



Ethical Dilemmas Case Studies

Professional Accountants in
Public Practice

February 2022

Published by CCAB Ltd
Moorgate Place
London EC2R 6EA
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 public practice	2
Resolving ethical dilemmas	3
Case Study 1 Dealing with staff performance issues.....	8
Case Study 2 Improper accounting for sales.....	11
Case Study 3 Conflicting clients' interests	14
Case Study 4 How much to disclose to the finance director	18
Case Study 5 Placing unreasonable expectations on a student	22
Case Study 6 Financial interest	25
Case Study 7 Non-compliance with laws and regulations (NOCLAR)	29

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 public practice. 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 public practice

All members (and registered students) of CCAB bodies have a responsibility to behave professionally and ethically at all times. In addition, a professional accountant who is a principal or a senior employee within a practice will have a particularly important role to play in creating, promoting and maintaining an ethical culture within the practice and, possibly, among the clients of the practice. You may be approached by others within the practice who wish to report unethical behaviour and, as a professional accountant, you will have an important impact on its ethical tone.

If you are made aware of unethical practices among clients, it may be more difficult to determine your responsibilities. But an accountant in public practice carries a great deal of responsibility and may be subject to scrutiny by the staff of the practice, clients and other members of the local community. In particular, a wide range of clients will expect a high level of professional competence from their accountant, and the trust that they place in their accountant requires the accountant's integrity to be unquestionable.

A professional accountant in public practice has a responsibility to service and assist in furthering the legitimate aims of their clients. The codes of ethics of the CCAB bodies do not seek to hinder a professional accountant in public practice from properly fulfilling that responsibility, but address circumstances in which compliance with the fundamental principles may be compromised.

An accountant in public practice will want to act in the best interests of their clients or employer. However, they also have a responsibility to act in the public interest, which will require objectivity to be exercised at all times (not only when providing assurances to third parties). The duties of the accountant in public practice who faces an ethical dilemma cannot always be easily reconciled. On the one hand, it is good business practice to work closely with your clients; on the other hand, you will sometimes be expected to challenge their decisions, and even distance yourself from them.

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.

The case studies do not assess the responsibilities of members under the FRC Revised Ethical Standard 2019 (applying to audit engagements) and the IAASA Ethical Standard for Auditors (Ireland) 2020 and these should also be considered for most UK and Irish audits.

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 public practice. 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 firm’s or the client’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. As a professional accountant in public practice, you may find yourself under significant time pressure as you try to satisfy the competing demands of your clients. You could be expected to spend less time discharging your duties than you feel is required, and this could, in turn, give rise to a risk that any ethical issues that arise will not be adequately considered.

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 firm, and whether you need to obtain independent legal advice.

Consider whether your actions in response to the situation and the advice obtained are 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.

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 - Dealing with staff performance issues

Outline of the case

All staff work from the firm's office. A junior member of staff has just returned to work after taking special leave to care for her elderly mother. For financial reasons she needs to work full-time. She has been having difficulties with her mother's home care arrangements, causing her to miss several team meetings (which usually take place at the beginning of each day) and to leave work early. She is very competent in her work, but her absences are putting pressure on her and her overworked colleagues. You are her manager, and you are aware that the flow of work through the practice is coming under pressure. One of her male colleagues is beginning to make inappropriate comments such as "*a woman's place is in the home*", and is undermining her at every opportunity, putting her under even greater stress.

Questions

As a professional accountant in public practice:

- (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 need to be fair to all those involved and act in a straightforward manner.

Confidentiality: You owe a duty of confidentiality to the staff involved.

Professional behaviour: How should you proceed so as not to discredit yourself, your profession or the practice for which you work?

(b) Considerations

Identify relevant facts:

Consider the firm's policies, procedures and guidelines, best practice and, with legal assistance if required, relevant laws and regulations. Is there a staff handbook or similar internal publication? Consider the extent to which it is your role to manage this type of staff issue. Does the practice have a department responsible for human resources issues?

Identify affected parties:

Key affected parties are you, the junior member of staff and her colleagues. Other affected members of staff may be in the human resources department. The culture and reputation of the firm are also impacted.

