

Appendix 11:

IEG 10

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**Professional ethics for accountants:
Approaches to the development and maintenance
of professional values, ethics and attitudes in
accounting education programs**

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PREFACE

1. This Guideline sets forth the detailed recommendations of IFAC, for the establishment and operation by member bodies with respect to the development and maintenance of professional values and ethics in accounting education for pre-qualification and post-qualification programs.
2. This Guideline is a revision of International Education Guideline 10 (IEG 10), issued in November 1992.
3. The revised version of IEG 10 provides guidance to member bodies on how to put in place a program of developing and maintaining professional values, ethics, and attitudes in pre-qualifying and post-qualifying programs.
4. The Education Committee of IFAC commissioned a major research project entitled, 'Approaches to the development and maintenance of professional values, ethics, and attitudes in accounting education programs'. The project sought consultation from a wide range of personnel drawn from member bodies, accounting firms, corporations and academics, to arrive at a well researched flexible framework of ethics education consistent with IES 4 *Professional Values, Ethics and Attitudes*. The flexible framework forms the basis of this IEG.
5. The Education Committee recognizes that member bodies are at different stages in the development of their education programs. Some member bodies may already have addressed a number or all of the issues considered in this Guideline. Other member bodies may have yet to consider such issues. All member bodies should review their existing arrangements and consider, where necessary, how to move towards the implementation of IES 4.
6. The Committee is conscious of the wide diversity of culture, language, and educational, legal, and social systems in the countries of the member bodies and of the variety of functions performed by accountants. Therefore, it is for each individual member body to determine the detailed requirements of the pre-qualification and post-qualification education and development programs and to form their own strategy in the implementation design. However, IFAC have established an international *Code Of Ethics For Professional Accountants* which all member bodies must follow as the minimum standard of expected behaviour for individual accountants. The conceptual framework adopted by the IFAC *Code of Ethics for Professional Accountants* forms the basis of the approach of the Ethics Education Framework recommended by the researchers.

Scope of the guideline

7. International Education Standard (IES) 4, *Professional Values, Ethics and Attitudes*, prescribes the professional values, ethics, and attitudes professional accountants should acquire during their education program at the pre-qualifying and post-qualifying stages. It also provides the foundation for this IEG, as a basis upon which professional values, ethics and attitudes should be developed. The purpose of this Guideline is to provide guidance on how to

achieve good practice in developing professional values, ethics and attitudes in accordance with IES 4.

8. This IEG is to be read in conjunction with the International Education Standard (IES) 4 *Professional Values, Ethics and Attitudes*, the research report titled *Approaches to the development and maintenance of professional values, ethics and attitudes in accounting education*, and the *Ethics Education Framework - Toolkit*. The research report, which contains detailed background literature and research findings, underpins this IEG.
9. For the purpose of this IEG, ethics education refers to the all processes of educational and developmental activities which are applicable to the enhancing and maintaining of professional values, ethics and attitudes. The term 'ethics' is used to encompass professional values, ethics and attitudes for the purpose of this Guideline.

Acknowledgement

10. The Education Committee is grateful to the following researchers for drafting this Guideline: Professor Philomena Leung, Deakin University, Melbourne, Australia; Professor Barry J Cooper, RMIT University, Melbourne, Australia; Associate Professor Beverley Jackling, Deakin University, Melbourne, Australia; and Associate Professor Steven Dellaportas, University of Ballarat, Australia.
11. The Committee also acknowledges the work of the Working Group appointed to oversee the project: [INSERT NAMES].

THE ENVIRONMENT

12. The globalisation of accounting and financial reporting and the resultant competitive environment in which financial services are offered, has had a number of implications for the accounting profession and its perceived ethical standards. Professional accountants regularly find themselves in situations which threaten compliance with the fundamental principles of professionalism and ethics. Increasing reliance is now placed on the ethical integrity of the profession and its members, to ensure professional responsibilities are upheld and the public interest is safeguarded.
13. Therefore, a study of ethics in accounting begins with the simple observation that the actions of accountants impact on others or the public. Therefore, professional values, ethics and attitudes that identify professional accountants as members of a profession, involve a commitment to enhancing the interests of the community. This includes clients, lenders, governments, employers, employees, investors, the business and financial community, and others who rely on the work of professional accountants. In accounting, this commitment is generally referred to as 'serving the public interest'.
14. Traditionally, the accounting profession maintains and enforces high ethical standards in a self-regulatory regime, such as issuing and enforcing codes of ethics. However, codes of ethics are only a partial solution to the perceived problem of ethical behaviour. Codes can only guide one's behaviour; ethical decisions ultimately rest with individuals' choices.
15. Enriching ethics in accounting education and improving the moral behaviour of its members is one method that enhances the ethics of the profession. Ethical or moral competency is now an accepted attribute of an accounting professional and the starting place for developing such attributes is accounting education.
16. Evidence of the direct curricula approach to ethics education first appeared during the 1970s and then gradually extended with time. While the trend is encouraging, the evidence also indicates that accounting ethics education is not covered in a significant way in most learning programs. With limited ethics coverage in the business and accounting learning programs, it is unlikely that accounting professionals will have sufficient relevant training in ethics. Therefore, it is the role of member bodies, corporate trainers and education providers to ensure professional accountants receive adequate ethics training.

GOALS OF ETHICS EDUCATION

17. Ethics education provides a learning structure in which ethical threats or issues may be identified and analysed, so that accountants possess the skills and competence to resolve ethical issues. Ultimately, accountants must be able to make a well informed decision and take appropriate responsible actions. Specific goals of ethics education includes:
- Enhance the *knowledge* of relevant standards and expectations of ethical and professional conduct.
 - Develop a sense of professional responsibility with ethical *sensitivity* and an appreciation of ethical threats.
 - Improve professional *judgement* with sharpened ethical decision-making skills.
 - Develop a commitment to *ethical behaviour*.

Knowledge

18. Professional accountants must understand the relevant ethical and professional standards of accounting. Without core knowledge of ethical and professional principles, ethical outcomes are unlikely.

Sensitivity

19. Ethical sensitivity is the ability to recognise an ethical threat or issue when it occurs and being aware of alternative courses of action leading to an ethical solution and how each alternative course of action affects the parties concerned. Enhancing ethical sensitivity through ethics education will enable accountants to more readily identify predicaments, which they must then resolve.
20. The ability to make ethical judgements and behave ethically, presupposes the accountant's ability to recognise an ethical issue when it arises. If professional accountants are ethically sensitive to the issues they face, then the decision-maker is more likely to use ethical principles in resolving the dilemma.

