**Case 1-2 Giles and Regas**

Ed Giles and Susan Regas have never been happier than during the past four months since they have been seeing each other. Giles is a 35-year-old CPA and a partner in the medium-sized accounting firm of Saduga & Mihca. Regas is a 25-year-old senior accountant in the same firm. Although it is acceptable for peers to date, the firm does not permit two members of different ranks within the firm to do so. A partner should not date a senior in the firm any more than a senior should date a junior staff accountant. If such dating eventually leads to marriage, then one of the two must resign because of the conflicts of interest. Both Giles and Regas know the firm’s policy on dating, and they have tried to be discreet about their relationship because they don’t want to raise any suspicions.

While most of the staff seem to know about Giles and Regas, it is not common knowledge among the partners that the two of them are dating. Perhaps that is why Regas was assigned to work on the audit of CAA Industries for a second year, even though Giles is the supervising partner on the engagement.

As the audit progresses, it becomes clear to the junior staff members that Giles and Regas are spending personal time together during the workday. On one occasion, they were observed leaving for lunch together. Regas did not return to the client’s office until three hours later. On another occasion, Regas seemed distracted from her work, and later that day, she received a dozen roses from Giles. A friend of Regas’s who knew about the relationship, Ruth Revilo, became concerned when she happened to see the flowers and a card that accompanied them. The card was signed, “Love, Poochie.” Regas had once told Revilo that it was the nickname that Regas gave to Giles.

Revilo pulls Regas aside at the end of the day and says, “We have to talk.”

“What is it?” Regas asks.

“I know the flowers are from Giles,” Revilo says. “Are you crazy?”

“It’s none of your business,” Regas responds.

Revilo goes on to explain that others on the audit engagement team are aware of the relationship between the two. Revilo cautions Regas about jeopardizing her future with the firm by getting involved in a serious dating relationship with someone of a higher rank. Regas does not respond to this comment. Instead, she admits to being distracted lately because of an argument that she had with Giles. It all started when Regas had suggested to Giles that it might be best if they did not go out during the workweek because she was having a hard time getting to work on time. Giles was upset at the suggestion and called her ungrateful. He said, “I’ve put everything on the line for you. There’s no turning back for me.” She points out to Revilo that the flowers are Giles’s way of saying he is sorry for some of the comments he had made about her.

Regas promises to talk to Giles and thanks Revilo for her concern. That same day, Regas telephones Giles and tells him she wants to put aside her personal relationship with him until the CAA audit is complete in two weeks. She suggests that, at the end of the two-week period, they get together and thoroughly examine the possible implications of their continued relationship. Giles reluctantly agrees, but he conditions his acceptance on having a “farewell” dinner at their favorite restaurant. Regas agrees to the dinner.

Giles and Regas have dinner that Saturday night. As luck would have it, the controller of CAA Industries, Mark Sax, is at the restaurant with his wife. Sax is startled when he sees Giles and Regas together. He wonders about the possible seriousness of their relationship, while reflecting on the recent progress billings of the accounting firm. Sax believes that the number of hours billed is out of line with work of a similar nature and the fee estimate. He had planned to discuss the matter with Herb Morris, the managing partner of the firm. He decides to call Morris on Monday morning.

“Herb, you son of a gun, it’s Mark Sax.”

“Mark. How goes the audit?”

“That’s why I’m calling,” Sax responds. “Can we meet to discuss a few items?”

“Sure,” Morris replies. “Just name the time and place.”

“How about first thing tomorrow morning?” asks Sax.

“I’ll be in your office at 8:00 a.m.,” says Morris.

“Better make it at 7:00 a.m., Herb, before your auditors arrive.”

Sax and Morris meet to discuss Sax’s concerns about seeing Giles and Regas at the restaurant and the possibility that their relationship is negatively affecting audit efficiency. Morris asks whether any other incidents have occurred to make him suspicious about the billings. Sax says that he is only aware of this one instance, although he sensed some apprehension on the part of Regas last week when they discussed why it was taking so long to get the audit recommendations for adjusting entries. Morris listens attentively until Sax finishes and then asks him to be patient while he sets up a meeting to discuss the situation with Giles. Morris promises to get back to Sax by the end of the week.

