ACUA
Association of College & University Auditors

March 24-26, 2026

ACUA VIRTUAL SPRING SUMMIT

Audit in Action

“Behavioral Ethics for Auditors”

Prof. Robert Prentice
Center for Leadership & Ethics
McCombs School of Business, UT-Austin
March 25, 2026

Let’s start out with Poll Question #1.

To respond, click on the Polls tab in the top right corner of the video player, at the top of the comments box. Please click on Poll #1 to respond to the questions shown. Click “Complete” to submit your answers.

Poll Question #1

Thinking of the bad stuff people can do—adultery, tax evasion, insider trading, etc.—please answer the following question:

"I have character and integrity that will carry me through difficult situations and hard choices."

___ True

___ False

A big question: “Why do good people do bad things?”

- Professor Paul Woodruff, UT Austin: *“Many ethical failures, especially in the business world, are not due to ignorance of right and wrong.”*

- Think of the things accountants get in trouble for:

“Ernst & Young to Pay $100 Million Fine After Auditors Cheated on Ethics Exam”

(May 28, 2022)

Do we think E&Y didn’t know it was wrong to cheat on an ethics test?

“U.S. Accuses Accountants of Trying to Game Reviews of KPMG Audits”

(Jan. 22, 2018)

Do we think KPMG didn’t know this was wrong?

“Ex-KPMG Partner London Gets 14 Months for Insider Trading”

Do we think Scott London didn’t know insider trading was wrong?

“Arthur Andersen Indicted in Enron Case”

Do we think Arthur Andersen didn’t know that financial fraud and evidence destruction were wrong?

Recent Examples:

- “High Profile Frauds Renew Spotlight on Audit Failure” (Nov. 17, 2025)
- “ADM Ingredients Business ‘on Path to Recovery’ After Accounting Scandal” (May 8, 2025)
- “Film Production Accountant Indicted in Multi-Million Dollar Fraud Case” (Aug. 8, 2025)
- “Local Tax Accountant Charged with Human Trafficking” (Feb. 17, 2024)
- “Suburban Chicago Accountant Pleads Guilty to Evading $3.4 Million in Taxes” (Feb. 12, 2024)
- “ Accountant Faces 72 Felony Charges, Including Forgery and Theft by Deception” (Jan. 26, 2024)
- “Accountant Pleads Guilty to Stealing More Than $715,000 from Dermatology Clinic” (Nov. 24, 2023)
- “Nevada CPA Pleads Guilty to Filing False Tax Returns” (Oct. 17, 2023)
- “George Santos’ Ex-accountant Pleads Guilty in Federal Court” (Oct. 5, 2023)
- “Former Accountant at Pasadena Company to Plead Guilty in $500,000 Insider Trading Case” (Sept. 27, 2023)
- “Ex-Auditor at Real Estate Agency Admits to $2.7 million embezzlement Scheme” (Aug. 21, 2023)

Today I want to talk about behavioral ethics, the study of how and why people, including accountants, make the ethical (and unethical) decisions that they do.

- Behavioral psychology
- Brain science
- Evolutionary biology
- Primatology
- Child Development
- Etc.

Most ethics training assumes:

Want to do the right thing

+

Know what the right thing is

= Do the right thing

Behavioral Ethics assumes:

Intention

+

Knowledge

≠ Action

If there is one overwhelming finding in behavioral ethics research, it is this:

If there is one overwhelming finding in behavioral ethics research, it is this:

- *Most people want to think of themselves as good people*

- *Most people want to think of themselves as good people*
- *Yet, most people frequently act unethically, usually in minor ways*

- *Most people want to think of themselves as good people*
- *Yet, most people frequently act unethically, usually in minor ways*
- *Our accomplice: Our brain!*

BEHAVIORAL ETHICS categorizes roadblocks to ethical action:

- Social & Organizational Pressures
- Cognitive Biases and Heuristics
- Situational Factors

Today, I'd like to talk about some of these factors, because they are the biggest reason most people get into ethical trouble.

1) Prof. Eugene Soltes, Harvard Business School: Why They Do It.