Who should be involved in the resolution:

Consider not just who you should involve but also why and when. Can a trusted advisor, such as a former colleague or your professional body provide advice and guidance? Do you have access to appropriate staff in the human resources department, or are you able to consult an external organisation for confidential advice?

(c) Possible course of action

Check the relevant facts. If necessary, clarify staff procedures with the human resources department. Take legal advice if required.

Discuss the matter with the junior member of staff. Possible solutions may include suggesting a more flexible approach to team meetings. Do these always have to be in the morning? At times, working from home may be an option for the junior member of staff. Can she dial-in or join the meetings virtually?

You also need to deal with the other member of staff, who needs to be reminded about proper conduct and how such behaviour may amount to bullying and harassment and also be in breach of the practice's code of conduct.

Considering the issues and trying to identify a solution enables you to demonstrate that you are behaving professionally and attempting to resolve the difficulties faced by the junior member of staff. Throughout, you must be seen to be acting fairly – both towards the junior member of staff, who is responsible for their parent's care, and towards other members of staff. You may wish to recommend to human resources to roll out firm wide training on bullying and harassment and the firm's code of conduct, to ensure all staff are aware and up to date.

Having considered all reasonable compromises, if the conclusion is reached that the junior employee is unable to carry out the work for which she was employed, you must turn your attention to her ongoing employment within the practice. This will probably be out of your hands, and you should deliver the relevant facts to the human resources department or the owners/senior management of the practice. Appropriate confidentiality must be maintained at all times.

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 - Improper accounting for sales

Outline of the case

You are one of three partners in a firm of accountants. Five years ago, the firm was appointed as external accountants to a successful and fast-growing start-up company, engaged to prepare year end accounts and tax returns. The business had started trading with a handful of employees but now has a workforce of 200, while remaining below the size of company requiring a statutory audit.

Due to your close relationship with the directors of the company (who are its owners) and several of its staff, you become aware that staff purchases of goods manufactured by the company are authorised by production managers, and then processed outside the accounting system. The proceeds from these sales are used to fund the firm's Christmas party.

Questions

As a professional accountant in public practice:

- (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 omitting income from staff sales result in the financial statements and returns to the tax authority being misleading? Is the practice dishonest, and what should be your involvement?

Objectivity: In view of the trust that has built up between you and your client, and the threat brought about by the familiarity you have with the directors and staff of the company, how will you maintain your objectivity when deciding on a course of action?

Professional competence and due care: You must ensure that the financial information that you produce on behalf of your client is in accordance with technical and professional standards and complies with relevant laws and regulations.

Professional behaviour: How should you act to protect your reputation and that of your firm and your profession?

(b) Considerations

Identify relevant facts:

Consider relevant accounting standards and any relevant laws and regulations. Determine the system currently employed for controlling staff sales and funding the staff Christmas party, including how requests are processed, deducted from stock/inventory and what, if any, information is recorded and reported for tax purposes.

Identify affected parties:

Key affected parties are you and your firm, your client company, its directors and staff, and users of the company's accounts, including the tax authority.

Who should be involved in the resolution:

It is not appropriate to discuss the matter with any of the staff of the client company, although the directors should be informed of the issue as soon as possible and be involved in the resolution. This will include facilitating the provision of all relevant information necessary to resolve the issue. The reputation of your firm may also be vulnerable, and you should disclose this ethical dilemma to your partners. Throughout the resolution process, you should keep your partners informed and be alert to any possible requirement to notify your professional indemnity insurers.

(c) Possible course of action

Having brought the issue to the attention of your partners and obtained the relevant details of the client's system for accounting for staff sales, you should outline your concerns with the directors of the client company. You will also have to determine whether the financial statements of previous years are likely to be misleading and, if so, consider your

responsibility (or that of your client) to inform the relevant authorities (including the tax authority). You should strongly advise the directors that a staff sales policy should be introduced to ensure that these sales are fully recorded in the company's accounting system in the future.

You should explain to the directors the implications of their actions, and that you are safeguarding the interests of the company and its staff in advising how the situation may be rectified. If the directors are co-operative, you should advise them of the recommended changes to the accounting system and how they might disclose any past undeclared income to the tax authority.

