



CCAB

# Ethical Dilemmas Case Studies

Professional Accountants in the  
Public Sector

February 2022

Published by CCAB Ltd  
Moorgate Place  
London EC2R 6EA  
[www.ccab.org.uk](http://www.ccab.org.uk)

© 2022 CCAB Ltd  
All rights reserved. If you want to reproduce or distribute any of the material in this publication you should obtain CCAB's permission in writing. CCAB will not be liable for any reliance placed on the information in this report.

## Contents

Introduction .....	2
The professional accountant in the public sector .....	2
Resolving ethical dilemmas .....	3
Case Study 1 Performance information .....	7
Case Study 2 Political pressure .....	11
Case Study 3 Confidential information available during a tendering process.....	15
Case Study 4 Disclosing personal information.....	19
Case Study 5 Personal financial interest in a proposal .....	22
Case Study 6 External auditor of a public body and being subject to intimidation .....	26

## 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 in the public sector. 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](mailto:admin@ccab.org.uk).

### The professional accountant in the public sector

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 public sector organisation, you will have a particularly important role to play in creating, promoting and maintaining an ethical culture within that organisation. You may be approached by other 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 the public sector has a responsibility to further the legitimate aims of their employer. The codes of ethics of the CCAB bodies do not seek to hinder the professional accountant from properly fulfilling that responsibility, but address circumstances in which compliance with the fundamental principles may be compromised.

The professional accountant is also required to act in the public interest. To that end, objectivity must be exercised at all times, and, on occasion, it may be difficult to reconcile this requirement with the duty to act in the interests of the public sector organisation, or at least management, political oversight or other significant influences on the organisation. Therefore, it is important to understand the conceptual framework approach to resolving ethical dilemmas.

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.

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 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 the public sector. 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.

October 2021

Copyright © CCAB 2021

We welcome comments on and enquiries concerning this work. To contact us, please email [admin@ccab.org.uk](mailto:admin@ccab.org.uk).

All rights reserved

Dissemination of the contents of this report is encouraged. Please give full acknowledgement of source when reproducing extracts in other published works. The case studies are not to be used in charged – for publications without prior consent of CCAB. No responsibility for any person acting or refraining to act as a result of any material in this document can be accepted by CCAB.

## Case Study 1 - Performance information

### Outline of the case

You are the deputy director of finance and information for a public hospital trust, with overall responsibility for the preparation of non-financial performance information. The newly appointed finance director is putting considerable pressure on you concerning the collation and reporting of this year's performance information for presentation to the board of trustees and your regulator. The director has made it clear that she expects the reported performance information to result in the hospital retaining its high rating by the regulator.

Some favourable performance information has not been adequately verified, but the director is willing for it to be reported, because it will enhance the perceived performance of the trust. You are aware that some departments have had difficulties meeting targets during the last year, due to funding constraints and staff shortages. From your scrutiny of the information systems, you are concerned that the relevant information may be incorrect, and that the correct performance information would draw attention to some severe performance shortfalls within the hospital.

You are aware of some instances where departments have been double counting activity in order to increase the funding income of the hospital. This was highlighted in a recent internal audit report, which will shortly be submitted to the audit committee. The director is putting considerable pressure on you to conceal this issue, in the short term, while she reviews the position and puts in place a plan for remedial action.

### Questions

As a professional accountant in the public sector:

- (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 use your best endeavours to ensure that the performance information finally reported gives a straightforward and honest picture of the performance of the hospital trust. You should not knowingly be associated with information that contains false and misleading statements.

**Objectivity:** How can you maintain your professional objectivity in the face of undue pressure from the finance director? If the hospital's performance rating affects your own position, how can you avoid self-interest influencing your ethical judgement?

**Professional competence and due care:** You are required to perform your work diligently, thoroughly and on a timely basis. This will require balancing the need to verify much of the performance information with the need to report within a reasonable time.

#### Threats to compliance

There is an intimidation threat to your compliance with the fundamental principles, since you are being deterred from acting objectively because of pressure to exercise undue influence over you.

There is also a self-review threat in that you might not appropriately evaluate the performance reported by some departments.

### (b) Considerations

#### **Identify relevant facts:**

You suspect that some of the performance information you have is incorrect or misleading. You are also aware of inaccuracies in the information provided by certain departments, but you have been asked to conceal these in the short term. You must obtain adequate information concerning the extent of any inaccuracies. Consider the relevant policies, procedures and guidelines of the trust, together with your professional body's code of ethics, applicable law and regulations and any applicable technical standards.

