



# *Practising Ethics*

## WEBINAR 2

This webinar is designed for you to access once you have completed module two of the Ethics Learning Programme.

There are five webinars in total that complement the Ethics Learning Programme. Practising Ethics builds on previous knowledge, using a variety of ethical dilemmas intended to make you think.

## USING THE TRANSCRIPT

This document is designed to be printed and used to accompany Practising Ethics: Webinar 2. Whether you plan on studying on the train to work, or simply prefer to have a printed copy to hand, this guide is the ideal solution to complement your ethics and professional scepticism training.



You will often come across this discussion symbol within the transcript. At these points, the webinar presenter has either posed an ethical question or identified an ethical dilemma for you to think about in or discuss in groups. Use this as an opportunity to take a break from reading and carefully consider a response. By progressing through the Ethics Learning Programme and working your way through the webinar transcripts, you can practise your ethical skills before applying them in the workplace.

## USEFUL LINKS

Access the Practising Ethics webinars from the ethics tab in your [online training file](#)

Login to your [dashboard](#) to learn more on the ethics and professional scepticism element of the ACA.



‘Integrity has no need of rules.’

During Webinar One, I described the way in which this series of webinars forms a workshop that fits around the six modules of the Ethics Learning Programme. The webinars should be completed on your own, or preferably, as a group. They provide the opportunity to put into practise some of the technical skills in the learning programme. Ideally, you should move to each webinar as and when you complete the relevant Learning Module. Each webinar will give a brief résumé of the learning module, worked examples of some of the principles involved, and a number of scenarios to help you identify key issues. Hopefully, this will prepare you for the professional life ahead of you. No answers are provided here, as the scenarios are to be discussed as part of your six-monthly review process. Just use them as vital practice, or you can ask your employer to discuss them at any time, and I’m sure they would be only too happy to oblige. When you see the discussion icon appear, take a minute to think about the question being asked and write down your thoughts in the notes section below.

## Notes

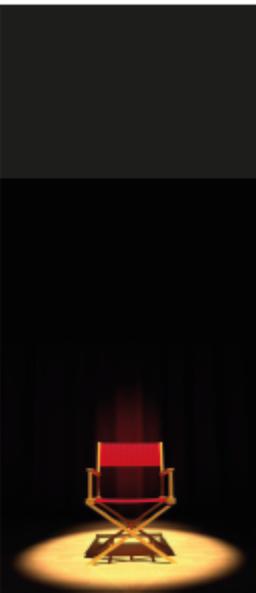
**Ethics Learning Programme 2**

**Fundamental ethical principles**

- Professional competence and due care
- Integrity
- Professional behaviour
- Confidentiality
- Objectivity

- How to identify them
- Why they are important to you



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In Ethics Learning Programme Two, you came across the five fundamental ethical principles demanded by ICAEW as the ground rules on which your behaviour and actions should be based.

They are: professional competence and due care, which is doing your job properly. Integrity; being open, honest and transparent. Professional behaviour; not breaking the law or discrediting the profession. Confidentiality; not disclosing private information, and objectivity; being fair and unbiased. Remember PIPCO? You learned how to identify them and why they are important. Deep down, you may think that these are highbrow academic, idealistic principles. They are not. Consider for a minute how the following recent public issues might have turned out differently if one or two of the above principles had been considered.

## Notes

## Ethics is a front page news item

- Credit crunch and global financial crisis
- MPs' expenses
- Phone-hacking
- Bankers bonuses
- Environmental pollution
- Tax avoidance
- Behaviour of some sports stars



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The credit crunch and global financial crisis, MP's expenses, the ongoing phone hacking scandal, banker's bonuses, environmental pollution, tax avoidance by the very rich, and the occasionally appalling behaviour of some highly paid sports stars. Each of these could be a workshop in itself, and there are worse things to do than to Google these topics and attempt to identify which of the five principles were blown away in order to create the public outrage they all generated. This is why the principles are important. Big business is more powerful than ever, and the shrinking nature of the world in terms of communication and travel means that business decisions have a major impact on communities everywhere. Sometimes, decisions are apparently not made by individuals, but by faceless corporations and governments.

A business may decide that the cost of increased insurance premiums in the future may be less than the cost of a product recall, even if the faulty product may lead to personal discomfort, or even worse. In these cases, do you see how vital it is that the fundamental principles are followed? Look at the following example, and I will then offer you a checklist of things to consider that might make decision making slightly easier.

### Notes

### Example 3 – dodgy MD

Your first position of real responsibility in industry is as the FD of a private, single-shareholder company, involved in the manufacture and distribution of specialist bi-folding doors, turning over £6m per annum, and employing 40 people. The MD and 100% shareholder used to be Sales Director in your previous company, before setting up his own business five years ago. He is a close friend and golfing partner of your father.

