



# Navigating Ethical Systems: How professional accountants can drive ethical behaviour

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Chartered Professional Accountants of Canada (CPA Canada) is one of the largest national accounting organizations in the world, representing more than 220,000 CPAs at the national and international levels. CPA Canada works with the provincial and territorial regulatory bodies to support the profession. Domestically, it acts in the public interest by promoting transparency in financial markets, preparing members for a rapidly evolving business environment and contributing to standard setting and public policy. Globally, CPA Canada works together with international bodies to build a stronger accounting profession worldwide. [cpacanada.ca](http://cpacanada.ca)

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IFAC (the International Federation of Accountants) is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. Comprised of 180 members and associates in more than 130 countries and jurisdictions, IFAC represents more than 3 million accountants in public practice, education, government service, industry and commerce.

Over four decades, IFAC has represented the global profession and supported the development, adoption, and implementation of international standards that underpin the contributions of today's global accountancy profession. IFAC has maintained a long-term approach to building and strengthening a global accountancy profession that supports transparent, accountable, and sustainable organizations, financial markets, and economies. [ifac.org](http://ifac.org)

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We're ICAS, a global professional membership organisation and business network for Chartered Accountants. We're also an educator, regulator, examiner and a professional awarding body. Our motto is 'seek the truth' and we've been doing so since we were founded in 1854. As the world changes, the importance of doing the right thing doesn't. As ethical leaders, the business community looks to us and our members to uphold standards and cultivate trust in everything we do. That ethos is enshrined in our respected Code of Ethics – which applies to all our members, student members and member firms – and is underpinned by our Royal Charter commitment.

Our CA members form a vibrant global community of finance and business professionals united by a commitment to ethical leadership. Educated, regulated and led to the highest standards, they transform business and support one another, for the greater good. We work with our members, businesses, government, regulators, politicians and policy makers. And we strive to support, nurture and empower that community by delivering high-quality membership, connection and relevant and rigorous career-long learning. [icas.com](http://icas.com)

# Background and acknowledgements

*Navigating Ethical Systems* follows a series of discussions with thought leaders of the accounting profession about how the systems and processes, in addition to individual criteria, can steer ethical behaviour. Its intent is to offer practical guidance for professional accountants (PAs), professional accountancy organizations, educators and employers, as our profession evolves to address changing stakeholder needs while continuing to meet our public interest responsibilities.

An initial series of four thought leadership pieces was developed in 2021 and 2022 by Chartered Professional Accountants of Canada (CPA Canada) to build on a collaborative exploratory paper and global roundtable event held jointly with the Institute of Chartered Accountants of Scotland (ICAS) and the International Federation of Accountants (IFAC), entitled Ethical Leadership in an Era of Complexity and Digital Change.

The papers in the initial series covered the following interconnected, but distinct, topics:

- [complexity and the PA](#)
- [technology is a double-edged sword](#) with both opportunities and challenges for the accountancy profession
- [identifying and mitigating bias and mis-/disinformation](#)
- [mindset and enabling skills](#)

*Navigating Ethical Systems* was developed by Noel Boyland, corporate engagement director, and Brian Harward, research scientist, from Ethical Systems.

It is with heavy hearts that we note the passing of Noel Boyland. Despite this devastating loss for Ethical Systems and his family, he is remembered as a source of strength, wisdom and kindness for all around him.

Housed in NYU Stern's Business and Society Program, Ethical Systems' mission is to harness research, from leaders in academia, to transform the ethical practice of business in the corporate world. Their collaborators are top researchers – most of them are faculty at leading business schools – who believe that wise leaders take a holistic, systematic approach to organizational culture in order to foster greater integrity in business. A special thanks to Laura Friedrich for sharing her insights on the publication. Their work was under the direction of Taryn Abate, director, Research & Thought Leadership, at CPA Canada.

Feedback and comments are enthusiastically welcomed – please send to [research@cpacanada.ca](mailto:research@cpacanada.ca).

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# Purpose of the research

Ethical behaviour is the foundation of the trusted work of PAs; it is not merely a desirable attribute of PAs, but an absolute imperative. In 2022, CPA Canada commissioned Ethical Systems to perform a series of interviews with thought leaders in the accountancy profession and in business to discuss ethical challenges PAs face and actions that drive ethical behaviour. The interview participants provided a variety of senior executive perspectives ranging from professional services, risk management, investment, governance, regulators and academia.

The interviews suggested a perception that the profession is focused on individuals when it comes to ethical behaviour and the idea that ethical problems are due primarily to lapses in personal judgment or character. Greater attention to the systems of influence surrounding ethical decisions is needed. There is much discussion about a PA's personal resistance to pressures, and willingness to make difficult decisions - but less discussion of how *systems* can lessen pressures, facilitate communication and guide challenges.



