



ETHICS IN PRACTICE SCENARIOS

EMPLOYER GUIDE



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INTRODUCTION

The Ethics in Practice scenarios in this document are provided for you to discuss with your students at their six-monthly meetings in your capacity as their QPRT, Counsellor or ATP.

They replace the Ethics in Practice webinars which accompanied the previous version of the Ethics Learning Programme.

The six-monthly meetings must include a discussion of the student's learning and progress in relation to ethics. This is a mandatory part of the qualification. You will need to discuss with the student:

- their progress in the Ethics Learning Programme including progress through the modules, the progress tests and the full assessment; and
- an ethical scenario from the Ethics in Practice scenarios included in this document; and
- a real-life ethical situation.

The student must then update their training file by adding an 'ethics review' to record their progress through the Ethics Learning Programme and confirm that ethical discussions were held with you, their QPRT, Counsellor or ATP, on a scenario and a real-life situation.

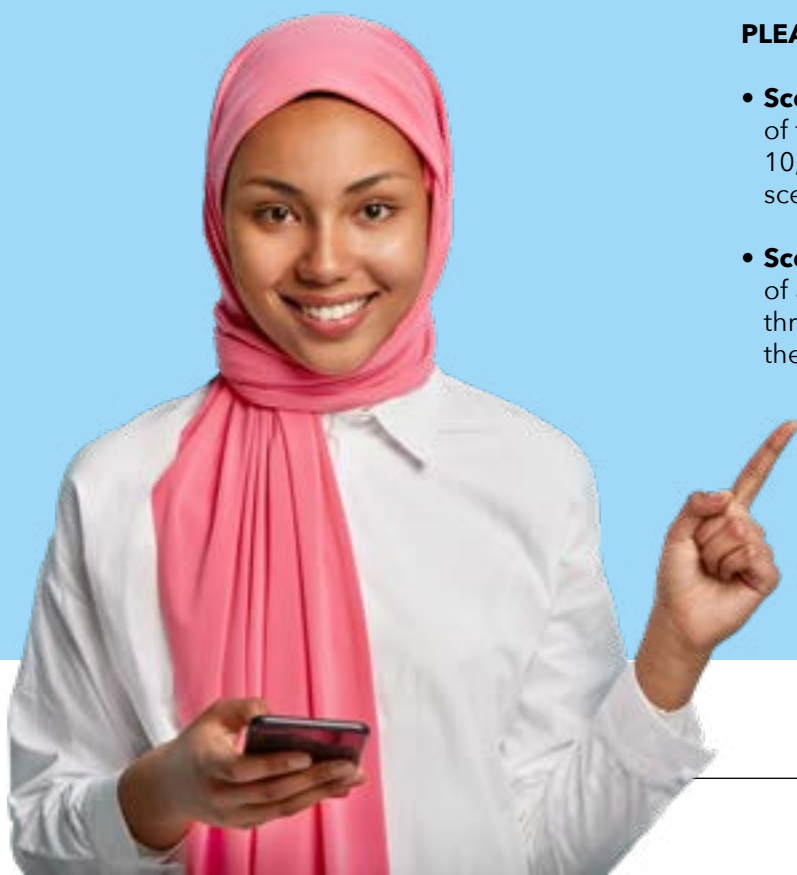
There is a bank of 18 Ethics in Practice scenarios for use during the meetings.

Scenarios 1 to 6 relate directly to the modules of the Ethics Learning Programme. Each scenario relates to one of the modules. Students are expected to read and discuss some or all of these with you during the meetings held while they are studying the Ethics Learning Programme, during the first year of their training agreement.

Scenarios 7 to 18 are for discussion at meetings after the first year of the training agreement. These build in complexity and students will find them more challenging. They may cover a range of ethical dilemmas and some are set in specialist environments, for example charities or financial services. The scenarios will reflect the increase in responsibility that the student will have at work as they progress through their training agreement.

PLEASE NOTE

- **Scenarios 7 to 12** - for completion in Year 2 of the student training agreement (scenarios 10,11 and 12 are more complex than scenarios 7,8 and 9)
- **Scenarios 13 to 18** - for completion in Year 3 of a training agreement (or beyond). The final three scenarios are more challenging than the first three in this group



HOW TO USE THE SCENARIOS

Students have access to the bank of scenarios either via their training file or via a link within the Ethics Learning Programme dashboard.

The student version of this document advises them to prepare for the six-monthly review meetings by reading and considering the relevant scenario(s). There should be enough time to discuss one or possibly two scenarios at each meeting. Once students have completed the Ethics Learning Programme in the later stages of their training agreement there will probably only be time for one scenario per meeting, as they are more complex and challenging.

Your students should prepare three scenarios for each six-monthly review meeting working sequentially through the collection. At each six-monthly review meeting you will choose the scenario(s) for your student to present for discussion.

