable Directions has buyers and suppliers who are considered stakeholders in this scenario. The buyers rely on Sustainable Directions to produce quality products they have promised to sell to consumers. The suppliers expect Sustainable Directions to be able to pay for what it orders. The success of the company is important to these stakeholders because the failure of Sustainable Directions would leave these buyers and suppliers in a deficit.

Family Members

The previous stakeholders mentioned have been related to the business side of this scenario. To further develop student's moral reasoning, discussing the families affected by this scenario is relevant. It could be argued that Sustainable Directions' Management is willing to do whatever it can to ensure its employees have job security to maintain jobs for their families. The same could be argued for the small CPA firm. They all have families too who are being affected by the economic decline, and rely on them to maintain an income. This will be discussed in a later section.

Ethical Issues

In this exercise, students do not need to rely on a code of ethics to determine the ethical issues associated with this scenario. This discussion will develop students' understanding of what they personally consider unethical versus what their peers may find unethical. Students need to be open to other's opinions, because the point of this exercise is to expand thinking beyond current beliefs and understandings.

Matt's ethical dilemma is not black and white. It is his duty to make judgment calls on how to proceed in this considerable messy audit, and he is beginning to think it is too messy to salvage. Be that as it may, he still is battling with the fact that losing this client would be detrimental to his small CPA firm, so he is conflicted. This should be a caveat into a more detailed discussion. It would be helpful to let student's express what they think Matt is ethically inclined to do as a CPA auditing this client as well as Matt's obligations as a member of society. As an auditor, it could be argued that Matt's job is to do thorough testing, while practicing professional skepticism, to the point that it would be clear to him and all users of the financial statements that

Sustainable Directions is behaving ethically and the financials are trustworthy. This conclusion would not have to include the fact that Sustainable Directions provides a substantial amount of income to the firm. It could also be argued that Matt has done his job to the best of his abilities. Matt's firm has given Sustainable Directions several chances over the years to improve their processes, but they have continuously manipulated the numbers. It would be unethical to issue them an unqualified opinion if the auditors feel that the manipulation is intentional.

Management's integrity can also be called into question in this scenario. It is very important that upper-level officials act ethically and enforce a code of ethics, often referred to as a top-down approach. In this scenario, the ethical issues associated with Management are also not black and white, which is further discussed in question 4. Students should be able to identify that Management was hesitant to adhere to the auditors' adjustments, yet stood firm that they needed an unqualified opinion to continue receiving aid from the state. If Management wanted Sustainable Directions to succeed, and protect employees from potential layoffs, they should practice proper processes, as the auditors have suggested.

Accounting Issues

This scenario was designed to give students enough information to pick out specific accounting issues, but also allow them to practice critical thinking by applying what they have learned in their accounting classes, and come up with other general issues that could be related to the situation, even though it may not be mentioned specifically.

The first accounting issue mentioned is in the 3rd paragraph, and it pertains to inventory valuation. Sustainable Directions was trying to measure inventory greater than its actual value. This issue was resolved in the prior year by Sustainable Directions agreeing to make the adjustment proposed by Matt's team. Students should know that as long as Sustainable Directions made the adjustments, the issue was resolved.

Paragraph 6 contains the specific issues for the audit currently taking place. It very clearly states that the Accounts Receivable Reconciliation provided by the client did not tie to prior year, which would call for an adjustment to be made. The same would occur if errors were found throughout the fiscal year. This is an area that allows students to discuss what those issues could be, based on what they know about accounting for accounts receivable. The amount of time spent on this is at the discretion of the course instructor. An example of an accounts receivable discrepancy could be incorrectly netting the receivable amount for a returned product.

The next issue listed in paragraph 6 relates to Sustainable Directions including inventory in current year financials that should be accounted for in the following year. This was discovered during cut-off testing. There is an exercise included below that allows students to practice this procedure. The simulation is designed for students to perform the task instead of simply identifying the issue.

An issue that can be inferred in paragraph 6 that is not specifically stated calls attention to the fact that Sustainable Directions has repeatedly made recording errors. These errors question

Management's ability to enforce the discipline necessary to produce accurate financials. This is another chance for students to think critically as to what this manipulation could pertain to, aside from what is explicitly mentioned. This issue is visited again in the last question.

Client & CPA Firm Improvements

In accordance with the purpose of this case study, it is necessary for students to discuss what the client as well as Matt's CPA Firm could have done differently to avoid this situation altogether. It is a way for students to learn from the mistakes of others and carry that knowledge into their professional career. Given that the information is purposefully limited, students will once again have to think critically to pick out information then expand upon it.

