

10th Annual Financial Executive Forum Weekly Webinar Series

October 3rd – November 7th (Thursdays)



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CORDIA
RESOURCES®
by  Cherry Bekaert

Our 10th Annual Financial Executive Forum Webinar Series program offering: 6 weekly sessions, with up to 12 hours of CPE credit, including 2 hours of VA Ethics.

- ▶ **Oct. 3 | 8-10 A.M.** **CFO Roundtable**
Presented by **Cordia Resources by Cherry Bekaert** (2 CPE Hours)
- ▶ **Oct. 10 | 8-10 A.M.** **Anchoring Your Foothold in GovCon and DCAA's Hot Topics**
Presented by **Cherry Bekaert** (2 CPE Hours)
- ▶ **Oct. 17 | 8-10 A.M.** **VA Ethics**
Presented by **Jennifer Louis, AICPA** (2 CPE Hours)
- ▶ **Oct. 24 | 8-10 A.M.** **Managing Your Risk: Innovation in Employee Benefits & Business Insurance**
Presented by **MarshMcLennan Agency** (2 CPE Hours)
- ▶ **Oct. 31 | 8-10 A.M.** **Economic Outlook and Capital Markets Update**
Presented by **Wells Fargo** (2 CPE Hours)
- ▶ **Nov. 7 | 8-10 A.M.** **How AI and Digital Networks Will Shape the Future of Accounting**
Presented by **Sage** (2 CPE Hours)



CPE Webinar Rules

CPE Compliance:

- ▶ Polling questions will appear throughout the webinar to be compliant with **NASBA** requirements
- ▶ You need to answer at least 75% of the 8 polling questions to **receive full CPE credit** for each session
- ▶ You will be **muted** during the webinar presentation
- ▶ Please use the **Q&A** feature to submit your questions to the panelist
- ▶ Please use the **chat** feature to communicate any technical difficulties
- ▶ Please complete the **session survey** using the link included in the post event email
- ▶ **Your CPE certificates** will be issued within 2 weeks of this course. Any questions, please reach out to Cherry Bekaert Learning at cbhlearning@cbh.com

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Today's Agenda

October 17th – VA Ethics Presented by Jennifer Louis, AICPA

- ▶ 8:00 to 8:10 A.M. | Kick-off & Welcome
- ▶ 8:10 to 9:45 A.M. | VA Ethics
- ▶ 9:45 to 9:55 A.M. | Q&A
- ▶ 9:55 to 10:00 A.M. | Close by Grant Palmer

Meet Our Speaker



Jennifer F. Louis, CPA

Co-Founder, Emergent Solutions Group LLC



General Business Ethics – 2024 Virginia Approved

Presented by:
Jennifer F. Louis, CPA



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Learning Questions

- List the foundation of ethical behavior
- Detail moral and ethical dilemmas faced in day-to-day situations
- Explain important principles underlying ethical decision-making

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Introductory Video

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Introduction to the Concept of Ethics

4

Moral Philosophy

- Discipline concerned with what is morally good and bad - right and wrong
- Happiness comes from the knowledge of the “good”, which comes from goodness of character and wisdom of the intellect. – Socrates

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Aristotle's Virtue Ethics

- Ethics is comprised of virtue of thought and virtue of character
- Aimed towards the intermediary while cultivating a balanced life between excess and deficiency (called the “Golden Mean”)
 - e.g., bravery is the intermediate between cowardliness and recklessness
- By aiming at what is both good and just, a sustainable and self-sufficient happiness can be achieved

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Aristotle's Virtues – In Balance

- | | |
|--|---------------------------|
| 1. Courage | 8. Concern for others |
| 2. Temperance | 9. Truthfulness |
| 3. Spending well | 10. Wit |
| 4. Living well | 11. Friendliness |
| 5. Taking pride in accomplishments | 12. Modesty |
| 6. Concern with the noble, not the petty | 13. Righteous indignation |
| 7. Diligence | 14. Justice |

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Pulse Check – Ethical Dilemmas

- Have you ever lied to get out of a social engagement you did not want to attend?
 - A. Yes.
 - B. No.
 - C. Maybe.