2) Prof. Ikseon Suh, UNLV: "Boiling the Frog Slowly: The Immersion of C-Suite Financial Executives into Fraud"

Social and Organizational Pressures

Social and Organizational Pressures

Obedience to Authority

Obedience to Authority

--We are wired to be obedient to authority

Obedience to Authority

--If our boss tells us to do something we are morally uncomfortable with, we may to it anyway because:

- <u>Obedience to Authority</u>

  --If our boss tells us to do something we are morally uncomfortable with, we may to it anyway because:

  - **Because the boss said, it seems right**

Obedience to Authority

CPA David Myers, Controller of WorldCom, explained in an interview that he first signed off on numbers he should have known were wrong, because his boss, CFO Scott Sullivan convinced him that he was wrong even though his people had run the numbers three times. He said that when this became overwhelmingly clear two quarters later, he “fell off a mountain and didn’t even know he was on a mountain.”

- <u>Obedience to Authority</u>

  --If our boss tells us to do something we are morally uncomfortable with, we may to it anyway because:

  - **Because the boss said, it seems right**
  - **We can do a bad thing but still feel like good people because the boss is responsible**

- Soldier Eric Fair in Iraq where prisoners were mistreated during interrogations:

  “I think about following my instructions. It’s not my interrogation. It’s not my sin.”

- <u>Obedience to Authority</u>

  --If our boss tells us to do something we are morally uncomfortable with, we may to it anyway because:

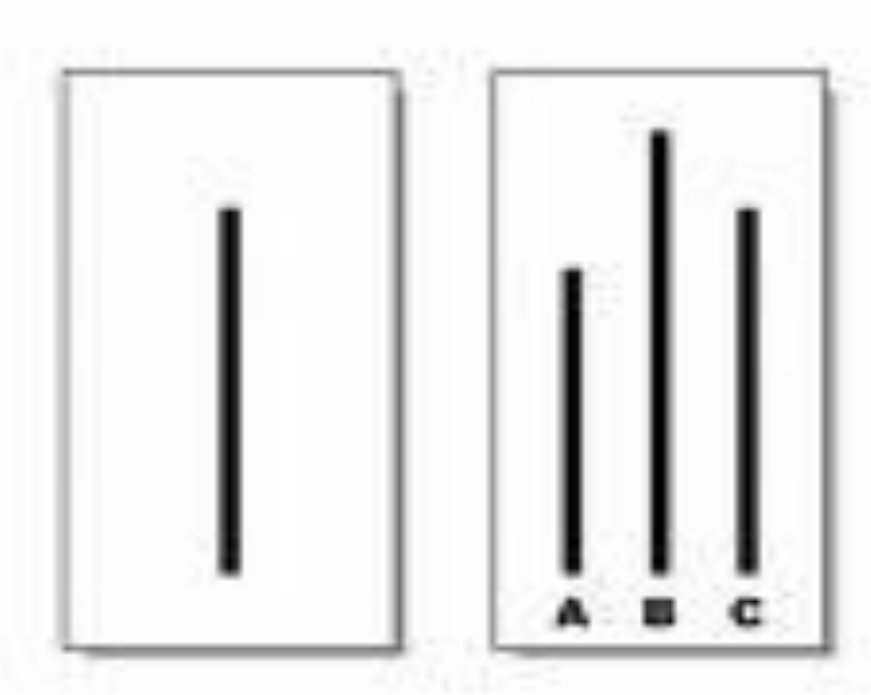
  - **Because the boss said, it seems right**
  - **We can do a bad thing but still feel like we are good people because the boss is responsible**
  - **We are so focused on pleasing the boss that we do not even see the ethical issue**

Watergate’s Egil “Bud” Krogh

Poll Question #2:

Which line in the right-hand box—A or B or C—is the same length as the line in the box on the left?

___ A
___ B
___ C



Social and Organizational Pressures

- Conformity Bias

Social and Organizational Pressures

Conformity Bias

Because we evolved to take our cues as to how to act from those around us, it often appears to us that what others are doing must be the right thing.