If the directors appear unwilling to change the system in respect of staff sales, you are obliged to disassociate yourself from any involvement with the company's financial statements, and this will require your firm to resign from the engagement. However, resignation is not a substitute for taking required actions. There may be other reporting requirements, e.g., suspicious activity report under anti-money laundering regulations. You may wish to consider consulting with a trusted advisor, e.g., a colleague or your professional body. You may also wish to seek legal advice.

In view of your client's conduct, you must also consider your obligations in relation to NOCLAR, and whether you have an obligation or other responsibility to report the matter to the appropriate authorities. For example, having identified non-compliance with tax legislation and if the directors do not intend to correct the issue, then you may have reason to suspect tax evasion (a criminal offence). You must establish whether any legal or regulatory reporting obligations are triggered, such as making a Suspicious Activity Report in Ireland or the UK, or any reporting in the jurisdiction where NOCLAR activity took place. You should ensure the process you follow before and after a report is made does not prejudice a possible investigation by the authorities, including taking care to avoid the risk of tipping-off.

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 - Conflicting clients' interests

Outline of the case

You are a sole practitioner who used to provide a range of accountancy services for a small company (Company A) that owns a hardware shop in the town where you practise.

Following a brief retendering process, the client chose to engage an alternative firm of accountants. Both you and the other firm had been asked to tender for a range of services, including the preparation of year end accounts, tax compliance work, and a due diligence exercise in respect of the intended purchase of a small hardware business in the neighbouring town. You believe that you were unsuccessful in the tendering process on the basis of cost alone, as Company A is not very profitable, and suffers from the competition of the other hardware business that it intends to acquire.

You are the continuity provider for another local sole practitioner. Two months ago, the practitioner suffered a heart attack, and you have been asked to act, on their behalf, for a number of her clients. She is not expected to resume practising for another two months.

One of her clients (Company B) operates a shop selling electrical goods. The director and majority shareholder has called you to arrange a meeting to discuss a business venture that they are considering.

At the meeting, the client explains that they intend to make an offer for the same small hardware business that Company A is seeking to acquire. They are aware that there is another bidder for the business, but are unaware that it is Company A, or that Company A used to be your client.

When the meeting is over, you start to feel uneasy. You want to help Company B and provide a valued service on behalf of the practitioner for whom you are the continuity provider. But you realise that you are also in possession of confidential information concerning the plans of your previous client. You are aware of Company A's problems, financial position and its motivation for wishing to acquire the business.

Questions

As a professional accountant in public practice:

- (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 be straightforward and honest.

Objectivity: Given that you may still be involved with Company A to the extent that you are handing over working paper and information to the other firm of accountants, you must ensure not to compromise professional judgment because of bias or conflict of interest.

Confidentiality: How will you ensure that you do not use confidential information relating to your previous client to the advantage of Company B?

Professional behaviour: How will you safeguard your reputation and that of your profession?

(b) Considerations

Identify relevant facts:

You have responsibilities to the practitioner for whom you are the continuity provider, and to their clients. You may assume that the target business has a premium value to Company A, because Company A already owns a similar business. However, this is confidential information (which would give Company B a competitive advantage in the bidding process). You must not breach the fundamental principle of confidentiality. In addition to your professional body's code of ethics, you should consider any relevant laws and regulations.

Identify affected parties:

Key affected parties are you, Company B (and its director), Company A (and its directors) and the target business (and its owners). You should also consider the practitioner for whom you are acting as continuity provider.

Who should be involved in the resolution:

The issue of confidentiality is a sensitive one, and you should not involve any parties in the resolution process without good reason. Any discussion of this ethical dilemma, in itself, risks breaching confidentiality. The involvement of your trusted advisors, e.g., a colleague or your professional body, may be particularly useful in such a situation. Care should be taken to ensure no sensitive or identifying information is disclosed in any discussions with trusted advisors. If the incapacitated sole practitioner is well enough, they should be informed of the dilemma and the actions that you intend to take. They may wish to propose an alternative remedy.

(c) Possible course of action

You must not disclose to the director of Company B any confidential information gained from your former relationship with Company A. Nor may you use the information for the advantage of Company B or for your own personal benefit.