**Identify affected parties:**

Parties affected include you, the finance director, executive management team (other directors and the chief executive), the board of trustees, the audit committee, the regulator, and any other users of the information you are compiling. The managers of the departments that have provided inaccurate information may also be affected.

**Who should be involved in the resolution:**

In the first instance, you should involve the finance director. Also available are the executive management team, the audit committee, the board of trustees, and any mechanism within the trust or the wider health service that exists to advise on ethical issues and policies.

**(c) Possible course of action**

It is important that you try to maintain a good working relationship with the finance director. However, you should deliver a rational, firm and honest statement of the situation in your discussions with her.

You are likely to feel pressure to follow the director's wishes, but you should not allow intimidation to sway your professional judgement. Nor should you be influenced by any self-interest arising from the hospital retaining its high-quality rating due to the reporting of inaccurate information.

You should suggest to the director ways in which the performance information may be verified and best presented. This should be done objectively and accurately, while highlighting positive data based on both historical events and projections. If the director continues to urge you to present the information dishonestly or with an unreasonable bias, you should bring to her attention the trust's relevant policies, procedures and guidelines, together with your professional body's code of ethics. As an accountant, the finance director themselves should not place pressure on you that they know would result in you breaching the fundamental principles of the international code of ethics for professional accountants.

By acknowledging that issues exist in the collation and processing of information, and suggesting an action plan, you may successfully demonstrate to the director that efficiency improvements can be made to the information systems. Your proposed action plan might also indicate how the reputation of the hospital and its relationship with the regulator may be maintained.

It is possible that your proposals will not be sufficient to prevent a fall in the hospital's quality rating. In any event, the director may not accept your proposals, and may try to insist that you present unverified information. You should not allow yourself to be associated with such information. In the event of such an impasse, you may wish to bring the matter to the attention of the chair of the audit committee, executive management or board of trustees. If possible, this should be done with the co-operation of the director. At any time, you may seek advice from an individual or department responsible for ethics within the hospital, the trust (if the trust is a wider entity), or the health service and/or government department. You could consider consulting with a trusted advisor, e.g., a colleague or your professional body. You may also wish to seek independent legal advice. If unverified information is reported against your will, you should consider how best to disassociate yourself from it. At all times, bear in mind the need for appropriate confidentiality, especially if raising the matter outside the hospital.

Having taken suitable advice, it may be appropriate to file a report with the hospital's board of trustees, or to report directly to the audit committee. In extreme circumstances, it might be necessary for you to report your concerns to the regulator.

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 - Political pressure

### Outline of the case

The year-end accounts for a local authority have been prepared, and they will soon be adopted by the council, ready for audit. The local authority applies generally accepted accounting practices including the accruals basis. You are the head of social services finance, and you have become aware that work has been performed by an external consultant which has resulted in a proposal to close an older adult's residential care home. The council members want to suppress this information from becoming public knowledge because there is a forthcoming by-election in the electoral division where the care home is located.

The consultant has agreed not to submit the invoice for their fees, which are significant, until after the by-election. Normal accounting treatment would require the consultant's fees to be accrued as an expense in the accounts. Additionally, the estimated costs of the potential closure may need to be included as a provision in the accounts. The council members will not make their decision known until after the by-election, which will be after the audit has been completed and the audit opinion signed.

### Questions

As a professional accountant in the public sector:

- (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 ensure that the accounts are an accurate and honest representation of the council's activities? You cannot allow yourself to be involved in the publication of information that is misleading.

**Objectivity:** How can you maintain your professional objectivity in the face of undue pressure from the highest governance level of the local authority, i.e., the council. You may have a concern that if you don't comply with the councillors' wishes you will be subject to political pressure affecting your position and also your personal life outside of work.

**Professional behaviour:** You are required to perform your work in accordance with applicable law and regulations, including relevant accounting standards. How should you act so as not to discredit yourself or your profession?

Furthermore, the opening paragraph of the International Code of Ethics states, *“a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant’s responsibility is not exclusively to satisfy the needs of an individual client or employing organisation.”*

### **Threats to compliance**

There is an intimidation threat to your compliance with the fundamental principles, since you are being deterred from acting objectively because of pressure to exercise undue influence over you.

There is also a self-review threat in that you might not appropriately account for the consultant's fees or that you might not appropriately apply professional judgement to determine whether certain closure costs should be provided for.