Conformity Bias

--Petrified Forest

Conformity Bias

--Petrified Forest Sign: “Your heritage is being stolen. Fourteen tons of rock a year are disappearing, mostly by visitors pilfering of small amounts.”

Effect:

Conformity Bias

--Petrified Forest Sign: “Your heritage is being stolen. Fourteen tons of rock a year are disappearing, mostly by visitors pilfering of small amounts.”

Effect: Pilfering tripled

Conformity Bias

--Accountant Betty Vinson of WorldCom

Conformity Bias

A CPA jailed for fraud said:

"The justification in my mind was that it was more or less aggressive accounting, creative accounting, and had been going on before my time and those involved were praised and rewarded. They were considered true, pushing the envelope, you were expected to do so, um, it was the culture. You were expected to do it."

Conformity Bias

Studies show that outside auditors who have previously worked on a team with auditors who are sanctioned for bad behavior are more likely to issue lenient opinions and have their numbers restated.

Bad behavior is contagious!

Cognitive Heuristics and Biases

Cognitive Heuristics and Biases

Overconfidence Bias

Overconfidence Bias

"The human mind is an overconfidence machine." –*David Brooks*

Overconfidence Bias

"Studies show that overconfidence in one's ability to perform an accurate audit can lead an auditor to take short-cuts that might look unethical in retrospect."

Overconfidence Bias

--Morals, too.

1. 80 % say they are more ethical than their peers, competitors, co-workers, etc.

2. 92% are satisfied with their moral character

Overconfidence Bias

"'Ultimately, I capitulated,' sighed [Mark] Watson. 'I did so because I really did not want to believe that my partners at a Big Four accounting firm would get into something that would be illegal.'"

Overconfidence Bias

- Ex-CFO Steven Garfinkel:

  "What we all think is, when the big moral challenge comes, I will rise to the occasion….There's not actually that many of us that will actually rise to the occasion. I didn't realize I would be a felon."

Cognitive Heuristics and Biases

The Self-serving Bias

The Self-serving Bias

- We have evolved to act in ways that advance our own self-interest

The Self-serving Bias

- Sometimes we consciously choose to act unethically because it serves our self-interest.

The Self-serving Bias

- Sometimes we consciously choose to act unethically because it serves our self-interest.

- Enron CFO Andy Fastow: “If I had the character I should have had, I would have said time out…but I didn’t. The reality is, if at any point in my career I said ‘time out, this is bullshit, I can’t do it’ … they would have just found another CFO.”

The Self-serving Bias

- Of bigger concern, we often unconsciously make unethical choices because the self-serving bias affects how we collect, process, and even remember information.

The Self-serving Bias

1. Collect

The Self-serving Bias

"The speeches I drafted … were composed of facts filtered from the stacks of reports and intelligence that daily hit my desk. As I read these reports, facts and judgments that contradicted the British version of events would almost literally fade into nothingness. Facts that reinforced our narrative would stand out to me almost as if highlighted, to be later deployed by me, my ambassador and my ministers like hand grenades in the diplomatic trench warfare."

The Self-serving Bias

1. Collect

2. Process
   - Dartmouth/Princeton study

The Self-serving Bias

1. Gather
2. Process
3. Remember

- People who have cheated in a game, and are later quizzed about the rules, tend to remember the rules they followed, but to forget the ones they broke.

The Self-serving Bias

- People respond to incentives, even if unconsciously.
  - The more at stake; the more people respond.

The Self-serving Bias

- People respond to incentives, even if unconsciously.
  - The more at stake; the more people respond
  - CEOs & CFOs

The Self-serving Bias

- We are often unaware of how we are impacted by the self-serving bias.

The Self-serving Bias

- We are often unaware of how we are impacted by the self-serving bias.
  - In 2000, a top AICPA official testified before the SEC, saying: *"We are professionals that practice by the highest moral standards. We would never be influenced by our own personal financial well being."*

The Self-serving Bias

- Studies have found that the Self-serving Bias affects the judgments of:
  - Physicians
  - Attorneys
  - Auditors
  - Investment Bankers
  - Securities Analysts
  - Scientists
  - Expert Witnesses
  - Judges

The Self-serving Bias

- David Duncan & Arthur Andersen

Cognitive Heuristics and Biases

Framing

Cognitive Heuristics and Biases

Framing

- Whatever is in your frame of reference when you make a moral decision will heavily influence that decision

- If ethics isn't foremost, you may make a disastrous choice

Framing

- Space Shuttle Challenger

Framing

- Space shuttle Challenger: “Take off your engineers’ hats and … put on your management hats.”

