

# Ethics

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# Overview

- *Definition*
- *Issues*
- *Fraud*
- *General ethics discussion*
- *A couple discussion cases*

# Definition of Ethics

- ▶ *A system of moral principles*
- ▶ *Rules of conduct recognized in respect to a particular class of human actions or a particular group, culture, etc.*
- ▶ *Moral principles, as of an individual*

# Issues

- ▶ *Most trusted professionals...*
  - ▶ *10:00 news interview*
  - ▶ *Why?*
  - ▶ *How do we keep it that way?*
- ▶ *Code of professional conduct*
  - ▶ *Independence*
- ▶ *Rules and regs*
- ▶ *Doing what's right*

# Fraud

- ▶ *Often results from breakdown in ethics*
- ▶ *Two most common types*
  - ▶ *Asset misappropriation*
  - ▶ *Financial statement misrepresentation*
- ▶ *Fraud triangle*

# Fraud

- ▶ *Misappropriation of assets*
  - ▶ *Cash larceny*
  - ▶ *Embezzlement*
  - ▶ *Billing schemes*
  - ▶ *Payroll schemes*
  - ▶ *Expense reimbursement*
  - ▶ *Stolen time\*\*\**

# Fraud

- ▶ *Financial statement misrepresentation*
  - ▶ *Revenue recognition*
    - ▶ *Smoothing of earnings*
  - ▶ *Concealed liabilities*
  - ▶ *Improper asset valuations*
  - ▶ *Timing or cut-off differences*

# Fraud

- ▶ *Fraud triangle*
  - ▶ *Opportunity*
  - ▶ *Incentive/pressure/motivation*
  - ▶ *Rationalization/attitude*
    - ▶ *Why do people let ethics go lax?*
      - ▶ *Are people generally good? Bad?*



# General Ethics

- ▶ *Some questions...*
  - ▶ *Can we legislate morality? Ethics?*
    - ▶ *If not, how do we encourage/develop it?*
  - ▶ *Does your fiduciary responsibility over the public's money have an impact on ethics? How?*
  - ▶ *Does the heightened threat of the media impact your ethics? How?*

# Case #1

In 2017 audit's Search for Unrecorded Liabilities, you find a royalty check for \$20,000 written in January 2018. It applied to services in December but invoice wasn't received until January.

Materiality is \$12,000. They've always recorded the monthly royalty expense when invoice was received so, if a payable is recorded, expenses will be overstated for the year. If not, liabilities will be understated. What should be done?

# Case #2

*A client isn't happy with an audit adjustment you're proposing. After a discussion that becomes more and more heated, he's very large and strong and grabs you by the lapels, lifts you out of your seat and says, "I pay you to get our numbers right! Fix this!!!" Then slams you back down into your chair. What do you say and do?*

# *General Ethics*

*What are some  
everyday ethical  
situations you face?*

*Do the right thing...*

*Simply because it's the  
right thing to do.*

# SUMMARY

Questions?