PRACTICAL ETHICS FOR CERTIFIED FRAUD EXAMINERS



Association of Certified Fraud Examiners

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I. INTRODUCTION

Ethics as a branch of philosophy has been developing since ancient times as a way to clarify how people interact with one another and how they should interact. *Ethics* is concerned with what is right and wrong; it generally refers to behavior that conforms to norms within a specific setting—a society, culture, nation, profession, or small group. Put differently, ethics is the set of judgments about right and wrong, or, more specifically, a person's moral obligations to society that determine a person's actions.

Determining ethical rights and wrongs is difficult and complicated by the fact that moral standards and generally accepted social behavior change with time. In addition, different groups within the same society might have conflicting ideas of right and wrong.

In today's business climate, ethics is a complex topic. Individuals' values and ethics are reflected in their actions as employees. Ethics is more than taking the moral high road—it is a matter of self-preservation.

Fraud examiners face ethical problems in their daily lives, and when facing such problems, "right" and "wrong" can be difficult to differentiate. Consequently, CFEs might find themselves struggling to determine the best course of action.

This course discusses how codes of ethics, conduct, and practice in general—and the ACFE Code of Professional Ethics and the CFE Code of Professional Standards, in particular—provide guidance for fraud examiners when they face ethical problems in professional situations. It also explores how ethics can help individuals make the right decision at the right time, for the right reason.

After completing this course, students will be able to:

- Discern the benefits of having codes that govern the actions of professionals.
- Identify the Association of Certified Fraud Examiners Code of Professional Ethics and Certified Fraud Examiners Code of Professional Standards to understand how they apply to Certified Fraud Examiners.
- Recognize why professionalism, diligence, ethical conduct, integrity, and competence are important to anti-fraud professionals.

II. PROFESSIONAL CODES OF CONDUCT, PRACTICE, AND ETHICS

Most business and government organizations have codes that govern the actions of management and employees, and many professional associations, such as the ACFE, adopt codes to govern the actions of their members. Such codes can provide guidance for individuals facing ethical problems. An *ethical problem* is a specific situation in which an individual must make a choice between alternatives that are conflicting but arguably valid. Thus, in an ethical problem, the right choice among the alternatives is not clear. An *ethical breach* happens when someone violates their own ethics, including any policy or code that they have agreed to follow.

Codes can provide guidance for decisions and actions, but they do not provide simple and definitive answers to all ethical problems. Often, different names are used to describe such codes. For example, *code of ethics*, *principles of responsibility*, and *statement of ethics* are used to describe codes that govern the actions of individuals. While the terms *code of ethics*, *code of conduct*, and *code of practice* are often used interchangeably, it is useful to distinguish among them to establish a basic typology. Each basic code type has a different intent and purpose.

Codes of Ethics

Codes of ethics are statements of general values and principles, applicable to a wide range of situations, that define the purpose of an organization. These codes seek to clarify the ethics of the underlying organization and to define the responsibilities of the organization's employees or members to all organizational stakeholders—both within and outside of the organization. Codes of ethics are expressed in guiding principles. For instance, a code of ethics publicly pronounces: "This is who we are, and this is what we stand for," with the word *we* embodying the organization as a whole, as well as each individual employee or member, whose behavior and actions are expected to conform to the ethics and principles stated in the code.

In most cultures, the majority of people share the same *values* (i.e., beliefs in which an individual has an emotional investment). They agree on what is good and bad, what is right and wrong, and what is moral and immoral. Although not everyone holds the same set of values, the social values of the majority affect the beliefs and behaviors of all people.

The ethics of an organization's members, whatever they might be, influence a wide range of organizational decisions and actions, and a code of ethics is an excellent method by which management can objectively communicate its philosophy and develop an ethical culture. A code of ethics should be disseminated among both new and existing employees, and some organizations have found it effective to share the ethics code with their vendors.

Ethics will always have an important role in the workplace. Organizations have made and should continue to make substantial endeavors with respect to business ethics, including the adoption of codes of ethics, introduction of ethics into employee and management training, and the establishment of ethics and compliance officers.

Additionally, corporate ethics initiatives have accelerated over the years, due in part to the impact of the U.S. Sentencing Guidelines for Organizations, which set out a uniform sentencing policy for organizations convicted of crimes. These organizational guidelines also provide, among other things, that organizations must promote a culture that encourages ethical conduct and develop effective compliance programs to prevent and detect criminal conduct. Moreover, under these guidelines, the penalties imposed on errant corporations can vary widely, depending on their attempts to prevent misconduct with effective compliance programs.

Codes of Practice

A *code of practice* seeks to provide practical guidance for compliance. Codes of practice provide interpretations and illustrations of organizational values and principles, and they are addressed to the employee or member as the individual decision-maker. In effect, codes of practice say: "This is how we do things here." Codes of practice seek to shape the expression of the organization's stated values through the practices of its employees or members. Codes of practice tend to rely on guidelines for decision-making, using rules of thumb such as "act and disclose" or "seek advice."

Codes of Conduct

A *code of conduct* is a set of principles and rules that governs the way an organization should behave toward its employees or members and the way the organization's employees or members should conduct themselves toward the organization and each other. Codes of conduct are statements of rules: "This is what you must (or must not) do."

In contrast to codes of ethics, which state: "This is how we expect you to behave," codes of conduct typically comprise a list of explicit rules stated in either affirmative (musts) or negative (must nots) terms. Codes of conduct might also contain penalties for violations, and they might define systems of compliance and appeal. Additionally, codes of conduct often describe potential conflicts of interest and provide appropriate rules for guidance.

Organizational Codes—Pulling Them All Together

In practice, most organizational codes tend to include elements of all three of these code types, but for analytical purposes, it is helpful to consider them as benchmarks. Each of the three types is useful and can be appropriate or necessary in particular professional settings.

Guidance for Fraud Examiners

Many fraud examiners work for organizations that have their own codes of ethics, practice, or conduct. Such codes can be immensely helpful in determining appropriate action when faced with ethical dilemmas, and they should be consulted whenever a questionable situation arises. The ACFE has adopted the ACFE Code of Professional Ethics and the CFE Code of Professional Standards to provide ethical guidance and clarify the expected actions and behaviors of all Certified Fraud Examiners.

Ultimately, the codes that an organization adopts should define the principles that the organization values, as well as the moral standards to which it expects its members and employees to adhere.