



**3rd Biennial Forum of Central Region  
Government Auditors**  
*Innovative Techniques for Governmental Auditors*  
**August 5-8, 2007**

***Just Do It!***  
***(The Right Thing)***

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**COTTON & COMPANY LLP CHAIRMAN**

Dave Cotton is chairman of Cotton & Company LLP, Certified Public Accountants. Cotton & Company is headquartered in Alexandria, Virginia. The firm has a practice concentration in assisting Federal and State agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than two dozen Federal inspectors general as well as numerous other Federal and State agencies and programs.

Cotton & Company's Federal agency audit clients have included the U.S. Government Accountability Office, the U.S. House of Representatives, the U.S. Small Business Administration, the U.S. Bureau of Prisons, and the U.S. Marshals Service. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management and accounting systems.

Mr. Cotton received his BS in mechanical engineering (1971) and an MBA in management science and labor relations (1972) from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago, Graduate School of Business (1977 to 1978).

Mr. Cotton is presently serving on the Advisory Council on Government Auditing Standards. He is a member of the Advisory Council of the Academy for Government Accountability. He is also a member of the advisory board of the Institute for Truth in Accounting. He is serving on the Institute of Internal Auditors (IIA) Anti-Fraud Programs and Controls Task Force, and is a former member of the American Institute of CPAs (AICPA) "Group of 100." He served on the AICPA task force that wrote *Management Override: The Achilles Heel of Fraud Prevention*. He is the past-chairman of the AICPA Federal Accounting and Auditing Subcommittee and has served on the AICPA Governmental Accounting and Auditing Committee and the Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee.

Mr. Cotton served on the board of the Virginia Society of Certified Public Accountants (VSCPA), and on the VSCPA Litigation Services Committee, Professional Ethics Committee, Quality Review Committee, and Governmental Accounting and Auditing Committee. He is member of the Greater Washington Society of CPAs (GWSCPA) and is serving on the GWSCPA Professional Ethics Committee. He is a member of the Association of Government Accountants (AGA) and is past-advisory board chairman and past-president of the AGA Northern Virginia Chapter. He is also a member of the Institute of Internal Auditors and the Association of Certified Fraud Examiners.

Mr. Cotton has testified as an expert in governmental accounting and auditing issues and fraud issues before the United States Court of Federal Claims and other administrative and judicial bodies.

Mr. Cotton served as a technical reviewer for the 1999 through 2003 editions of the AICPA Audit and Accounting Guide *Audits of Federal Government Contractors*.

Mr. Cotton is the author of the AICPA continuing education courses *Fraud in Governmental and Not-for-Profit Audits—the Auditor's Responsibilities Under SAS 82* and *Joint and Indirect Cost Allocations: How to Prepare and Audit Them*. He has lectured frequently on auditors' fraud detection responsibilities under **SAS 99, Consideration of Fraud in a Financial Statement Audit**. He also has been an adjunct instructor at the Inspectors General Auditor Training Institute (*Auditing the Federal Contracting Process* and *Contract and Procurement Fraud*) and currently teaches at the George Mason University Small Business Development Center (*Fundamentals of Accounting for Government Contracts*).



# Notes

## Doing the *Right Thing*

- Making ethical decisions and ethical decision models
- Independence and conflicts of interest
- Recognizing and resolving ethical dilemmas—Case studies

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**Fun, interactive, and educational activity ...**

**Please read the four case studies  
and select the best answer for  
each case.**

**Enter your answer on the  
Official Answer Sheet as well  
as the case study page.**

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## **Making Ethical Decisions**

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# Notes

Ethical Decision Models: Generic

- Follow your organization's ethics policy
- Failing that, work up your chain of command until resolved
- Failing that, take additional steps you deem necessary
- Failing that, reconsider your continuing employment with this organization