*There are good people and there are bad people. Good apples and bad apples. People who have a strong moral compass and backbone. And those that don't care.*



Is this simple explanation of ethical behaviour true?  
Yes...but it's wildly incomplete.

Based on insights gained through the interviews and supplemented by research performed by Ethical Systems, this report explores how *systems* steer ethical behaviour and how PAs can demonstrate ethical leadership by strengthening such systems.



# Executive summary

Existing codes of ethics for PAs and organizations primarily focus on the individual rather than the situational factors impacting ethical decision-making.

While undoubtedly individuals are, and should be, held accountable for their behaviour, assigning blame solely to the individual overlooks the vital role of the systems in which they work. Modifying these systems can improve ethical behaviour through decreased reliance on the person and their characteristics.

The [International Code of Ethics for Professional Accountants](#) recognizes the importance of organizational culture and alignment of ethical values in the internal culture of a PA's organization with the fundamental principles and other provisions set out in the Code. PAs are also expected to encourage and promote an ethics-based culture in their organization, taking into account their position and seniority. This report guides PAs to play an integral role in improving culture and ethical behaviour within organizations by helping organizations to:

- establish ethical systems to guide behaviour
- align ethical systems and processes
- introduce and embed formal and informal ethical systems



# Introduction

In a population, some individuals may be considered to be *bad apples* (i.e., [psychopaths](#) or having an [antisocial personality](#)) and others, *good apples* (i.e., unshakable ethical character, impervious to social pressure). But the vast majority of us are, well, typical humans or “just” an average apple. Average apples generally intend to be ethical, but are susceptible to social pressures, stress, self-interest and circumstance. And the research is quite clear that we *average* humans will indeed engage in unethical behaviour more often than we’d like to think.

This is particularly problematic for PAs, who are bound by codes of professional conduct/ethics to act in the public interest and are held to high standards by the public. By virtue of professional responsibilities, it is essential that PAs understand the strains on ethical behaviour and develop strategies to ensure their actions reflect their professional obligations.

## The individual - “Who we are”

The field of individual or personality psychology focuses on “who we are” and how that affects our behaviour - there are well established tests of relatively stable traits in people such as their personality, moral intuitions, as well as tests to detect the problematic bad apples. These traits are somewhat fixed (by genetics and past experience) but also shaped by our current and future experiences and can change slowly over time. And significant employer attention, often through the compliance and human resources function, is focused on identifying and sanctioning bad apples.

The interview participants described a strong ethical character as thinking in terms of “fair to all concerned,” adhering to professional codes of conduct, regular participation in ethics education and successful balancing of loyalties to profession, employer and client (in descending priority).

## The environment and the context – “Where we are”

Unfortunately, far less attention is focused on “where we are” – how the situations we are embedded in and our interpersonal relationships affect our behaviour. The person-situation debate gained renewed focus after the horrific events of WW2, and since that time, experiments and research have shown that a great deal of our behaviour, good and bad, can often be explained by the context in which our decisions (or not deciding) take place.

The strength of situational factors can actually be good news for employers as they have a large degree of influence on this “context,” specifically, the workplace culture, to focus on the apple “barrel,” not just on spotting and dealing with the rare bad apple(s).

For example, imagine a situation in which an employee is experiencing a tsunami of workplace pressures:

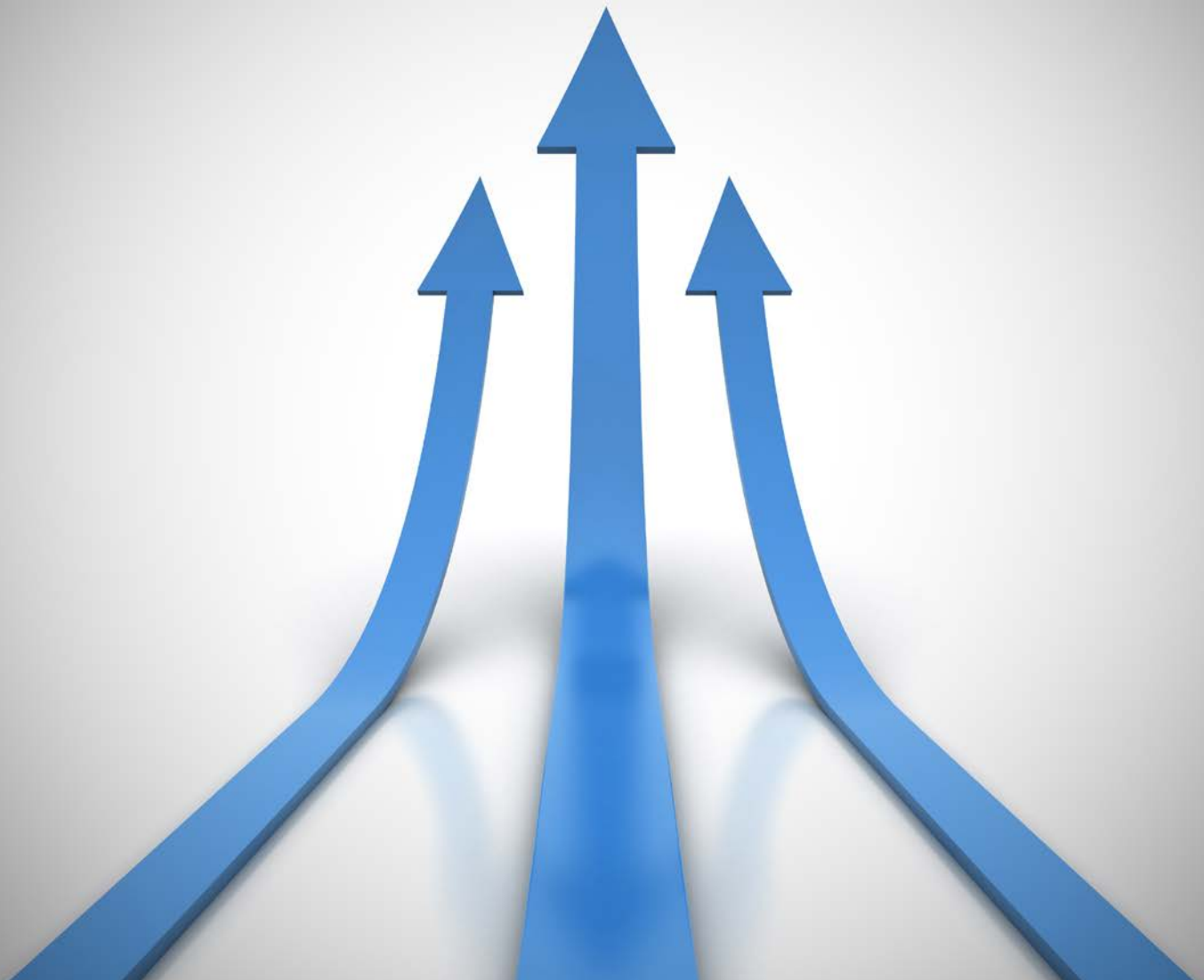
- time pressure, such as impossible-to-meet deadlines and an unmanageable workload
- belief that the employer would benefit from unethical behaviour, for example because of a singular focus on profits or downplaying the risks of non-compliance
- sense that the unethical behaviour is relatively common in the organization, such as observing or hearing about others being rewarded for “success” as a result of unethical behaviour
- concerns about job security, such as a work environment that expects employees to be “team players” and not question too much
- awareness that unethical conduct is rarely punished, but instead is passed off as a mistake (or not called out at all)

In such an environment, these combined pressures may overwhelm an employee’s moral compass, while giving them the feeling that they do not have much choice in their behaviour. Conversely, a typical employee faced with the same choice to engage in unethical behaviour is unlikely to do so if they feel that their job is secure and the company is not inadvertently relying on them being unethical, or if they feel that their behaviour would be outside the norm and firmly and appropriately punished if caught.

This aligns with an observation made by the interview participants: the tone at the top is frequently mentioned as a critical part of business ethics.

This tone at the top must also be replicated throughout the organization, from the C-suite to the employee, including middle management.

While individuals are, and should be, held accountable for their behaviour, assigning blame solely to the individual overlooks the vital role of the systems in which they work. Modifying these systems can improve ethical behaviour through decreased reliance on the person and their characteristics. Improved ethical systems encourage and support ethical behaviour despite human flaws.



# What are the issues?

## Behavioural ethics: Preventing bad barrels from spoiling good apples

The study of the complex determinants of ethical and unethical behaviour, flaws and all, and interactions with the environment, is known as **behavioural ethics**. It is from this perspective that we identify key insights for the challenges at hand, with special attention to workplace culture and how critical systems are shaping culture.

At the core of the debate about why people behave unethically is the question of “bad apples” (people) vs. “bad barrels” (situation/environment). Pressures from the environment are, according to the bad barrel perspective, able to corrupt nearly anyone at least some of the time. Philip Zimbardo is largely credited with this distinction and believes that the [bad barrel](#) hypothesis provides the more accurate explanation for most unethical human behaviour. Zimbardo is most famous for his now controversial Stanford Prison Study in the 1970s that demonstrated ordinary college students became abusive prison guards when given positions of power, and a role that provides potential justification for abusive behaviour.

We also know that the students *could have* behaved better, *if only* they *could be* more resistant to environmental forces or *could be made* aware in advance of the way the job role can lead to abuses. It’s no different for people working in accounting or in business in general, who inevitably find themselves in environments that could too easily lead to unethical behaviour. This is where systems, and awareness of how systems impact us, can play a major role in preventing unethical behaviour from taking root.

