Chartered Professional Accountants | CPA PROFESSIONAL PROGRAM

CPA Professional Program Exams –

CPA Professional Readiness

Case #2 – Academic Prowess Inc.

Ethical Decision-Making Sample Case and Illustrative Response

The sample examination questions provided in this package are intended to offer a general indication of the format, structure, and nature of questions that candidates may encounter. While these materials have been developed with careful consideration and are intended to be broadly representative, they are not exhaustive and cannot capture the full range of possible question variations. These samples should therefore be used as a guide rather than a definitive representation.

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Academic Prowess Inc. (Suggested Time: 60 minutes)

You, CPA, meet up with an old friend, Sandy, for coffee. After catching up about your family lives, he asks for your advice.

Sandy: "About a year ago, I joined the board of directors of Academic Prowess Inc. (API), a large private company that specializes in online tutoring for learners of all ages. It has recently developed an artificial intelligence (AI) tutor for most of its subjects and levels and has piloted it with several populations.

"At first, I really enjoyed the board position. The AI tutor was being developed, and we were discussing its progress, what ages and subjects to pilot first and where, et cetera. The chair, who is also one of the owners, was great at being thorough, scheduling monthly meetings, getting detailed reports for us to review in advance, and making sure there was time for our questions about issues or potential oversights. Then, a few months ago, the chair's wife fell ill, and he has had to remove himself from the board. The vice chair, Sid, has taken over and will remain in place until the next annual general meeting, which is in about seven months. None of the remaining board members are owners.

"I have been increasingly uncomfortable since Sid took over. He cancelled the first meeting we were to have under his watch at the last minute. I had actually arrived at headquarters and was making my way to the boardroom when I received the cancellation email on my phone. I'm glad I went in that day because I ended up having a few hallway discussions with research and development (R&D) employees and learned that some pilot testing of the AI tutor has shown that, due to the gamification techniques it uses, it has addictive qualities for youth, leading to anxiety and depression. The R&D employees were concerned, given recent backlash in the media against similar issues with certain social media platforms. These concerns are heightened by the overburdened medical system and the fact that this result counters API's mission to empower through education.

"I also spoke to some sales reps, and one excitedly mentioned securing huge advertising contracts with a cosmetics giant and a company manufacturing muscle-enhancing supplements for them to advertise their products on our tutoring platform. The sales rep said, "the advertisers can't wait to get access to our high-school-level learners". He apparently is going to make quite a good commission from them.

"We then got our revised meeting schedule, which reduced our meeting frequency to quarterly. Our first meeting was very different. Instead of providing it two weeks in advance as usual, Sid handed out the information we were expected to make decisions on at the start of the meeting. When I requested that we receive the meeting material in advance in the future, he got right in my face and yelled at me in front of the whole board about how he was too busy to deal with this kind of bad attitude. He told me I need to be more accommodating since he had taken on these additional responsibilities unexpectedly. No other board member dared to speak up after that.

“He had the CEO present the results of the pilot testing concluding that all looked great to roll out; the addictiveness was not mentioned. When I asked about it, the CEO said I must have misheard, and Sid called the vote on releasing the AI tutor to the public. I spoke up, asking whether we could discuss the advertising contracts, but Sid said in a stern voice that the discussion period was over. I honestly believe the vote would have occurred, and the Board would have voted in favour of it, except that the fire alarm went off just then and we had to evacuate. Thankfully, it was a false alarm, and it means the vote got postponed.

“While we were evacuating, the Board members were chatting with each other but ignored me. They all seemed to be good friends. I care about the work this company does. It makes receiving learning support accessible to all at reasonable prices, given the supplementary ad revenue, but I’m struggling with the current environment.

“What do you think I should do?”

You promise Sandy you will think about it overnight and get back to him in the morning with your suggested approach. As a way to organize your thoughts, you summarize the situation, including a discussion of all interested parties, and contemplate the possible approaches before recommending next steps to Sandy.

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Academic Prowess Inc. (API)

Illustrative Response

This illustrative response does not represent a sample response completed under exam conditions but rather illustrates the main elements relevant to a complete response.

