



Ethical Dilemmas Case Studies

Professional Accountants in Business

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CCAB Ethical Dilemmas for Professional Accounts in Business

Introduction

The following case studies were developed by the UK and Ireland's Consultative Committee of Accountancy Bodies (CCAB). They illustrate how the ethical codes of the CCAB bodies can be applied by professional accountants working for commercial organisations. These scenarios are not intended to cover every possible circumstance, but instead to outline key principles and processes that could be considered when attempting to identify, assess and resolve ethical problems in line with the ethical codes. These case studies were published in November 2011. The CCAB welcomes comments on these cases. Please email admin@ccab.org.uk

The professional accountant in business

All members (and registered students) of CCAB bodies have a responsibility to behave professionally and ethically at all times. In addition, as a professional accountant within a commercial organisation, you will have a particularly important role to play in creating, promoting and maintaining an ethical culture. You may be approached by employees wishing to report unethical behaviour and, as a senior figure within the organisation, you will have an impact on its ethical tone.

A professional accountant in business has a responsibility to further the legitimate aims of his or her employing organisation. The ethical codes of the CCAB bodies do not seek to hinder a professional accountant in business from properly fulfilling that responsibility, but address circumstances in which compliance with the fundamental principles may be compromised.

Resolving ethical dilemmas

These case studies are compatible with the ethical codes of the CCAB member bodies, which are derived from the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA).

The case studies illustrate the application of the 'conceptual framework' approach to resolving ethical dilemmas. This approach focuses on safeguarding the fundamental principles of:

- integrity,
- objectivity,
- professional competence and due care,
- confidentiality, and
- professional behaviour.

In order to do so, it is important to be alert to situations that may threaten these fundamental principles. Identified threats need to be evaluated and managed, to ensure that they are either eliminated or reduced to an acceptable level. Threats may arise as a result of any of the following:

- self-interest: the threat that a financial or other interest will inappropriately influence your judgement or behaviour

- self-review: the threat that you will not properly evaluate the results of a previous judgement made or service performed by you (or someone else within the organisation) when forming a judgement as part of providing a current service
- advocacy: the threat that you will promote a position (usually your employer's) to the point that your objectivity is compromised
- familiarity: the threat that, due to a long or close relationship with someone, you will be too sympathetic to that person's interests, or too accepting of their work
- intimidation: the threat that you will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over you.

When resolving an ethical conflict, consider carefully whether other parties could or should be involved in discussions and, if appropriate, how those parties should be approached. You should keep in mind confidentiality obligations. If you are facing, or think you might be facing, an ethical dilemma, you may wish to seek advice from a trusted colleague within the organisation, your professional body or an independent lawyer.

You should take care to ensure that any advice obtained is sufficiently well documented, either by way of minutes or your own records. Similarly, discussions held, actions you decide to take, and the reasoning behind your decisions should be clearly documented. In many situations, the perception of a reasonable and informed third party will be relevant to the resolution of the dilemma, and you might be required to evidence the steps you took to resolve the issue.

These case studies do not form part of the CCAB bodies' ethical codes. You may find it useful to refer to the advisory services and websites of the individual CCAB bodies for further information. The IFAC website may also be of use.

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Outline of the case

You have been the finance director of a clothing retailer for ten years. The company's year end is 31 March, and you are finalising the year end accounts.

You have recently been advised by the warehouse manager of a significant level of slow-moving stock. The stock in question is now more than nine months old and would normally have been written down some months previously.

The shareholders are trying to sell the company, and the managing director (the majority shareholder) has told you that it is not necessary to write down the stock in the year end accounts. You are sure that the managing director wants the financial statements to carry an inflated stock valuation because he has found a prospective buyer. The managing director has indicated to you that, if the proposed deal is successful, all employees will keep their jobs and you will receive a pay increase.

Key fundamental principles

Integrity: In the light of the information you have, you must ensure that you act honestly, and that you are open and straightforward towards those with whom you come into contact.

Objectivity: Can you act without bias, despite the significant threats in the form of self-interest and intimidation?

Professional competence and due care: You must act diligently. Do you have sufficient information to be able to determine the appropriate value of the stock to be included in the accounts?

Professional behaviour: You are required to account for the stock in accordance with relevant accounting standards. Would any of the actions you are considering discredit the profession in the opinion of an informed third party?

Considerations*Identify relevant facts:*

You are receiving conflicting information from the warehouse manager and the managing director. The managing director is putting you under pressure to account for stock at a higher value than that with which you feel comfortable. He proposes misrepresenting information about the company in the financial statements, which would be contrary to the fundamental principle of integrity.