## The *good barrel*: Overconfidence risk and the role of inertia in organizations

Human behaviour is complicated, and not always intuitive or easy to predict. Along these lines there is even a “[good barrel](#)” hypothesis that examines the way a good and ethical company might counterintuitively become an inadvertent breeding ground for bad behaviour. The best companies in terms of ethics and performance create unique risks such as seeking perfection, fear of losing their reputation and status, or investing less time and effort into ethics since, at the moment, it seems not to be a problem. These risks may be especially relevant for successful and generally ethical firms and organizations that are concerned with maintaining their reputation. As such, all organizations would be well served to pay careful attention to their ethical culture and systems.

Also, organizations have inertia – meaning change can be difficult and slow. This poses obvious challenges in organizations headed in the wrong direction that need to “turn around.” But inertia can cause problems even in organizations with the highest levels of success and ethical reputation. Ethical risk is created when there is the assumption that what worked in the past will continue to work well in the future. This typically takes two forms:

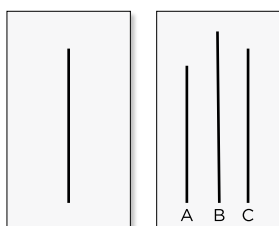
1. **Active inertia** – continuing to do the same things with excess confidence and rigidity, leading to reluctance to admit problems and resistance to change.
2. **Structural inertia** – continuing to be the same organization in terms of hierarchy, number and nature of job titles, and pathways for recruiting and advancement.

These risks may be mitigated by building responsive systems of monitoring and assessment, engaging in future-oriented long-term scenario planning, and willingness to make significant changes, or evolutionary changes on an ongoing basis.

## Social influences and overconfidence in one's ability to resist

When people engage in unethical behaviours like fraud, cheating or lying by omission, this is often explained as lacking individual morals or character. And when we imagine being asked to bend or break our own moral codes, we imagine that we will not do so even under considerable pressure. However, there are several reasons why, ultimately, we are biased about assessing our own willingness to behave unethically.

One well-known reason is the “better-than-average effect” (sometimes called “overconfidence bias”), which is our tendency to rate ourselves as better than average on most things even when that isn't true. In studies on this, the vast majority of people rate themselves above average, when statistically this can only be true for 50 per cent of the population. The effect has been demonstrated specifically as it relates to morality ([Han & Kim, 2022](#)). Most people believe they are more moral than others, even if they themselves have a criminal history ([Beasley, 2023](#)). In addition, we tend to attribute unethical behaviour of others to the person (a bad apple), and unethical behaviour by ourselves to a situation (a bad barrel) ([Han & Kim, 2022](#)). This overconfidence in our ability to resist might refrain us from asking ourselves “I might behave unethically if...”



A landmark social experiment by Solomon Asch (1955) demonstrated that individual determinations of what is correct can be socially influenced. In the study, people were asked a simple question that was almost impossible to get wrong - which of three drawn lines is the longest? The lines differed enough to make the answer obvious. But many participants gave the wrong answer because, before they got to answer, other “participants” (accomplices of the experimenter) confidently gave the same (wrong) answer. This is how what is typically viewed as unethical could be easily viewed by someone as ethical with sufficient pressure to conform - it's ok because everybody else does it and gets away with it! Yes, to some extent people are merely “going along” and know on some level what the correct answer truly is. However, that willingness to go along is enough for poor decisions to be made.

## Moral disengagement and the fading of ethics

Some temptations to engage in unethical behaviour don't overwhelm our ethics, they circumvent them. Psychologists understand this phenomenon as "moral disengagement" ([Knoll et al., 2016](#)), which is when someone is able to act badly without feeling badly, by thinking of the behaviour(s) in a way that disengages their own morality. This disengagement can also be called [moral fading](#), where "individuals do not 'see' the moral components of an ethical decision, not so much because they are morally uneducated, but because psychological processes fade the 'ethics' from an ethical dilemma." Generally, we feel that when only "following orders," doing what superiors have asked of us, the moral responsibility then falls to the one giving the orders.

In work environments, rationalizations more typically take the form of "[It's just business](#)," or the feeling that one's options were severely limited to the point that the actions taken were less of a moral choice and more of a "between a rock and a hard place" type of decision. The way this can distract us from or circumvent morals is in part that we operate under a "business" framing in which the ethics are not ours but those of the business world and what we perceive to be the attendant rules of that framing. Professionals involved in financial decisions might perceive that their motivation must be guided by value optimization, rather than only by ethics. Other common practices such as tying performance reviews to financial goals, setting goals that determine compensation and strong emphasis on billable hours, are likely to create more unethical behaviour. That's not to say these practices are not effective motivators, or understandable business practices to ensure success by some metrics. They just have undesirable side effects that are too often given short shrift because we incorrectly think of individuals, and not the systems that surround them, as determining ethical decision-making.