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Integrity

- If you have it, nothing else matters.
- If you don't have it, nothing else matters.
- Moral men would do nothing dishonest, even if his actions would be hidden forever from the knowledge of gods and men. - Cicero

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E&Y Ethics 2022 Scandal

- Ernst & Young paid \$100 million fine after auditors cheated on Ethics component of CPA exams and CPE courses
 - Occurred between 2017-2021
 - E&Y admitted to withholding evidence from the SEC Enforcement Division's investigation
 - Largest penalty ever imposed by the SEC against an auditing firm
- Texas followed on with a \$3 million fine

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PwC Canada Scandal

- CPA Ontario fined PwC Canada \$1.09 million USD for breaching Code of Conduct in 2023
- 445 professional staff participated in “answer sharing” during open-book internal training between 2016 and 2020
- Personnel maintained shared drives packed with answers to at least 46 out of 55 mandatory assurance tests

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PwC China and PwC Hong Kong

- PCAOB levied a \$7 million fine for “answer sharing” between 2018-2020
- Over 1,000 professionals either received or provided answers through two unauthorized software applications

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PwC Australia

- A partner leaked confidential information to other partners while consulting with the Australian Tax Office on the potential effects of proposed tax legislation
 - PwC turned the confidential information into billable hours for numerous clients
- Mandated bi-annual training on conflicts of interest policies and Code of Conduct in the years 2022 and 2024

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Recent Ethics Change

- Professional Qualifications and Competencies
- Broadens the scope of “solicitation or disclosure of CPA Examination questions and answers” to all activity related to acquiring and maintaining qualification and competency
- Effective immediately upon 9/15/23

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Common Ethical Issues in Today's World

- Accounting and financial reporting
- Data privacy
- Health and safety
- Favoritism and nepotism
- Harassment and discrimination

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Pulse Check

- Your co-worker is engaging in “Coffee Badging”
- Do you have a responsibility to tell his/her supervisor?
 - A. Yes.
 - B. No.
 - C. Maybe.

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Ethical excuses:

- It's legal
- It happens at work
- No one finds out
- No one gets hurt
- I don't benefit personally
- Someone else asked me to do it
- It's for a good cause
- Everyone else does it
- I didn't mean to do anything wrong
- **It isn't of consequence (materiality)**

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Business Ethics

*The set of **principles and standards** that govern our **actions and decisions** as they pertain to what is **right and wrong** within the context of **business practice**.*

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LRN Ethics Study

- 94% of employees surveyed say it is "critical" or "important" that a company they work for is ethical
- 82% would prefer to be paid less and work for a company with ethical business practices than receive higher pay at a company with questionable ethics
- 30% of employed Americans have left a job for ethical reasons

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Business Ethics in Balance

1. Owners/investors/members/citizens
 - Rate of return, fulfillment of mission, abide by bylaws, transparent reporting
2. Customers/suppliers/employees
 - Well-being, rights to certain treatments, fairness
3. Society
 - Environmental, social, governance

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Example – Is This Ethical?

1. Using inside knowledge for your own profit
2. Unsafe working conditions due to lack of investment in facility upgrades

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Example - Is This Ethical?

1. Using child labor in the production of goods
2. Outsourcing a significant number of jobs to overseas workers

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Environmental Component

- Addresses how an entity is exposed to and manages risks and opportunities related to the environment
 - For example, climate-related matters, greenhouse gas emissions, renewable energy, natural resource scarcity, pollution, waste, and an entity's impact on the environment
- Litigation risk due to environmental contamination and other matters would also be placed in the environmental category

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Social Component

- Encompasses information about an entity's values and business relationships
 - For example, fair labor practices, the use of ethically sourced material in the production of products, product quality and safety, human capital such as employee health and safety, privacy and data security, community relations, and diversity and inclusion policies and efforts