Judgement

21. Professional accountants must expand their decision-making frameworks to include an increased emphasis on ethical values as differentiated from quantitative values. Core ethical values are an important part of ethical decision making. Choosing the right values requires ethics knowledge, an understanding of the consequences, and ethical sensitivity. Such knowledge and sensitivity can be taught and developed in ethics education programs.

Ethical behaviour

22. Accounting professionals must not only be adept with the technical aspects of their responsibilities but they must also be able to deal with situations where the facts are ambiguous or stakeholders' interests conflict. Therefore, accountants must not only recognise ethical issues but they must also be committed to take the action which is ethically sound.

23. Ethics training provides accountants with the confidence to deal with an ethical conflict. Without training on ethical decision-making and behaviour, accountants may easily succumb to the demands of their environment.

THE ETHICS EDUCATION FRAMEWORK AND THE LEARNING CONTINUUM

24. The IFAC Ethics Education Framework (EEF) proposed in this Guideline offers a flexible structural design for member bodies to develop and maintain a program of education on professional values, ethics and attitudes of accountants. The EEF is produced in Appendix 1. *The IFAC Ethics Education Framework*.
25. The EEF was developed from the results of a project that includes: an extensive literature review; surveys of member bodies, academics, ethics experts, practitioners and business executives; a number of focus group discussions and interviews held worldwide.
26. The EEF recognises that ethics education is a lifelong commitment which begins in the early stages of a pre-qualifying program and continues throughout one's career. Based on this lifelong commitment to learning and the objectives of ethics education, the EEF is a four-stage learning continuum. The stages are described as:

Stage 1 Ethics knowledge

Ethics education at this foundation stage instils in accountants fundamental knowledge on matters concerning professional values, ethics and attitudes. Ethics education at this stage focuses on the intellectual background which is necessary to ensure an accountant or accounting learner understand the basic environment which influences decisions, and the fundamental theories and principles of ethics, virtues, and individual moral development which govern one's actions. Ethics knowledge provides the social, ethical and emotional intelligence for the learner.

Stage 2 Ethical sensitivity

Stage 2 applies the basic ethical principles introduced in Stage 1 to the relevant functional areas (e.g. auditing and taxation) of accounting practice. The purpose of Stage 2 is to sensitise accountants and learners to the ethical dimensions of accounting practice to ensure they are capable of recognising ethical threats as they arise.

Stage 3 Ethical judgement

Stage 3 is an application stage where individuals learn how to integrate and apply ethics knowledge and sensitivity to derive at a reasoned and well informed decision. Stage 3 is designed to assist learners and accountants in deciding on ethical priorities and apply a well founded process in making ethical decisions.

Stage 4 Ethical behaviour

Ethical behaviour means acting on principles, not merely believing in them. Therefore, professional accountants have a responsibility not only to abstain

from action that may harm others, but in actively pursuing the right course of action. Stage 4 is concerned with how to behave ethically in situational or contextual environments such as the workplace.

APPLYING THE ETHICS EDUCATION FRAMEWORK

27. The purpose of this section is to explain how member bodies may apply the EEF in a flexible manner suitable to their own environment.
28. Ethics interventions may take one of two forms: the 'discrete method' which addresses ethics in a separate course or module and the 'pervasive method', in which ethics subject matter is integrated throughout several accounting courses or modules. An ideal program of ethics education should include both the separation (and discrete method) and the integration (or pervasive) methods of ethics education. The framework below is designed to utilise both approaches to ethics education in a broad based program incorporating pre and post-qualifying programs.

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Stage	Attribute	Objective	Approach
Pre-qualifying programs			
1	Ethics knowledge	To develop ethical intelligence by attaining the necessary knowledge in ethical concepts and theories relating to the accountant's work	A separate required course or module in ethics learned early in the program
2	Ethical sensitivity	Sensitise learners to ethical issues and threats in the relevant functional disciplines of accounting	Integration of ethical issues across existing subject matter such as financial accounting, managerial accounting, auditing and taxation
3	Ethical judgement	To integrate knowledge of ethics with sensitivity in order to develop the competence in ethical judgement and decisions	A separate required or optional finishing course or module in ethics
Post-qualifying programs			
4	Ethical	To understand organisational and situational contexts and to	Part of the continuous professional ethical training

behaviour

sharpen one's ethical
competence in translating
knowledge and sensitivity
into behaviour

Stage 1. A separate required course or module on foundation ethics

29. Learners should be exposed to at least one well-organised, reasonably substantive module in ethics education to grasp the importance and complexity of analysing and solving ethical problems.
30. The stage in which a separate segment in ethics education is introduced is an important issue. Positioning ethics education early in a broad based program is critical: to convey the importance of ethics; to shape a positive attitude toward learning ethics; and to ensure that learners possess the ethical competence to address moral problems in subsequent education. The ability to deal with ethical issues will be hindered if accountants lack sufficient education early in the program.

Stage 2. Integrating ethics education

31. Ethical dilemmas arise in all functional areas of professional responsibility and should therefore be addressed throughout the program of accounting education.
32. It is important to discuss ethical issues arising naturally from the subject matter. Failure to address the ethical issues in the relevant functional responsibility sends an inappropriate signal that it is not important.
33. Restricting the integration of ethics to only one functional discipline, such as Auditing, is problematic. Matters that do not fit naturally in the context of the discipline such as Auditing could be ignored. Consequently, ethics education is unlikely to receive adequate coverage.

Stage 3. A finishing course in pre-qualifying programs

34. Stage 3 can take the form of either a separate required finishing module/course or an optional finishing module/course in ethics.

A separate required finishing module/course in ethics

35. A required finishing module/course in ethics is a valuable component of a broad-based program providing an opportunity to focus on aspects of ethics, thereby achieving greater depth and understanding of concepts taught in the earlier stages of the program. Ethics learned as a finishing module/course will pull together, integrate and give meaning and purpose to ethics in accounting. Moreover, it seeks to equip candidates with the ethical sensitivity and insight that would benefit both themselves and society.

A separate optional finishing course in ethics

36. An educational objective that relies primarily on optional modules/courses is arguably inadequate because:
- Only a small number of interested candidates will undertake an optional module/course in ethics.
 - Optional modules/courses suffer from a self-selection bias and the candidates who voluntarily elect to undertake a course in ethics may not be the people for whom the elective offers the greatest potential benefit.
 - Optional modules/courses are usually offered in the latter stages of a program and therefore their impact on individual learning is limited.
 - Optional modules/courses convey a message that being ethical is an option.
37. A required finishing course or module is preferred to an optional finishing module.