# What can be done?

## Set ethical systems to guide behaviour

Applying a systems orientation to the ethics of organizations (and their moral failures) may best be thought of in the same way that industrial accidents and their prevention are. Failure in terms of accidents is rarely blamed on mal intent, but instead on human errors that the system was not robust enough to prevent or correct for when they occur. Successfully managing ethical systems also requires understanding where these systems exist, how they are formed, and how to effect change in them going forward.

For example, accountancy has intricate systems in place to assure the quality of reported information and of the audit or assurance process. These systems are an acknowledgment that accountants and auditors may be subject to unique and formidable pressures. With respect to quality assurance, standards and practices are well-established, and these systems will, in most situations, counterbalance the pressures faced by those preparing and auditing the information. But in areas where standards are still emerging (such as reporting and assurance of sustainability-related information, including that on diversity, equity and inclusion [DEI]), the necessary systems are still missing or less mature. This leaves individuals to make determinations without guardrails, leading to increased uncertainty and stress. For example, when reporting on an issue such as gender equity, without guiding systems it may be unclear if compliance means improvement over previous years, favorable comparisons to other organizations, or goals based on population statistics. Unless metrics are clear, any reporting is likely to reflect a lot of personal decision making rather than an application of consistent standards, and individual PAs may not be sure what is truly expected of them.



## Align ethical culture and processes

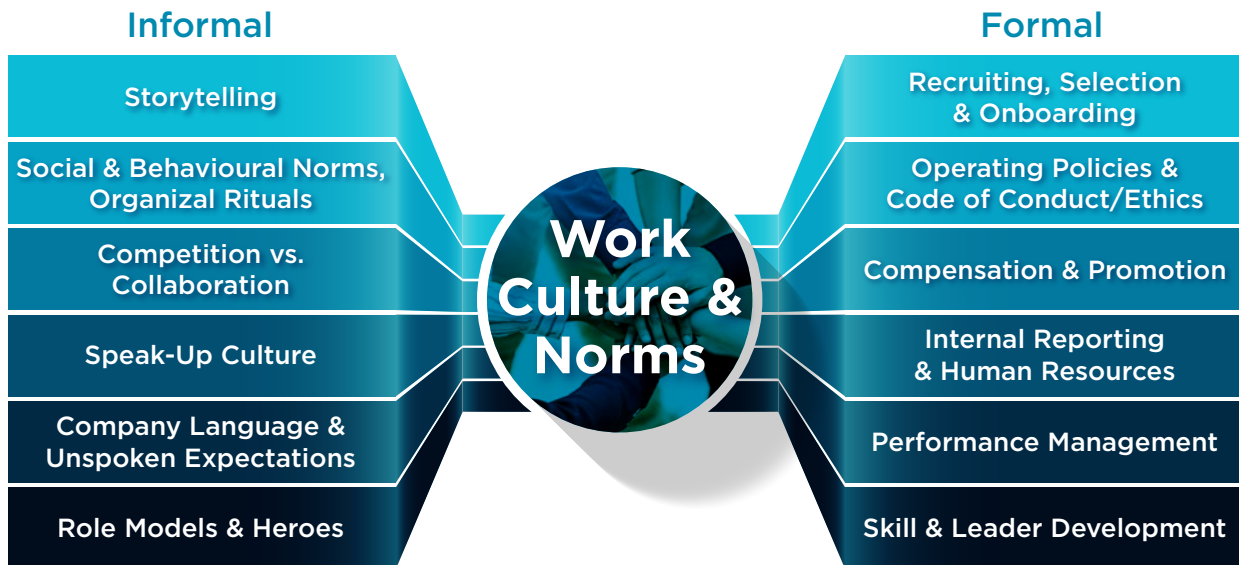
Some might see the ethical culture as a subset of the broader organizational culture. Having such perspective might increase the risk to guide ethical behaviour in disconnected silos, such as creating processes within individual informal or formal systems. Ethical culture should be thought of in terms of a multi-system framework that includes formal and informal systems aligned to support ethical judgment and action. ([Treviño & Nelson, 2021](#))

The interview participants provided some examples of processes that might not support the organization's intentions regarding ethics, such as delegating the ethics-relevant tasks (e.g., client screening) to less capable individuals, or boards completing a self-evaluation.

According to ICAS, *“There is a need for the leaders of all organisations to engender an ethical culture where the integrity of the organisation’s employees is seen to transcend all other business objectives and strategies<sup>1</sup>.”* When all relevant organizational systems are pushing people in the same ethical direction, ethical failure is much less likely.