A self-interest threat to your objectivity arises from the financial benefit that you are likely to receive if the company is sold under the proposed deal. You are also feeling intimidated by the managing director. He appears to be suggesting that the future employment of other employees depends upon the proposed deal being successful and, therefore, upon the results shown by the financial statements.

Identify affected parties:

Key affected parties are you, the managing director (and the other shareholders) and the potential purchaser of the company. Other employees of the company may also be affected, as it has been implied that their jobs are at risk if the proposed deal is unsuccessful.

Who should be involved in the resolution:

You should involve the warehouse manager, the managing director and, if necessary, your fellow board members.

Possible course of action

You cannot simply do what has been asked of you, because the principle of integrity requires a professional accountant not to be associated with information that they believe to be false or misleading. Relying on the potential buyer's due diligence to identify the overvaluation is not appropriate. You are responsible for the honest presentation of the accounts, and you should not transfer that responsibility to either the buyer or the auditors.

The first step is to ensure that you have sufficient information. This would include establishing the basis of valuation of the company's stock, investigating the system for counting and evaluating stock, and discussing with the warehouse manager the reason why the stock is slow-moving. You may also need to discuss the realisable value with someone else, such as the sales director.

Once you are sure of the facts, you should discuss the matter with the managing director. If, in your opinion, the managing director continues to insist on an inflated stock valuation being incorporated into the financial statements, you should consider how best to raise the issue with the other board members. Initially, you could suggest that both you and the managing director raise the matter with the other board members. If you feel it appropriate to discuss the matter with anyone else within the company, you must bear in mind the need for appropriate confidentiality and be clear about your reasons for raising the matter.

Discussions with the managing director may be made easier by reference to the company's own code of ethics, if it has one. If it does not, you should make the managing director aware of the ethical requirements of your professional body. You could suggest that the company engages an independent expert to value the stock.

At each stage, you should consider the need to follow meetings with email or other written correspondence to record your points of view. This would be particularly appropriate if you are of the opinion that the managing director or the board has not been sympathetic to your concerns.

You might have to consider raising the issue externally, for example alerting the auditors to the existence of the slow-moving stock, or seeking advice from your professional body. If the situation remains unresolved, you may have to remove yourself from the conflict. The clearest way to disassociate yourself from misleading financial accounts would be to resign. However, this would only be an option to be exercised, as a last resort, in the most extreme circumstances. Resignation alone would not help to resolve the situation. It would be advisable to take legal advice before considering resignation.

You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future.

Outline of the case

You and your wife have recently moved to a remote coastal town in order to further your wife's career. You have found employment as financial accountant to a local private company. The company's operations are all related to tourism, and it has, as its principal asset, a large Victorian hotel.

The company is owned by the two directors – a husband and wife – who are actively engaged in the day-to-day running of the business. You get on well with the directors and staff, and the directors of the company are clearly popular and well respected in the local community. You are still within your probationary period of employment.

The company had faced some serious cash flow difficulties shortly before you took up your post. However, a remortgaging arrangement has, apparently, eased the financial pressure.

The managing director comes to you with a company cheque for £4,000, which he has already signed. He asks for your counter-signature, explaining that it is the deposit for the design work and furnishings for some of the hotel bedrooms. There is a formal invoice from a design studio, but you are surprised as you were not aware that any such outlays had been planned. Nevertheless, given the explanation and the supporting invoice, you counter-sign the cheque.

Out of curiosity, you decide to conduct some research into the design studio. This indicates that it is a company that had, in the past, a high level of indebtedness. You note that the company secretary appears to be the daughter of the directors for whom you work.

Two days later, the managing director comes to you with another cheque, this time for £25,000, again needing only your counter-signature. There is a supporting invoice from the same design studio. You are hesitant, and the managing director explains that he is only asking you to counter-sign the cheque because his wife is not in the office. He says that it is important to submit the cheque promptly so that it may be banked before 30 April.

You ask why there is such urgency, particularly as there is no evidence of any design work having started. The managing director laughs and replies that the money should be back in the hotel bank account by the middle of summer. He explains that the cheques are needed urgently to settle outstanding directors' loan accounts at the design studio, as its year end is approaching. Once the year end has passed, the money should be returned to the hotel company and a supporting credit note received.

Key fundamental principles

Integrity: How can you act honestly with regard to the operations and accounting function of your employer? You must encourage fair dealing and truthfulness.

Objectivity: You must strive to find a persuasive solution to this ethical dilemma, although there are significant pressures upon you to accept an arrangement that involves blatant dishonesty.