Combining stages 1, 2 and 3 in pre-qualifying education programs

38. A program of ethics education that combines stages 1, 2 and 3, begins with an introduction to ethics early in the pre-qualifying program, followed by ethical discussion in the existing accounting modules or courses, and culminating in a dedicated finishing module/course that ties together previous ethics material. The success of such a program results in part from a sustained discussion of ethical issues throughout the entire pre-qualifying program.
39. The combined approach emphasises that ethics education is not a specialised topic confined to its own separate world, but a course of study that is relevant to all aspects of professional accounting.
40. This Guideline calls for a broad-based program of ethics education in pre-qualifying programs that incorporates the first three stages of the EEF. The approach undertaken by individual member bodies or education providers will ultimately depend on individual circumstances.
41. However, irrespective of the circumstances, this Guideline recommends that all pre-qualifying accounting education programs include a minimum of the two stages: a separate module on ethics education preferably learned by candidates early in the program, plus ethics integration throughout existing accounting subject areas. This recommendation is based on the findings described in the IFAC Ethics Education research report *Ethics Education – Approaches to the development and maintenance of professional values, ethics and attitudes in accounting education programs*.
42. The abovementioned research report (Chapter 3 and 5) detailed the responses of IFAC member bodies regarding their strong support that ethics should be learned as part of the pre-qualifying programs and that it should be a compulsory foundation unit. Member bodies also agreed that ethics should be both a dedicated unit as well as integrated within other units of study in pre-qualifying programs.

43. Member bodies' views regarding ethics education were similar to the views expressed by interviewees and focus groups conducted in the research. Interviewees indicated that there should be a specific unit on ethics education in business related courses or modules, to be introduced early in the program. They believed that by having a first unit in ethics that explored ethical theories and frameworks with the context of accounting, it would provide a strong base for further integrated approaches to learning ethics in accounting.
44. To implement the Ethics Education Framework (EEF), alternative strategies can be used as appropriate by member bodies.
45. To apply the EEF, a member body may choose to offer ethics education along the line of the recommended framework. That is, in an early part of the pre-qualifying program, a required (compulsory) module of ethics is introduced to provide a foundation of ethics understanding as stage 1. To sensitise learners with ethical threats and issues in different accounting subject areas, stage 2 is implemented by integrating ethics in all functional areas of accounting such as financial accounting, management accounting, auditing, taxation, corporate finance, etc. Learners will be introduced with the ethical dimension as and when certain accounting topics are discussed in the pre-qualifying program. To facilitate a better understanding of application of ethical skills, a required or compulsory module of ethics in the final part of the pre-qualifying program is offered to pull together all prior knowledge and ethical development. This 'capstone' module will also help to bridge learning and practice by providing more real life analyses of ethical threats and safeguards.
46. On the other hand, member bodies may choose to apply alternative strategies so that strategies 1, 2, 3 or 4 can be adopted (see paragraph 49). These strategies provide a flexible approach to cover different elements of ethical knowledge, sensitivity, skills to derive ethical judgements and means to affect ethical behaviour.
47. Alternative strategy 1 includes a required module at the beginning of the pre-qualifying program, with some integrated aspects of ethics learned within subsequent accounting subject areas. Then at the final stage, learners are given a choice to pursue a more in-depth learning of ethics before they become qualified professional accountants.
48. Alternative strategies 2, 3, and 4 only utilise two stages out of the three stages of ethics education in the EEF for pre-qualifying programs. Alternative strategy 2 adopts stages 1 and 2 only, where the compulsory element of ethics is offered as a required introductory module, with integrated ethics in subsequent accounting subject areas. Alternative strategy 3 integrates ethics within accounting subject areas first, followed by a consolidated required module to pull together prior learning in ethics. Alternative strategy 4, a less progressive approach, integrates ethics within accounting subject areas and allows candidates a choice if they wish to pursue a deeper learning in ethics to assist their development.
49. The alternative strategies are featured in the following table.

Alternative strategies by member bodies

EEF	Description	Recommended	1	2	3	4
Stage						
1	A required module in ethics education early in the pre-qualifying program.	✓	✓	✓		
2	Integrate ethics education in all functional disciplines of accounting education	✓	✓	✓	✓	✓
3	A required finishing module in ethics education that pulls together previous ethics education.	✓			✓	
3	A optional finishing module in ethics education that pulls together previous ethics education.		✓			✓

Stage 4. Continuous professional ethical training at post-qualifying level

50. Moral education is a life-time process. Therefore, ethics training in continuing education (professional development) or post-qualification programs is necessary to ensure continual development of ethical reasoning. Ethics education in post-qualifying programs will reinforce and further advance ethical concepts introduced in pre-qualifying education programs.
51. Continuing education programs have an important role to play in increasing the ethical reasoning abilities of professional accountants. Young professional accountants are in a very important formative period of ethical development. Therefore, the greatest benefit from moral education programs is potentially

received in the early stages of an accountant's professional working experience.

52. Empirical studies suggest that ethics education in pre-qualifying programs improves the ethical awareness of business students, but the effect is not persistent. Ethical awareness continues to advance during one's education and stabilises when education stops. The temporary effects of ethics education on accounting students' ethical awareness and sensitivity could be negated by prolonged exposure to ethics education that continues throughout one's professional career. A single ethics course or module in either pre or post-qualifying programs is arguably too brief to have a lasting influence on student's ethical awareness and sensitivity. The transitory nature of ethics education means that post qualifying programs should revisit and reinforce the knowledge and capabilities learned in pre-qualifying education programs.

Ethics in the workplace

53. Professional accountants are induced to act ethically through two aspects of their socialisation, the education process, and the influence of work experience and role models who show what it means to be ethical. Accountants learn principles of good conduct in their education and then receive advice and observe how significant others behave in the workplace.
54. Consequently, the organisational context in which accountants operate influences moral reasoning. Such influences may bring about either higher or lower levels of moral reasoning depending on the individual's actual experiences. For example, ethical attitudes are modified as new accountants internalise the values of the organisation as demonstrated by the model of behaviour of their superiors and industry practice. A young professional operating in an ethical climate will instil a respect for moral behaviour and any weaknesses in moral training will be overcome. Conversely, if peers are behaving unethically, young professionals will be tempted to believe that such behaviour is normal and acceptable practice. In these situations, previous training and learning may be dismissed. In these circumstances, accountants, particularly those lacking in ethical training will only make morally defensible decisions if the corporate environment supports that view.
55. Therefore, education that enhances the ethics of accountants will increase the ability of accountants to resist peer pressure and pursue the right course of action rather than follow accepted practice. Ethics training in stage 4 should focus on assisting individuals make better ethical choices at critical junctures in their careers.