Framing

KA-BOOM!!

Framing

--Enron: How did Enron frame its goals?

Framing

--Arthur Andersen: How did this accounting firm frame its job?

Framing

- 1920s – 1980s

“Think Straight, Talk Straight”

“There’s not enough money in the City of Chicago to get me to sign off on accounts containing flawed accounting.”

Framing

- 1990s: *“Let us be your business partners.”*

Framing

- KPMG employee on tax shelter scandal: Our culture was "focused on revenue growth."

- E-mails between KPMG partners urged the marketing of bogus tax shelters with full knowledge of their dubious validity and "without making any reference to ethics, professional standards or reputational risk."

Cognitive Heuristics and Biases

Role Morality

Poll Question #3

ABC Co. just discovered that its drug (Panalba) causes 15-20 unnecessary deaths a year due to side effects. ABC's competitors sell drugs that are as effective as Panalba and cost the same, but do not have the deadly side effects. The FDA doesn't know about the side effects because ABC has hidden its study. *Is it ethical for ABC to continue to sell Panalba?*

___ Yes

___ No

Cognitive Heuristics and Biases

Role Morality

- **Ex: Panalba study**
  - **Judging others: 97% condemn selling**
  - **Deciding yourself: 100% approve selling**

Role Morality

- **Dr. Robert Jackall quotes company officer: “What is right in the corporation is not what is right in a man’s home or in his church. What is right in the corporation is what the guy above you wants from you. That’s what morality is in the corporation.”**

Role Morality

- “Executives’ identification with their organizational role, the desire to be successful or help the company succeed, and even pride served to induce the executives to engage in accounting fraud in order to meet corporate financial targets.”

Role Morality

- In an article entitled “Role Morality in the Accounting Profession,” Prof. Radtke wrote that professionals like accountants “may believe that they have an obligation to act on behalf of their clients in ways that would be wrong if done on their own behalves.”

Cognitive Heuristics and Biases

Incrementalism

Incrementalism

- Bazerman: “boiling frog syndrome”: “much unethical behavior occurs when people unconsciously lower the bar over time through small changes in ethicality”

Incrementalism

- Hitler’s doctors (Robert Jay Lifton)

Incrementalism

- Hitler's doctors

"In the beginning it was impossible. Afterward it became almost routine. That's the only way to put it."

Incrementalism

- Enron Chief Accounting Officer Rick Causey, a UT graduate, needed to do a deal to disguise a delay in recording losses. An executive balked.

Causey: “Is it possible the deal is still alive?”

Exec: “No.”

Causey: “So there’s no chance of it coming back?”

Exec: “No”

Causey: “Is there even a little bit of a chance of it coming back?”

Finally, the exec took the hint and the deal was declared “undead”.

The exec later said:

“You did it once, it smelled bad. You did it again, it didn’t smell bad.”

Incrementalism

"Perhaps the fatal false step was Enron's use of an SPE in the early 1990s to move the liability of its Houston headquarters off-balance sheet. This arrangement had some color of justification then, but a conservative application of the principles of SPEs would have decided against it. … When Enron [later] desperately needed to hide its mounting debt, Andersen could not argue consistently against the device….At every later step, it became more difficult and more costly to reverse course."

Incrementalism

- A CPA who went to jail for fraud said:

"I call it increment…incrementalization, whether that's even a word. You…you get to here so it must be okay to go to here. And if you're here, it surely is okay to go here. It's really fuzzy where you cross the line […] At what point do you cross the line where the act becomes illegal? I don't know. I don't know."

Poll Question #4

I can think of a situation where incrementalism affected my judgment.