Your problem is complicated by the fact that you are obliged to act for certain clients under the continuity agreement. However, you must remove (or reduce to an acceptable level) the threat to the fundamental principles of confidentiality and objectivity. This may be achieved by openly declaring the conflict of interest to the director of Company B. Even so, you must exercise very careful judgement when determining how much information can or cannot be shared, as to even name the other bidder could be a breach of confidence.

In the first instance, you should evaluate the threat to the principle of confidentiality brought about by the conflicting interests of your current client and your previous client. In this case, you are likely to conclude that it is significant. Even if you believe that the threat can be managed while you assist Company B in its bid for the target business, this may not be the perception of a reasonable and informed third party and this could have implications for the reputation of the firm and the profession.

Therefore, you should consider declaring the conflict of interest between Company A and Company B and explaining that you cannot act on behalf of Company B in respect of the proposed bid for the target business. You still have a responsibility to your previous client, but if you need to disclose this fact to the director of Company B, you should not mention the name of that client. It may be sufficient to highlight that you are conflicted due to being privy to details of a confidential nature in relation to another interested party and outline what safeguards you intend to take in order to continue to advise Company B. Such disclosure should be documented.

If pressure is put upon you to disclose the name of the other bidder, you should resist. Under such circumstances, it may be advisable to disengage from the client completely in order to effectively safeguard the threat to confidentiality. This will be a measure of last resort, as you are expected to provide continuity of service to Company B, and also act in the interests of the practitioner who is incapacitated. If either you or Company B decide it would be best for you not to be involved in advising on the transaction, you may wish to consider if the incapacitated practitioner has another continuity firm or close acquaintance that you can refer Company B to. You should keep the incapacitated practitioner informed, if possible.

In any event, 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 - How much to disclose to the finance director

Outline of the case

You are a qualified accountant in practice, and you lead a team providing management consultancy services. In recent years your practice has undertaken several assignments on manufacturing efficiency improvements for a medium-sized, listed group of companies. It operates through a number of divisions, but line responsibility appears complicated, and so significant control rests with four semi-autonomous regional directors. The authority of these directors is enhanced by their membership of the group's main board.

You have cultivated a good working relationship with the regional director with whom you are in contact most frequently. Three weeks ago, that regional director asked you to investigate, as a matter of urgency, a particular project, Project A. They had been irritated to be told, informally, of the likely deferral of the agreed delivery date for the components on this sophisticated design-and-build contract. Project A comes within the regional director's responsibility primarily because of the location of the factory that makes the key components.

Once on site, your team had discovered a range of difficulties with the project, starting with fundamental design faults and extending deep into the manufacturing processes. It is clear that contracts entered into by the company as part of the project will be breached, and litigation is likely to follow. Your team has produced a prioritised list of actions and begun working to establish a revised schedule to take the project to completion.

At a recent meeting, you gave the regional director and the factory manager an estimate of a three-month delay to the project. You indicated that extra direct costs are likely to be between €/£7 million and €/£10 million. This is before any potential claims for compensation or late penalties.

On the instructions of the regional director, your team has been working on a formal report specifying detailed recommendations. While still incomplete, it appears the report appears will support your previous estimates.

You are aware, from the financial press, that the group is rumoured to have difficulties with its bankers. You assume that the situation with Project A is likely to be seriously detrimental to the group's financial position.

One week before the final version of the report is due, you receive a surprise telephone call from the group's finance director. They explain that they are about to enter a main board meeting but need to know a date for delivery of the report on Project A. Late the previous evening, the regional director had informed the finance director that your firm had been asked to provide the report. The finance director says:

"I appreciate that you have only just started, so there are no reliable estimates yet. But the regional director mentioned that Project A could incur around €/£4 million to €/£5 million in extra costs, with income delayed by perhaps six to eight weeks. The regional director has sent their apologies to the board meeting, as they have to attend a family funeral."

They add:

"Hopefully, the regional director is being cautious, but if something does turn out to be as wrong with Project A as those numbers suggest, the extra costs and deferred income have serious implications for the group's cash flow. The full board will need to start planning remedial action now. When will your report be ready?"