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Governance Component

- Encompasses information about the system of rules, practices, and processes by which an entity is directed and controlled
 - For example, the structure and diversity of the board of directors, executive compensation, tax transparency, business ethics, critical event responsiveness, entity resiliency, and policies and practices related to lobbying, political contributions, bribery, and corruption

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Why Growing Interest

- Interested parties seek to understand the effects of relevant ESG matters on an entity's business strategy, cash flows, financial position, and financial performance
 - For both public and private companies
- In other cases, parties seek ESG information from a public policy perspective or to influence corporate behavior

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Top 10 Biggest Benefits of ESG Reporting

1. Increased understanding of risks and opportunities
2. Emphasizing the link between financial and non-financial performance
3. Influencing long term management strategy and policy, and business plans
4. Streamlining processes, reducing costs and improving efficiency
5. Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives

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Top 10 Biggest Benefits of ESG Reporting

6. Avoiding being implicated in publicized environmental, social and governance failures
7. Comparing performance internally, and between organizations and sectors
8. Mitigating – or reversing – negative environmental, social and governance impacts
9. Improving reputation and brand loyalty
10. Enabling external stakeholders to understand the organization's true value, and tangible and intangible assets

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Pulse Check – Ethical Dilemmas

Is it right for Google to force Advertising Companies to sign contracts saying they would not accept advertising from rival search engines?

- A. Yes.
- B. No.
- C. Maybe.

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The Ethical-Legal Dilemma

- Is an action ethical if it is legal?
- Laws often change to reflect the current norms of ethical behavior.
 - Norms for ethical behavior may change faster than the laws meant to reflect them.

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Accounting Ethics

- Accounting is the “language” of business.
 - Luca Paciolo, the “father of accounting”, included a discussion of accounting ethics in his 1494 textbook.
- Apply the highest standards of ethical behavior and transparency to information conveyed.
 - The interests of the public must be in the forefront of any professional judgement.
 - Lack of ethical behavior leads to financial malfeasance, data manipulation, and fraudulent financial reporting.

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Pulse Check – Ethical Dilemmas

Is it okay to consistently round up when billing customers for hourly work?

- A. Yes.
- B. No.
- C. Maybe.

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Theory of Moral Development



Source: Lawrence Kohlberg, Harvard University Professor (1958)

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Case Study – Booking Quarterly Sales

- Your company has a minimum current ratio debt covenant on \$1 million loan.
- Normally, your company ships large amounts of inventory on the last day of each quarter.
- This quarter there was a software glitch, and shipments could not be processed until the first day of the next quarter.
- Would it be ethical to book the one day of shipments to avoid default?

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Case Study Possible Responses

1. No – you do not lie.
2. No – you will lose your job if you get caught.
3. No – you are not to blame for the software glitch.
4. No – intentionally misreporting *financial information is against the AICPA's Code of Professional Conduct.*
5. No – the bank has a right to transparency to make good credit risk decisions.
6. No – others may need access to the same funding and are actually better credit risks.

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Pulse Check – Ethical Dilemmas

Is it right to forcibly remove an airline passenger from a full flight for a pilot that needs to get to the next city to replace another sick pilot?

- A. Yes.
- B. No.
- C. Maybe.

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Getting Stuck in Level 4

- Accountants often tend to fall back on a Level 4 mentality – what does the rule say?

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Pulse Check – Ethical Dilemmas

You are a software developer assigned to modify a client's application. The project is bid at 4 weeks at a cost of \$250K. You quickly realize that the same goals can be accomplished for half the cost.

Do you offer the simpler solution?

- A. Yes.
- B. No.
- C. Maybe.

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What is Your Ethical Backbone?

