

Fall 2017



“Placing the public interest above self-interest is the hallmark of a profession”... Eddie Stamp, 1983...

Special points of interest: **A Letter from the Chair**

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Dear Public Interest Section Members,

My name is **Amy Hageman** and I have been serving as Chair of the Public Interest Section since August 2016, and will serve through August 2018. I am privileged to work with a wonderful group of Public Interest members serving in key positions. These include:

Mitch Stein (University of Western Ontario) – Chair Elect

Pat Kelly (Providence College) – Secretary/Treasurer

Anne Schnader (Suffolk University) – Vice Chair of Research

Charles Stanley (Baylor University) – Vice Chair of Education

Mike Kraten (Providence College) – Vice Chair of International Membership

Charlie Cullinan (Bryant University) – Council Representative

Pamela Roush (University of Central Florida) –Editor, Accounting and Public Interest

Lawrence Chui (University of St. Thomas) and **Byron Pike** (Minnesota State University - Mankato) – Webmasters

We have a fabulous Public Interest Section Midyear Meeting and Doctoral/Early Scholar Consortium planned for this year. **Larita Killian** (Indiana University at Columbus) and **Louella Moore** (Washburn University) are working hard to coordinate the Midyear Meeting, which will be held in Chicago on March 23-24, 2017. Please consider submitting a paper or a plenary/paper proposal and please consider volunteering to review or discuss a paper, or serve as a moderator. The deadline for submissions in the online system is on Friday, January 12, 2018. In addition, please help spread the word about the Doctoral/Early Scholar Consortium on March 23rd, which will provide doctoral students and scholars early in their career the chance to receive personalized, constructive feedback and advice from leading Public Interest accounting scholars. Doctoral/Early Scholar Consortium participants will send a CV and a long abstract/working paper to **Dana Wallace** (dana.wallace@ucf.edu); the deadline for submission is also on January 18, 2017. Both events promise to be an engaging experience for public interest scholars.

This year’s 23rd Annual Ethics Research Symposium is being co-coordinated by the Public Interest Section’s **William Miller** (University of Wisconsin, Eau Claire) and **Tara Shawver** (King’s College). The submission due date this year will be on February 7, 2018. Please plan to submit your work and volunteer to assist as a reviewer, discussant, or moderator.

We are also very fortunate that **Chuck Stanley** (Baylor University) and **Maureen Mascha** (Purdue University Northwest) are serving this year as the Section Liaisons for the 2018 Annual Meeting. The deadline for paper submissions will be on Tuesday, January 9, 2018. Please also consider volunteering to help by serving as a paper reviewer, discussant, or session moderator for the Annual Meeting.

Finally, our Newsletter Editors and Webmasters, **Lawrence Chui** (University of St. Thomas) and **Byron Pike** (Minnesota State University - Mankato) continue to provide valuable and dedicated service to our Section. Thanks to you both!

I look forward to seeing many of you at the Midyear Meeting, Ethics Symposium, and the Annual Meeting. Your feedback on Section activities is most welcome and appreciated. Thank you for everyone’s work in making this an active, engaged section, dedicated to advancing public interest issues in accounting.

Respectfully,

Amy Hageman



Amy Hageman

**Chair of the Public Interest
Section, American Accounting
Association**

**Associate Professor,
Department of Accounting,
Kansas State University**

Join us in Chicago for the 2018 Mid-Year Meeting!



The 2018 Conference of the Public Interest Section and Doctoral / New Scholar Consortium will be held in Chicago, IL, at the **Swissôtel Chicago** from **March 23-24, 2018**.

The theme for the AAA Public Interest Section is how accounting research and education advance the public interest.



For more details, please visit: <http://aaahq.org/Meetings/2018/Public-Interest>

See you in Chicago!

The 22nd Annual Ethics Research Symposium at the AAA Annual Meeting



**SAN
DIEGO
2017**



*Accounting
Exemplar
Award*



The 2017 Annual Meeting Section Awards

Congratulations!

Accounting Exemplar Award

Anthony Menendez

22nd Annual Ethics Research Symposium

Best Empirical Research Award

David Emerson, Ruilian Xu, and Ling Yang
“Investor’s responses to social conflict between CSR and Tax avoidance”

Best Theoretical Research Award

Eileen Z. Taylor and Paul F. Williams
“Speculations about the Implications of the Pathways Vision for how we understand Accounting”

Best Contribution to Teaching Award

Matthew Reidenbach and Ping Wang
“Heartland Payment Systems: Cybersecurity Impact on Audits and Financial Statements Contingencies”



Editorial Columns

Q & A with the 2017 Accounting Exemplar Award Recipient



Anthony Menendez, CPA, CFE is the recipient of the 2017 Accounting Exemplar Award of the Public Interest Section of the American Accounting Association (AAA). As a follow-up to his appearance at the 2017 AAA Ethics Symposium in San Diego, we asked Anthony to respond to four questions.