### **(b) Considerations**

#### **Identify relevant facts:**

Consider the Local Government Authority Code of Conduct, Standards in Public Life, generally accepted accounting standards applied by the authority, and applicable law and regulations. Also, establish the extent of the potential misstatement of the accounts. What is the likelihood that the council members have already decided to act on the consultant's advice and is there confirmation of this, in which case the provision for the costs of closing the care home is also required? Could past accounts have been misleading as well?

**Identify affected parties:**

Affected parties include you, management, the council, council members, the external auditor, the consultant, the occupants of the care home, and the electorate.

**Who should be involved in the resolution:**

As the intention to conceal the consultation exercise is that of the council members, you should inform the council's chief financial officer/director of finance/head of finance (or section 151 officer in UK). This may lead them and you to involve the chief executive and the leader of the council in the resolution process. Due to the potentially serious nature of the issue, you should also consider involving the internal audit function and possibly also the external auditor.

**(c) Possible course of action**

The consultant's fees are significant, and so they should be included in the local authority's year-end accounts. You should establish, through discussions with senior management (CFO/CEO), whether the accounts should also reflect the proposal to close the care home with a provision or other note.

You should try to explain to your colleagues the accounting principles that require the liability in respect of the consultant's charges and the potential provision in respect of the closure of the care home to be accounted for. You should make clear your professional and ethical responsibilities and be prepared to discuss the issues with the CEO, CFO, audit committee chair or leader of the council, if necessary. You should also highlight the reputational damage to all concerned if this issue is dealt with inappropriately.

The CFO or a member of management may decide to bring the matter to the attention of those responsible for internal compliance (e.g., the internal auditors). It may also be appropriate to notify the external auditors if the matter is unresolved.

If it appears necessary to make a protected disclosure (whistleblow) to third parties, you should consider carefully to whom you should report, bearing in mind the fundamental principles of confidentiality and professional behaviour. You may wish to seek legal counsel for advice on this approach. You should determine what access you have to organisations that can offer guidance and support to employees who find they have a whistleblowing

responsibility. You may also wish to discuss the matter, in a manner that does not require disclosure of confidential information, 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 3 - Confidential information available during a tendering process

### Outline of the case

You are head of internal audit in a public sector organisation which is about to put out for tender the contract for the internal audit service. It will be an open tender process, for both external and internal providers.

The newest member of your team was recruited from the department responsible for devising the tender process. He is now a support administrator in your department.

Although he took no part in establishing the tender process, a former colleague (and personal friend) of his was heavily involved in drawing up the tender specification document and will be involved in the evaluation process.

The support administrator has had sight of some of the evaluation criteria and has offered to share with you information that may be of use when preparing the tender. However, this information is confidential and should not be seen by any of the tendering parties. Bids from external providers are being encouraged, and the evaluation process has been designed with this in mind.

If the contract is awarded externally, you will be unsure of your future position in the organisation. You understand that the use of any insider knowledge of the tendering process would be inappropriate when preparing the tender proposal, but you would have a better chance of success if you used the confidential information.

### Questions

As a professional accountant in the public sector:

- (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:** If you use the confidential information being offered to you, the tendering process may be undermined. What must you do to act with integrity and be seen to be acting with integrity?

**Objectivity:** If you receive information that could benefit your department's tender, can you retain your objectivity? If third parties were made aware of the connection between your support administrator and the department responsible for devising the tender process, would you still be perceived as acting with objectivity?

**Confidentiality:** Confidential information acquired as a result of professional and business relationships should be respected and not be used to acquire an unfair advantage.

**Professional behaviour:** You must avoid any action that may discredit you, the organisation you work for or the accountancy profession.

### Threats to compliance

There is a self-interest threat to your compliance with the fundamental principles, since you have a financial interest in the matter.

### (b) Considerations

#### **Identify relevant facts:**

As head of internal audit, your future position within the organisation is uncertain if the internal audit contract is awarded to an external provider. Therefore, there is a significant self-interest threat. This threat needs to be carefully managed, and the perception of integrity needs to be maintained, as well as actual integrity.

#### **Identify affected parties:**

Parties that may be affected by the integrity of the tender process are you, other members of your department, the head of the department that devised the tender process, and third

parties tendering for the contract. The reputation of your organisation might also be affected.

***Who should be involved in the resolution:***

You should consider raising the matter with your line manager, but you will also need to involve the support administrator and the head of his former department in the resolution.

**(c) Possible course of action**

Your future role within the organisation (if any) is unclear. If you had more information about this, you might be less anxious about your career, and your objectivity might not be so threatened.

