I. INTRODUCTION

Ethics is concerned with what is right and wrong; it generally refers to behavior that conforms to some norms within a specific setting—a society, culture, nation, profession, or small group. Ethics are the 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 it is complicated by the fact that moral standards and generally accepted social behavior change with time. In addition, different groups in the same society might have conflicting ideas of right and wrong. Individuals’ values and ethics are reflected in their actions as employees.

In today’s business climate, ethics is complicated. Ethics is more than taking the moral high road—it is a matter of self-preservation. And today, fraud examiners face ethical problems in their daily lives, and, often, when facing such problems, the line between “right” and “wrong” is blurry. Consequently, CFEs might find themselves on a slippery slope when it comes to determining the best course of action.

This course will discuss how codes of ethics, conduct, and practice in general—and the CFE Code of Professional Ethics and CFE Code of Professional Standards, in particular—provide guidance for fraud examiners when they face ethical problems in professional situations. It will also explore how ethics can help individuals make the right decision at the right time, for the right reason.
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 when facing ethical problems. (An ethical problem exists when you encounter a situation that requires you to make a choice among alternative actions and the right choice is not absolutely clear.) Although such codes can provide guidance for decisions and actions, they do not provide simple and sure 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 often used to mean the same thing. And 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 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. 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 will affect the beliefs and behaviors of all people.

Members’ ethics, 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 old employees, and some companies have found it effective to share the ethics code with their vendors.

Moreover, the decline in public attitudes about business in recent years has reinforced the importance of ethics in the workplace. Consequently, organizations have made substantial endeavors with respect to business ethics. These initiatives include 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 last decade due in part to the impact of the U.S. Federal Sentencing Guidelines for Organizations. These guidelines can multiply or mitigate potentially devastating penalties for errant corporations, depending on their attempts to prevent such 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 around 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 govern the way an organization should behave toward its employees or members and the way its employees or members should conduct themselves toward the institution 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 CFE Code of Professional Ethics and CFE Code of Professional Standards to provide ethical guidance and clarify the expected actions and behaviors of all Certified Fraud Examiners.

In the end, the codes that a professional association or company adopts should define the principles that the organization values, as well as the moral standards to which it expects both its members and employees to adhere.