Professional competence and due care: It may be complicated to resolve this dilemma, and so you should consider whether or not you have the necessary expertise. You may need to take advice.

Considerations

Identify relevant facts:

You are being asked to take part in a transaction that you know is dishonest. You believe that, if you refuse to comply but do nothing more, the transaction will take place nevertheless. Consider relevant accounting standards, applicable laws and regulations (including taxation requirements), as well as the ethical requirements of your professional body.

Identify affected parties:

Key affected parties are you, the directors of the tourism company, the directors of the design company, and users of the design company's accounts, including the tax authority. Your wife may also be affected by the course of action that you take.

Who should be involved in the resolution:

As well as involving the directors, you may be required to involve others outside the tourism company. If so, you should consider the objective and timing of their involvement. If you wish to discuss possible solutions with the accountant or directors of the design company, you must safeguard the principle of confidentiality.

Possible course of action

It may require a degree of moral courage, but you must refuse to counter-sign the second cheque. You should encourage the directors to explore legal ways to assist the design company that are both ethical and do not risk the reputation of their company. Making a loan to the design company may be possible, but you should ensure that you have sufficient knowledge concerning the tax, and other, consequences of any movements on the directors' loan accounts in the design company.

Before discussing any possible solutions with the directors of the design company or their accountant, you should ensure that you have the written authority of all parties to discuss their financial affairs. You should ensure that you are in possession of all relevant facts before you provide advice, but also recommend to the directors of the design company that they take independent advice.

If you feel unable to influence the situation, then you may conclude that the fraudulent transaction will take place. You must disassociate yourself from the final accounts if you know them to be misleading. Whether or not this results in your resignation, you should seek advice from your professional body, and take independent legal advice, regarding any responsibility you might have to disclose the fraudulent activity to the appropriate authorities.

You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future.

Outline of the case

You are a recently qualified accountant and have accepted a job as financial controller for a well-established family business which supplies equipment to photographers, both by mail order and from its warehouse outlet. Its customers range from enthusiastic amateurs through to part-time professionals and owners of busy studios.

The customers' payment methods reflect their diversity. There are credit card transactions and customers with 30-day credit business accounts. There is also a surprisingly large number of customers who collect their goods from the warehouse and pay in cash. You are told that cash payment probably reflects the nature of the customers' own receipts, as some photographers will often be paid in cash for weekend wedding assignments.

In your first week at the company, the sales director (the principal shareholder's son) brings to you a cheque in settlement of the account of a major customer. He explains that the cheque (which appears to clear the amount due) is in fact an overpayment, as the balance showing on the sales ledger is before allowing bulk discount (which is calculated retrospectively). The sales director shows you his calculations and the agreement as authorised by the board.

The sales director states that the customer's managing director has come to collect the discount in cash. He says that this is not an unusual occurrence for some of the company's better customers. It helps to maintain a good relationship with those customers, which leads to purchasing loyalty. Another benefit of this arrangement is that it gives the sales director regular face-to-face meetings with the senior staff of those customers. It also reduces the high charges that the bank makes for handling cash.

You ask the sales director why the customers prefer to receive a refund in cash, rather than simply pay the net amount needed to settle the account. He replies, with a smile, that it is not for him to question their motives.

Key fundamental principles

Integrity: You and the sales director have suspicions about the motives of some customers who regularly overpay the company and receive refunds in cash. Are you acting with integrity if you do not question those motives?

Objectivity: Being new to the company, you are likely to feel intimidated by the directors, who are all members of the same family. Can you ensure that the intimidation threat does not adversely affect your ability to make ethical decisions?

Confidentiality: You should consider whether you have a responsibility to discuss the practices of the company and its major customers with third parties, once all other reasonable steps have been taken.

Professional behaviour: You must comply with relevant laws and regulations and not assist others to act illegally or unethically. You must not do anything that may discredit you or the accountancy profession.

Considerations

Identify relevant facts:

You are aware that some of the company's customers are overpaying their accounts with the company and receiving repayments in cash. If credit notes are issued to the customers in respect of the retrospective discounts, these could be concealed by the customers, who can then understate their profits. Although there are quite legitimate benefits to your employer, you and the sales director have reasonable suspicions that the customers concerned are false accounting.

Identify affected parties:

These include you, the sales director, some of the company's customers, the tax authority and, to a lesser extent, other stakeholders in the company.

Who should be involved in the resolution:

You, the sales director and maybe other board members should be involved in the discussions. Are there other trusted colleagues with whom you can discuss your position?