CONTENT OF ETHICS EDUCATION IN PRE-QUALIFYING AND POST-QUALIFYING PROGRAMS

56. The content of ethics education in pre-qualifying and post-qualifying programs can vary depending on individual preferences and resources. The EEF introduces a flexible approach to learning ethics which allows education providers to gradually implement the different stages of ethics education until the program is fully implemented.

57. Ethics education topics can be introduced at different levels of difficulty, consistent with the different stages of the EEF. At this point, member bodies should consult the EEF Toolkit which incorporates the ethics education topics listed in IES 4, into the four stages of the EEF.
58. IES 4 has introduced a number of topics which are minimum requirements in ethics education programs. The topics below incorporate the requirements of IES 4. Education providers may introduce topics in a sequence they see fit.

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IEG-Toolkit topics

- **Framework approaches**
- **Concepts and values**
- **The environment - corporate, professional and regulatory**
- **Professional ethics**
- **Decision making**
- **Ethical threats and safeguards**
- **Enterprise governance**
- **Social and environmental issues**

IES Topics

- **The nature of ethics**
- **Differences of detailed rules-based and framework approaches to ethics, their advantages and drawbacks;**
- **Professional behaviour and compliance with ethical standards**
- **Concepts of independence, scepticism, accountability and public expectations**
- **Ethics and law, including the relationship between laws, regulations and the public interest**
- **Compliance with the fundamental ethical principles of integrity, objectivity, commitment to professional competence and due care, and confidentiality**
- **Ethics and the individual professional accountant: whistle blowing, conflicts of interest, ethical dilemmas and their resolution**
- **Consequences of unethical behavior to the individual, to the profession and to society at large**
- **Ethics in relation to business and good governance**
- **Ethics and the profession: social responsibility**

59. Each of the above topics are briefly described below. It should be noted that each topic can be learned at different stages of the EEF. For example, a simple definition of ethics can be learned as part of the conceptual analysis of ethics in the topic entitled 'Framework Approaches' in Stage 1. In Stage 2, the definition of ethics takes the form of more detailed explanation of the ethical principles and theories. At Stage 3, ethics is about moral development and applying an understanding of how rule-based and principle-based approaches provide different meanings of ethics between compliance and evaluating different principles. At Stage 4, ethics is defined as making the responsible choices in ethical dilemmas. A demonstration of the recommended contents of each of the topics is included in the IFAC Ethics Education Framework toolkit.

An ethics framework for accounting and finance professionals

60. This topic provides an understanding of the relationships and interests of different stakeholders which have an impact on the work of the accountant. The ethics framework shows the overall relationship between individual ethics, workplace ethics and the influences of other internal and external factors on the professional values, ethics and attitudes of accountants. Accountants and accounting students are provided with a structure upon which the ethics knowledge, ethical sensitivity, judgement and behaviour are based. This topic is applicable at all stages as a foundation.
61. Ethics is defined within the ethics framework. At Stage 1 for example, ethics can be defined simply as what *ought* to be the behaviour of accountants. At higher stages, ethics is learned with an understanding of its relationship with others, society and the profession. Ultimately, ethics should be appreciated as the evaluation and application of a process of reasoning with a consideration of all relevant factors and principles, and a commitment to a choice of action which is morally sound, and which demonstrates professionalism and integrity.
62. This topic should be included as part of all stages. Each of these stages may include the following:
- At Stage 1
 - Nature of ethics
 - The ethics framework for accountants
 - Rules-based and principles-based approaches
 - The foundations of a profession
 - At Stage 2
 - Ethics and the profession
 - Accountants and the stakeholders
 - At Stage 3
 - Interests of stakeholders and conflicts
 - Professional conduct and the public interest
 - At Stage 4
 - Behaviour and influences of stakeholders

Concepts, theories, principles and values

63. Students must be conversant with the basic tenets of normative ethical theories and their strengths and weaknesses, which are then used to identify and analyse ethical issues for specific business practices. Theories of ethics enable students to reason more clearly when confronted with moral dilemmas. Providing students with a series of case studies without the theoretical tools to reason through such cases will not enhance the student's ability to reason about ethical issues.

At Stage 1

- Commonly used theories and principles (e.g., Utilitarianism and Deontology)
- Theories of moral development
- Virtue ethics theory and values-based education

At Stage 2

- Ethics and culture
- Professional values, ethics and attitudes and the code of conduct for accountants.

64. One limitation of ethics education is that students learn the language of ethics and can morally defend proposed actions but education falls short of developing virtuous people. Virtue ethics and value based education focuses upon growth of a moral personality and emphasis is placed on character development and the belief that appropriate moral actions will follow from deeply held practices and values. In value-based education, societal values are derived from current law and doctrines espoused by religion, social justice and human rights. Professional values can be identified from accounting and auditing standards, and the code of professional conduct.

Corporate, professional and regulatory environment

65. This topic considers the different stakeholders and their influences in the corporate and professional environment. It can be learned with different degrees of difficulty at different stages. Examples of matters to be covered are:

At Stage 1

- The corporation and its interests
- The accountant and the stakeholders
- Professional responsibilities

At Stage 2

- The accounting profession and public expectations
- Professional and legal requirements in financial reporting and auditing
- The concept of accountability

At Stage 3

- Investigative reports and professionalism
- Developments in the profession to enhance professional values, ethics and attitudes, including codifications and education initiatives

At Stage 4

- Learning with and managing professional responsibilities through case studies.

66. The regulatory environment should be introduced at Stage 2 and elaborated at higher levels. Depending on the legal and regulatory regimes of each country, this topic should include:
- The legal framework for businesses and accountants
 - The role of accountants in the globalisation context
 - The impact of legal and other reforms such as the Sarbanes-Oxley Act 2002.
67. The regulatory environment should be learned based on each country's legal and financial regimes. Moreover, as accounting is increasingly globalised, the impact of International Financial Reporting Standards and legal reforms such as the Sarbanes-Oxley Act in the US, are fundamental in the understanding of the influences that are faced by accountants globally. This topic should be an ongoing topic for continuing education (professional development), i.e., Stage 4, as well.