Question 1: For the benefit of our readers who didn’t attend our Symposium, how would you describe your career experience at Halliburton?

Anthony Menendez

Litigation Consultant | Speaker | Writer at Financial Fraud Examiner LLC

prevent accounting fires. However, by the time I got there, Halliburton was already engulfed in flames.

Halliburton accountants were ignorantly violating one of the most basic accounting principles, that you should not recognize any revenue before you actually deliver a product to your customer. This was a stunning revelation because bill-and-hold transactions are widely recognized as wrong and venal and have been perennial triggers for SEC enforcement actions. I elevated the problem throughout the organization. My boss, the CAO, told me that the company was going to correct the problem and “get the company back within the lines of what is appropriate”. However, the magnitude of the error soon became apparent and a correction would have required a costly and embarrassing restatement of the company’s historical financial statements.

So what happened? Instead of correcting the problem, Halliburton and its external auditors went to extraordinary lengths to cover up their failures. At the height of the cover up, the external audit senior manager told me to “save it for the subpoena.” I told him that I could not do that and I “blew the whistle” to the SEC.

I spent the next ten years fighting for my dignity and my rights under the whistleblower protection provisions of SOX. In 2015, I finally prevailed in the Fifth Circuit Court of Appeals, and my case has had a significant positive impact on that body of law, lowering the legal burdens facing corporate whistleblowers.

Question 2: Are you optimistic about the future of our profession?

Menendez: I worry about the value of the audit today and the future of our profession. Congress mandated independent audits of public companies back in 1933 because members of the investing public were scammed out of their life savings, resulting in a catastrophe that helped usher in the Great Depression. At the turn of the millennium, the highly publicized financial scandals and the loss of public confidence in our profession forced Congress to reexamine the public company audit process. As a result, SOX was signed into law in 2002.

I believe that the public gave the profession a lifeline in the form of SOX. However, the 2008 financial crisis and the ensuing Great Recession gave the public little reason to believe that the current model is working well. As a profession, we need to evolve in an effort to serve the public interest. If we fail to do so, the public might decide that they don’t need private firms to provide public company audits.



To view the entire article, please visit: <https://aaapublicinterest.org/2017/08/23/anthony-menendez-accounting-exemplar/>

Speculations about the Implications of the Pathways Vision for How We Understand Accounting

Abstract

In the spirit that a picture is worth a thousand words, the Pathways Commission Vision’s “perception” of accounting is a simplistic caricature of a practice epitomized by bookkeeping and governed by a “black letter” tradition whereby hard-and-fast rules exist for distilling the vast number of data business generates into a meaningful narrative about the financial state and performance of a firm. The “Reality” Vision is a rather heroic self-perception the profession has for the role it will play in producing a prosperous society. The problematic ambiguity with the “Reality” obviously revolves around the concept of “prosperous society” and what implications different notions of “prosperous” have for accounting’s role in society, given accounting’s (and accountants’) limitations. We propose a vision for a prosperous society based on the 17 UN goals, specifically focusing on the two which relate to income distribution and sustainability. We consider how accounting can play a role in helping achieve this view of a prosperous society.



Eileen Taylor
NC State University



Paul Williams
NC State University

Discussion

For the benefit of our readers who didn’t attend our Symposium, how would you describe your interest in the topic?

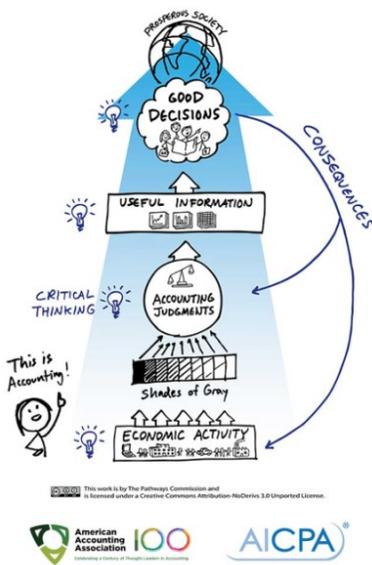
We have long thought about how accounting could be used to better serve the public interest; by which we mean using accounting and its tools and concepts to promote (to the extent possible) the well being of a large and diverse set of individuals. We have unfortunately witnessed accounting practice become a profession, more aptly, an industry, that serves a narrow swath of stakeholders rather than a wide public interest.