- We are what we repeatedly do. – Aristotle
- Every dishonest act has an inevitable consequence on our character

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Key Character Principle

- Past behavior is the best predictor of future behavior
- Our actions become habits, and well-ingrained habits may be difficult to change
 - Even if we have an intention to change
 - We tend to do what is rewarding and pleasant

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The Importance of Clarity in Intentions

1. I intend to report the income I overlooked last year to the IRS.
2. I intend to obtain the necessary tax forms and meet with my tax accountant today to submit an amended return by the end of the week.

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Behavioral Justification

- When our behavior is inconsistent with our attitudes and values, we rationalize our behavior by making excuses and justifications that we eventually perceive to be absolutely true.
- Behavior may change our values.
 - Especially if we need to justify our behavior.
- Place a higher value on what is right, versus what is self-satisfying.
- Don't lie to yourself with self-justification.

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Psychological Justifications

- Claiming it is a grey area with room for interpretation
- Altruism over self-interest
 - College admissions scandal wanting best for child
- “Moral licensing” for a recent good deed
 - More likely to cheat on a computer game if recently purchased an environmentally friendly product
- Partially “come clean”

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Case Study – Psychological Justification

The case of rolling the dice for money...

- 34% of multiple rollers reported a 6
- 19% of single rollers reported a 6
- Probability of rolling at 6 is 16.67%
- Note: Percentages went up if a second person also got money

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Case Study – Behavioral Justifications

1. I hit him because he hit me first...
2. Throwing an apple core out the car window...

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Pulse Check – Ethical Dilemmas

Is it okay for a company to consistently run a “limited-time” deal to encourage immediate spending?

- A. Yes.
- B. No.
- C. Maybe.

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Reversing Downward Spirals in Behavior

1. Recognize what is wrong – and why.
2. Feel remorse- for the act itself, not just being caught.
3. Resolve to change – with sincerity.
4. Plan future behavioral intentions.
5. Demonstrate improved moral behavior – recognizing that change takes time.

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3 Stages of the Character Continuum

1. Unethical - What is in it for me (WIIFM)?
2. **Ethical - What is fair and equitable?**
3. Virtuous - How can I serve others and contribute to society?

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Steps in Making Ethical Decisions

1. Recognize that you are in an ethical dilemma
2. Identify and analyze the key elements in the situation
 - Who may be harmed?
 - Who may benefit?
 - What are my responsibilities and obligations?

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Steps in Making Ethical Decisions

3. Identify the alternatives and weigh the impact of each choice
4. Select the best and most ethical alternative
 - Consider all the circumstances and the consequences
 - Follow your moral compass

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Possible Approaches to Resolving an Ethical Dilemma

1. Refute the Dilemma - Challenge whether the existence of the dilemma can be logically refuted.
2. Apply Value Theory - Choose the alternative that offers the greater good and the lesser evil.
3. Find Alternative Solutions - Reconsider the problem to see if a new alternative solution may arise.

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Three Easy "Ethics Check" Questions

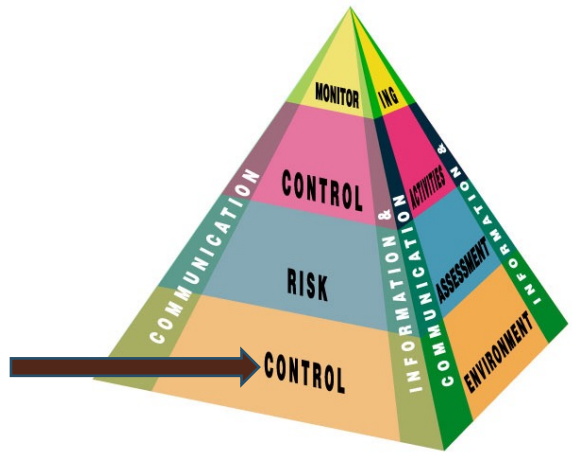
1. Is it legal and consistent with policies?
2. Is it fair and balanced?
3. How will it make me feel about myself?
4. Would I want my parents to know?
5. The Washington Post test.