Professional ethics, guidance and self-regulation

68. This topic provides a detailed discussion of the professional standards and expectations of accountants beginning at Stage 2.

At Stage 2

- Compliance with fundamental ethical principles
- Code of ethics, including corporate codes and underlying rationale
- Technical and ethical standards
- Independence, professional scepticism, accountability and the public interest

At Stage 3

- Self regulation and oversight functions
- Quality and peer reviews
- Case analyses of professional issues

At Stage 4

- Current developments in professional ethics and conduct
- Case analyses of professional issues

69. Professional ethics guidelines must be fully discussed and not just read. The importance of the code, the underlying assumptions of the code and the ability of being able to choose different principles in the code, should be practised. Hence this topic provides the basis for professional attitudes to develop. Professional accountants should also be aware of the differences of professional pronouncements in different countries.
70. Studying the sociology of professions enables learners to better understand the role of professions and the role they play as professional accountants. At stage 2, accounting students should be able to appreciate the differences between rule-based approach and principle-based approach to ethical decisions.

Tools for ethical decision-making

71. This topic covers a systematic approach to analyse and manage ethical issues or threats. Models of ethical decision-making are introduced. The models should be learned after an appreciation of different factors which may influence an accountant's role, including the corporate and professional environment, regulatory frameworks and professional ethical standards. The most commonly adopted ethical decision-making model is described in paragraph 84. Accounting students and accountants should appreciate that ethical decision-making models are tools only. They are designed to provide examples of a systematic process where individuals evaluate an ethical situation or risk in a manner to enable all relevant factors and principles to be taken into consideration. The models can be adapted so that individuals apply professional standards in assessing situations. Appendix 2 describes some of the commonly used ethical decision-making models. This topic can be introduced towards the end of Stage 2.
72. The level of ethical awareness and development may determine how an individual thinks about ethical dilemmas, but this alone is not enough to explain or predict ethical behaviour. Additional individual (e.g., ego strength, field independence and locus of control) and situational variables (e.g., job context and organisational culture and characteristics of the work) interact with the cognitive processes to determine how an individual is likely to behave in response to an ethical dilemma. If ethical behaviour reflects both individual and situational influences, then the subject of ethics education in post-qualifying programs should centre on situational ethics. This broadly includes:
- Why do good people behave badly?
 - Factors affecting ethical decision-making
 - The effects of group pressure on ethical decision-making

Ethical threats and safeguards

73. Ethical threats are situations where accountants are confronted with competing interests and there is the likelihood that they may compromise the fundamental ethical principles expected of a professional accountant. Ethical threats can occur when accountants face pressure to comply with an unethical or a self-interested request of a client or an employer. Ethical threats or issues exist in financial reporting tasks (e.g., earnings management), auditing and assurance engagements (e.g., risk of compromising integrity and independence), or in other services such as taxation or financial planning services where self-interested clients or employers dictate the actions of the accountants.
74. The IFAC *Code of Ethics for Professional Accountants* offers a framework of threats and safeguards. In ethics education, accountants and trainees must be sensitised so that they are able to identify such ethical threats and appreciate the importance of establishing safeguards, either within their reporting systems or as a part of the professional body's support. The topic should be learned at all stages.
- At Stage 1
- Definition and scope of ethics threats and issues in accounting and related areas

- Introduction of safeguards at professional and firm levels
- At Stage 2
- Conflict of interests in corporate and professional environments
 - Different types of ethics threats and ethical issues
- At Stage 3
- Specific ethics threats and safeguards in accounting e.g., earnings management situations
 - Ethics threats in auditing and assurance services e.g. threats and safeguards to independence and integrity
 - Ethics threats in other financial services and safeguards
 - Whistleblowing cases and solutions
- At Stage 4
- A discussion of current controversial ethical issues relative to the profession.
 - Analyses of threats and safeguards

Learners and students must learn and gain practise in identifying the ethical content of economic decisions in everyday business situations.

Enterprise governance

75. Ethics is the essence of corporate governance and underpins good corporate practice. Accountants must understand the criteria under which corporate governance can be effectively measured and enhanced.

At Stage 1

- The nature, significance and scope of enterprise governance and threats to effective governance
- Theoretical framework including agency problems
- Minimising the threats of agency costs

At Stage 2

- Corporate and other social responsibilities
- Stakeholder relationships
- Regulatory framework for corporate and enterprise governance
- The role of accountants and auditors in governance frameworks

At Stage 3

- Governance good practice and issues
- Analyses of cases of failures
- Global developments in enterprise and corporate governance

At Stage 4

- Benchmarking governance cases in practice

Social and environmental issues

76. The accountant serves the public interest and works in an environment where he/she has an important role in enhancing corporate and organisational social responsibility. The accountant is said to be the moral agent of an organisation and can influence the ethical and social wellbeing of the organisation. This topic provides the latest development in social and environmental issues which relate to the accountant's work, and develops the skills necessary for the accountant to be a proactive party in the practice of social responsibility.

At Stage 1

- The scope, background and concept of Corporate Social Responsibility
- The accountant and the society including agency problems
- Minimising the threats of social costs and liabilities
- Development in social and environmental frameworks

At Stage 2

- Measurement and accountabilities in social and environmental reporting
- Issues in social responsibilities and accountabilities

At Stage 3

- Regulatory framework
- The role of accountants and auditors in society and businesses
- Analyses of cases of social and environmental failures
- Social and environmental accounting and issues

At Stage 4

- Benchmarking cases in practice

Other topics

77. Other application topics in ethics may be introduced so that the accountants are exposed to ethical issues in particular settings which reflect real world problems. These topics should be introduced towards an advanced stage 2 or at stage 3 and 4. Different aspects of ethical threats and safeguards can be introduced with specific environments. Examples of these topics are:
- Ethics within small and medium size enterprises (SMEs)
 - International business practice, culture and ethics
78. Where accountants operate in international businesses, a tolerance of different business practices may invoke ethical threats. For example, where commissions are commonplace in business practice, accountants must be able to possess a clear understanding of professional responsibilities and liability threats.
79. Multinational firms are uniquely at risk from variations in ethical perceptions across nations. They are dependent on the judgment, norms and standards of their staff in each country. It is not unreasonable to expect that cultural factors may influence ethical beliefs and attitudes. Therefore, individuals from

different cultures have distinct conceptions of what are ethical and unethical behaviours, and in turn, influence ethical decision-making.