1 “The Power of One”, accessible here: <https://www.icas.com/professional-resources/ethics/resources-and-support/the-power-of-one-organisational-culture-and-values>

## Workplace systems



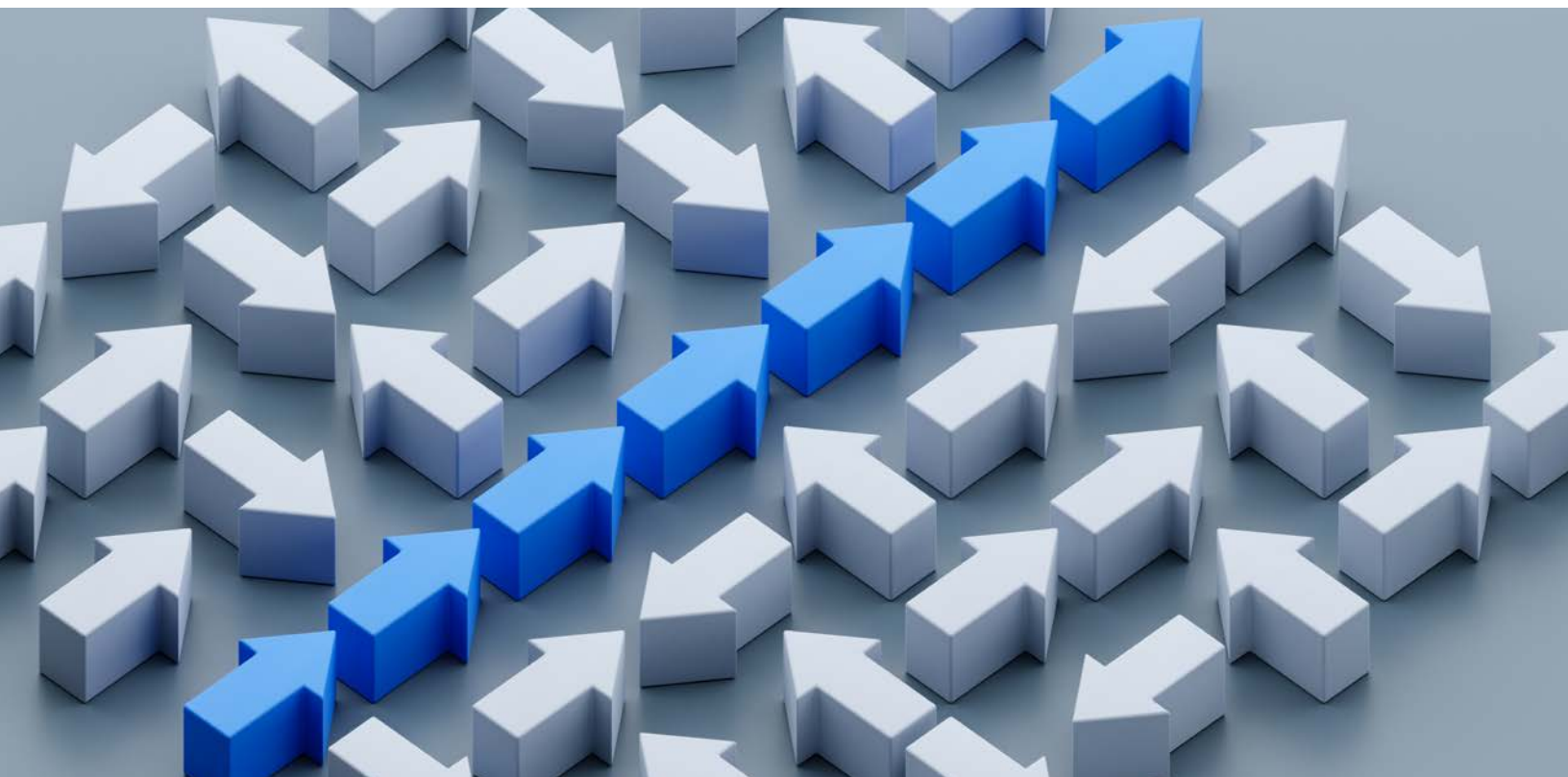
### Formal systems

Formally, leaders provide the resources to implement structures and programs that support ethics. Other formal systems include recruiting and employee selection processes, onboarding and orientation systems, operating policies, codes of conduct/ethics, professional skills and leadership development programs, performance management systems (evaluation, promotion and removal), compensation systems, compliance and surveillance systems, authority structures, and formal decision-making processes. In addition, internal reporting systems (whistleblower hotline, or “speak up” policy) are vitally important for the long-term success of organizations. Speaking up needs to be normalised and viewed as beneficial for the organization rather than being regarded as troublesome. Whistleblowing/speak up policies and procedures should be clear, with employees receiving training on how to use them.<sup>2</sup> For PAs within organizations and firms, their code of professional conduct/ethics – supported by their provincial PA body’s requirements for professional development and its investigation and discipline processes – makes up their primary formal system.