Questions

As a professional accountant in public practice:

- (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 do you maintain your professional integrity: by responding only to the question asked or by immediately alerting the finance director and those charged with governance to the seriousness of the situation?

Objectivity: Does loyalty to the regional director, from whom your firm usually takes instructions, outweigh your responsibility to those charged with governance? If not, can you resist any feeling of intimidation from the regional director that you may be experiencing?

Confidentiality: Confidentiality is fundamental to the assignment as a whole. But to whom is the duty of confidentiality owed?

Professional behaviour: The information you have could assist those charged with governance significantly with the discharge of their duties. Whether you disclose the information now or restrict the information you provide pending a discussion with the regional director, how can you protect your reputation and that of your firm?

(b) Considerations

Identify relevant facts:

You should establish why the finance director appears to have incorrect information. Is there a mistake or misunderstanding, or some other explanation for the discrepancies in the extra costs and the time frame? You must establish from your engagement letter to whom you owe a duty of confidentiality, in order to resolve your potential conflict of loyalty.

Identify affected parties:

Key affected parties are you, the regional director, the finance director and those charged with governance. Indirectly, investors and other stakeholders in the group are also affected, due to the group's recent cash flow problems.

Who should be involved in the resolution:

You should involve the regional director as early as possible, and the finance director and those charged with governance if necessary.

(c) Possible course of action

You should take care not to make a hasty decision while on the telephone to the finance director. If necessary, you should state when your report will be ready, and end the

telephone conversation, so that you may establish the facts. It should be possible to call the finance director back later, even if that means interrupting the board meeting.

As soon as you are able, you should review the firm's letter of engagement, which will establish who the client is for the purpose of your duty of confidentiality. Your firm is engaged as consultants, rather than as auditors, and if your engagement is with the division overseen by the regional director, it could be argued that communication to the main board is an internal matter for which you have no direct responsibility.

In the meantime, you should attempt to contact the regional director to inform them of the finance director's misunderstanding and reconcile the conflicting estimates. You should not take part in any deliberate attempt to mislead the main board.

It is possible that the future of the group as a going concern could be under threat. If a review of the engagement letter reveals that your engagement is with the main board, in the absence of an explanation from the regional director, you should call the finance director and explain that the report is likely to reveal estimates that are very different from those mentioned earlier.

If the engagement is with the regional director's group company, a duty of confidentiality is owed to that client and, if the finance director seeks further information from you, you should make your position clear. Nevertheless, when you are able to contact the regional director, you should discuss with them the call you received from the finance director. If you are then of the opinion that the regional director has deliberately misled the main board, you should ask them to rectify the position.

If they do not, you might have a conflict of interest. You should also consider consulting with a trusted advisor, e.g., a colleague or your professional body. In addition, in order to determine your responsibilities (and those of the regional director towards the main board), you may wish to seek independent legal advice.

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

Case Study 5 - Placing unreasonable expectations on a student

Outline of the case

You are a trainee accountant in your second year of training within a small practice. A more senior trainee has been on sick leave, and you are due to go on study leave. You have been told by your manager that, before you go on leave, you must complete some complicated reconciliation work. The deadline suggested appears unrealistic, given the complexity of the work.

You feel that you are not sufficiently experienced to complete the work alone. You would need additional supervision to complete it to the required standard, and your manager appears unable to offer the necessary support. If you try to complete the work within the proposed timeframe but fail to meet the expected quality, you could face repercussions on your return from study leave. You feel slightly intimidated by your manager, and also feel pressure to do what you can for the practice in what are challenging times.

Questions

As a professional accountant in public practice:

- (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 open and honest about the situation? Would it be right to attempt to complete work that is technically beyond your abilities, without proper supervision?

Professional competence and due care: Is it possible to complete the work within the time available and still act diligently to achieve the required quality of output?

Professional behaviour: Can you refuse to perform the work without damaging your reputation within the practice? Alternatively, could the reputation of the practice suffer if you attempt to perform the work?

(b) Considerations

Identify relevant facts:

The practice that employs you is small and under pressure due to the sickness of a member of staff. However, the work you are being asked to perform is beyond the usual ability of a trainee at your level. Determine whether the deadline can be extended; when your colleague is expected to return from sick leave; and what other resources might be available to the practice. Consider the policies and procedures of the practice, as well as your professional body's code of ethics.