80. Professional accountants may not be fully sensitised to international and cultural differences, and thus they need to understand the trends of globalisation and cultural diversity in order to cope effectively with the pressures of the global market. Accountants must be conscious of the practices of other cultures and to instil a greater understanding and sensitivity to the cultural factors underlying differences.

DELIVERING ETHICS EDUCATION

81. The purpose of this section is to highlight education practices advocated in the ethics education literature. The various practices will not be elaborated upon unduly but only to highlight the major elements.

The lecture method

82. The conventional lecture method of delivering education is a long-standing method of instruction that emphasises the transfer of knowledge, rather than the process of learning. Therefore, lectures are effective mainly for transmitting information but there is little evidence that students learn to think from lectures.
83. While the lecture method in accounting education is appropriate for developing one's ability to solve procedural problems mechanistically, it may be inappropriate for the development of creative critical problem-solving capabilities such as ethical issues. Nonetheless the lecture-method might be considered a suitable method of instruction when introducing and describing basic theories and concepts.

Moral discussion, exposure to alternative ethical viewpoints, and collaborative learning

84. The acquisition of new modes of thought is dependent upon the reorganisation and displacement of preceding modes. The displacement of existing modes results from exposure to alternative and higher levels of moral reasoning. Therefore, accountants are more likely to develop morally with exposure and discussion of ethical issues with as many people as possible, particularly views based on moral reasoning higher than one's own.
85. Inherent in this interaction is informed moral discussion, which is the discussion of moral and ethical issues with others who are informed about the issues and the ethical theories that may apply to them. Informed moral discussion helps learners to gain familiarity with the important concepts, practice in using the language of ethics, and the means of discovering moral knowledge.
86. Moral development in education originates in dialogue and instruction. Discussion of ethical issues with others, particularly those who are informed about the issues and the ethical theories that may apply to them, is a key ingredient of the developmental process. Accountants will benefit from exposure to peer-led moral discussions, particularly when members of the group have levels of moral reasoning higher than their own.

87. Collaborative learning emphasises small group learning which develop skills in leadership, decision-making, trust building, communication and conflict management. Interaction with other accountants promotes higher individual achievement than more individualistic approaches.

Case studies

88. The reality of case studies sparks a level of involvement that engages students in the problem at hand and provides an insight of what it feels like to experience such problems. By reviewing past events, students can identify predicaments that were previously faced by accounting professionals and how they were resolved.
89. The case method is effective for developing ethical awareness and analytical skills. The American Accounting Association (AAA) produced the *American Accounting Association Ethics Casebook: Ethics in the Accounting Curriculum 1994*. In this book, the AAA provide a model of ethical decision-making by which cases can be analysed and discussed.
- What are the facts to the case? Major facts, pertinent information, and industry and local standards are identified.
 - What are the ethical issues in the case? Students should identify issues and stakeholders.
 - What are the norms, principles, and values related to the case? Consider norms etc (e.g. profit motive, harms, integrity) and the effect on stakeholders.
 - What is the best course of action that is consistent with the norms principles, and values identified above? Major discussion on the component of the model which may lead to a resolution.
 - What are the consequences of each possible course of action? Consequences to stakeholders are evaluated
 - What is the decision? A conclusion based on the discussion in earlier parts of the model.

Role-plays, film/video, literature and games

90. Role-plays, media (print and visual), games and other novel activities brings issues to life and engages students in the learning process by making ethics relevant to the practice of accounting, interesting, and fun. Narratives such as books, movies and biographies make no pretence on being ethics neutral and the complex plots can engage students on an emotional level and possibly create personal moral conflict. Stirring emotions such as empathy, caring, and commitment are fundamental to fostering character development. Role-plays and films display images that stir feelings and emotions. Similarly, literature raises imaginative consciousness. Methods which engage the student are more likely to foster moral development. Moral development occurs when students are faced with a moral crisis that results from being confronted with situations that challenge one's beliefs. Such methods, including the use of case studies, facilitate discussion of virtue in accounting and provide first hand experience of ethical dilemmas.

Personal value journals

91. Students should be encouraged to examine their attitudes and convictions via journal and reflection assignments. Such tasks help students to develop lessons from their personal experiences. Personal value journals are concerned with exploring the feelings of the writer. Accountants should be encouraged to write and explore their feelings and values by writing them in personal value journals.

Work-based placements and mentor-based relationships

92. The level of moral reasoning is positively associated with the extent of students' involvement in social, political, cultural, intellectual and academic experiences. Involving students in social and organisational activities, and interaction with peers and mentors, is more likely to effect ethical change. Opportunities to participate in socially new and cognitively activities that are challenging to the individual contribute to the development of moral reasoning.
93. Learning what is right also comes from observing the actions of good people. Mentor relationships, whether it comes from external mentors or the educators themselves, help students in two ways: first, the development of skills that will improve carer opportunities; and second, character mentoring that act as role models.

Guest speakers and practitioner participation

94. Accountants should meet, listen and work with senior level accounting professionals. In turn, accounting professionals should liaise with students and trainees on matters about the responsibilities and ethical issues that accountants face in practice. Inviting practising professionals to the classroom and sharing personal experiences is a valuable method of learning the role of virtue in accounting.

Service-learning

95. Service learning such as community service, and working with minorities or the disadvantaged, helps puts theory into action which can ultimately have positive effects on students' personal values and commitments.

E-based learning

96. In most cases, E-based learning should be used and designed to complement and support existing ethics course materials rather than replace them. Rather than being used purely a source of information, e-based learning should engage students in the learning process with case study analysis and on-line discussion. E-based learning is effective for bringing together dialogue, particularly from people in remote locations and cultures. E-based learning also has the ability to empower quieter members of the class to express their own views and expose students to views form outside their personal friendship circle.

CHALLENGES IN ETHICS EDUCATION AND RECOMMENDATIONS

Fixed ethical attitudes

97. The notion that a person's ethical framework is fixed and cannot be modified is often cited as the major objection to ethics education, thus limiting its inclusion in the curricula. Such claims are based on the questionable assumption that the function of ethics education is moral conversion. However, the primary goal of ethics education is not moral conversion but to provide accountants with the skills to identify and resolve ethical dilemmas. While moral conversion is difficult, setting the scene for the potentiality of moral change with enhanced ethical and professional sensitivity and improved ethical decision-making is achievable.
98. Education providers should establish clear goals of ethics education that focus on enhancing ethical sensitivity, developing a commitment to professional responsibility and decision-making skills.