You have been carrying out a detailed review of a recent margin deterioration, and have eventually discovered that sales invoices have been suppressed for an increasing number of items. After confronting the MD he admits that certain customers have insisted on 'cash sales', in order to avoid 'unnecessary admin', and that failure to agree would have resulted in the loss of certain key accounts. The MD argues that it is his business and considers it his 'Christmas dividend'. Your estimate of such cash sales amounts to around £50,000 over the last year. One day, when the MD is out of the office, you look through his Temporary Internet Files and see a multitude of visits to gambling websites, especially horse racing and online poker. You assume that this is where the cash is being used.

**What do you do?**



discussion

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Your first position of real responsibility in industry is as the FD of a private, single-shareholder company, involved in the manufacture and distribution of specialist bi-folding doors, turning over £6m a year, and employing 40 people. The MD and the 100% shareholder used to be Sales Director in your previous company, before setting up his own business five years ago. He is a close friend and golfing partner of your father. You have been carrying out a detailed review of a recent margin deterioration, and have eventually discovered that sales invoices have been suppressed for an increasing number of items. After confronting the MD, he admits that certain customers have insisted on cash sales, in order to avoid unnecessary admin, and that failure to agree would have resulted in the loss of certain key accounts. The MD argues that this is his business, and considers it his Christmas dividend. Your estimate of such cash sales amounts to around £50,000 over the last year. One day, when the MD is out of the office, you look through his temporary internet files and see a multitude of visits to gambling websites, especially horse racing and online poker. You assume that this is where the cash is being used. What do you do?

Pause me now, and consider how many of the ethical principles are at stake, what are the issues for consideration, and what actions you might take.



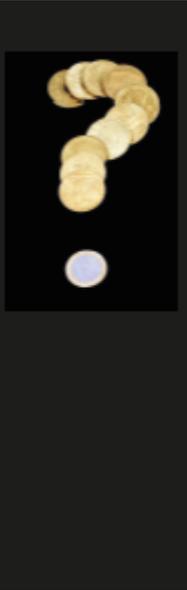
discussion

#### Notes

**Principles at stake – PIPCO**

**What are the issues?**

- Size of business, private company, local employer
- Legal re tax and statutory accounts
- Legal re privacy laws
- Whistle-blowing



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I did, of course, manage to get all five principles into this one. Firstly, professional competence and due care; because such miss-statement of sales, profit, cash, VAT, income and corporation tax definitely falls foul of due skill, care and diligence. Integrity; the activities are far from honest and open. Professional behaviour; because acceptance of such would certainly discredit both yourself and the profession. Confidentiality; what on earth are you doing searching through the MD's internet history, by the way? Objectivity; You need to demonstrate independence from the MD, despite your position and the family connection. So, what issues can you see? Well, this is an un-audited, private, small business. Do they have the time and resources to be ethical? The MD is maintaining employment for 40 members of the local community, and has grown the business spectacularly over the last five years, but tax is important to the wellbeing of this country, as is the fair representation of the company's trading position. Have you invaded the MD's privacy illegally? In any case, who do you tell, and who's actually affected here? Well, there's you, the MD, the employees, customers, banks and other actual or potential financial backers.

## Notes

## Actions

- Insist that such activities stop immediately
- Speak to MD to correct current and historical false accounting
- Leave and blow the whistle (**last resort**). Consider the use of Public Concern At Work



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What might you do? You must certainly point out to the MD that such activities are illegal, and must stop immediately. You should attempt to correct any such false accounting in the current, and any prior years. If he refuses to accept this, you should advise him that you have a duty to report these transactions to the authorities. As a last resort, you should indeed resign and report the company. However, every attempt should be made to stay and resolve the issues professionally. Leaving an unethical situation without resolving the unethical issues does not move the situation forward, but leaves the issue for your successor, and therefore should only be considered as a genuine last resort. Public Concern At Work are an independent authority, which tries to make sure that concerns are properly raised and addressed in the workplace.

## Notes

## Checklist



**discussion**

- 1 Identify the ethical principles involved**
  
- 2 Identify the key issues to consider**
  - Relevant facts
  - Parties affected
  - Relevant rules, policies and procedures
  
- 3 Evaluate possible actions**
  - Decide on action
  - Step back – can you live with it? What does your gut say?
  - Implement
  - Reflect

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These issues are always difficult, and will always vary from situation to situation, so it's useful to have a checklist to go through in your head to give yourself a better chance of reaching an acceptable solution. Why not consider this process.