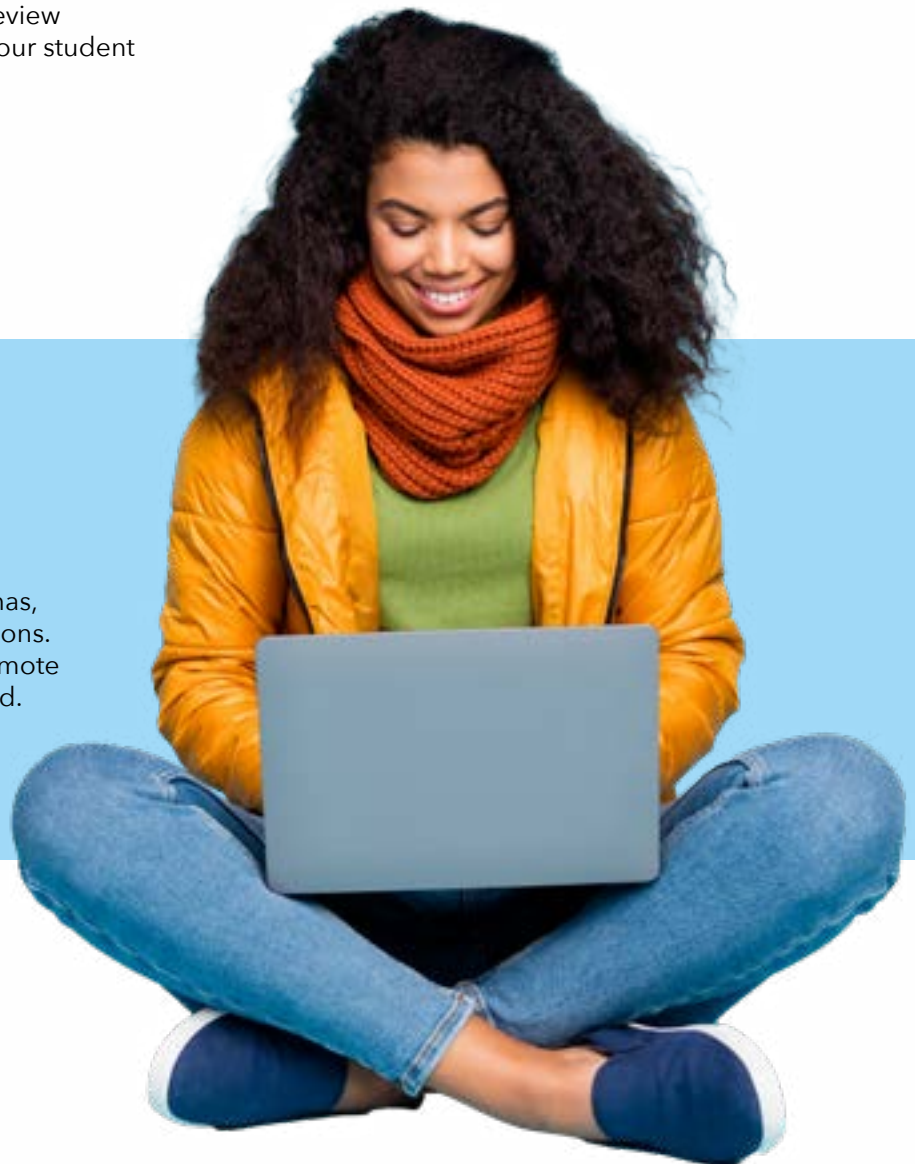
You should advise your students to read the scenario and consider:

- what are the ethical principles at stake?
- what are the ethical issues to consider?
- what action would you take to solve the problem?

The employer version of this document contains each of the scenarios annotated with call-out boxes containing prompts and questions for your discussion with the student. There are also supporting notes covering the ethical principles, issues and actions that the students should consider.

PLEASE NOTE

For some of the scenarios there is no absolute right or wrong answer. The scenarios are based on ethical dilemmas, which could have one or several solutions. The purpose of the meetings is to promote a discussion around the issues involved.



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CULTURE

You were delighted to gain a role at a prestigious firm of accountants. You have been on excellent initial training programmes. Now you are on your first audit. One of the first steps is a briefing meeting with your manager held by video call with 11 other team members. Your broadband connection keeps breaking up, so sometimes there is a slight time lag in the conversation. (You have spoken to your landlord who provides all services where you live.)

Once the audit starts at the client's premises, you feel isolated and bombarded by work programmes, timelines and progress schedules. You feel that if you fall behind you would never catch up again.

The other team members seem 'super confident' outspoken people. At the client premises you find it hard to speak up. Everyone is always busy. There seems a big difference from the training courses to this real-world experience.