In the 3rd paragraph, Matt recounts the inventory valuation issue from the previous year, and the hesitation of Management to make the proposed adjustments. The Board of Directors could have informed all Managers and employees about the purpose of Matt's firm being there, and the service they provide, to avoid animosity over changes that need to be made during future audits. In paragraph 5, Matt had a meeting with Management. The client could have been truthful with Matt then about the state of their financials prior to the Engagement team beginning fieldwork, so they could prepare appropriately for the risky areas the first time, and therefore would not have to extend time for testing.

Matt's firm could also make changes to improve their relationship with the client while improving the overall audit. In the same meeting in paragraph 5, Matt could have been more upfront about the support that would be required from the client. Having the "prepared by client (PBC)" list out sooner could have alerted Management about what was going to be requested of them, allowing them ample time to realize how truly behind they were in their processes, which would again then possibly avoid the Engagement team from having to extend the testing time on the audit. It could always be argued, timing issues aside, that Matt and the Engagement team have the responsibility to do further testing to ensure that Sustainable Directions receives a clean audit.

Fraud or Incompetence

This question poses a great opportunity for students to discuss a scenario that does not have one correct answer, which will undoubtedly happen throughout their professional lives. Students should be respectful of others opinions, because students will likely have different views based on experience, upbringing, argument styles, and the list continues. The course instructor should serve as the devil's advocate, challenging students to dive deeper into the content. For this to happen, students will have to qualify their standpoint with information that is not explicitly stated, which should be encouraged.

The course instructor should prompt students who think the scenario points to Sustainable Directions committing fraud to explain exactly why they think that. Committing fraud is intentional. It is an auditor's job to use professional skepticism when issues arise and when gaining an understanding of the cause of the issue. This requires intense judgment on the auditor's behalf. The relationship an auditor has with the client must remain professional, and it requires both parties to work together. However, the auditor is there to perform a service for the client for the sake of the public or users of the financials, and must practice caution around risky areas that have issues. The student could argue that the Engagement team continues to find mistakes year after year, and the client is resistant to the adjustments proposed by the auditors, therefore has no intention of correcting the mistakes in the future. The student could also argue that if Management blames the issues on the turnover that has occurred, it begs the question why is there so much turnover? What are the upper level officials leaving for, or getting asked to leave for? While this is simply speculation, these are real things that Matt and the Engagement team must consider given all of the discrepancies throughout the audit.

The course instructor should then prompt students who think the scenario points to Sustainable Directions being incompetent to explain why they think that. If Management's actions are not malicious and the issues are due to their inability to enforce the processes, the issues pertain to incompetence. Students could argue that the turnover caused untrained individuals to assume roles in the company that disrupted the proper processes from taking place, and that they are doing the best they can to provide support that is accurate, even though the employees before them had made mistakes. The new Management may have not been aware of their responsibilities, or the timing issues that would arise by not providing the requested support in a timely manner. It could also be argued that since the client requested the audit, they truly want to provide accurate financials, they just need help getting to that point.

Solutions

After thoroughly discussing the topics above, students should be able to offer solutions to Matt's problems. Although other questions have allowed students to address the "gray areas," this discussion is where students should be challenged to really develop this skill. Using all of the knowledge they have interpreted from the case study, as well as their peers' viewpoints, students should be able to offer multiple conclusions to the problem, with varying degrees of extremity. Whether students think this scenario is related to fraudulence or incompetence, it is necessary to ask them what to do from there, since the accounting processes have been done incorrectly. The following paragraphs are possible conclusions to the issue students could discuss.

If Sustainable Directions is suspected of committing fraud, Matt must notify the Partner of his firm. The Partner would then have to discuss with the Board of Directors why they must issue an adverse opinion, and/or walk away from the audit. Depending on the severity of the situation, the Securities and Exchange Commission would be notified of the situation. The factor holding Matt back from this solution the most is fear of losing Sustainable Directions as a client in all lines of service. Matt's firm could break down their budget and cut expenses down. Employees considering quitting or retiring could step down to prevent unnecessary jobs being lost. During such a fragile time, Matt's firm should not issue a clean audit in fear of losing a client. No amount of income should be worth losing the public's trust. The firm's job is to ensure Sustainable Directions' financials are truthful and correct.