1. Identify the ethical principles involved.
  
2. Identify the key issues for consideration. What are the relevant facts, who are the parties effected? Are there any relevant rules, policies and procedures to consider?
  
3. Evaluate your possible actions. Choose your favourite, then step back. Can you live with that? What does your gut say?
  
4. Implement the action.
  
5. Reflect. Did it produce the desired result? What can you learn for the future?

Some of this may sound obvious, but that's why we have checklists. Ok, here are another three general scenarios for your educated perusal. Remember, do the right thing.



**discussion**

### Notes

## Scenario 4 – boozy production director

You have been FD at a medium-sized manufacturing business for five years and are an active member of a close and cooperative management team. The production director has recently been behaving erratically, turning up late for work, sometimes smelling of alcohol, and being generally unreliable in situations where he would previously have been effective. It would appear that nobody else has noticed any of these changes.



discussion

**What do you do?**

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You have been FD at a medium sized manufacturing business for five years, and are an active member of a close and cooperative management team. The production director has recently been behaving erratically, turning up late for work, sometimes smelling of alcohol, and being generally unreliable in situations where he would have previously been very effective. It would appear that nobody else has noticed any of these changes. What do you do? From this point on, for each scenario, you should give the principles at stake, the issues to consider and possible actions.



discussion

Notes

## Scenario 5 – Facebook

You are part of the audit & accounting team in a medium-sized UK general accounting practice. The team comprises four qualified ACAs, two trainees and two admin staff.

One of the qualified members of the team has become progressively disgruntled with the firm, owing to his perception of favouritism by the audit partner in the award of discretionary annual bonus payments and salary increases. He has made vague and obscure allegations of improper conduct on the part of you and another of your colleagues, and has evidently voiced these in public on Facebook. You discover that one of the admin staff is his friend on the social-networking site, and one day you put her under some pressure to give you her username and password in order to be able to see the accusations for yourself, which she reluctantly does. His timeline is explosive, full of accusations of sexual favours being offered, serious criticism of how the business is being managed and direct abuse of you personally.

**What do you do?**



discussion

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discussion

### Notes

## Scenario 6 – MPs' expenses

You have given one of your first-year ACA students the task of reviewing the expense accounts of some of the Members in the Government Office you are currently auditing.



She has highlighted a number of claimed items that appear unusual, and where she has doubts concerning their propriety.

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You have given one of your first-year ACA students the task of reviewing the expense accounts of some of the members in the government office you are currently auditing. She has highlighted a number of claimed items that appear unusual, and where she has doubts concerning their propriety.

### Notes

## Scenario 6 – MPs' expenses continued

1. £4,800 in the year for 'food' without any receipts
2. £500 for repairs to a Chinese rug
3. £6,500 over two years paid to the Member's brother for cleaning services
4. £100 for hair straighteners
5. £1,600 for an ornamental island to be situated in the Member's duck pond
6. £210 for spectacles for a wife working as office assistant
7. £34,000 to renovate and furnish a second home, when the Member's primary residence is only seven miles away
8. £18,000 for new bookcases, 2 months before the MP's retirement
9. A property designated as a second home in order to claim expenses, but as primary residence to HMRC to avoid capital gains tax on sale
10. £2,100 for the cleaning of a Member's moat
11. £600 for hanging baskets
12. £13,000 over four years for gardening costs

**What is your response?**



**discussion**

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She gives you the following list for your review, what is your response? The items are: £4,800 in the year, un-receipted for food, £500 for rug repairs, £6,500 over two years paid to the member's brother for cleaning services, £100 for hair straighteners, £1,600 for an ornamental island in a duck pond, £210 for spectacles for a wife working as an office assistant, £34,000 to renovate and furnish a second home when the member's primary residence is only seven miles away, £18,000 for new bookcases two months prior to the member's retirement, a property designated as a second home in order to claim expenses, but as the primary residence to the HMRC to avoid capital gains tax on its sale, £2,100 for the cleaning of the water around a member's house, £600 for hanging baskets, £13,000 over four years for gardening costs. What is your response?



**discussion**

**Notes**



Integrity is, indeed, doing the right thing, even if nobody is watching. Just take in the serenity and the beautiful message in this image.

## Notes



Ok, so that's Ethics Learning Programme Two and its scenarios completed.

Remember, you may need to discuss or present your considerations on one or more of these scenarios with your employer at your next six-monthly review. Ensure you have notes and have considered the principles at stake, the main considerations, and what actions you might take. After your review, remember to record the fact that you have discussed scenarios in your training file, in the ethics section, as a record of your ethical progress.

## Notes