However, it currently appears that there is the potential for personal gain from using the evaluation information. You should not use this confidential information in your tender document. You should state clearly to the support administrator that his offer of assistance cannot be acted upon, and you should try to prevent him from communicating further with you about the tender process.

In offering you information about the tender process, your support administrator may already have passed relevant information to you. In any event, it is likely that the perception of third parties (if they were well informed regarding the relationship between the support administrator and the department responsible for devising the tender process) would be that you may have already received confidential information. You need to take decisive action to protect your reputation and that of the organisation for which you work.

You should disclose to the tendering department the relationship between a member of your staff and a member of theirs, and specifically make them aware of any confidential information already in your possession. You might suggest to the tendering department that they make the same information available to other bidders. You may further reduce the threats to your objectivity by disclosing the situation to your line manager.

You must also make the support administrator aware that you will not be using any confidential information, and that any further communication between him and his former colleague regarding the tender process would be a breach of confidentiality. By openly

stating your intentions, you are also demonstrating to others within the organisation a level of expected ethical behaviour. You may also be able to refer your staff to the organisation's internal code of ethics if one exists.

You should document, in detail, the steps that you take in resolving your dilemma. Keep records of meetings and conversations, in case the integrity of the tender process or your ethical judgement is challenged in the future.

## Case Study 4 - Disclosing personal information

### Outline of the case

You are the finance director of a district/county council. The chair of the finance committee approaches you asking to see all the information the housing benefits section holds about the financial and personal affairs of a councillor.

The chair of the finance committee insists on seeing this information (saying that he will not disclose how he acquired it), even though he cannot identify any legitimate reason. The chair is not willing for you to contact the councillor about this.

### Questions

As a professional accountant in the public sector:

- (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 be straightforward and honest in your dealings with the people concerned?

**Confidentiality:** Are there proper grounds for disclosing the information?

**Professional behaviour:** What should you do to safeguard your reputation?

### Threats to compliance

There is an intimidation threat to your compliance with the fundamental principles, since you are being deterred from maintaining confidentiality because of pressure.

Furthermore, if you were to follow through with the request it is highly likely that you would breach data protection regulations (GDPR). Not complying with laws and regulations is covered in the NOCLAR requirements of the code of ethics.

## (b) Considerations

### **Identify relevant facts:**

Consider the organisation's policies, procedures and guidelines, applicable laws e.g., GDPR and regulations, and the code of ethics of your professional body. You should attempt to establish other relevant facts, including any allegations of fraud or impropriety on the part of the councillor, whether in the public domain or not.

Local authorities are required to adopt a code of conduct, which sets out rules governing the behaviour of their councillors and satisfies the requirements of the Localism Act 2011 (UK) or Standards in Public Life (Republic of Ireland).

### **Identify affected parties:**

Key affected parties are you, the chair, the councillor, council officer responsible for monitoring compliance with the code of conduct, e.g., a monitoring officer, and possibly the leader of the council. Other possible affected parties are the audit committee, members of council staff responsible for housing benefit, and the officer responsible for data protection.

### **Who should be involved in the resolution:**

This appears to be a sensitive matter, and so you should consider not just whom you should involve, but also when to involve them and the reasons for their involvement. You will have to involve the council's monitoring officer, and the chair of the audit committee. Others may include the data protection officer, legal officers and internal auditors.

## (c) Possible course of action

You must engage effectively, but diplomatically, with the chair of the finance committee. You should explain to him the ethical dilemma you are facing, and make your concerns clear. If possible, obtain from the chair a formal, reasoned request in writing.

If this is not forthcoming, ensure you make detailed notes of the request and any reasons given or implied. Impress upon the chair your duty of confidentiality, and any legal implications of complying with his request, as well as the ethical ones. You should obtain specialist legal advice, if necessary, as meeting the request might infringe data protection legislation in some jurisdictions. You may refer the chair to any information in the public domain, but you must deny him access to other information.

If the request is formally made in writing by the chair, you should forward to the council's monitoring officer.

It will be for the council's monitoring officer to determine whether, in the light of any such reasons, an internal or external investigation may be appropriate (and by whom it should be conducted).

You should document, in detail, any discussions that you have with the chair, council's monitoring officer and any advisors, and the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future.

## Case Study 5 - Personal financial interest in a proposal

### Outline of the case

You are finance director in a public sector organisation that has experienced difficulty attracting and retaining skilled staff. To assist in overcoming this problem, the board has engaged a consultant to recommend an improved pay and reward structure, to apply to all staff. The consultant has produced her report, and you have been asked to consider the proposed pay and reward structure and make appropriate recommendations to the board.