<sup>2</sup> <https://www.icas.com/professional-resources/ethics/Publications-and-guidance/speak-up-listen-up-whistleblow-in-their-own-words-insights-into-the-ethical-dilemmas-of-icas-members>

## Informal systems

More informally, through their own behaviour, leaders are role models whose actions speak louder than their words, conveying what is appropriate and acceptable behaviour. It is imperative that those in charge of organizations, regardless of size, not only set the appropriate tone, but also lead by example and “walk the talk.” In addition, there are the organization’s role models, the norms of daily behaviour (e.g., if/how information is shared, how do employees collaborate/compete, etc.), organizational rituals that support or do not support ethical conduct, the stories people tell about the organization and their key stakeholders (e.g., clients, employees, suppliers, regulators, investors, family and friends etc.), the language people use, and the confidence and ability people have to be recognized and heard when things seem to be going in the wrong direction. As noted by ICAS, *there is a need for leaders to “listen up” – to listen to concerns, take action to investigate the issue, and provide prompt feedback to the employee, so that people can have confidence that concerns are taken seriously and valued.* Unlike formal systems, informal systems are notoriously difficult to directly change. As such, changing informal systems usually requires new or different formal systems to be modified.



## Assess the organization's culture

How do we know the current state of an organization's culture, and if it is improving? This is critical as efforts to (re)align systems must be calibrated to be sure that the desired change in culture is actually taking place.

The interview participants mentioned that culture was mainly assessed by gut feelings, observations and red flags in interactions.

However, while difficult to measure, researchers and organizations have developed valid tools for measuring [ethical culture](#). Most use surveys to quantify employee perception of the culture in which they work, creating numbers-driven metrics by which culture can be measured and tracked over time in response to changes in systems. They can be further validated by comparison to outcomes such as complaints, violations, performance, turnover, exit surveys, or even perceptions from outside the organization – giving credence that the numbers reflect something real. While a limited tool that can certainly miss elements of culture and is susceptible to dishonesty, these culture ratings can at least be useful for tracking progress and highlighting areas for improvement.

# Specific considerations for PAs and their teams

When thinking about current or new processes, the PA should put these considerations at the top of their mind to assess the ethical implications.

- Recognize the [power that key performance indicators can have](#) over decision-making in an organization. Incentives and unmanageable billable hours goals may encourage unethical behaviour when not mitigated by stronger ethical signals.
- Professional identity for accountants working in industry is sometimes determined by the company's financial performance (especially short-term performance), not necessarily by the profession's ethical standards and longer-term considerations.
- Emerging topics with important financial impacts – such as DEI, forced labour or other sustainability topics – increase strain and uncertainty, both of which can increase unethical behaviour if not subject to clear guidelines. As such, stronger operating standards and professional support for PAs engaging in this work should be considered.
- Overemphasis on compliance vs. ethical culture can have significant effects over time as rules-driven thinking does not engage moral thinking, or professional skepticism and judgment.
- Surveillance that is perceived as excessive, unexplained or inappropriate based on job role or level, may signal a lack of trust or respect for privacy – eroding the quality of relationships with management and peers.
- Education and training programs can communicate ethical expectations and establish behaviour norms that in turn modify the social component of ethical systems, provided they are shared and applied by leadership and all levels of management.

- The effectiveness of internal reporting, speak up, listen up and whistleblowing systems depends on alignment with company culture, and perceived risks and rewards of speaking up.

Rigorous and continuous ethical culture measurement should be undertaken, both to identify problem areas, and also to test where systems interventions are having their desired effect.



# Suggestions for driving ethical behaviour

Although ethical systems are organizational by nature, every individual contributes to their success, or failure. PAs, who integrate ethics as a foundational competency, can therefore take an active role setting, or implementing effective ethical guardrails and systems. Suggestions for doing so include the following:

- Establish an appropriate “tone at the top.” It is equally important for this tone to be cascaded down through the rest of the organization, and embraced by all those who work in it. A culture of “doing the right thing” needs to be prevalent at all levels within the organization.
- Assess the organization’s ethical culture, through the formal and informal systems, and verify its alignment with the rest of the culture. Are both aspects steering behaviour in the same direction or do they create conflict?
- Align the personal objectives and remuneration of individuals with the organization’s values, long-term purpose and strategy. If individuals are incentivised only to reach a particular short-term financial target, there is a danger that they will work towards that, regardless of the long-term implications of their actions.
- Establish and, most importantly, implement and review a clear Code of Conduct (CoC):
  - CoC should be aligned with the tone at the top - the organization’s values, long-term purpose and strategy.
  - Once the CoC is set, allow sufficient effort to its implementation and embedding, with training, enforcement, feedback channels and even ombudspersons ([Endenich & Trapp, 2020](#)).
  - Communicate on the CoC: encourage discussions amongst employees and teams and between management and employees.