Avoiding Indoctrination

99. Critics contend that ethics cannot be taught without indoctrinating or imposing one's value system. This occurs when educators put forward a view, without allowing the intended learner to exercise his or her own independent thought. A learner who recognises an educator's preferred answer is tempted to mould their remarks to fit that view. Consequently, accountants provide 'lip service' to values they don't actually espouse. Logical and ethical arguments will be presented without possessing any commitment to a firm ethical position. Ethical reasoning simply becomes a source of excuses, justifications and rationalisations. To counter the effects of indoctrination, educators should offer several perspectives on an issue rather than one single view.
100. Educators should employ a variety of methods and models of ethical analysis and to expose accountants and accounting students to a multiplicity of viewpoints, especially in different cultural settings.

Ethicists or business educators?

101. While ethicists bring expert knowledge of ethical concepts and theories, such knowledge is likely to be based on a philosophical perspective, which may restrict discussion of ethical issues to a philosophical level rather than a practical or professional level. This approach to ethics education leaves the responsibility for integrating theory with accounting or business solely on the learner, who may fail to grasp the linkage between the philosophical view of ethics and practical situations.
102. Alternatively, ethics may be taught by business or accounting educators. Credibility is often enhanced by the discipline-specific knowledge held by the educator and the experience of professional problems encountered. However,

business and accounting educators may not have sufficient training to properly teach ethics.

103. The lack of appropriately trained or qualified educators have a number of potential implications:
- May cause educators to avoid ethics in their courses, or deal with the topic only superficially
 - Educators may be uncomfortable in discussing ethical issues in the classroom and may concentrate on other aspects of the course material that they feel more comfortable teaching
 - Educators may be deterred from teaching ethics due to the anxiety caused by displaying personal values in the classroom and being in a position to justify or defend them
 - Educators would typically have to learn for themselves, the discipline of moral philosophy which may be inadequate, causing instruction to be theoretical or superficial.
 - Enhances the possibility of indoctrination and defective ethical analysis
104. Overall, the lack of training in the methods of ethical analysis means educators may not know how to bring the discussion to a rational conclusion beyond the expression of personal views. Dealing with issues when there is little knowledge or a lack of comfort may give learners the impression that moral issues are merely an afterthought, digression, or inherently inconclusive.
105. Education providers should encourage and support an education system which provides and support staff development and research in ethics in order to ensure a lasting structure for effective ethics education within the accounting curriculum.

Dealing with ambiguity

106. The process of ethical decision-making is not simply a choice between two dichotomous alternatives, but a choice from a number of alternatives each representing mixed benefits and harms that have personal and organisational implications with an uncertain probability of occurrence. The inability to provide satisfactory moral conclusions may confuse learners, because questions of morality appear unanswerable, thus promoting a cynical attitude about ethics.
107. The presence of ambiguity enhances the need for evaluative training, in order to give a clearer insight into the problem and likely outcomes. By learning to analyse ethical dilemmas, accountants will realise that dilemmas do have solutions. While ethical analysis may not give a single right or just answer to an ethical dilemma, it does lead to some answers that can be clearly seen to be more right, or more just than other answers.
108. Educators should help accountants to learn ethical analysis using different models and provide practical cases for discussion and debate.

Enhancing resources

109. Business ethics text books have a number of deficiencies:
- They can be too philosophical for the practical application in business education
 - The material is often directed at issues that are likely to be faced by upper level managers and CEOs — this bias toward top executive dilemmas presents an irrelevant dimension to the learning of business ethics, when accountants will end up in middle to lower level posts
 - There are few case studies in accounting and finance, many of which have a North American bias.
110. Accounting and auditing textbooks coverage of ethics is generally minimal at best, with coverage focusing predominantly on the code of ethics. Accounting and auditing textbooks either avoid any consideration of ethical principles, or reduce ethical principles to a mechanistic following of written behavioural guidelines. Superficial textbook treatment creates the impression that ethics is unimportant.
111. Professional associations, government organisations, publishers, educational providers and other institutions should encourage and support the development of subject matter and cases in ethics relevant to the local accounting qualification program.

Academic legitimacy to ethics research

112. There appears to be little incentive for young researchers, who must prove themselves in an increasingly competitive academic environment, to publish in ethics-related areas. Accounting ethics research does not appear to be embraced by accounting academics due mainly to the lack of rewards (e.g. salary, promotion, tenure) for academic research in this area. Without rewards, academics are unlikely to pursue a line of inquiry for which they were unfamiliar, have fewer publishing outlets and possibly viewed by peers as less rigorous compared to traditional research areas.
113. Schools of business and professional accounting associations should encourage, support and reward academic research in accounting ethics, by providing incentives and research assistance on par with other research areas.

Curriculum space

114. Since curriculum time and space in accounting programs is a scarce resource, the integration of ethics in accounting programs is not without opportunity costs. The accounting syllabi have arguably been swamped by regulatory pronouncements at the expense of critical and reflective skills. The introduction of new material invariably means omitting material from more traditional areas of accounting. This may prove difficult when careers, reputations and years of service have been built on understanding, developing and promoting this

traditional knowledge. Support for ethics education wanes in part, from the squeezing out of seemingly important topics for an apparent 'softer' topic.