Possible course of action

As you are currently unfamiliar with the procedures of your new employer, you should try to establish the extent of the issue. You might achieve this by reviewing the sales ledger accounts that have shown credit balances in recent months that have subsequently been cleared by cash refunds. If your understanding is correct, these accounts will relate to some of the company's major customers.

Having established the facts, you should discuss the issue with the sales director and then, if necessary, the other board members. In each case, you should prepare for the meeting and try to propose an acceptable solution to overcome any resistance that you may encounter. Your professional body may be able to help. You should advise the directors of the opportunity for fraud that you have noticed regarding the cash refunds, and that the company could suffer adverse consequences if it is allowed to continue.

You could also explain to the directors the ethical code of your professional body, and that you cannot simply ignore the situation.

If you feel the need to resign in order to disassociate yourself from the unethical practices of the company and its major customers, then you should seek legal advice on your employment and whistleblowing rights and responsibilities (subject to the rules and guidance of your professional body) and any protection you might seek from legislation.

You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future.

Outline of the case

You are a qualified accountant. You have been asked, by your line manager, to complete a costing exercise with a very short deadline and limited resources. You think that the president of the company is planning to use this information to restructure the company, including making some of your close colleagues redundant. You are worried that your work cannot be robust enough to be used for such a big business decision, but your line manager is putting you under a lot of pressure to complete the work quickly.

Key fundamental principles

Objectivity: Could you maintain an unbiased stance throughout, in view of your close relationship with your colleagues?

Professional competence and due care: Can you realistically produce a costing, with the time and resources available, without compromising the standard of your work?

Confidentiality: Given the sensitivity of the situation, you should maintain discretion and not share your concerns with other staff, who may not be aware of the president's intentions.

Considerations

Identify relevant facts:

The company may be restructuring, and the president needs to have the most up to date and complete financial information to inform any decisions. As a professional accountant, you must ensure that any financial information you provide is robust.

Identify affected parties:

Key affected parties are you, your line manager, the president and anyone else who may use the results of the costing exercise. Other stakeholders in the company may also be affected, including those employees who might suffer redundancy.

Who should be involved in the resolution:

Is there anyone else in the company with whom you can raise your concerns? Is there a senior finance officer who could advise you, or another member of the board with whom you can discuss your dilemma? Should you approach the president directly?

Possible course of action

You think that the president of the company is planning to use the information you produce to restructure the company. As a professional accountant, you have a duty to make your line manager and other users of the information aware of the limitations in the scope of your work. With this in mind, you should attempt to obtain certainty regarding the use of the information.

You should arrange a meeting with your line manager and explain that you are unwilling to do the work to the deadline requested, with the resources available, because the work could not be relied upon. You could ask for more time to complete the work to the required standard, or ask for the work to be outsourced. This would have the added benefit of enhanced objectivity. The process of clarifying the intended use of the information and expressing your concerns regarding its reliability is likely to enhance your credibility. You could suggest that your line

manager discuss the issue with the president or other members of the board, as appropriate.

If your line manager is unsympathetic to your concerns, you should not allow yourself to be associated with information that may be misleading. You should consider the most appropriate way in which to make your concerns known to the board. This may be through the president or the company secretary.

If, after exploring all these routes of communication, you still find yourself under unreasonable time pressure, you may have to make clear your refusal to conduct the work, and possibly resign from the company.

You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future.

Outline of the case

You have recently become Head of Finance at Company B, a company which provides catering services to the public sector. Your previous employer was large public sector Organisation A where, as finance manager, you had the opportunity to work on areas relating to financial accounting, procurement, contracts and bids.

One of Company B's major contracts is with Organisation A. The contract is now up for renewal, and Company B is preparing a competitive bid for this contract. You have been asked to lead the team responsible for bidding for this contract, but you are concerned that you might breach confidentiality if you accept this assignment. You also suspect that your knowledge and experience of Organisation A were seen as good reasons for appointing you to the position at Company B.

You do not want to let your new employer down. The loss of such a major contract would have a significant effect on the financial performance of Company B and its performance-related bonus scheme for management.

Key fundamental principles

Objectivity: Can you safeguard against the significant self-interest threat which arises from Company B's performance-related bonus scheme?

Confidentiality: If you accept this assignment, can you ensure that you do not use confidential information relating to your previous employer to your advantage or to the advantage of your current employer?

Professional behaviour: What can you do to safeguard your reputation and the reputation of your employer and your profession?