**Teaching Notes for the Case**

The objective of this case is to make students aware of the potential dangers of getting involved in a dating relationship with someone of higher rank in the firm. A strong possibility exists that the staff member of lower rank will have his or her progress in the firm at least temporarily slowed by becoming involved with someone of higher rank. Additionally, the more senior staff member now has a conflict of interest, such as exists for Ed Giles in the case. The ethical issues pertain to fairness in the treatment of employees and whether the firm can meet its obligations to a client when staff members on the audit are involved in a dating relationship.

**Ethical and Professional Issues**

Giles and Regas have put themselves in a position where their work product may suffer as a result of their relationship. It appears that this already has occurred since Mark Sax, the controller of CAA Industries, has expressed his concerns to Herb Morris, the managing partner of the local office of the firm that the delay in audit completion and high level of billings may be due to distractions resulting from the relationship. The reliability of Giles and Regas seems to be questioned by Sax.

An important ethical concern is the conflict of interest that Giles may have if, for example, he determines that Regas is not adequately carrying out her responsibilities. Giles could have a difficult time dealing with this situation in the same way that he would handle a situation that involved a staff member with whom his relationship is solely professional. Moreover, the audit manager is in a sensitive position because he or she may know of the relationship and hesitate to treat Regas the same way other staff members are treated because Giles is the manager's superior. A conflict of interest tends to cloud one's judgment as to what is the right thing to do. It makes it more difficult for a supervisor to be impartial. Even the appearance of a conflict can harm the image of the professional.

It has been said that the best way to handle a conflict of interest is not to become involved in one in the first place. This is why the codes of conduct of professional accounting associations preclude members from engaging in activities that can create such a conflict. The Principle of Objectivity in the AICPA Code requires that:

A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities.

The ethical standard of Integrity in IMA Code states that:

Management accountants have a responsibility to avoid actual or apparent conflicts of interest and advise all appropriate parties of any potential conflict.

The firm's policy on dating seems to be appropriate. It is designed to avoid compromising client relations and audit efficiency. The profession sets high standards of conduct to guide its members in relationships with clients, suppliers, customers and others who can influence the decision-making process. These same high standards should be aspired to by all CPAs in dealing with members of their organization and other professionals.

Giles and Regas are not acting in a professional manner. They seem to know this because in the last sentence of the first paragraph it states that they "have tried to be discreet about their relationship because they don't want to create any suspicions." If they truly felt comfortable with their relationship, then they would have nothing to hide. However, their actions violate firm policy and this is undoubtedly why they are being discreet.

It appears from the facts of the case that Giles is more responsible than Regas for the tension on the CAA Industries audit. To begin with, he never should have allowed Regas to serve as the senior on the audit since he is the supervising partner on the engagement. Perhaps he allowed her to work on the audit because to do otherwise might have aroused suspicions about a possible relationship between the two of them. Giles also seems to have created stress for Regas by his inappropriate comment: "There's no turning back for me." This type of comment can only add to the pressure Regas feels, given that her work is scrutinized by Giles. The result may be to negatively affect audit efficiency.

Although Regas' involvement in the relationship should not be dismissed, she does seem to recognize the dangers and ultimately makes a decision to put aside their relationship in the interests of completing the audit. Rather than simply honoring her request not to date for two weeks, Giles conditions his agreement on a "farewell" dinner. This is not a very caring and considerate thing to do and it demonstrates selfishness on the part of Giles. In fact, the dinner is the event that brings matters out in the open because Mark Sax now suspects that their relationship may be affecting completion of the audit. The direct involvement of the client puts the firm in a very difficult position, one that Herb Morris will have to deal with at the meeting with Giles.

**Ethical Analysis**

The decision to be made by Herb Morris can be analyzed using ethical reasoning. The stakeholders affected by Morris' decision include: Giles and Regas; the accounting firm; other staff members of the firm and its partners; CAA Industries and other clients that might be affected by the decision; and Mark Sax.

Utilitarian Theory: From a utilitarian perspective, Morris should weigh the consequences of alternative courses of action. The alternatives and an evaluation of the potential benefits and harms of each course of action follow.

*Permit Giles and Regas to complete the audit, but ask one of them to resign thereafter.* It is not practical to remove Giles or Regas from an audit that should be completed in about two weeks. The decision already has been made to put aside their relationship until the CAA audit is completed. This seems to be the best option from both the accounting firm's position and that of the client. All stakeholders seem to benefit from allowing Giles and Regas to fulfill their audit responsibilities under act utilitarianism.

