CCAB

Ethical Dilemmas

Case Studies

Professional Accountants in Business

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Moorgate Place London
EC2R 6EA
www.ccab.org.uk

Contents

Introduction

The following case studies were developed by the UK and Ireland's Consultative Committee of Accountancy Bodies (CCAB). They illustrate how the codes of ethics of the CCAB bodies can be applied by professional accountants working for commercial organisations in business. These scenarios are not intended to cover every possible circumstance, but instead outline key principles and processes that could be considered when attempting to identify, evaluate and address ethical threats in line with the professional body's code of ethics ('the Code').

The CCAB welcomes comments on these case studies. 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 business, 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 professional accountant within the organisation, you will have an important impact on its ethical tone.

A professional accountant in business has a responsibility to further the legitimate aims of their employing organisation. The codes of ethics 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.

In cases of non-compliance with laws and regulation there is a greater expectation that senior professional accountants will take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance, than other professional accountants' roles.

Resolving ethical dilemmas

These case studies are compatible with the codes of ethics of the CCAB member bodies, which are derived from The International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA). Any reference to 'the Code' below is a reference to your professional body's Code of Ethics.

Conceptual framework and five fundamental principles

The case studies illustrate the application of the 'conceptual framework' approach to resolving ethical dilemmas. This approach focuses on identifying, evaluating and addressing threats to compliance with the fundamental principles of:

- **Integrity** – to be straightforward and honest in all professional and business relationships.
- **Objectivity** – not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.
- **Professional competence and due care** – to: (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and (ii) Act diligently and in accordance with applicable technical and professional standards.
- **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships.
- **Professional behaviour** – to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.

Threats to compliance with the five fundamental principles

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 addressed, to ensure that they are either eliminated or reduced to an acceptable level.

- **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 appropriately evaluate the results of a previous judgement made; or an activity performed by you, or by another individual within your firm or employing organisation, on which you will rely when forming a judgement as part of performing a current activity;
- **Advocacy** – the threat that you will promote a client's or employing organisation's position to the point that your objectivity is compromised;
- **Familiarity** – the threat that, due to a long or close relationship with a client or employing organisation, you will be too sympathetic to their interests, or too accepting of their work; and
- **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.

Reasonable and informed third party test

When applying the conceptual framework, professional judgement needs to be exercised; there is a need to remain alert for new information and to changes in facts and circumstances; and to apply the 'reasonable and informed third party' test.

The Code states: *"The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made."*

The reasonable and informed third party doesn't have to be an accountant, but does have to be objective, knowledgeable, experienced and informed, i.e., not an uninformed member of the public, and able to impartially consider the appropriateness of the conclusions.

Non-compliance with laws and regulations

There are also obligations in the Code for professional accountants who encounter actual or suspected 'Non-Compliance with laws and regulations (NOCLAR)' as a professional accountant in business. The laws and regulations which are relevant are those which have a direct impact on material items and disclosures in the financial statements or are fundamental to the organisation's operations. The NOCLAR provisions do not take precedence over local laws and regulations. If there is a conflict between local legislation and the provisions of the Code, you must adhere to local legislation. For example, you should be aware of the disclosures that could amount to 'tipping-off' under UK or Irish Anti-Money Laundering laws and regulations.

An approach to resolving ethical dilemmas

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, it is useful to be aware of who your trusted advisors are, i.e., people you trust and can approach to discuss the situation in confidence or as a hypothetical scenario. Consider the resources available from your professional body, the organisation, and whether you need to obtain independent legal advice.

You should take care to ensure that any advice obtained is sufficiently well documented, either by way of minutes or your own records. 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. Documentation of the substance of the issue, the details of any discussions, the decisions made, and the rationale for these decisions is encouraged. Keeping an evidence trail of conversations, emails and documents; a diary of meetings; and noting down a summary immediately afterwards can be helpful.

These case studies do not form part of the CCAB bodies' codes of ethics. 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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We welcome comments on and enquiries concerning this work. To contact us, please email admin@ccab.org.uk.

Case Study 1 - Pressure to overstate stock valuation

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 (or inventory) 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 the highest possible stock valuation because they have 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.

Questions

As a professional accountant in business:

(a) Which fundamental principles feature more prominently for safeguarding?

(b) What would be your key considerations in your approach to resolving the dilemma presented?

(c) What course of action would you take to resolve the dilemma?

(a) 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 possible 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? Can you reference and correctly apply the relevant accounting standard and legislation relating to the valuation of stock?

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 a reasonable and informed third party?

(b) Considerations

Identify relevant facts:
Stock represents a large (if not the largest) portion of assets of manufacturing firms and, as such, makes up an important part of the balance sheet items.