You study the report, conduct appropriate research, and assess the costs involved. You conclude that it will be necessary to increase staff costs, but you believe these will be offset by the efficiencies brought about by recruiting and retaining high-quality staff. The report contains the following recommendations:

- Benefits should be related to the length of service of members of staff.
- After one year of continuous employment, a member of staff will qualify for private health insurance.
- Private health insurance should cover the member of staff and their partner, but no other dependents.
- Accelerated incremental pay progression will accrue to all staff after one year of service.

You decide to advise the board that the consultant's recommendations should be adopted in full.

You are pleased with your work on this assignment and feel confident that the proposed package of benefits should serve as a strong motivator to all staff.

Your personal circumstances mean that you will benefit greatly if the board accepts the consultant's report. You have been with the organisation for eleven months. You have recently become engaged to your girlfriend, who works in a different department. She has

handed in her notice, as you both decided that it was inadvisable to work so closely together after you are married, and she was already keen on what she described as her 'dream' job elsewhere. Her new 'dream' job will provide a slightly lower salary, and you are both saving hard to buy your first home. The date of your wedding is only two months away, but you do not intend to start a family in the near future. You have been concerned about starting to provide for your pension, and neither you nor your fiancée have been able to afford health insurance.

### Questions

As a professional accountant in the public sector:

- (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 view of your personal interest in the proposed benefits structure, how will you ensure that you are perceived as straightforward and honest?

**Objectivity:** Can you remain unbiased and consider only the relevant facts and the interests of the organisation, despite your personal interest in the proposed benefits package?

**Professional behaviour:** How should you proceed so as not to discredit yourself or your profession?

#### Threats to compliance

There is a self-interest threat to your compliance with the fundamental principles, since you have a financial interest in the matter.

There is also a self-review threat in that you might not appropriately evaluate the consultant's work.

## (b) Considerations

### ***Identify relevant facts:***

An independent consultant has produced a report, and you are required to express your opinion on the recommendations made within it. These recommendations, if adopted by the board, would benefit you greatly. Are there ethical policies and procedures within the organisation that could help you? You must manage the reasonable perception of third parties, as well as your actual objectivity.

### ***Identify affected parties:***

Key affected parties are you, your fiancée, other staff within the organisation, and the board. Other possible affected parties are the organisation's human resources department and the consultant (whose reputation might be tainted if your own ethics are questioned).

### ***Who should be involved in the resolution:***

Before involving the board, you might discuss your dilemma with the chief executive, council monitoring officer and audit committee chair. The consultant's report concerns staff remuneration, and so you should take care if you decide to involve any other colleagues. You may seek independent, objective advice from your professional body.

## (c) Possible course of action

It is important that any personal interest you have in the consultant's recommendations is disclosed before your advice is considered by the board. As a member of staff, it will be clear that you have a personal interest in the organisation's benefits package.

However, the extent of your interest in accepting the recommendations (in view of your marriage plans and impending eligibility for the major benefits) may not be known to the board.

You should discuss the issue with the chief executive and appropriate member of the human resources department before reporting to the board. You should attempt to present the board with a solution to the perceived threat to objectivity. The quality of the

report provided by the consultant is not thought to be an issue, and you are required to provide the board with an opportunity to consider the proposals within it. Those proposals may well be in the best interests of the organisation.

In arriving at this stage, you should consider who else within the organisation would be able to review the report objectively. If no one within the organisation has the necessary skills and independence, you might think it appropriate to procure a second opinion from another consultant.

You should be prepared to explain to the board how you approached the assignment, and who else has been involved in your discussions. Also, you should provide the board with information concerning the qualifications and independence of the consultant. When preparing your presentation to the board, including your costings, you should declare your interest in the consultant's recommendations being accepted.

If possible, you might arrange for the proposal to be presented to the board by someone other than yourself. This might be the chief executive or the most senior member of the human resources department, or given they also stand to gain from the recommendations perhaps the consultant should present to the board in a closed session of the board. When the item arises for discussion at the meeting, you should refer to your personal interest, and leave the room until a final decision has been reached.

During the resolution process, you may wish to seek advice from a trusted advisor, e.g., a colleague, somebody responsible for ethics within the organisation or your professional body. Finally, you should ask yourself whether the process of reviewing the consultant's report has met the relevant quality assurance procedures laid down by the organisation.