Ethical Issues

The board of directors is being asked to vote soon on the full release of the AI tutor despite fulsome discussion on two major concerns not being allowed to take place:

1) The AI tutor program may (or does) have addictive qualities in the youth segment. This is likely a large portion of API's market and is a vulnerable population, given their brains are still developing. The pilot testing indicated that the addictive qualities were leading to anxiety and depression. Mental health issues are on the rise, and the public health system is already overburdened.
2) The adolescent platform is going to advertise cosmetics and muscle-enhancing supplements. This will likely not be well received by parents if they become aware or by the public in the case of media scrutiny.

The board of directors also seems to have some familiarity and intimidation issues between members. The temporary chair of the board appears very familiar with the CEO and the board members. At the same time, they may be intimidated by him, since he has used the volume of his voice, his words, and his body positioning to shut down a board member making a reasonable request. At a minimum, it seems Sandy is intimidated by him.

Interested Parties

- Learners (youth and high-schoolers)
    - These individuals want an effective learning environment. If learning is fun, it will be more effective, especially for youth who may be resistant to spending time on tutoring activities. Using gamification likely helps make the learning fun and interesting.
    - These individuals also want good mental health, whether they can articulate that or not. No one wants to be anxious or depressed or have low self-esteem. The high-school age group is particularly impressionable and subject to significant peer pressure and bullying.

- Parents
    - Parents want the learning to be effective, since they are paying for it and they care about the education of their children.

    - Parents also likely care deeply about the mental health of their children and would be concerned about any anxiety and depression issues caused by the AI tutor. They would also be offput by any advertising shown to children that targets their self-esteem (cosmetics and muscle-building supplements).

While it remains to be determined whether providing a product known to be associated with negative mental health outcomes or advertising in this way to minors is illegal, these actions are certainly unethical given their known negative consequences to the above significant interested parties.

Other interested parties:

- Board of directors
    - One of the roles of the board of directors is to protect the long-term health of the organization. Although API is private, it is a large company and likely has external financing (i.e. debt), and so the directors and officers have a fiduciary duty to exercise a duty of care. In this case, the board could be found negligent in their duties, given they did not do their due diligence. They did not receive the information needed to help make decisions with sufficient time to review, nor did most of them raise concerns about this (although the fire alarm has given them additional time beyond what the Chair had originally planned). Even more concerning, when presented with the risks of the AI tutor release and the inappropriate advertising, they did not probe further, accepting too readily that Sandy must have misheard and that the discussion period was over. This could result in legal liability.

- API shareholders
    - The shareholders are likely eager to launch the new AI tutor as an additional mechanism for earning greater profit, especially if the development was expensive. They may also be pleased by the advertising revenue contracts, given their effect on profitability. However, they would want to help ensure the long-term sustainability of the company, and gains in the short-term that result in reputational damage or lawsuits that later hurt the company’s finances would not be in their best interest.

- API employees
    - It seems like the R&D employees would be upset with the board’s decision to release without investigating and correcting the addiction issues. Being in research and development, they may have an interest in “getting it

right," or they may simply be concerned about the mental health impacts of their creation. Releasing the AI tutor without their support may cause a rift between them and API and result in some of them seeking employment elsewhere.
    - The sales rep who secured the advertising contract is interested in their commission. If this contract were annulled, they might lose the related compensation and could take legal action (if it was their mandate to secure such contracts, they did the work, and then a decision was made after the fact to cancel the contract). This particular sales rep did not seem concerned about the negative impact the contracts could have on high-schoolers.
- Advertisers
    - Advertisers are interested in reaching their target markets, so having their advertisements appear in front of an impressionable teenage audience through the AI tutor would be advantageous for their companies' profits. If a contract is already signed, breaking it may come with penalties or other legal consequences.