The second part of this option is more troubling in that it is difficult to determine who should be asked to resign. It is an issue of fairness and due care. On the surface it may appear that Regas should be asked to resign because of Giles' position in the firm. However, this may not be in the best interests of the firm and other clients who may be very satisfied with the work of Regas. These stakeholders could be harmed by a decision that leads to the resignation of a valued member of the firm, and one with excellent future prospects. While the facts of the case are silent on this issue, it is an important one for Morris to consider. Clearly, he should meet with the other partners before making a decision. Any decision to remove Giles from the partnership is likely to be an expensive one for the firm since it will have to buyout Giles' ownership interest.

*Permit Giles and Regas to complete the audit and allow both of them to continue with the firm*. If both Giles and Regas are allowed to continue with the firm, then other staff members may start to wonder whether there are any consequences of violating firm policy. This is likely to be a particularly sensitive issue since some staff members on the CAA audit already suspect that the relationship is affecting the performance of Regas. Additionally, Mark Sax is aware of the situation and has expressed CAA's concern about the effect the relationship may be having on audit billings.

On the other hand, Morris may believe that a warning is sufficient to protect the firm's interests and those of the client, especially since the firm's policy only requires one of the two to resign if marriage is eventually planned. It may be that the best option is to give them another chance but take measures to prevent them from serving together on any audits in the future.

*Rights Theory:* From a rights approach, the most important issue is that of universality. That is, whatever decision is made by Morris should be one that he would want others in his position to take in similar situations for similar reasons. In other words, Morris may be establishing a firm policy on this issue and setting a tone for other staff members based on how he handles the dating relationship between Giles and Regas. Whichever option he chooses, it is important for Morris and the firm to realize that consistent action should follow when others are involved in similar situations.

Another important element of the decision is that Regas may believe that her rights are violated if she is "forced" to resign or is terminated from employment with the accounting firm. This could be a particularly sensitive issue if her performance meets or exceeds all of the firm's standards for its senior staff members. If Regas believes she has been wrongly fired, she may seek legal recourse against the firm for its action.

*Justice Theory:* There are many issues to consider from a justice perspective in evaluating the two alternative courses of action. First, if Morris does, in fact, establish a firm policy with his decision, as suggested above, then the new policy should treat all staff members fairly. For example, let's assume that Regas is fired because Giles is a partner with an ownership interest in the firm. Then, if another situation develops where a manager dates a senior, the employees involved and other staff members may expect that the senior will be fired regardless of that person's gender. Otherwise, some staff members may come to believe that the firm discriminates in enforcing its policy. Specifically, if the manager is a woman and the senior is a man, the justice theory requires that the man should be fired because he is of lower rank in the firm. The firm must also be sensitive to fact that this situation could turn into a sexual harassment matter.

On the other hand, the fairer approach may be to terminate the employee who has contributed less to the firm's success in terms of performance and client service. Future potential also could be considered. For example, let's assume that the other partners dislike Giles because he is known to become involved in situations that compromise the firm's position. If Regas is a highly productive member of the firm who is well liked by the partners, other staff members and clients, then it could be that Regas should remain with the firm and Giles asked to resign.

Another important issue related to justice is the reaction of other staff members to Morris' decision. If the other staff members believe that Regas is being signaled out as the scapegoat in this situation, then the morale of the staff may be negatively affected. The way that the decision is perceived by other staff members may directly affect their view of the fairness of the decision. This is particularly relevant in the case because Regas appears to be the one who has exercised proper judgment and Giles seems to be putting undue pressure on Regas and, perhaps, taking advantage of his position and influence in the firm. Other staff members may come to resent a decision that demonstrates favoritism toward Giles, regardless of the circumstances.

When Morris meets with Giles he should be honest and candid regarding the position of the other partners. Morris should fully disclose the client's concerns and those of the firm, especially as it pertains to the possible higher level of billings and violation of firm policy. The way in which Giles reacts to the statements of Morris and his expression of concern for the firm's interests and those of the client may be an important consideration in Morris' decision. One factor that was previously mentioned and that should have a significant bearing on the firm’s decision is the contribution of Giles and Regas to the welfare of the firm and its clients.

**Questions**

1. **Analyze the behavior of each party from the perspective of the Six Pillars of Character. Assess the personal responsibility of Ed Giles and Susan Regas for the relationship that developed between them. Who do you think is mostly to blame?**

Trustworthiness and Responsibility are the two pillars primarily affecting this case. Trustworthiness requires that one be honest; does not deceive, cheat or steal; and be reliable. Giles and Regas were telling lies and keeping secrets as they broke the rules of the firm and cheating on promises made

Giles and Regas have a personal responsibility for their actions. It may be argued that they are not responsible for their feelings, but they are responsible for acting on their feelings. Being responsible means doing what you are supposed to do; using self-control; being self-disciplined; thinking before you act; considering the consequences and being accountable for your choices. Neither Giles nor Regas resisted their attractions for each other.