The company you are auditing is a manufacturer of perspex (a solid transparent plastic) products. You are auditing the inventory of screens the company produces. The company seems to have a relaxed attitude to the plastic waste it is creating, and you are a keen wildlife supporter and wonder where the scrap plastic ends up; is it in the oceans? You try one or two tentative conversations with your colleagues along these lines, but they clearly are not interested in chatting with you.

When you have completed the on-site work and are working from home filling in the rest of the programme, you have another panic when you find there are sections of the audit programme that you have not completed. You are not sure what to do. Would it be reasonable to ask one of the seniors to have a video call?

You decide to telephone the senior who had seemed the most approachable. He just says, *'Has no-one told you about ghostticking! It's the quickest way to finish work before 10pm. Just tick off the programme anyway.'*

You tick off the audit programme.

Should you expect the manager to be understanding about this and repeat things if necessary?

Is this a necessary part of an efficient working environment to ensure a competent assignment is carried out?

How can teams ensure that everyone feels comfortable speaking up?

What should you do if you feel a dilemma with a clash between personal ethics and business/professional ethics?

Would this be reasonable?

What should you do about this response?

MODULE 1 - ETHICS, STAKEHOLDERS AND CULTURE**PRINCIPLES AT STAKE**

Integrity - Not being associated with misleading information.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - Just ticking off the inventory part of the programme would be misleading audit evidence.

Professional competence and due care - The senior doesn't seem to be working towards a competent job. The pressure of the deadlines if they are excessive and unrealistic could result in corners being cut

Professional behaviour - Should you be concerned about discredit by association from the client's attitude to waste?

**ACTIONS TO TAKE**

- It would be appropriate to consult your training manager, or another senior mentor within your firm.
- To gain support you could contact both the ICAEW helplines and CABA who offer courses on personal resilience.

PROFESSIONAL SCEPTICISM

You are part of an audit team for an international conglomerate payment processing company with offices throughout the world.

You have only been training for a year and are feeling hesitant about auditing. You can never see the bigger picture of what you are doing.

The company is responsible for handling banking payments for a large percentage of people in your own country, and countless others across the world. This makes you feel proud, as you are involved in one of your firm's most prestigious audits, but also slightly concerned.

You have been allocated to the cash balances part of the audit programme. The programme emphasises that you must travel to see original verification documents that local offices will have obtained from banks in their regions. However, you are informed that due to pandemic related travel restrictions you are to carry out this work remotely. You try to speak to your manager about how you are to deal with this, however she is quick in her answers, saying things like 'Do what it takes' and 'So long as we deliver a complete service on time and on budget.'

Your work progresses and you find yourself on Google Maps looking up where the varied locations of the banks holding these balances are.

You try to arrange some sort of secure delivery service for documents to be sent for you to view them, but that just brings about more questions: should you have them sent to your firm's office? You are only meant to be going in there for 'essential work', would this count? Surely you are not meant to have them sent to your home address.

To confuse you further, you see from last year's audit records that the verifications were sent by email. You are sceptical about whether this counts as adequate audit evidence but don't know who to ask about this.

You decide it is probably OK. The client is such a household name and such a huge corporation that these balances in the bank are probably all there and anyway, what if these banks you have never heard of don't really exist! Where do you stop?!

Does this matter to ensuring competence on the audit?

Is this going to impact confidentiality if friends and family have transactions carried out by them?

Might it also make you concerned due to the scale of the client ie, might you lack confidence in your own ability?

Is the manager being unethical here?

Should you be on your guard with heightened professional scepticism if you don't know the countries?

What about confidentiality?
What should be done about the documents to balance due care and confidentiality?

What actions should your professional scepticism lead to?
What should you do if you are hesitant about previous work by your firm?

MODULE 2 - ICAEW AND PUBLIC TRUST

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Confidentiality - To respect the confidentiality of information acquired as a result of professional and business relationships. Not disclose information outside the organisation.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - Does your professional scepticism and hesitancy about the documents having been sent by email amount to a risk of an association with misleading information?

Objectivity - Is the manager putting an undue pressure on you by saying, 'Do what it takes'?

Professional competence and due care - How much of the 'big picture' of an audit can you reasonably be expected to have/need in order to perform a professionally competent assignment? Does the fact that you don't know where the locations are impact your professional competence?

Confidentiality - If your friends and family are going to have transactions carried out by this company, is it going to be too difficult for you to resist talking about the work? If the company has such a large coverage of the payments processing sector would it even be feasible to have an audit team who will not have connected persons impacted by them in one way or another? Need also to think about confidentiality in terms of documents sent to your home address.

Professional behaviour - Might the issues with the audit amount to behaviour that would discredit the profession: ie, your manager's attitude and the issues you have with the audit evidence.

**ACTIONS TO TAKE**

- You have only been training for a year in this scenario, so the main thing you would want to do is to refer to those more senior and ask questions whenever you feel uncomfortable. If you don't feel satisfied with the responses, then you would need to seek out someone else in a senior position to ask their advice.

