**ACCOUNTANTS BEHAVING BADLY**

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Cheating is all around us. Athletics provide a never ending series of ethical disappointments whether it be the use of performance enhancing drugs in bicycling, baseball, and football, the bout fixing in Sumo wrestling, or the recent NCAA rule violations by Ohio State’s football program.

David Callahan in his controversial book [The Cheating Culture](http://www.cheatingculture.com/), states:

*When “everybody does it,” or imagines that everybody does it, a cheating culture has emerged.*

However, not everyone feels this way. Warren Buffet opines on ethics and protecting reputation in the [2010 Berkshire Hathaway Annual Report](http://www.berkshirehathaway.com/2010ar/2010ar.pdf) (pages 104 and 105), and states:

*Sometimes your associates will say “Everybody else is doing it.” This rationale is almost always a bad one if it is the main justification for a business action. It is totally unacceptable when evaluating a moral decision. Whenever somebody offers that phrase as a rationale, in effect they are saying that they can’t come up with a good reason. If anyone gives this explanation, tell them to try using it with a reporter or a judge and see how far it gets them.*

But why are so many accountants cheating today? How could this happen with the continuing education ethics hours requirement for licensing? Aren’t accountants supposed to be our first line of defense against financial reporting fraud? Twenty years ago Eli Mason, one of the acknowledged leaders of the accounting profession, clearly defined the ethical responsibilities of accountants in his *CPA Credo*:

* ***To serve the public from whom my authority is derived.***
* ***To serve my profession and contribute to its institutions.***
* ***To practice at the highest professional level.***
* ***To maintain an ethical posture characteristic of a learned profession.***
* ***To maintain my technical skills as that the public is served with competence.***
* ***To maintain a state of independence at all times so that decisions are reached with objectivity.***
* ***To work with my colleagues – for the practice of a profession is an experience in human behavior and mutual respect.***

This is how accountants and auditors are supposed to behave: *public service, ethics, and independence*. Unfortunately, these three key attributes appear to have been abandoned by many in the profession.

Just look at what we have recently seen from the senior leadership of large accounting firms?

* The [Securities and Exchange Commission](http://www.sec.gov/litigation/litreleases/2010/lr21612.htm) charged Deloitte’s former vice chair, Thomas P. Flanagan, with insider trading, and violating auditor independence rules in August 2010, and simultaneously settled. Deloitte itself sued Flanagan and received a summary judgment in January 2010 on charges of breach of fiduciary duty, breach of contract, common law fraud, and equitable fraud after filing suit in November 2008.
* And if that is not bad enough, several senior leaders from [BDO Seidman were convicted](http://goingconcern.com/2011/05/ex-bdo-ceo-denis-field-convicted-in-tax-shelter-case/) this May (2011) of conspiracy to defraud the Internal Revenue Service, tax evasion, and perjury related to fraudulent tax shelter schemes offered to clients. Those convicted included charged Denis Field, who previously served as BDO Seidman’s CEO, Chairman, head of the national tax practice, and leader of the “Tax Solutions Group.” Robert Greisman, a tax partner in BDO’s Chicago office previously pled guilty.

Unbelievable for accountants, but is any of this new? No, not really, the history of accounting is filled with cases of accountants misbehaving, but it sure does seem like it’s getting worse in the recent past. Behind each and every one of the many recent corporate reporting failures is a major accounting and auditing firm that has committed “malpractice.” And it seems that despite increased scrutiny by the press and investment community, as well as required ethics training, these “accounting meltdowns” are becoming more frequent, and more costly to investors.

Why is this happening? David Callahan in his controversial book, the *Cheating Culture*, provides some clues. He suggests that an obsession with competition and profits steamrolled into our lives in the 1970s that made it easier to rationalize bad behavior. This focus on competition and profits was accompanied by segregation of people into “winners” and “losers.” Not surprisingly, more and more people would do anything to be a “winner.” In fact, in the Big Four accounting firms today, if you don’t make partner, you often are considered a loser. Also a problem is that absolute wealth (the actual amount of money you have) matters less these days. Instead relative wealth (how much you have in relation to everyone else) drives many today…the notion of keeping up with the Joneses. Exacerbating all of this are the relatively low penalties we see for cheating, which has fueled a growing malaise that rules don’t really matter. See [Paper Tigers: The U.S. Accounting Oversight Regime](http://blogs.smeal.psu.edu/grumpyoldaccountants/archives/category/ethics).

Callahan suggests that we look to how American values have changed over the past three decades if we want to understand the ethical abyss in which we find ourselves. He notes “we have a nastier, more cutthroat set of values than previous generations did.” Today more people are willing to act opportunistically and dishonestly to get ahead. Our examples of senior leaders at Deloitte and BDO seem to confirm this at least in the large accounting firms. We have become infected with a virulent strain of consumerism that puts money first and rewards economic success. And it appears from these examples that the virus now has infected accountants.

But despite all of these societal and value changes, accountants and auditors are supposed to protect us. The reason we have audits is to determine the reliability of a company’s financial statements. So, auditors are supposed to be THE “watchdogs” of modern capitalism, who insure that we have reliable financial data upon which to make good investment decisions. So, let’s summarize the problem with today’s “accounting watchdogs” using Mason’s CPA Credo:

* ***To serve the public from whom my authority is derived.***

For public companies, the large accounting firms now derive their authority from the government (e.g., the SEC and PCAOB). Effectively, they are now government contractors and the direct link to the public has been broken. If you think we are wrong, just ask an accountant who their client is…the answer is nearly always the company they provide services for…not the investing public.

* ***To serve my profession and contribute to its institutions.***Accounting as practiced by the largest accounting firms is no longer a profession…it is all about business and profit. Who is the winner? The firms’ partners, not the investing public.
* ***To practice at the highest professional level.***If the large accounting firms practice at the highest professional level,why do we need a PCAOB to provide oversight…an auditor for the auditors?
* ***To maintain an ethical posture characteristic of a learned profession.***  
  Does anyone really believe that online CPE courses make this happen? Or is this just another way for national and state accounting organizations to justify their existence and make a fast buck?
* ***To maintain my technical skills so that the public is served with competence.***

Accounting itself is inherently simple. It’s the financial reporting rules that are complex. Are business transactions really any different than they were 50 years ago, or have we intentionally complicated them for some reason? Like creating a need for attorneys, accountants, and consultants not to mention continuing education?   
  
The market has even further complicated already complex derivative contracts. Is embedding derivatives in financial contracts really necessary? Why can’t the derivative instruments be kept separate like they were a quarter of a century ago? The economics don’t change. We’ve simply added more complexity that requires analytical expertise that may or may not exist.

* ***To maintain a state of independence at all times so that decisions are reached with objectivity.***Why do we continue to delude ourselves that auditors can be independent of the companies that pay their fees?
* ***To work with my colleagues - for the practice of a profession is an experience in human behavior and mutual respect.***  
  The large accounting firms refer to themselves as the Big Four…need we say more when it comes to mutual respect.

The bottom line is this: *the large accounting firms have effectively demagnetized the profession’s moral compass.* Is it any wonder that accountants have lost their way?

*This essay reflects the opinion of the authors and not necessarily the opinions of The Pennsylvania State University, The American College, or Villanova University.*