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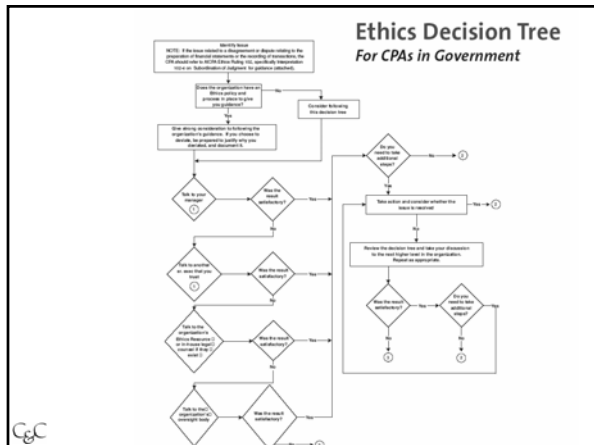
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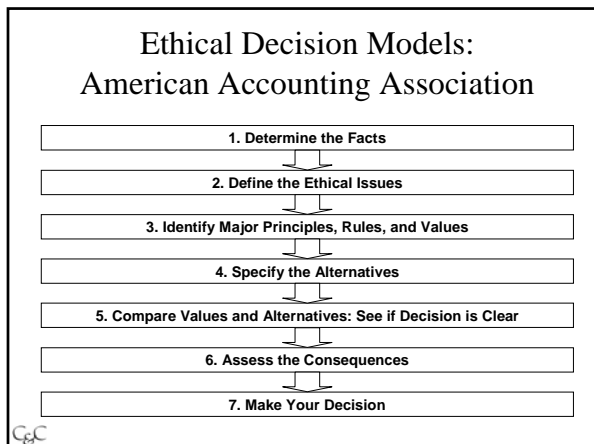
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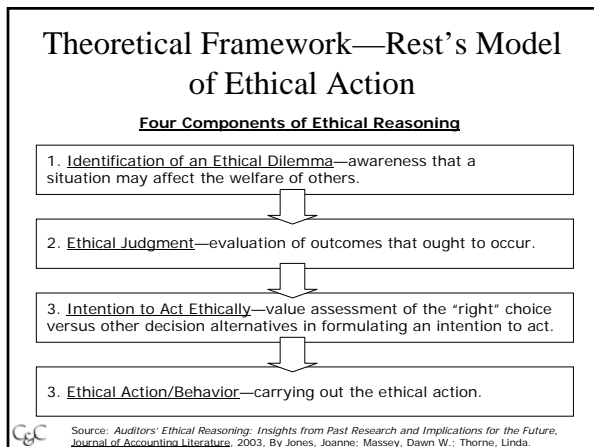
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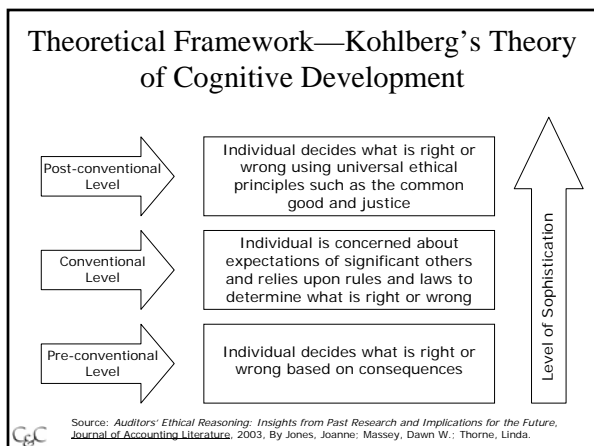
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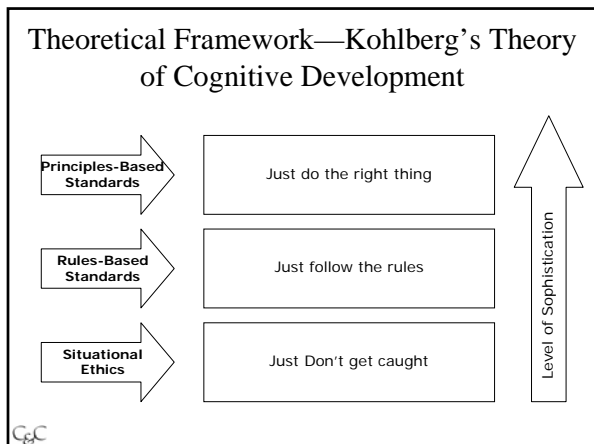
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# Notes



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**Independence  
versus  
Conflicts of Interest**

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**“Independence”  
(Yellow Book)**

➤ In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from *personal, external, and organizational impairments* to independence.

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## Notes

### “Personal Impairments” (Yellow Book)

... result from relationships and beliefs that might cause auditors to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way

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### “External Impairments” (Yellow Book)

... occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations.

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### “Organizational Impairments” (Yellow Book)

Government auditors can be presumed to be free from organizational impairments to independence when reporting externally to third parties if their audit organization is organizationally independent from the audited entity

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# Notes

## “Overarching Principles” (Yellow Book)

- Audit organizations should not perform management functions or make management decisions.
- Audit organizations should not audit their own work or provide nonaudit services in situations where the services are significant/material to the subject matter of the audit.

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## Independence vs Conflicts of Interest?

- Is there really a difference?

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## Independence vs Conflicts of Interest?

- Is there really a difference?
- Why is there a distinction between these two concepts in the *Code of Professional Conduct*?
- Enron was paying Andersen \$1,000,000 *PER WEEK*.
  - Yet Andersen was independent and free of conflicts of interest (according to the AICPA)
  - What’s wrong with that picture?

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# Notes

## Independence vs Conflicts of Interest?

- Is there really a difference?
- No.
- *Thou Shalt Avoid Conflicts of Interest* is, in reality, an over-arching principle, under which current independence rules reside

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## Ethical Dilemmas: Case Studies

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## Ethical Dilemmas

### 2 authors of fetal-pain paper accused of bias

**Critics point to affiliations with abortion rights group, clinic**

By Emily Bazzer  
 USA TODAY

A medical student who has worked for an abortion rights group and the director of a clinic that provides abortions were among authors of a report on the highly charged issue of fetal pain published Wednesday.