Considerations*Identify relevant facts:*

Your previous employment with Organisation A has provided you with information which may be of value to Company B. You must consider your professional body's code of ethics, applicable laws and regulations, your current and previous contracts of employment, and your employer's policies and procedures. A self-interest threat arises because of the impact that losing Organisation A's contract would have on Company B's financial performance and reward policy. You may also be feeling that you would like to impress your new employer and help to make a successful bid for the renewal of the contract.

Identify affected parties:

Key affected parties are you, your line manager and the board. Other employees in the company may be affected due to the financial implications of the contract not being renewed.

Who should be involved in the resolution:

Your line manager, other relevant staff and, if necessary, the board should be involved.

Possible course of action

The principle of confidentiality prohibits the use of confidential information acquired as a result of your previous employment for your advantage or that of your current employer. While you have a responsibility to advance the legitimate aims of your employing organisation, this should not extend to a breach of confidentiality.

In this case, you (because of Company B's performance-related bonus) and Company B stand to benefit from the confidential information about how bids are assessed at Organisation A. The principle would not be breached if you were in possession of information that was in the public domain, or if you were simply to use experience gained in your previous employment, so long as you do not use confidential knowledge that you acquired as a result of that employment.

You should discuss the situation and your obligations with your line manager in the first instance, and ask for your involvement in the preparation of the contract bid to be limited. For example, you may be able to contribute to aspects of the bid that do not require you to refer to confidential knowledge about your previous employment. If your line manager fails to understand the conflict that you are facing, you should request that you both discuss the matter with a director or other member of staff. During these discussions, you should refer to the company's ethical code, if it has one, as well as that of your professional body.

If there are no other formal channels available, you should make the board aware of your dilemma. If necessary, you must refuse to take part in the bid without necessary safeguards being implemented. Ultimately, disassociating yourself from Company B may be the only solution. However, before taking such a step, you should seek legal advice on your employment rights and responsibilities (subject to the rules and guidance of your professional body).

You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future. Looking at this issue from Company B's perspective, it may be appropriate to suggest to your line manager that a policy on conflicts of interest be developed and that the remuneration and bonus policy be reviewed in light of this.

Outline of the case

You are employed as an accounting systems manager in a company that manufactures heavy plant. You and the financial controller both report to the finance director.

During your work, you overhear the financial controller saying that he has not been disclosing certain things to the external auditors. These include the fact that a recent acquisition has resulted in a large piece of machinery becoming redundant and of very little value. You are unsure whether to believe this, but you are concerned that the culture within the finance department appears to be one of antagonism towards the external auditors, who are (unreasonably in your opinion) seen as adversaries of the company.

In addition, you have heard that a bribe was paid to an overseas company to secure a sales contract. You feel uneasy about the situation, and you are concerned that the close relationship between the financial controller and the finance director may prevent you from exploring the accuracy of the information that you have received.

Key fundamental principles

Integrity: Can you overlook the financial controller's comments, the culture within the department, and the alleged bribe, and still demonstrate your own integrity?

Confidentiality: Is there any basis on which you may or must make disclosures to the external auditors or anyone else?

Professional behaviour: How should you proceed in order to comply with relevant laws and regulations, and so as not to discredit yourself or the profession?

Considerations

Identify relevant facts:

Consider the company's policies, procedures and guidelines, accounting standards, and applicable laws and regulations. Can you corroborate the facts further through documentation and discussion with relevant parties? Does the company have an internal process for whistleblowing? What channels of communication exist within the organisation, for example with the external auditors, the company's audit committee or an ethics officer?

Identify affected parties:

Key affected parties are you, the financial controller, the employee making the allegation of the bribe, the finance director and the external auditors. Other possible affected parties are the internal audit department, the audit committee, the board of directors, and users of the financial statements.

Who should be involved in the resolution:

You should consider involving the finance director, the board of directors (via the company secretary), the internal audit department, and the audit committee.

Possible course of action

You must check the relevant facts and perform the necessary research into accounting standards, applicable laws and regulations, and any policies and procedures within the company that may support you in alleviating your concerns. In particular, you should consider whether any anti-bribery policies and procedures of the company can help you. If no internal procedure exists, you should discuss the matter with the finance director, regardless of the close relationship he has with the financial controller.

If, for any reason, you feel it is inappropriate to discuss the issues with the finance director, or if his response is unsatisfactory, the next step may be for you to take the matter to the board. You should always exercise discretion and tact, and so it is preferable to involve the finance director in your representations to the board.

If you have suspicions or evidence of criminal activity (which, in this case, could include the alleged bribe), you might be obliged to report it to one or more authorities. In this respect, you should seek advice from your professional body, and also consider taking independent legal advice.

You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future.

Consultative Committee of Accountancy Bodies

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