If no fraud is detected, and Management is just incapable of correctly enforcing the accounting processes, Matt and the Partner still need to have a discussion with the Board to educate them on setting the "tone at the top" by putting individuals in positions who are capable of fulfilling Management duties. It is also good practice to give advice to the Board about areas of internal controls that are weak and need to be strengthened. Having strong internal controls could catch mistakes from occurring before the auditors do. If Matt's firm is positive that the Sustainable Direction's errors are unintentional, they should proceed with the audit. Sustainable Directions would have to pay more money for Matt's firm to work overtime to complete the audit before the deadline. The Board of Directors should be informed why the audit is prolonged as well as what departments need more training and stricter supervision.

There is also the solution for the two parties to compromise. Matt could prioritize with his team the adjustments that prevent a clean audit, and work with Management to help them understand the significance of making those adjustments. If Management is hesitant to accept a proposed adjustment, there should be thorough discussion about why they are opposed, and they should come to an agreement. Matt's team could also work with Management to ensure that the problems caused by turnover are eliminated and prevented in the future. Allowing Management to further understand the purpose of working with Matt's firm, instead of against them, could also prevent communication issues from occurring in the future.

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Shipment	Invoice	s95284	8,237.00	9741258AF		✓		
	Bill of Lading	511112						
Shipment	Invoice	s36247	10,405.00	541287AF		✓		
	Bill of Lading	511198						

After 12/31 Cut-Off	Document Examined	Reference Number	Document Amount	Part Number	Properly Included	Properly Excluded	Improperly Included	Improperly Excluded
Receipt	Invoice	1004147	13,278.00	548726AF			✓	
	Bill of Lading	550184						
Receipt	Invoice	1004528	2,954.00	985214AF		✓		
	Bill of Lading	550923						
Receipt	Invoice	1004972	6,342.00	6523871AF		✓		
	Bill of Lading	550741						
Receipt	Invoice	1004764	11,289.00	854721AF		✓		
	Bill of Lading	550777						
Receipt	Invoice	1004789	5,992.00	987421AF		✓		
	Bill of Lading	550359						
Shipment	Invoice	s08147	9,625.00	985324AF	✓			
	Bill of Lading	51112058						
Shipment	Invoice	s36547	6,239.00	254139AF				✓
	Bill of Lading	51115420						
Shipment	Invoice	s98472	8,319.00	785631AF	✓			
	Bill of Lading	5115740						
Shipment	Invoice	s32184	2,457.00	874523AF	✓			
	Bill of Lading	51110254						
Shipment	Invoice	s62517	4,998.00	8745219AF	✓			
	Bill of Lading	51112658						

Inventory Detail listed by amount as of 12/31

Amount	Part Number
10,204.00	718927AF
20,739.00	014785AF
12,333.00	62514AF
18,720.00	025674AF
11,634.00	625184AF
14,873.00	625841AF
19,235.00	120584AF
1,923.00	0329527AF
9,234.00	4120397AF
13,278.00	548726AF
17,234.00	03285741AF
9,625.00	985324AF
8,319.00	785631AF
12,444.00	0956324AF
19,250.00	632014AF
2,457.00	874523AF
21,235.00	3210589AF
4,998.00	8745219AF

Conclusion

The financial scandals of the early 2000s got the nation's attention when respected companies were accused of committing fraud. This led to a dark time for the accounting profession because the scandals discredited accountants and consumers' trust in accountants was very low. Although new laws were created to safeguard against these scandals re-occurring, fraudulent behavior still occurs today. There is a disconnection between knowing what is ethical or unethical and behaving ethically when faced with adversity. Accounting students also struggle to transition what they have learned in the classroom to their first job at an accounting firm. However, completing case study exercises could help students close the gap in both areas. Case study exercises allow students to view a situation with multiple dimensions, and think further than just what is in plain view. Students get to discuss their opinions in an open forum while simultaneously learning from their peers. By doing so, they gain a better understanding of the differences in the world that could lead to misunderstandings, and in some cases, unlawful behavior. Case studies are a tool that takes students' basic knowledge of accounting and ethics and develops students' critical thinking and moral reasoning skills. However, a case study exercise by itself is not going to end fraudulent behavior from happening in the work place. Performing case study exercises <u>can</u> prepare students for the inevitable by equipping them with the tools necessary to protect themselves from being involved in unethical scenarios, and learning how to deal with undesirable situations, which is the purpose of creating Seeking Peace of Mind.

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