Identify affected parties:

Key affected parties are you, your manager, the practice, its other employees and the client.

Who should be involved in the resolution:

In the first instance, you should attempt to resolve the issue with your manager, although it may be necessary to involve the person responsible for training within the practice. You might, at an appropriate stage, suggest that the client be involved, e.g., to agree a revised deadline.

(c) Possible course of action

You should explain to your manager that you do not have sufficient time and experience to complete the work to a satisfactory standard. However, you should demonstrate a constructive attitude, and suggest how the problem may be resolved. For example, you might suggest the use of a subcontract bookkeeper, or contacting the client to enquire if the deadline might be extended so that the work may be performed when you return from study leave or when your colleague returns from sick leave. You might also explore the possibility of assigning another member of staff to supervise your work.

If you feel that your manager is being unsympathetic or simply fails to understand the issue, you should consider how best to raise the matter with the person within the practice responsible for training. It would be diplomatic to suggest to your manager that you raise the matter together and present your respective views. This would have the added advantage of involving a third party.

It would be unethical to attempt to complete the work if you doubt your competence. However, simply refusing to, or resigning from your employment, would cause significant problems for both you and the practice. You should also consider discussing with a trusted advisor, e.g., a mentor, a colleague or your professional body. If you seek advice from outside the practice (for example legal or expert advice), you should be mindful of the need for confidentiality as appropriate.

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 - Financial interest

Outline of the case

You are a partner in a three-partner firm of accountants. The firm generates fees of approximately €/£1.4 million per annum. Within your portfolio of clients is Company A, which has been very successful since it first came to your firm five years ago. It now has an annual turnover in excess of €/£15 million.

Company A generates annually recurring fees for the practice of approximately €/£50,000, of which approximately €/£35,000 is in respect of audit work and €/£15,000 relates to routine tax calculations and preparation of the corporation tax return. Your firm has a separate tax department, which performs the tax compliance work in respect of Company A.

The company's financial year end is December. Last year the audit work commenced in June, and the audit report was finally signed in August. By the end of August, the tax return had been submitted to the taxation authority, and the firm's invoice had been issued to Company A.

In September a significant customer of Company A went into receivership, and Company A suffered a large bad debt. The directors approached you immediately and were very open about the company's short-term cash flow problem. Therefore, you agreed that payment of the firm's invoice of €/£50,000 could be spread over ten months, commencing in October.

Company A also needs the support of its bank, and, in December, it was negotiating a modest increase in its overdraft facility. It is now early March, and the bank has requested audited financial statements by the end of the month. The audit is well underway, and you have promised the directors of Company A that the bank will have the audited accounts on time.

The planning of the audit was performed by the audit senior and reviewed by the audit manager for the assignment (in whom you have a great deal of confidence). Due to pressure of work, you did not review the audit plan in detail before the audit team

commenced the year end audit work, and so you decide to review and sign off that section of the audit file now.

You note that the audit manager has correctly identified going concern as the area of the audit attracting greatest risk. However, at the time of planning the audit, the manager was unaware of the credit agreement reached with regard to the payment of last year's fees. You check your firm's records and determine that Company A still owes the firm €/£25,000.

Questions

As a professional accountant in public practice:

- (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: There was a flaw in the planning of the audit, which was not noticed by the audit manager before the audit work commenced. Is it possible to ignore the flaw and yet act with integrity, given that the flaw was unintentional?

Objectivity: Can you reach an objective audit conclusion in view of your wish for Company A to continue trading and settle its outstanding fees to your firm?

Professional competence: You need to bear in mind any ethical standards for auditors relevant to the country in which you practise.

Professional behaviour: Regardless of the actual impact of the outstanding debt on your objectivity, if the bank (or a hypothetical, objective, reasonable and well-informed third party) knew of the outstanding fees, what impact would it have on your firm's reputation?