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The Importance of Ethics in Internal Controls

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5 Internal Control Components



Source: Based on the 2013 COSO Integrated Framework

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1. Commitment to Integrity and Ethical Values

- Governance and management demonstrates importance by tone at top
 - Through directives, attitudes, and behavior
- Uses ethical values to balance needs and concerns of different stakeholders
- Establishes processes to evaluate performance against expected standards of conduct

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2. Governance Oversees Development and Performance of Internal Control

- Determines an oversight structure to fulfill governance responsibilities
- Oversees design, implementation, and operation of internal control system
- Provides input to management's plans for remediation of internal control deficiencies

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3. Appropriate Structure, Reporting Lines, Authority, and Responsibilities

- Establishes organization structure necessary to enable entity to play, execute, control and assess objective achievement
 - Considers how units interact
- Assigns responsibility and delegates authority to key roles
- Develops and maintains documentation of internal control system

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4. Commitment to Attract, Develop, and Retain Competent Individuals

- Establishes expectations of competence to carry out assigned responsibilities
- Recruits, develops, and retains competent personnel
- Defines succession and contingency plans for key roles
 - Long-term replacement and response to sudden, unexpected personnel changes

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5. Holds Individuals Accountable

- Enforces accountability for individual performance
 - Supports day-to-day decision making, attitudes, and behaviors
 - Incentives, performance appraisals and disciplinary actions
- Adjusts excessive pressures on personnel
 - Goals, unrealistic workloads, few resources

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Pulse Check – Ethical Dilemmas

Are you obligated to report the discovery of unethical behavior?

- A. Yes.
- B. No.
- C. Maybe.

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Role of the AICPA & SEC

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Background and Overview

1. The SEC was created when the Securities Exchange Act of 1934 was adopted.
2. The SEC's stated mission is "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."
3. Companies that have registered securities that are open for purchase are required to disclose "meaningful financial and other information to the public".

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SEC Financial Reporting and Audit Task Force

- Establishes methods for detecting financial reporting irregularities
- Identifies companies with potential violations
- Decides whether an investigation is merited
- Refers issues as needed to investigators¹

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Office of the Whistleblower

- Increases the volume of high-quality tips and information
- Improves efficiency of investigative staff
- Enhances the deployment and allocation of agency resources

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Sarbanes-Oxley Act of 2002

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

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AICPA Code of Professional Conduct

- Represents the high degree of responsibility to the public interest, clients, and colleagues
- Comprised of principles, rules, and interpretations
- Honor the public trust, not personal gain

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Organization of Code of Conduct

- Part 1 – Members in Public Practice
- Part 2 – Members in Business
- Part 3 – All Other Members
 - Including those retired or between jobs

Note: If the member has multiple roles, apply the most restrictive provisions from all applicable parts of the Code.

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Applying the Framework in Private Practice

- Same framework applies:
 - Identify threats
 - Evaluate their significance
 - Identify and apply safeguards
- Situations where it is applied are different

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Example Parallel Matters With Public Practice & Industry

- Subordination of judgment
- Competence
- Acts discreditable
- Discrimination or harassment in employment practices
- Solicitation or disclosure of CPE Exam questions and answers
- Failure to file a tax return and pay a tax liability
- False, misleading, or deceptive acts in promoting or marketing professional services

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Enforcement of Compliance with Code

- Primarily relies on members' understanding and voluntary action
- Secondly relies on opinion of peers and public
- Ultimately, any departure requires justification in any disciplinary hearing
 - AICPA
 - State Board of Accountancy
 - Regulatory body

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Responsibility for Actions of Others

- A *member* may be held responsible for the acts of all persons associated with the *member* whom the *member* has the authority or capacity to control

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Pulse Check – Ethical Dilemmas

You are the Controller for a company. The CEO wants to do something nice for the CFO and the CFO of the largest customer, who are old friends. The CEO wants to send them and their spouses to a week at a 5-Star Resort in the Caribbean. Is it okay to authorize the disbursement?

- A. Yes.
- B. No.
- C. Maybe.