At the same time, we have observed social changes wrought by questionable policies, unchecked private interests, and technological advances. While some individuals and organizations are better off, others have been disproportionately and negatively affected. Issues such as income inequality, declining natural resources, hunger, declining upward mobility, and access to education are challenges to our success and sustainability as a human race. The United Nations has identified 17 goals which address many of these global challenges, and in our paper we focus on income distribution as the one most closely tied to accounting, and to our role in society as experts in accountability, measurement, and safeguarding of resources.

Do you think the Pathways Vision Model accurately represents accounting as it is; as it should be?

While we applaud the AAA and AICPA for considering a better way to represent accounting to the public, we do not believe that the Pathways Vision Model accurately represents accounting. While this vision may represent what the industry (and by this we mean corporate clients and audit firms) would like the public to believe, we believe it is lacking. And that concerns us as academics and as educators.

If accounting is to hold true to its origins as a function that helps maintain justice and accountability in our society, then this vision needs revision. The first part of our paper is a critical analysis of the model, while the second part of the paper proposes a new model and equation for accounting that works toward fulfilling our obligation to the public interest.



What is your vision?

We start by considering the goal at the top of the model. If accounting, as a social function, is to lead us to a prosperous society (note, this is not a society with some prosperous individuals in it), we must first consider what contributes to (or detracts from) society’s prosperity. In our paper, we focus on reducing income (and wealth) inequality, noted by Stiglitz as a critical aspect of well being, and identified by the United Nations as one of the top 17 global challenges facing us today. We then consider how accounting, in particular accounting concepts, tools, and expertise, can help us achieve that goal.



To view the entire article, please visit: <https://aaapublicinterest.org/2017/11/14/speculations-about-the-implications-of-the-pathways-vision-for-how-we-understand-accounting/>

Ethical Claims of Large Accountancy Firms Smack of Hypocrisy



Prem Sikka

All over the world there is concern about tax avoidance by large corporations and wealthy elites. The latest revelations known as the Paradise Papers add further fuel to the debate. The Paradise Papers consist of some 13.5 million pages of internal information leaked from Appleby, a law firm specializing in international tax planning. The documents are publicly available on the website of the International Consortium of Journalists.

In any case, the revelations raise questions about ethics and morality of practices that deprive elected governments of resources for alleviation of poverty and investment in social infrastructure. Faced with the ability of capital and wealthy elites and corporations to avoid taxes, citizens are left with stark choices: either pay more for a crumbling infrastructure or forego hard-won social rights. Neither is palatable or conducive to social stability.

The Big Four accounting firms routinely seek to distinguish themselves from others by appealing to ethics and social responsibility. Their websites boast of ethics. The website of PricewaterhouseCoopers (PwC) claims that the firm's "high standards of ethical behavior, are fundamental to everything we do ... We are willing to walk away from engagements and clients if our independence, integrity, objectivity, or professionalism could be called into question if we continued". Deloitte claims that "Integrity and ethical behavior are central to maintaining our reputation". Ernst & Young boldly states that "We reject unethical or illegal business practices in all circumstances ... We are alert for personal and professional conflicts of interest".

University of Essex In common with previous leaks known as the Panama Papers, Luxembourg Leaks and HSBC Leaks (see References, below), once again attention is focused on the role of the Big Four accounting firms in crafting schemes that enable wealthy elites and large corporations to avoid taxes. All too often the firms sell tax avoidance schemes to their audit clients and then report on the resulting transactions. Audited Company accounts rarely provide information about corporate tax avoidance strategies. Whether the tax avoidance schemes are legal or otherwise can only be established by test cases, and these are comparatively scarce as tax authorities frequently lack the resources to investigate and challenge the schemes.



To view the entire article, please visit: <https://aaapublicinterest.org/2017/11/28/ethical-claims-of-large-accountancy-firms-smack-of-hypocrisy/>

Can Ethics be Legislated in Accounting? The role of SOX, the SEC and the ERM Framework



Steven Mintz

Professor Emeritus from Cal Poly San Luis Obispo

Government regulations, whistleblower protections, GAAP reporting standards, and internal control requirements are meaningless and not worth the paper they are written on if what has been promised is not done. A healthy financial reporting system depends on the enforcement of laws and the existence of an ethical culture in organizations that support accurate and reliable financial reporting.

These issues are relevant to the case of Tony Menendez, former Director of Technical Accounting Research at Halliburton, who blew the whistle on improper accounting for revenue. Menendez was hired by Mark McCullum, the chief accounting officer at Halliburton, who reportedly told him to serve as his "Smokey the Bear," helping the company prevent accounting fires from flaring. That is what Menendez tried to do.