Giles is mostly to blame because he should have known better as a partner of the firm. He is supposed to serve as a role model for other staff. Regas, on the other hand, is understandably easily influenced by someone like Giles with power and authority over her position with the firm and performance evaluation.

1. **If Giles were a person of integrity but just happened to have a “weak moment” in starting a relationship with Regas, what do you think he will say when he meets with Herb Morris? Why?**

If Giles were a person of integrity, he could have a “weak moment,” but then would have to explain why the affair continued. He might claim that once the affair started that the firm’s rules encouraged secrecy and deceit. However, that would not be acting responsibly and Giles would not be seen as accountable for his choices. An alternative approach is to admit his fault in the affair, in breaking the rules, and offer to quit. In this way he would be acting responsibly and be a person of integrity.

A general rule when a person does something wrong (i.e., Lance Armstrong) is to (1) admit the mistake; (2) promise never to do it again; (3) make amends; and then (d) change one’s behavior.

1. **Assume that Ed Giles is the biggest “rainmaker” in the firm. What would you do if you were in Herb Morris’s position when you meet with Giles? In your response, consider how you would resolve the situation in regard to both the completion of the CAA Industries audit and the longer-term issue of the continued employment of Giles and Regas in the accounting firm.**

Morris has to assess the situation and the effect on the firm. If he ignores the situation, the rules of the firm will never be followed. He will have to assess whether he will be able to trust Giles and Regas again, while realizing that he cannot coerce a breakup. Morris must decide whether to fire neither, fire both or fire Giles only. The decision to fire Giles would be based on the fact as the partner he had the utmost responsibility to set a good example and follow both the letter and spirit of the dating rules.

The rationale for the dating rule is that a sexual relationship between different rank employees leaves the firm open to charges of sexual harassment. Giles could cost the firm lost revenues and a sexual harassment lawsuit would tarnish the firm’s reputation for a long time.

It doesn’t matter if Giles was a “rainmaker.” A firm should not rationalizing keeping a partner on after violating the rules and putting the firm at risk simply because that person brings in a lot of business. Such an action smacks of ethical relativism and is improper from both an ethical and moral perspective.

As mentioned earlier, it’s best to keep Giles and Regas on the audit until it is completed and then decide what to do about their dating relationship. Morris should realize that whatever action he and the other partners decide to take will set a standard of behavior for other employees to follow.

**Multiple Choice Questions**

4. In respect to Herb Morris as a Managing Partner, Giles and Regas’s failure to adhere to firm rules most closely breaks which of the Josephson Pillars?

**Trustworthiness**

Citizenship

Respect

Responsibility

Trustworthiness involves honesty, integrity, respect, and loyalty. These are missing in her disregard for the firm rules on dating relationships.

5. One might say Giles was acting on which ethical theory?

Utilitarianism

Deontology

Virtue

**Teleology/egoism**

Giles is operating on the theory of what gives him the most satisfaction or pleasure, rather than virtue, which would hold him accountable for his actions.

6. Herb Morris should probably make his decision about what to do regarding Giles and Regas using what theory?

Deontology

**Justice**

Virtue

Teleology

Justice is associated with rights, fairness, and equality. Morris will have to decide not only what is fair to the complaining client but what is fair to the other employees of the firm who have abided by the rules. Failing to enforce the rule now will surely lead to either dissatisfaction among the others or more rule breaking by everyone in the future.

7. Ethics in accounting is based on which of the following?

Respect

Fairness

Responsibility

**Integrity**

Integrity is the fundamental trait of character that enables a CPA to withstand client and competitive pressure that might otherwise lead to the subordination of judgment. Giles is acting out of expediency (he enjoys the relationship), more than he is bothered by the moral qualms in violating a firm rule.

8. Giles probably violated which of the IMA Standards?

Competence

Confidentiality

**Integrity**

Credibility

Giles failed to mitigate an actual conflict of interest and did not communicate his conflict to his business associates. He did not refrain from engaging in conduct that would prejudice carrying out his duties ethically. Finally, he did not abstain from engaging in an activity that would discredit the profession in the eyes of the client.