Chartered Professional Accountants | CPA PROFESSIONAL PROGRAM

# CPA Professional Program Exams – Sample Case and Illustrative Response

## *CPA Professional Readiniess - Ethics Case*

*Academic Prowess Inc.*

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.

**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, and 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. The vote passed 8 to 1, with mine being the only vote against.

“After the meeting, everyone was 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 points relevant to a complete response.*

### Ethical Issues

The board of directors approved the full release of the AI tutor despite several concerning results in the pilot testing:

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. While not illegal, this will likely not be well received by parents 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

1. 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.

2. 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). This age group is particularly impressionable and subject to significant peer pressure and bullying.

3. 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 may result in reputational damage or lawsuits that later hurt the company's finances would not be in their best interest.

4. 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.

5. 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.

6. Board of directors

One of the roles of the board of directors is to protect the long-term health of the organization. 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. 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.

## **Alternatives** *(other options are valid; this is a sample of possible courses of action)*

1. Sandy could bring these issues up formally with the board in written form and request they be documented in the minutes
   a) Mental health impacts on learners (addiction, advertising) and the potential reputational impacts and misalignment with the company's mission. There may also be legal

implications if laws exist related to age-appropriate advertising or known health issues with a product.

b) Weakened governance practices, including reduced meeting schedule, the lack of availability of information in a timely manner and the possible concealment of critical information, and the shutting down of important discussions, leading to potential director liability.

The advantage of this approach is that it formally documents Sandy's concerns, potentially giving him some liability protection, and it gives the board the opportunity to make corrective actions. With a reminder of the board's fiduciary duties and consequences of not meeting them, this approach may be sufficient to motivate board members to fulfil their responsibilities appropriately. To confirm that the written documentation would be sufficient to protect Sandy in the case the board is found liable, Sandy should seek legal advice.

However, there are disadvantages to this approach. Given Sid's previous behaviour and the close relationships he has with the CEO and the other board members, it may not be effective and may result in escalating intimidation tactics used against Sandy.

2. Sandy could bring the issues mentioned above to the attention of the shareholders, including the previous chair. The shareholders would ultimately be affected by any negative outcome resulting from the premature release of the AI tutor.

   The advantage of this approach is that the shareholders have the authority to change members of the board if they are not appropriately protecting API and the shareholders' interests.

   On the other hand, this approach would likely permanently damage Sandy's relationship with Sid, the CEO, and the other board members, since Sandy would be going over their heads. It may be difficult to work with them in the future, should some of them remain on the board.

3. Sandy could go public with the concerns (e.g., seek media attention), warning current and future clients about the potential mental health harms of API's AI tutor product.

   The advantage here would be that it may quickly put a stop to the AI tutor release and minimize damage to youth and additional burdens and costs on the health care system.

   The disadvantage is that it could significantly damage the company, potentially ruining all the good work it does providing accessible academic tutoring for many different populations. Taking this approach would also likely tarnish Sandy's professional reputation. While he will have protected the public (which is good), he will have done so in a way that greatly damages the company he represents.

In all these options, there is a risk that Sandy had misunderstood or misheard the API employees.

**Recommendation**

Sandy is right to be concerned, and staying silent would go against his duty as a director. Sandy should first obtain documentation from the pilot testing and advertising contracts to ensure the facts are accurate. I would advise Sandy to do the following, but of course the ultimate decision is Sandy's to make:

1. Confirm with the employees he spoke to previously that he heard them correctly and obtain documentation, if possible, to substantiate the facts.
2. Document all that has transpired to date to protect himself, including
   a) the cancelled meeting;
   b) the reduced meeting schedule;
   c) the date the meeting information package was received;
   d) the responses to queries and concerns raised by Sandy during the meeting; and
   e) his vote against the AI tutor release.
3. Obtain legal advice to determine any other protective measures Sandy should take to reduce director liability risk.
4. Pursue alternative 1 (bring the issues up with the board), showcasing the support from employees, giving the board a chance to make the necessary corrective actions themselves, and pointing out their personal liabilities should they shirk their fiduciary duty.

If the issues go uncorrected and governance continues to be inappropriate, then alternative 2 would be the next best step.