(b) Considerations

Identify relevant facts:

Through a combination of circumstances, your firm is under pressure to complete an audit assignment while it has a financial debt owing from the client. The debt of Company A to your firm was not as a result of an investment decision, but a pragmatic solution to a problem being faced by an honest client. Nevertheless, your firm has a clear interest in the client's ongoing existence and would not want the audit opinion to jeopardise the repayment of the debt. In addition, you also unintentionally failed to follow correct policies and procedures in performing audit work by not reviewing and signing off the audit plan in a timely manner. You need to determine the appropriate measures to take in order to remedy this. It will be necessary to refer to ethical standards applying to audit work to determine if there any further issues that need to be addressed in relation to the level or audit fees versus non-audit fees, safeguarding against outstanding debt or other issues you see arising.

Identify affected parties:

Potentially, the affected parties are you and your firm, Company A, the bank, and any stakeholders in Company A who will refer to your firm's audit opinion.

Who should be involved in the resolution:

You may involve the audit manager in discussions, although they can do nothing to make your opinion more objective. They can only provide advice. You should certainly involve your partners, and consider who else you may involve who is free from any personal interest in Company A.

(c) Possible course of action

You need to ensure that the audit opinion is reached objectively, but also that a reasonable and informed third party would conclude that objectivity has been adequately safeguarded. Any discussion with the audit manager and the audit senior, who performed the planning initially, should have the objective of amending the firm's planning procedures to ensure that outstanding fees are always considered in the future.

The bank will probably have reviewed Company A's debtors and creditors at various times, and may, at any time, question how your firm could retain objectivity. You may wish to pre-empt such a question by disclosing to the bank (with the consent of your client) the safeguards you have put in place. In any event, you should discuss those safeguards with the directors of Company A, as there will be costs associated with the safeguards, and it would appear reasonable to pass these costs on to the client.

The appropriate safeguards will depend on the significance of the threat presented by the outstanding fees of €/£25,000. This will depend on many factors, including the personal circumstances of you and your partners. In the context of the firm, the debt of €/£25,000 represents less than 2% of the firm's annual income. However, the annual fee income from the client (€/£50,000) equates to 3.6% of the firm's income and, when the invoice is raised for the current audit, the outstanding debt will be significant.

You must minimise the threat to objectivity brought about by the firm's interest in Company A continuing to trade. A possible solution may be to obtain directors' guarantees in respect of the outstanding fees and the invoice which is soon to be raised. Provided the directors are in a position to provide such guarantees, this would have a commercial benefit as well as an ethical one. It will almost certainly be necessary to obtain legal advice before entering into such an agreement and the firm should be aware of risks associated with preferential settlement of debts by a company that may be in an insolvent position.

However, even if this possible course of action is pursued, it may not be sufficient to reduce the threat to objectivity to an insignificant level. This may only be achieved by introducing an independent auditor, or an independent and qualified audit compliance reviewer, to review your firm's audit work before the audit report is signed. This should be someone who is independent of the firm and, therefore, unsympathetic to the firm's interests. You should discuss with your client how the additional costs will be met.

You should keep your partners informed of the issue, and the safeguards you intend to implement, throughout the resolution process.

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 are an audit partner of a firm auditing a group subsidiary. During the audit you have identified that the subsidiary company won two substantial overseas contracts. During fieldwork your audit team has been unable to identify a clear timeline relating to the offering and bidding process in relation to those contracts. At the same time, it is discovered that large unidentified payments were made during this time which are later traced to individuals linked to overseas government departments. Payables testing procedures have revealed purchase orders were raised at the instruction of the finance director which cannot be cross-referenced to an approved supplier list, but which were included within the payable ledger.

The subsidiary company has also paid significant penalties for the breach of environmental laws and regulations due to exceeding levels of carbon emissions and breaching industrial waste disposal regulations. The directors failed to take appropriate steps to stop this happening repeatedly during the audited period. To hide this fact from the auditors, the finance director asked the staff of the subsidiary company to post the penalty charges to the cost of sales.

You have been auditing the group companies for the last three years and have never come across this behaviour in the past.

Questions

As a professional accountant in public practice:

- (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: Have you considered raising the issue of non-compliance with laws and regulations in the context of an auditor's integrity? What is the risk if you turn a blind eye due to the client's possible unethical behaviour? Consider the threats of self-interest and familiarity against the principles of integrity and professional behaviour linked with non-compliance with laws and regulations (NOCLAR).