Potential Courses of Action *(other options are valid; this is a sample of possible courses of action)*

1) Given the vote has been postponed, Sandy could bring his concerns up formally with the Board in written form and request they be investigated by the CEO as to their legitimacy:
    a. Whether the pilot testing showed that the gamification techniques used had addictive qualities in youth that could lead to anxiety and depression. Sandy should request the pilot testing result documentation be made available to the Board.
    b. Whether new advertising contracts had been signed with cosmetics and muscle-enhancing supplement companies and were planned to be used with the high-school demographic.
    c. If either of the above are true, whether there are legal risks to API (i.e. laws related to age-appropriate advertising or offering products with known health issues).

   He should request that his concerns and his request be recorded in the minutes of the Board meeting.

   The advantages of this approach are that it formally documents Sandy's concerns, potentially giving him some liability protection, and it gives all board members the opportunity to know if these concerns have merit and to consider them in their vote for or against the release of the AI tutor.

However, there are disadvantages to this approach. Given Sid's previous behaviour, it may result in escalating intimidation tactics used against Sandy. If the CEO and Sid knew of these concerns already and were purposefully trying to keep them under wraps, it's possible the 'investigation' will not reveal factual results and thus not be effective. That said, with the concern and investigation request formally documented in the minutes, it is unlikely Sid and the CEO would take that risk.

2) Sandy could use a whistle-blowing mechanism if it exists. He would first need to determine where the whistle-blowing communication goes (e.g. management, the Board, a third-party, etc.).

   A disadvantage of this approach is that if the communication goes to management or the Board, this is unlikely an effective route as the CEO and the Board have already heard Sandy's concerns about the timing of the meeting material and the addictiveness/advertising, and they seemed to fall on deaf ears.

   If the communication goes to a third-party, an advantage would be that the third party could help mediate the issues so they can be resolved quickly and appropriately. It may also result in the shareholders being informed if misconduct is discovered (i.e. the CEO/Chair of the Board knew about the pilot testing, if legal consequences could result from either the addictiveness or the advertising, or the company's value would be at risk as a result).

   Whistleblowing is often meant to protect the anonymity of the individual making the complaint, however, in this case, given Sandy's vocalizations at the most recent Board meeting, Sid and the CEO may suspect it was him regardless of this protection. As such, this approach comes with the added disadvantage that it would likely permanently damage Sandy's relationship with Sid, the CEO, and possibly the other board members. It may be difficult to work with them in the future, should they remain on the board.

3) Sandy could attempt to discuss his concerns with the other Board members one on one, including the weakened governance practices and their fiduciary duties. He could discuss the reduced meeting schedule, the lack of availability of information in a timely manner, the possible concealment of critical information, and the shutting down of important discussions, all leading to potential director liability. While they seemed friendly with Sid at the end of the last meeting and were perhaps too intimidated to speak up during it, they may still share Sandy's concerns. If the others knew there were several of them feeling the same way, they may feel brave enough as a group to push-back against Sid's intimidation tactics.

Having support of other Board members would be an advantage, as Sid may feel greater pressure to behave appropriately. Some Board members may indeed be good friends with him and can use that friendship to help steer him to fall in line without unnecessary conflict. There may be enough Board members that share Sandy's concern that the motion to release the AI tutor might be defeated at the next meeting, requiring changes to the product to improve safety.

However, this approach may be ineffective if the other Board members don't share Sandy's concerns. If any of them are indeed good friends with Sid, they may tell Sid that Sandy is approaching them individually, which may add another layer of friction between Sandy and Sid.

Recommendation

Sandy is right to be concerned, and staying silent would be both unethical and go against his duty as a director. I would advise Sandy to do the following, but of course the ultimate decision is Sandy's to make.

1) Pursue Action 1 to ensure all Board members have the facts to cast an informed vote and have an informed discussion on the advertising contracts.
2) Pursue Action 3 related to concerns about the weakened governance practices.
3) Obtain legal advice regarding:
    a. How Sandy can minimize his own director's liability in the case of the vote occurring without appropriate investigation, or with an investigation confirming the concerns were valid but modifications to the product are not made or tested.
    b. If his duty as a director to keep company information confidential limits his available actions to protect the public and to what extent.

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