The report, published in the *Journal of the American Medical Association*, concluded that fetuses probably don't feel pain until around the seventh month of pregnancy. It drew immediate criticism from anti-abortion activists and other researchers. One of them, Kamaljeet Anand of the University of Arkansas for Medical Sciences, predicted that it would "inflame a lot of scientists who are ... far more knowledgeable in this area than the authors appear to be."

Douglas Johnson, legislative director of the National Right to Life Committee in Washington, said the research is tarnished with bias.

"If Congress wants an objective evaluation of whether calves and lambs are being slaughtered humanely, they will not rely too much on the report from the operators of slaughterhouses," he said.

The report is based on a review of scientific studies and was conducted by five researchers at the University of California, San Francisco (UCSF).

The lead author, UCSF medical student Susan J. Lee, also is an attorney before entering medical school; she worked for eight months as a lawyer for the National Abortion and Reproductive Rights Action League, now NARAL Pro-Choice America, UCSF said. Another author, Eleanor Drey, is medical director of the Women's Options Center at San Francisco General Hospital. The center provides abortions. She is an assistant clinical professor of obstetrics and gynecology at UCSF.

The review comes as federal and state lawmakers consider fetal-pain laws aimed at curtailing abortions. The laws generally would require doctors to tell women considering abortions when fetuses are at least 20 weeks along that their fetuses can feel pain, and to offer anesthesia specifically for their fetuses.

Catherine DeAngelis, the journal's editor in chief, said neither Lee nor Drey disclosed their abortion-related work or advocacy to the journal. Though she wishes they had, she said, it would not have influenced her decision to print the report.

DeAngelis said the authors are specialists from diverse disciplines, including anatomy and anesthesia. "This is a peer-reviewed article by five people representing all the pertinent fields," she said. "This is an article meant to educate physicians on the issue of what is known and not yet known about fetal pain; it provides the best available scientific evidence to date; they and Lee's affiliations aren't relevant," she said.

Drey said Wednesday she didn't disclose her role as medical director of the clinic because it's primarily an administrative function. She holds that position, she said, because of her academic expertise.

"I did extra training in family planning, that includes abortion care and research," she said. "I don't see it as a conflict of interest."

Contributing: Wire reports

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# Notes

## #1-- Too Much Work, Too Little Human Capital

What should AHB do?

- [ ] A—Explain to Barry that they cannot accept the engagement because they do not have sufficient resources available.
- [ ] B—Tell Barry that they would be glad to do the job and will do their best to meet his needs; hire additional staff, work overtime, and get it done.

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## #2--Werkard & Gettpade

What should Ivana do?

- [ ] A—Confirm that the town will not report her findings to the federal funding agency; then report to the federal funding agency herself.
- [ ] B—Follow the advice of her attorney.

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## #3-- Weir, D'Beste

- [ ] A—WD&C can be engaged to perform the services described without any independence impairment.
- [ ] B—Performing the services described would impair WD&C's independence.

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## Notes

### #4-- **Musta, Shoulda, Woulda, Coulda**

- A—Marcia has violated Rule 501-3.
- B— Marcia has not violated Rule 501-3.

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### “Due Professional Care” (Rule 201.B.)

- Exercise due professional care in the performance of professional services

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### “Integrity and Objectivity” (Rule 102)

- In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.

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## Notes

### “Independence” (Yellow Book)

- In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.

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### “Acts Discreditable” (Rule 501)

- A member shall not commit an act discreditable to the profession.
- Interpretations cover 7 specifics
  - Retention of client records
  - Discrimination and harassment in employment practices
  - Failure to follow standards and/or procedures or other requirements in governmental audits
  - Negligence in the preparation of financial statements or records
  - Failure to follow requirements of governmental bodies, commissions, or other regulatory agencies
  - Solicitation or disclosure of CPA examination questions and answers
  - Failure to file tax return or pay tax liability

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## Final Thoughts to Ponder

- ✓ CPA firms should be CPA firms first, and consulting firms second
- ✓ Our first obligation is to *serve the public interest*
- ✓ Serving the public interest, growing, and prospering are not mutually exclusive, BUT
- ✓ If serving the public interest ever conflicts with growing and prospering,
- ✓ Our choice must be to serve the public interest

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## Final Thoughts to Ponder

- ✓ Doing the right thing always seems straight-forward and easy to decide in the abstract
- ✓ In reality, we often fail to do the right thing because we simply do not recognize the ethical dilemma when it confronts us
- ✓ Even when we become aware of an ethical dilemma, our own biases—conscious and unconscious—and conflicts of interest often cloud our judgment

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# Notes

*When you feel yourself forming or referring to rationalizations, it might be an indication that an ethical dilemma is in front of you.*

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Be very vigilant for conflicts of interest and other ethical dilemmas, and then  
  
Go forth and  
  
***Do The Right Thing***

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