Objectivity: In view of the trust that has developed between you and your client, and the threat brought about by the familiarity with the directors and staff of the company, how will you maintain your objectivity when deciding on a course of action?

Confidentiality: Is there any basis where client confidentiality is superseded by legal requirements to make disclosures to appropriate authorities?

Professional behaviour: How should you proceed in order to comply with relevant laws and regulations, so as not to assist others to act illegally or unethically and discredit yourself, your firm or the profession?

(b) Considerations

Identify relevant facts:

You have become aware of, or suspect, that your client is not compliant with relevant laws or regulations.

Consider relevant auditing, accounting and conduct standards, laws and regulations (including taxation requirements), as well as ethical standards, including those of your professional body. Ensure are you aware of the legal and regulatory provisions within the jurisdiction and whether there are any requirements to report the matter to the authorities. Ensure you consider wide-ranging consequences of NOCLAR for all stakeholders, as well as your firm and the client, for example fines, criminal charges, and reputational damage.

Consider, document and corroborate the firm's policies, procedures and guidelines on non-compliance with laws and regulations. What channels of communication exist between staff, the management and those charged with governance?

Note: This case study only considers your obligations under the Code of Ethics in relation to NOCLAR, 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 client, those charged with governance and the internal audit department. Other possible affected parties are the company's investors, creditors and employees as well as regulatory authorities and the general public.

It will be useful to establish the organisational structure and reporting lines within the client company and group, including the pathway for escalating an issue of concern in relation to a certain level of management or oversight, e.g., through speaking-up/whistleblowing.

Who should be involved in the resolution:

You should consider involving other members of the firm, the management of the client company, those charged with governance (via the company secretary) and the internal audit department.

As well as involving management, you may be required to involve parties external to the company at a relevant time. If you wish to discuss possible solutions with a third party, you must adhere to the principle of confidentiality, except in cases where this is overridden by the requirements of a legal process or the public interest. You should also consider taking independent legal or expert advice.

(c) Possible course of action

Once you become aware of actual or suspected NOCLAR, you must establish whether any legal or regulatory reporting obligations are triggered, such as making a Suspicious Activity Report in Ireland or the UK, or any reporting in the jurisdiction where NOCLAR activity took place if applicable. You should ensure the process you follow before and after a report is

made does not prejudice a possible investigation by the authorities, including taking care to avoid the risk of tipping-off.

Broadly, you would be expected to:

Obtain an understanding of the matter, including considering whether all the relevant facts, laws and regulations have been established.

Consider whether internal processes within the firm may support you in addressing your concerns.

Discuss the matter with an appropriate level of company management and those charged with governance ensuring those likely to be involved are not tipped off. If all senior or executive management is implicated in NOCLAR, the matter should be escalated to be dealt with by the directors, or the audit committee, of the parent company.

Review management's response to NOCLAR and consider whether action taken was timely, appropriate and effective in rectifying, mitigating, or deterring the non-compliance, and in disclosing the NOCLAR to an appropriate authority.

If, in your professional judgement, the client's response is considered inappropriate, consider whether any further action is needed in the public interest. Disclosure to a relevant public or regulatory authority may be appropriate even if there is no legal obligation to do so, for example reporting environmental law breaches to the environmental protection agency where the breach could result in harm caused to investors, creditors and the general public. The disclosure of verified NOCLAR to a public authority in exceptional circumstances may not be considered a breach of your duty of confidentiality although taking legal advice prior to making any disclosure is advised.

Consider your reporting responsibilities to the group engagement partner, to understand any impact of NOCLAR on the future of the group as a going concern.

Consider whether, due to unsatisfactory steps taken by management or other factors, a resignation from the engagement is appropriate to dissociate the firm and audit team from a company involved in NOCLAR. If the firm resigns, you should inform the successor accountant of this although taking care not to inform the proposed accountant if you have made a suspicious activity report under anti-money laundering regulations, or if you have

a suspicion of any money laundering activity, as you are at risk of 'tipping off'. Resignation alone does not help to resolve the situation and is not a substitute for taking required actions.

Document in detail steps taken to address the discovery of NOCLAR.

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