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 6 - External auditor of a public body and being subject to intimidation

### Outline of the case

You are the external auditor of a public hospital. The hospital is hoping, and expecting, to receive a bonus €/ $\text{£}3$ million capital grant for reaching its break-even control this year.

As the hospital passed its financial year end, some unforeseen liabilities came to light. The hospital's director of finance and chief executive had reported to the board of directors and the regulator that the hospital would break-even for the year and would earn the €/ $\text{£}3$ million bonus for essential capital works. The director of finance then made a number of accounting adjustments in order to ensure that the hospital would meet its financial responsibilities, including the requirement to break-even each and every year.

The adjustments required changing the accounting policy in respect of consumables, which had previously been expensed to the income and expenditure account, being changed to 'inventory' on the balance sheet. In addition, certain salaries have been capitalized retrospectively, and the hospital has failed to account for its share of liabilities under a partnership agreement with a local authority, which has yet to prepare the memorandum account.

The adjustments come to your attention during your audit process, and you do not accept that they are correct. As they are material, if the hospital does not amend its accounts, you will have to qualify your audit opinion on the year-end accounts. When you discuss the issues with the director of finance, she is emphatic that her view represents a legitimate interpretation of accounting policy. She indicates that if you do not accept it, she will ensure that the hospital appoints different auditors next year. She also threatens to tell the local newspaper that your firm is determined to make the hospital's financial position look worse than it is.

### Questions

As a professional accountant in the public sector:

- (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:** Would you be acting with integrity if you were influenced by the finance director's threats, and accepted her year-end adjustments?

**Objectivity:** How can you maintain your professional objectivity in the face of the threats made by the finance director? If your firm's local reputation and continued engagement by the hospital affect your own position, how can you avoid self-interest influencing your ethical judgement?

**Professional competence and due care:** You must observe relevant auditing and accounting standards, policies and procedures, so that you demonstrate your professional competence.

**Professional behaviour:** You are required to perform your work in accordance with applicable law and regulations, including relevant auditing standards. How should you act so as not to discredit yourself, your firm or your profession?

### Threats to compliance

There is an intimidation threat to your compliance with the fundamental principles, since you are being deterred from acting objectively because of pressure to exercise undue influence over you.

There is also a self-review threat in that you might not appropriately evaluate the findings of your audit team or might alter their findings inappropriately in order to retain the contract.

## (b) Considerations

### **Identify relevant facts:**

The director of finance has adjusted the year-end financial statements primarily in the interests of the hospital and those working within it. You are being intimidated by the director of finance, who is asking you to compromise your objectivity. You must research the relevant accounting requirements to ensure that your technical knowledge is accurate and up to date.

*Note: This case study only considers your obligations under your professional body's Code of Ethics, and there may be other responsibilities under the International Standards on Auditing (ISAs) and ethical standards for auditors.*

### **Identify affected parties:**

Key affected parties are you, your firm, the director of finance, the chief executive, the audit committee, the hospital, the government's finance and health departments and the general public. Others employed within the hospital may also be affected.

### **Who should be involved in the resolution:**

Within the hospital, you should involve the director of finance, the audit committee chair and, if necessary, the chief executive. However, you should also involve senior members of your firm, as the firm will take responsibility for the audit report and its reputation is being threatened in terms of both competence and ethics. You may seek the advice of the hospital's regulator.

## (c) Possible course of action

You should ensure that your technical knowledge is accurate and up to date by reviewing the relevant accounting standards, guidance and manuals issued by the relevant government department and HMRC/Revenue and discussing the technical issues with appropriate members of your firm and, if necessary, your professional body. You will then be able to discuss the issues further with the director of finance and the chief executive, if appropriate, and refer them to the relevant accounting standards and the ethical standards for auditors and also the requirements of your professional body.

If this fails to persuade the directors to make the changes to the financial statements that you consider necessary, you should formally report the implications of this to the hospital's audit committee, setting out the requirements of the accounting and auditing standards concerned, and the necessary amendments to the financial statements. You should explain the consequences for your report – a qualified audit opinion – if the trust fails to amend the financial statements.

You should make senior members of your firm aware of the accounting issues and the threats – to objectivity and to the firm's reputation. They should be involved in the drafting of the report to the audit committee, and then kept informed of developments.

You and your firm should consider whether the intimidation from the director of finance should be reported to the chief executive and the chair of the audit committee. You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future. In particular, if you conclude that the financial statements continue to be materially misstated, your firm must issue a qualified audit opinion, and it is essential that you document fully the reasons for doing so.

## 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](mailto: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](mailto: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  
Registered in England and Wales No. 1864508