

Steps in Resolving an Ethical Dilemma - Example

- Assume that **you** have worked for a **public accounting firm** for approximately **six months**, and you were recently assigned to the audit of a **small manufacturing company**. The senior **auditor on the job assigned you the task of extracting financial information about comparable companies from several financial databases on the Internet**. She indicated that **the work must be completed by Monday morning**. While you had hoped to complete the assignment on Friday, things didn't work out and you had to come to work on Saturday.
- **On Saturday, your expectation that it would take only a couple hours to complete the task faded and you didn't finish until 4 p.m.,** after eight hours of work. You believe that part of the problem was that you were out late Friday night at a Kings of Leon concert and you just weren't all that efficient. Although **you completed the task, you exceeded the budgeted hours for the task by six hours. Because of the circumstances (inefficient work and the blown budget),** you are tempted to underreport the number of hours that you actually worked.

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- While your firm has an informal policy that encourages employees to report all hours worked, you are aware that the policy is often ignored by other staff auditors.
- In addition, you are aware that your evaluation on this audit will be based not only on the quality of your work, but also on your ability to meet time budgets. You have been criticized on your evaluations on previous engagements for taking too long to perform certain tasks.
- Since you are paid a straight monthly salary and a year-end bonus based on performance, your pay will not be directly affected by underreporting the hours worked. You could even argue that not reporting the hours might improve your evaluation and lead to a bigger bonus.

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➤ *Now let's analyze this ethical dilemma using the decision-making framework previously presented.*

1. ***Identify the problem.*** The problem in this case is that you have exceeded the time budget for your assigned task.
2. ***Identify possible courses of action.*** Although there are any number of options for reporting the number of hours worked, for simplicity's sake let's assume that you are considering only two: (1) reporting only two of the eight hours worked on Saturday to exactly meet the budget, or (2) reporting all eight hours.

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3. Identify any constraints relating to the decision. Ethical dilemmas such as this one frequently involve both **internal and external standards** that serve as constraints.

- **Internal standards** may be the result of your religious or other beliefs about the manner in which you should behave and make decisions. These standards involve such concepts as truthfulness, fairness, loyalty, and caring for others. Perhaps you believe that one must be absolutely truthful in every situation; alternatively, you might believe that in certain circumstances absolute truthfulness is not necessary. As an example, some people might believe that caring for others is sometimes more important than telling the truth. They might decide that it is not proper to tell a patient with heart failure that he is unlikely to survive the night, even if he asks. Some people's concepts of loyalty and fairness might also prevent them from being completely truthful in all cases.
- **External standards** are those that are imposed upon an individual by society, peers, organizations, employers, or his or her profession. In this circumstance, the relevant external standards include the informal firm policy about reporting time and the AICPA *Code of Professional Conduct*, which requires "**integrity**" on the part of CPAs.

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4. ***Analyze the likely effects of the possible courses of action.*** Because ethical dilemmas ordinarily affect individuals who are not involved in the decision-making process, this step involves considering the implications of the various courses of action on both the individual involved and anyone else who is affected by the decision. Also, it is important to consider both the short-term and the long-term effects. The following table presents these considerations as they apply to the two alternative courses of action in this situation.

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Alternative 1: Report Only Two Hours

Effect on:	Positive Effects:	Negative Effects:
You	<ul style="list-style-type: none"> • Performance evaluation may be improved • Bonus may be positively affected 	<ul style="list-style-type: none"> • Is inconsistent with AICPA <i>Code of Professional Conduct</i> • Is not consistent with informal firm policy • Action is dishonest
The CPA firm		<ul style="list-style-type: none"> • Informal policy is violated • Possible underbilling of the client • May encourage the development of unrealistic budgets in the future that may affect the morale of employees and could lead to substandard performance of audits • Underreporting of time on a large scale may adversely affect the firm's ability to attract and retain employees
Other staff	<ul style="list-style-type: none"> • The senior auditor may be positively evaluated by completing the job on budget 	<ul style="list-style-type: none"> • May lead to the development of unrealistic budgets that adversely affect morale and lead to improper performance evaluations or force staff to underreport time
The client	<ul style="list-style-type: none"> • May lead to a lower total audit fee (particularly if combined with other underreporting of time) 	<ul style="list-style-type: none"> • May cause substandard audits in the future if staff members struggle to meet unrealistic budgets

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Alternative 2: Report All Eight Hours		
Effect on:	Positive Effects:	Negative Effects:
You	<ul style="list-style-type: none"> Action is truthful Consistent with informal firm policy Consistent with AICPA <i>Code of Professional Conduct</i> 	<ul style="list-style-type: none"> Performance evaluation may be negatively affected Bonus may be negatively affected
The CPA firm	<ul style="list-style-type: none"> Results in proper billing of client More realistic budgets may be developed in the future 	
Other staff	<ul style="list-style-type: none"> More realistic budgets may lead to higher morale 	<ul style="list-style-type: none"> Senior auditor may be negatively evaluated due to budget overrun
The client	<ul style="list-style-type: none"> May lead to better audits as staff auditors will be given more realistic budgets in the future 	<ul style="list-style-type: none"> May lead to a higher (though more accurate) audit fee

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5. *Select the best course of action.* You are the only one who can determine how to respond in situations such as this. The individual whose utmost consideration is career advancement may believe that underreporting the time is the solution. However, that individual should realize that in the long run he or she may be “caught” and the negative reaction by the firm could be extreme. Alternatively, the individual with the simple rule “tell the truth” has the obvious solution of reporting all the hours.