Back in 2005, Menendez identified improper accounting for bill-and-hold transactions where the company booked revenue before product was sent to customers, all the while holding it in its warehouse for future delivery. Menendez worked hard to convince his superiors of the errors in accounting. He sought out the help of KPMG, Halliburton's auditors, to no avail. He informed the SEC, which seemed disinterested and chose not to get involved. The company retaliated against him once it found out about his reporting to the SEC. Menendez finally lodged a complaint with the Department of Labor under the whistleblower protections of the Sarbanes-Oxley Act. He then endured a nine-year battle to clear his name.

Two questions from Menendez's experiences are: (1) Did SOX work as intended and protect Menendez as a whistle-blower under Section 806? (2) Did the SEC fulfill its oversight role of financial reporting and audits of financial statements? The answers are no and no. However, it's not due to the ineffectiveness of SOX. Instead, Halliburton's management had established a culture that this is the way things are done around here and Menendez should be a team player.



To view the entire article, please visit: <https://aaapublicinterest.org/2017/10/14/can-ethics-be-legislated-in-accounting-the-role-of-sox-the-sec-and-the-erm-framework/>

If Corporations Are People, Why Aren't They Taxed Like People?



Michael Kraten
Providence College
personal (or individual) rates?

Have you been keeping track of the U.S. Republican Party's proposal to transform the American system of income taxation as it wends its way through the legislative process? If you're doing so, you may be wondering about the answer to a very simple question:

If the Republican Party truly believes that "corporations are people," why is it willing to tax corporations at rates that fall so far below comparable

After all, if corporations are people, one might conclude that they should be taxed like people. Conversely, if they are not, then one might conclude that several recent Republican legislative positions are dissonant in nature.

To elaborate on this question, it may be helpful to review some historical background. And to do so, we might wish to begin with the birth of the American nation in 1776.

In June 1776, for instance, Virginia ratified its Declaration of Rights, a document that later evolved into its State Constitution. The declaration included an assertion that "... all men ... have certain inherent rights ... namely, the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety."

The Declaration clearly drew upon John Locke's earlier assertion, in his Two Treatises of Government, of an individual's natural rights to life, liberty, and estate (or property). And at roughly the same time that the colony of Virginia was ratifying its Declaration of Rights, Virginian Thomas Jefferson was de-

fining life, liberty, and the pursuit of happiness as unalienable rights in the American Declaration of Independence.

But did Locke, Jefferson, and their peers intend to imply that business organizations also possess these unalienable rights? Or were they strictly referring to rights that are held by individuals?

Their writings appear to be focused on individual rights. Nevertheless, the U.S. Republican Party now supports the libertarian position that corporations are associations of individuals. Thus, consistent with recent U.S. Supreme Court decisions, certain human rights that are held by individuals can be aggregated into rights that are held by associations of individuals, and thus by corporations.

That's why, during the 2012 Presidential campaign, candidate Mitt Romney declared that "corporations are people" in regards to the legal rights of corporations. Despite subsequent public criticism of Romney's declaration, he was accurately describing the Supreme Court's position in various decisions (such as the Citizens United and Hobby Lobby cases) that confirmed the existence of corporate rights.

In a fiscal sense, President Ronald Reagan's earlier Tax Reform Act of 1986 also established a rough equivalence between corporations and individuals by bringing the maximum corporate tax rate and the maximum personal rate into rough equality. Specifically, it reduced the nominal corporate rate to 34% and the nominal personal rate to 28%. However, due to the phase-out of personal exemptions, it "topped out" the personal rate at 33%.



To view the entire article, please visit: <https://aaapublicinterest.org/2017/12/03/if-corporations-are-people-why-arent-they-taxed-like-people/>

Call for Papers

The **Canadian Academic Accounting Association (CAAA)** invites original papers for the 2018 Annual Conference on all areas of research including financial and management accounting, financial reporting and communication, assurance, tax, accounting history, and public sector accounting.

Submission deadline: January 17, 2018



For more information, please visit: <https://www.caaa.ca/en/news-and-events/accounting-in-the-public-trust-caaa-annual-conference-2018/>

Member Notes

Dennis Huber has recently published a paper titled, "Irreconcilable differences? The FASB's Conceptual Framework and the public interest." forthcoming in International Journal of Critical Accounting.

Together for the
Public Interest

Disclaimer: The views and opinions expressed in this newsletter are those of the authors and do not necessarily reflect the views of the American Accounting Association and the Public Interest Section.