___ True

___ False

Cognitive Heuristics and Biases

Loss Aversion

Loss Aversion

- Basketball Coach Dave Bliss

Loss Aversion

- Derivatives Trader Nick Leeson

Loss Aversion

- Nick Leeson

Loss Aversion

Nick Leeson:

- "I was ashamed of myself and what I'd become. It started off so small, but had rapidly seized hold of me and now was all across me like a cancer. If I was to keep this job, I had to hide the losses. I'd then do my best to get out of them, but I couldn't admit them to anyone. To make any inroads into my losses—which now towered over 200 million pounds—I had to double up. I was drowning like an insect stuck in resin, clawing hopelessly but unable to pull myself out."

Loss Aversion

- Analyst Roomy Khan:

Loss Aversion

- Analyst Roomy Khan:

"As I reflect back I am horrified by the choices I made… Over time, the shame of losing my house and status in this society became more important than the unlawfulness of insider trading."

Loss Aversion

- Arthur Andersen’s Shredding Machine

Cognitive Heuristics and Biases

Tangible & Abstract

Tangible & Abstract

- Goldman Sachs whistleblower Noreen Harrington

Tangible & Abstract

- Goldman Sachs whistleblower Noreen Harrington

  --Noreen Harrington explained why she blew the whistle on late trading and market timing, saying that prior to blowing the whistle on these practices, she viewed them as part of "a nameless, faceless business…in this business this is how you look at it. You don't look at it with a face." That view changed, she said, when her older sister asked her for advice on her 401(k) Account. Her sister, whom Harrington characterized as one of the hardest workers she knew, was worried that the losses she saw in her retirement account would prevent her from retiring. Suddenly, Harrington "thought about this from a different vantage point," she explains. "I saw one face—my sister's face—and then I saw the faces of everyone whose only asset was a 401(k). At that point I felt the need to try and make the regulators look into [these] abuses."

Tangible & the Abstract

- Eugene Soltes: “For most white-collar crimes, the harm created by a dab of a pen or an adjustment on a spreadsheet does not require getting close to individuals. The victims are physically and psychologically distant. In some cases, like insider trading, the victims might not even be identifiable. As a result, perpetrators of white-collar offenses do not experience the same gut feelings of doing harm [as do perpetrators of street crime].”

Tangible & the Abstract

- Lowenstein: Auditors easily identify with their clients, studies show, and may unduly discount potential injury to temporally distant victims.

Situational Factors

Situational Factors

Time Pressure

Time Pressure

- Seminary Study

Time Pressure

- Seminary students on the way to give a talk about the parable of the Good Samaritan came upon a person lying by the sidewalk in apparent distress.

- Seminary students on the way to give a talk about the parable of the Good Samaritan came upon a person lying by the sidewalk in apparent distress.

If not in a hurry:

- Seminary students on the way to give a talk about the parable of the Good Samaritan came upon a person lying by the sidewalk in apparent distress.

If not in a hurry: 63% stopped to help

- Seminary students on the way to give a talk about the parable of the Good Samaritan came upon a person lying by the sidewalk in apparent distress.

If not in a hurry: 63% stopped to help

If running a little late:

- Seminary students on the way to give a talk about the parable of the Good Samaritan came upon a person lying by the sidewalk in apparent distress.

If not in a hurry: 63% stopped to help

If running a little late: only 45% stopped

- Seminary students on the way to give a talk about the parable of the Good Samaritan came upon a person lying by the sidewalk in apparent distress.

If not in a hurry: 63% stopped to help

If running a little late: only 45% stopped

If urged to hurry:

- Seminary students on the way to give a talk about the parable of the Good Samaritan came upon a person lying by the sidewalk in apparent distress.

If not in a hurry: 63% stopped to help

If running a little late: only 45% stopped

If urged to hurry: only 10% stopped

Time Pressure

- Some studies show that in the presence of time pressure, auditors, especially creative ones, “engage in less professional skepticism as a result of a more creative moral justification process.”

BOTTOM LINE:

Acting ethically is not easy, *but you can increase your chances of living the kind of life you can be proud of.*

Ethics Unwrapped: a free ethics video series brought to you by the McCombs School of Business, UT-Austin:

http://ethicsunwrapped.utexas.edu/