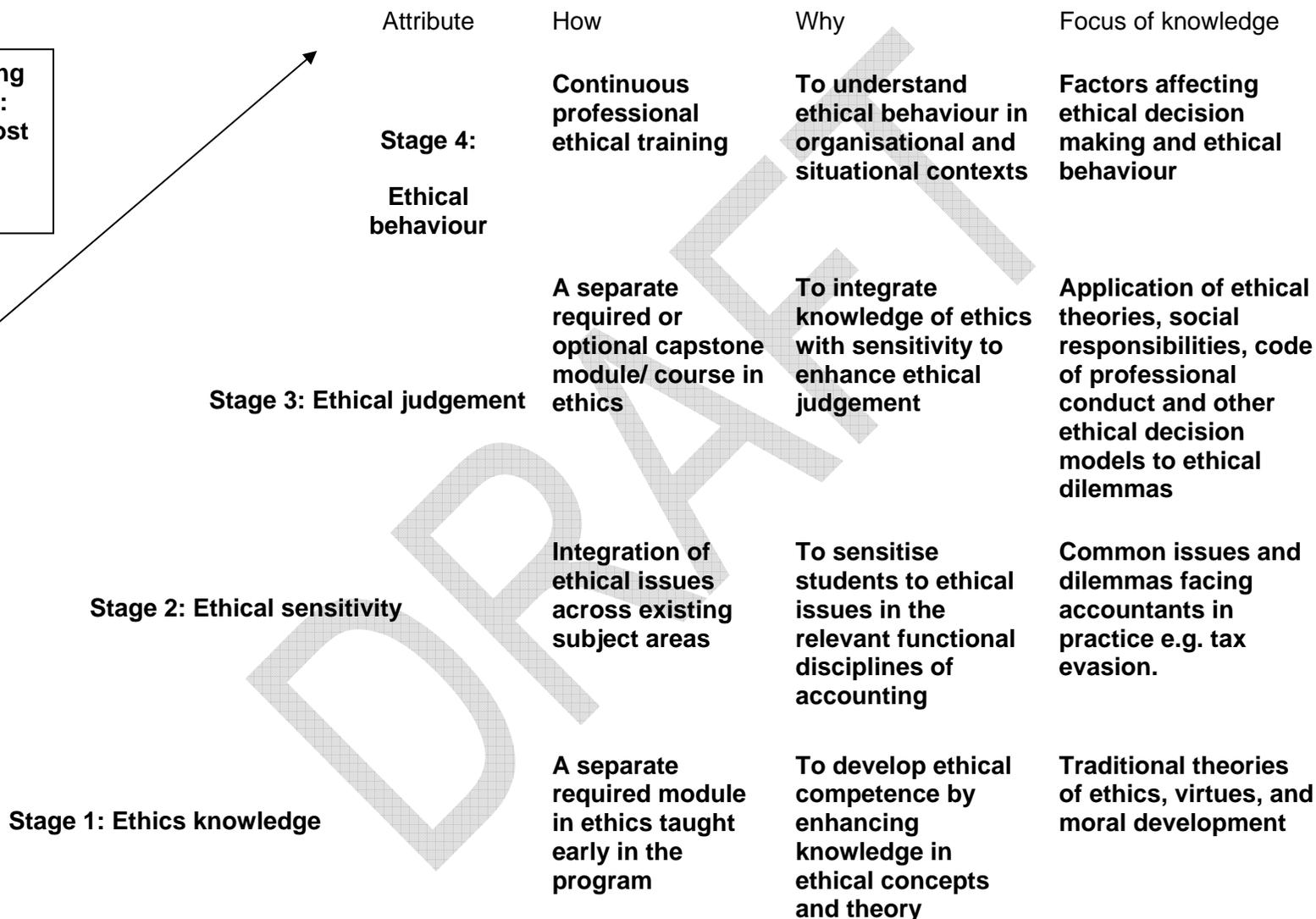
115. Calls from external bodies emphasising the development of analytical and reflective skills developed in ethics education, will provide additional time and impetus for the introduction of ethics into the accounting curriculum.

Formal assessment

116. Formal assessment is desirable because it holds students responsible for learning the subject material, which in turn motivates students to concentrate on topics for which they will be held accountable. Formal assessment is also important, because anything less than a formal review indicates that the subject material is not immediately relevant nor is it an important part of the course.
117. A number of member bodies have established formal assessment regimes in their professional programs, incorporating ethics elements. Although it is debateable whether ethics can be adequately assessed by formal assessment tasks, it should be noted that formal assessments provide the opportunities for accounting students and trainees to practise an internalised process of ethical decision-making under pressure. Moreover, formal assessment is a reasonable test of standards to demonstrate the attainment of the fundamental knowledge of ethical principles and the ability of critical evaluations of ethical situations.
118. Ethics education should be formally assessed and weighted accordingly. Formal assessments can be in the form of case studies or objective question-answer testing.

Appendix 1: The IFAC Ethics Education Framework

The Learning Continuum: Pre- and Post Qualifying Stages



Appendix 2: Commonly used Ethical Decision-Making models

American Institute of CPA Ethical Decision Tree

Developed by AICPA to help accountants walk through the process of resolving an ethical issue at work. It follows a sequential concept whereby the individual reviews:

- established company policies;
- consult respective line managers to ethics and audit committee until a satisfactory solution is offered;
- identify any additional steps which need to be undertaken;
- take action and review the decision.

As the decision tree is a flow chart of questions and answers, the individual can readily form an action plan easily.

American Accounting Association (AAA) Model

- 1 What are the facts of the case?
- 2 What are the ethical issues in the case?
- 3 What are the norms, principles and values related to the case?
- 4 What are the alternative courses of action?
- 5 What is the best course of action that is consistent with the norms, principles and values identified in Step 3?
- 6 What are the consequences of each possible course of action?
- 7 What is the decision?

Source: American Accounting Association 1990; Langenderfer and Rockness, 1989, p. 69

Tucker's 5-question model

Is the decision:

- Profitable?
- Legal?
- Fair?
- Right?
- Sustainable or environmentally sound?

Stakeholder Impact Analysis

Fundamental Interests of stakeholders

Three commonly held interests:

- Well-offness – One's interests should be better off
- Fairness – Fair distribution of benefits and burdens
- Rights – Should not offend the rights of any stakeholder

(Brooks, 2004)

Moral Standards Approach

Decisions are based on consideration of:

- Utilitarianism – Does the action maximise net benefit?
- Individual Rights – Is action consistent with each person's rights?
- Justice – Will action lead to a just distribution of benefits and burdens?

All standards must be used.

Laura L Nash's 12-question Model

12-questions to help managers address ethical dilemmas:

- 1 Have you defined the problem accurately?
- 2 How would you define the problem if you stood on the other side of the fence?
- 3 How did this situation occur in the first place?
- 4 To whom and to what do you give your loyalty as a person and as a member of the corporation?
- 5 What is your intention in making this decision?
- 6 How does this intention compare with the probable results?
- 7 Whom could your decision or action injure?
- 8 Can you discuss the problem with the affected parties before you make your decision?
- 9 Are you confident that your position will be as valid over a long period of time as it seems now?
- 10 Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?
- 11 What is the symbolic potential of your action if understood?
Misunderstood?
- 12 Under what conditions would you allow exceptions to your stand?

Source: "Ethics without the Sermon" Harvard Business Review 59, 1981. In "An Ethics Toolkit for Managers" by Carter McNamara, 2001.

DRAFT