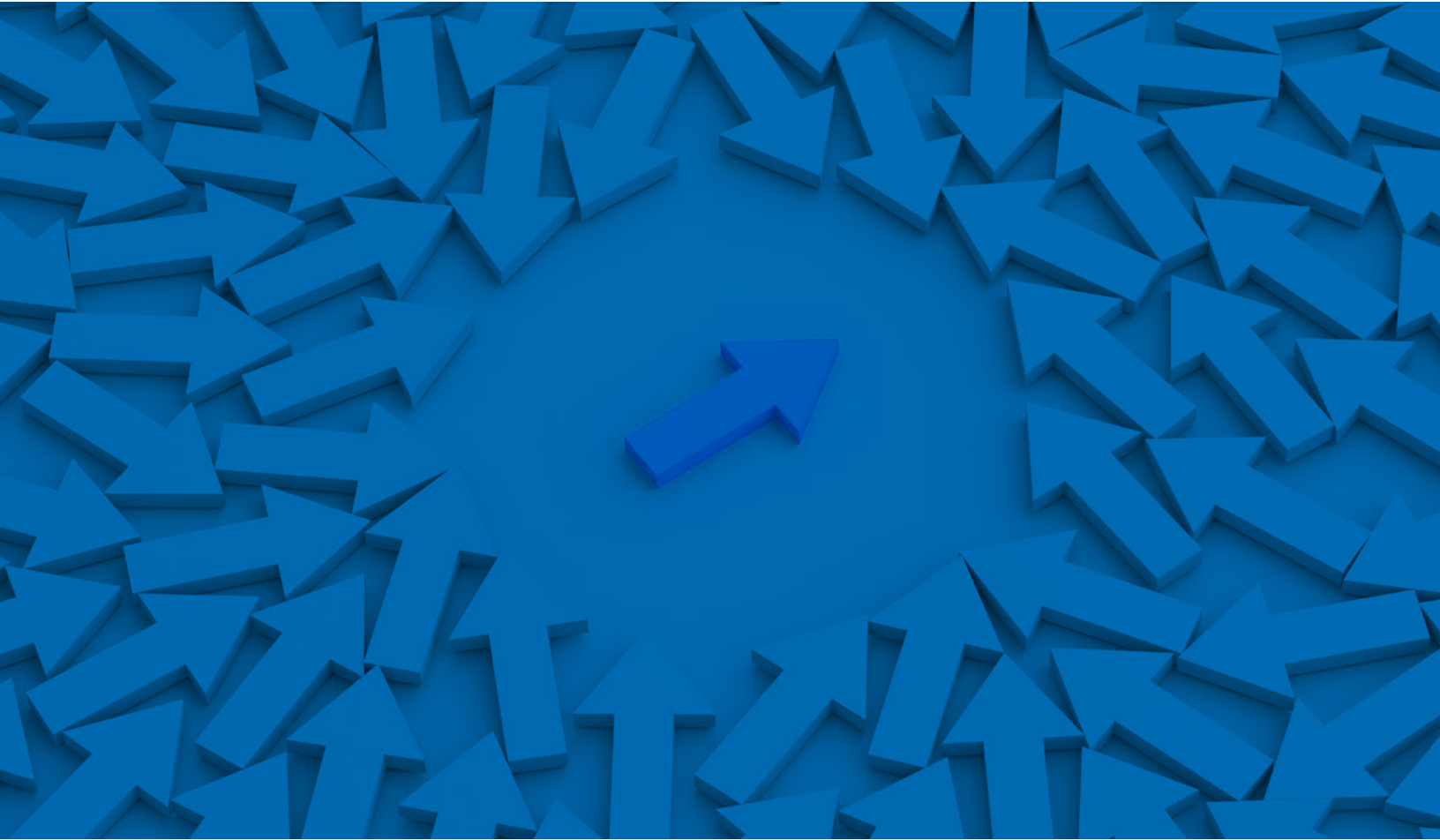
- The transparency of a published code can also be an effective means of informing an organization’s internal and external stakeholders of its ethics and values, as well as being a useful catalyst for change.
- Establish effective and safe “speak up”/whistleblowing channels for reporting unethical behaviour, where employees feel they have the ability to speak up without retaliation, and that they will be supported.
- Limit situations where teams or units are tempted to place their own success over broader organizational goals and values.
- Support systems-focused thinking by being aware of biases like overconfidence, groupthink or representation biases and seek to objectively assess oneself. For more guidance on biases, refer to the [IESBA publication](#) on the matter.
- Build an “ethics filter” that assesses the decision-making process to ensure decisions are sound, and that the team is not just justifying bad behaviour through groupthink or inertia.
- Consider and expect multiple perspectives, and engage in productive conflict that reduces the risk of moral disengagement over time through more personal interactions and ultimately less “distance” from moral issues. ([De Cremer & Vandekerckhove, 2017](#))





# Conclusion

A systems focus means transitioning from viewing failures as human error or bad actions stemming from intrinsic flaws in people, toward the idea that systems can modify – for better or worse – the individual’s activities and decisions. Anticipating how and when people will experience ethical failures requires awareness of the psychological forces and factors that lead people to take shortcuts in ethics. With these in mind, systems can be designed to reduce the ethical failures for which the causes are understood and PAs can play an integral role in driving the strength in these systems.



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