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Focus on NOCLAR

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NOCLAR Interpretation – Primary Goal

- Effective 6/30/23
- Acts of omission or commission, intentional or unintentional, that are contrary to prevailing laws or regulations
 - Committed by a client , governance, management, or others working for or under the direction of the client
 - Focus on noncompliance with **direct and material effect on F/S OR ability to continue business**
 - Substantial harm may result in serious adverse financial or nonfinancial consequences to impacted parties
- Creates separate guidance for members in business, providing review/audit services, and providing other services

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Overall Goal

- To alert management or, when appropriate, those charged with governance of the client, to enable them to:
 - Rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - Deter the commission of the noncompliance when it has not yet occurred
- To determine whether withdrawal from the engagement and the professional relationship is necessary, when permitted by law and regulation
- To take such further action as appropriate in the public interest
- To comply with applicable laws and regulations

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What is Covered?

- Examples of laws and regulations which this interpretation addresses may include those that deal with the following:
 - Fraud, corruption, and bribery
 - Money laundering
 - Securities markets and trading
 - Banking and other financial products and services
 - Data protection
 - Tax and pension liabilities and payments
 - Environmental protection
 - Public health and safety

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Pulse Check – Ethical Dilemmas

Do you have a responsibility to speak up if you know that there was a data breach that led to personally identifiable information being possibly exposed to hackers – and the company is not notifying the affected parties?

- A. Yes.
- B. No.
- C. Maybe.

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NOCLAR Interpretation – Members in Business

- Not expected to have any level of expertise beyond what is required by role with entity
- Alert management and governance, as appropriate, to enable corrective action
 - If senior personnel, there is a higher expectation for reasonable response
- Alert any external auditor
- Do not disclose any known or suspected noncompliance to a third party without the employer's consent or expressly permitted by rules related to employment or volunteering

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NOCLAR Interpretation- Guidance for CPA Service Providers

- Gain sufficient understanding of the nature of the noncompliance or suspected noncompliance
 - Understand circumstances in which act has occurred or is likely to occur
 - Not expected to have any level of expertise beyond what was required to undertake the actual professional engagement
- Alert management and governance, as appropriate, to enable corrective action

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Communicating Within Firm

- Alert any review or audit partners in the same firm or network firm
 - Consider matters known or suspected about attest client or component of an attest client
- Not required to communicate with other firms outside of any network
 - Except as required by law or regulation

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Other Considerations

- In a group audit, consider impact on one or more components
 - Group audit partner should ensure proper communication to those performing work at relevant components, unless prohibited by law or regulation
- Do not disclose any known or suspected noncompliance to a third party without the client's consent or as expressly permitted by *Code of Conduct* rules
- Consult and/or seek legal advice as appropriate

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Handling Ethical Conflicts

- Take steps to best achieve compliance
- In weighing alternative courses of action, consider factors such as the following:
 - Relevant facts and circumstances, including applicable rules, laws, or regulations
 - Ethical issues involved
 - Established internal procedures
- Be prepared to justify any departures that the member believes were appropriate

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Required Documentation

1. The matter
2. The results of discussion with management and, where applicable, those charged with governance and other parties
3. How management and, where applicable, those charged with governance, have responded to the matter
4. The judgments made and the courses of action the member took

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Thank you!  **EMERGENT**
Solutions Group, LLC

**Following is a link to the VBOA-approved
Ethics Course 2023 Evaluation:**

**[https://boa.virginia.gov/individual-
cpas/cpe/vboa-approved-ethics-
course/ethics-course-evaluation/](https://boa.virginia.gov/individual-cpas/cpe/vboa-approved-ethics-course/ethics-course-evaluation/)**

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Our Next Session:

- ▶ **Thursday, Oct. 24, 8-10 A.M.**
Managing Your Risk: Innovation in Employee Benefits & Business Insurance Presented by **MarshMcLennan Agency** (2 CPE Hours)
- ▶ Scan **QR Code** to sign up for next sessions and view session recordings



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