You are receiving conflicting information from the warehouse manager and the managing director. You are uncomfortable because the managing director is putting you under pressure to account for stock at a higher value than that with which you feel is appropriate. This, in your opinion, would result in misrepresenting information about the company in the financial statements, which is 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. Because of the pressure exerted by the managing director you feel intimidated by the threat that you may lose out on a pay rise or even job security. You are concerned you will be deterred from acting objectively because of the managing director exercising undue influence over you.

Also, due to the close relationship with the employing organisation, you feel sympathetic to their interests as they appear to be suggesting that the future employment of the 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. The 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. Other users of the financial statements, including creditors and other potential investors, may also be misled if the financial information is misrepresented.

Who should be involved in the resolution:
You should involve the warehouse manager, the managing director and, if necessary, those charged with governance, such as your fellow board members. It may also be necessary to involve the external auditors on the basis that the valuation of stock will involve a significant accounting estimate and judgement.

(c) 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 external auditors, although it may be appropriate to discuss with the latter.

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 those charged with governance. Initially, you could suggest that both you and the managing director raise the matter with the other board members. If you feel it is 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. You should refer to the organisations speaking up or whistleblowing policies and procedures, if in place.

Discussions with the managing director may be made easier by reference to the company's own code of ethics or conduct, 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 up 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 or effectively listening 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. You should consider discussing with a trusted advisor, e.g., a colleague or 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 and is not a substitute for taking required actions. 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.

Case Study 2 - Pressure to participate in fraudulent activity

Outline of the case

You and your partner have recently moved to a remote coastal town in order to further your partner's career. You have found employment as a 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 married couple – 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 re-mortgaging 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 countersignature, 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 countersign 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 a close family relative 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 countersignature. 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 partner 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.

Questions

As a professional accountant in business:

(a) Which fundamental principles feature more prominently for safeguarding?

(b) What would be your key considerations in your approach to resolving the dilemma presented?

(c) What course of action would you take to resolve the dilemma?

(a) 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: Could your objectivity be threatened by your loyalty to the directors of the company, who are also your employers? You are under significant pressure 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.

(b) 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, relevant 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 partner 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.

(c) Possible course of action

It may require a degree of fortitude and determination, 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 to your employer. While you are not advising the directors of the design company you may wish to recommend that they seek independent advice.

If you feel unable to influence the situation, then you may conclude that the fraudulent transaction is likely to 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 may wish to consult with a trusted advisor, e.g., a colleague or your professional body. You may also wish to take independent legal or expert advice, regarding any responsibility you might have to disclose the fraudulent activity to the appropriate authorities. Resigning is not a substitute for taking required actions.

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

Case Study 3 - Suspicion of false accounting

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 online 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 debit/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 close family relative) brings to you a cheque in settlement of the account of a major customer. They explain 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 a bulk discount (which is calculated retrospectively). The sales director shows you the calculations and the agreement as authorised by the board of directors.

The sales director states that the customer's managing director has come to collect the discount in cash. They say 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. They reply, with a smile, that it is not for them to question the customers' motives.

Questions

As a professional accountant in business:

(a) Which fundamental principles feature more prominently for safeguarding?

(b) What would be your key considerations in your approach to resolving the dilemma presented?

(c) What course of action would you take to resolve the dilemma?

(a) 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.

(b) 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 other stakeholders in the company.

Who should be involved in the resolution:

You, the sales director and maybe those charged with governance should be involved in the discussions. Are there other trusted colleagues with whom you can discuss your position? Is it necessary to involve those charged with governance in the customers' businesses?

(c) 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 and 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, those charged with governance such as 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. You may wish to discuss the issues, taking care to maintain confidentiality, with a trusted advisor, e.g., a colleague or your professional body. 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 and reputational damage 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, then you may wish to seek legal advice on your employment and whistleblowing rights and responsibilities and any protection you might seek from legislation. However, resigning is not a substitute for taking required actions.

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

Case Study 4 - Company restructure – working with limited resources

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 chief executive 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.

Questions

As a professional accountant in business:

(a) Which fundamental principles feature more prominently for safeguarding?

(b) What would be your key considerations in your approach to resolving the dilemma presented?

(c) What course of action would you take to resolve the dilemma?

(a) 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 chief executive's intentions.

(b) Considerations

Identify relevant facts:

You suspect that the company may be restructuring, and the chief executive 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 chief executive and anyone else who may use the results of the costing exercise. Other stakeholders in the company may also be affected, including those employees whose roles might be made redundant.

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 of directors with whom you can discuss your dilemma? Should you approach the chief executive directly?

(c) Possible course of action

You think that the chief executive 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 your concerns that you may be unable to do the work to a sufficient level of quality in the time available. You could ask for more time to complete the work to the required standard or suggest alternative approaches such as outsourcing. Outsourcing the work could have the added benefit of enhanced objectivity, although given the tight deadline it may require your assistance to ensure ready and efficient access to all necessary information. 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 chief executive or those charged with governance (such as other members of the board of directors), 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 of directors. This may be through the chief executive 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. However, resigning is not a substitute for taking required actions.

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

Case Study 5 - Confidentiality when bidding for a contract

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, Organisation A, was large public sector entity 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.

Questions

As a professional accountant in business:

(a) Which fundamental principles feature more prominently for safeguarding?

(b) What would be your key considerations in your approach to resolving the dilemma presented?

(c) What course of action would you take to resolve the dilemma?

(a) 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?

(b) 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, relevant 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 management incentive programme. 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 those charged with governance. Other employees in the company may be affected due to the financial implications of the contract not being renewed. Organisation A may be affected if its confidential information is used contrary to data protection and privacy rules and/or contractual agreements.

Who should be involved in the resolution:
Your line manager, other relevant staff and, if necessary, those charged with governance should be involved.

(c) 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 those charged with governance 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 may wish to seek legal advice on your employment rights and responsibilities. You may consider consulting with a trusted advisor, e.g., a colleague or your professional body, but take care not to disclose any confidential or sensitive information during such discussions.

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.

Case Study 6 - Non-disclosure to auditors

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 they have 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.

Questions

As a professional accountant in business:

(a) Which fundamental principles feature more prominently for safeguarding?

(b) What would be your key considerations in your approach to resolving the dilemma presented?

(c) What course of action would you take to resolve the dilemma?

(a) 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?

(b) 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 speaking up and 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, those charged with governance (e.g., board of directors, audit committee), and users of the financial statements.

Who should be involved in the resolution:

You should consider involving the finance director, those charged with governance (via the company secretary), the internal audit department, and the audit committee.

(c) 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 and corruption policies and procedures of the company can help you. If no internal procedure exists, you should discuss your concerns with the finance director, regardless of the close relationship they have with the financial controller.

If, for any reason, you feel it is inappropriate to discuss the matter with the finance director, or if their response is unsatisfactory, the next step may be for you to refer it to those charged

with governance. You should always exercise discretion and tact, and so it is preferable to involve the finance director in your representations to those charged with governance.
As a professional accountant, there are specific obligations in the Code if you encounter actual or suspected 'Non-Compliance with Laws and Regulations (NOCLAR)'. A suspicion or evidence of criminal activity (which, in this case, could include the alleged bribe) would require these provisions to be addressed. In this respect, you may wish to seek legal or expert advice. You may also wish to discuss the matter (without disclosing specifics or confidential details) with a trusted advisor, e.g., a colleague or 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.

Case Study 7 - Non-compliance with laws and regulations (NOCLAR)

Outline of the case

You have recently moved to a new town and found employment as a head of tax in a successful start-up company funded by venture capitalists.

The company's mission statement is to deliver the best user experience ('UX') through its innovative software and services. The company has won multiple innovation and technology awards and it was recently mentioned in the local papers as being one of the best employers in the region, with most of their workforce being from underprivileged families. The company has invested heavily in training programmes with over 50% of their employees being enrolled on specialised IT programming courses.

The company has expanded rapidly and currently has over 450 employees. There are five directors on the board, and they all know each other from school. The company does not have an internal audit department, and most of the decisions are made by the board in informal meetings. 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.

You have been asked to submit the research and development (R&D) claim for the current period. While reviewing the R&D schedule, you became aware that the computation was incorrect. The company has been using subcontractors and the maximum claim for those costs should have been 65%, however, the company has included 100% of those costs on the R&D schedule. On further investigation, you notice that the same error was made in the previous year.

You found out that, due to the unexpected departure of the head of tax and the urgency of submitting the claim, last year's computation was submitted by a junior member of staff, who had had some practical experience, but no formal training. The same member of staff has been preparing this year's R&D tax schedule.

You explain the error to the finance director and advise them that the company will need to adjust the previous year's claim and pay the overclaimed amount back to tax authorities, e.g., HMRC (UK) or Revenue (Ireland). You have been told the finance director is concerned the company is facing cash flow difficulties and the repayment of the R&D tax credit will cause the company to breach bank covenants. Furthermore, the venture capital investors might withdraw their financial support if the cash flow position does not improve in the next 6 months.

The finance director has informed you that if this year's R&D tax credit is similar to last year's claim, the company will be financially secure and most importantly will be able to pay a sizeable bonus to the leadership team including you, as head of the tax department.

The finance director has assured you that once the company's cash flow position improves by the end of this year, a revised computation will be sent to the tax authorities and the overclaimed amount repaid. They have also commented: *''After all, the company has 4 years in which to amend its tax return to adjust for any errors''*.

Questions

As a professional accountant in business:

(a) Which fundamental principles feature more prominently for safeguarding?

(b) What would be your key considerations in your approach to resolving the dilemma presented?

(c) What course of action would you take to resolve the dilemma?

(a) Key fundamental principles

Integrity: You must comply with the principle of integrity, which requires you to be transparent and honest in all professional and business relationships. Integrity implies fair dealing and truthfulness. You should not knowingly be associated with reports, returns, communications or other information you believe contain materially false or misleading statements.

Objectivity: A self-interest threat to your objectivity arises from the financial benefit you are likely to receive if the company receives the R&D tax credit and pays you the bonus. You might also feel intimidated because you are new to the organisation and because of the pressure exerted by the finance director. You must act in a manner which does not compromise your objectivity because of bias, conflict of interest or undue influence from others.

Professional competence and due care: As a professional accountant you are required to maintain up to date professional knowledge and skills per current applicable standards and relevant legislation. In complying with the principle of professional competence and due care, you should take steps to ensure that those working in a professional capacity under your authority receive appropriate training and supervision.

(b) Considerations

Identify relevant facts:

You are being asked to accept an incorrect tax claim and mislead the tax authorities. You believe that if you refuse to comply, but do nothing more, the claim will still be submitted by the junior member of staff. You must consider relevant tax legislation, as well as the ethical requirements of your professional body.

A self-interest threat to your objectivity arises as you stand to personally gain if the company receives this year's R&D tax credit.

You are also feeling intimidated by the finance director who is keen to show the investors that the company's cash flow will improve in the next 6 months.

Identify affected parties:

The key affected parties are you, the directors of the company, the venture capital investors and/or the finance provider, the tax authorities and other users of the company's accounts.

If the company's going concern is affected due to the withdrawal of financial support from investors, the employees, suppliers and customers might also be affected.

Who should be involved in the resolution:
As well as involving the board of directors, you may be required to involve others. If so, you should consider the objective and timing of their involvement.

If you wish to discuss possible solutions with the tax authorities, you must first consider if the board of directors will allow you to approach the tax authorities, so you must ensure that you safeguard the principle of confidentiality.

(c) Possible course of action

It may require a degree of resolution and determination in refusing to submit the R&D claim in the current format. Having established the facts, you should discuss the issue with those charged with governance such as the other board members.

You should encourage the directors to explore legal ways to assist the company with funding that are both ethical and do not risk the reputation of their company.

Making a disclosure to the tax authorities and agreeing a repayment plan of the overclaimed R&D in monthly instalments might be one of the options.

As the company has won multiple awards and actively tries to encourage social mobility, other forms of support such as government grants or apprenticeships may be available.

If the above solutions are accepted by the board of directors, you might also suggest setting up an internal audit function, or engaging an internal audit service, to ensure that the company remains complaint with laws and regulation and any breaches or departures are identified and investigated. Having an internal audit function is likely to increase investor confidence as it demonstrates that the company adheres to strong corporate governance principles. Setting up a formal process to ensure that junior members of staff have sufficient training and supervision is likely to increase efficiency and reduce the risk of errors.

However, if you feel unable to influence the situation, you must disassociate yourself from the final claim if you know it is misleading, which may in some circumstances involve resigning. You may wish to take independent legal advice regarding this and other possible obligations you may have in this case, such as the disclosure 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.

About CCAB

The combined membership of the five CCAB bodies - ICAEW, ACCA, ICAS, CIPFA and Chartered Accountants Ireland - amounts to over 282,000 professional accountants in the UK and the Republic of Ireland (over 408,000 worldwide).

CCAB provides a forum for the bodies to work together collectively in the public interest on matters affecting the profession and the wider economy. CCAB's credibility stems from its insight into all areas of finance and accounting, from finance director and audit partner to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members work through the financial value chain in all sectors as key decision makers and business leaders within the UK and around the world.

Contact

Sharon Grant
Manager, CCAB
sharon.grant@ccab.org.uk
+44 (0)20 7920 8494

Consultative Committee of Accountancy Bodies

ICAEW | ACCA | CIPFA | ICAS |
Chartered Accountants Ireland

Tel: 020 7920 8100
fax: 020 7920 8783
admin@ccab.org.uk
https://www.ccab.org.uk

Chartered Accountants' Hall
Moorgate Place
London EC2R 6EA

Registered Address: CCAB Limited, Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA
Registered in England and Wales No. 1864508