CHARITY

APPLICATION OF FUNDAMENTAL PRINCIPLES

Your fellow cycling club members are delighted when you tell them you have started a training agreement to become a chartered accountant. The club is a registered charity and you agree to be nominated to be treasurer next year.

You arrange with the current treasurer to look at the records. They are in a complete mess and you end up spending many evenings trying to sort them out.

Slowly you start to realise that sums of money have been disappearing with no explanation. You try asking the current treasurer about them but he brushes you off, saying, 'You know how expensive these high specification bicycles can be to run'.

You try speaking to the club chairperson, saying you have got some good ideas for improving the records next year. You try to think in terms of your Ethics Learning Programme. Can you set up safeguards to deal with this problem?

When you ask if you can meet face-to-face to talk things through, she brings along her husband (who in fact is going to be the new chair next year). You start to get a horrible feeling when you realise that neither of them are at all interested in you improving the records, in fact you have a suspicion that they might also be benefiting from the money that is being taken out of the club.

You realise that the reason they were pleased to have you as treasurer wasn't because they wanted you to do a good job, but rather because they thought you would lend your title of trainee chartered accountant to the club's senior team giving a nice façade of good management without anything needing to change.

The club is a registered charity. Is it breaking any Professional Competence rules if you don't have a specific knowledge of charities? Should you agree to be nominated?

What should you do about this? What responsibilities do you have? You are only a volunteer on this task rather than being at work, does that change things? And even at work you are junior and don't have much accountancy knowledge.

Part of the Code of Ethics framework is to recognise when safeguards are not sufficient, and it is necessary to resign.

Is this theft? ie, a crime rather than merely an ethical misdemeanour?

What can you do though? You have already tried consulting/informing the senior management of the club? s there a club management committee? Should you try sharing your findings and concerns with others? What about the charity trustees? Are they the same people as the chair and the treasurer? This seems like a legal matter which you are out of your depth with.

MODULE 3 - THE ICAEW CODE OF ETHICS**PRINCIPLES AT STAKE**

Integrity - Not being associated with misleading information.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation.

Confidentiality - Confidential information must not be disclosed outside the organisation without authority, unless there is duty or right to disclose, or disclosure is in the public interest and permitted by law.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Voluntary work - The Code of Ethics does cover this as well as paid work.

Integrity - You certainly don't want to be associated with what is going on in the running of the club, however you need to decide if you can just walk away now that you have become involved.

Professional competence and due care - Would you need specific knowledge about running a charity?

Professional behaviour - You are concerned that the law could actually be being broken

**ACTIONS TO TAKE**

- This would certainly be a case where you would want to consult the ICAEW support lines.
- Firstly, the ethics advisory line to consider your own ethical position.
- Secondly, the technical support line, if you did stay involved with the charity, for specialised information of charity reporting.
- However, it would seem from what has taken place that this may well be a scenario where, having followed the appropriate course of action on what you have discovered, you may well decide you want to withdraw your agreement to be nominated to be treasurer next year

BUSINESS PRACTICE IN A TIME OF PANDEMIC

You work as a project accountant for a haulage company that specialises in the transportation of heavy and abnormal loads. It is a time of global pandemic when governments are balancing encouraging people back to work with protecting public health. Your company decides that administrative, as well as operational staff should now go back to the workplace.

On returning you are surprised that arrangements in the canteen seem much the same as they ever were. There is little evidence of social distancing, except a traffic lights system on the stairways (which no-one seems to obey).

You see a friend who works in the company's facilities management department and you ask him about the arrangements. He admits he has been concerned that the hours budgeted for cleaning communal areas haven't been increased at all.

He also says, it's not his area, but he doesn't understand how it can be that the same lorry drivers are going out when surely, they have returned from countries that you are meant to quarantine on return from.

You decide to raise these with your boss, the Finance Director (FD). She is dismissive saying, 'Finance staff can't have any impact on health and safety arrangements'.

Furthermore she says she has far too much to think about with the Board meeting coming up, where she has to give a summary of how the operation of the furlough scheme (government scheme to subsidise the wages of staff not able to work) has gone and also present numbers as to the minimum and maximum numbers of redundancies that are looking likely in order to achieve a break even position.



What should you do about this?
You feel there is a clash between your personal ethics of what you think is the right thing to do and what seems to be the practice of what is happening in your company.



Can you see ways where finance data could actually help ensure ethical matters are being dealt with?



Is this getting closer to questioning whether the law is being complied with?
What should you do about this?



What do you think about the FD's statement?



Can you see a dilemma here in terms of priorities?

MODULE 4 - ETHICS IN BUSINESS

PRINCIPLES AT STAKE

Objectivity - Not compromising judgements due to the influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation.

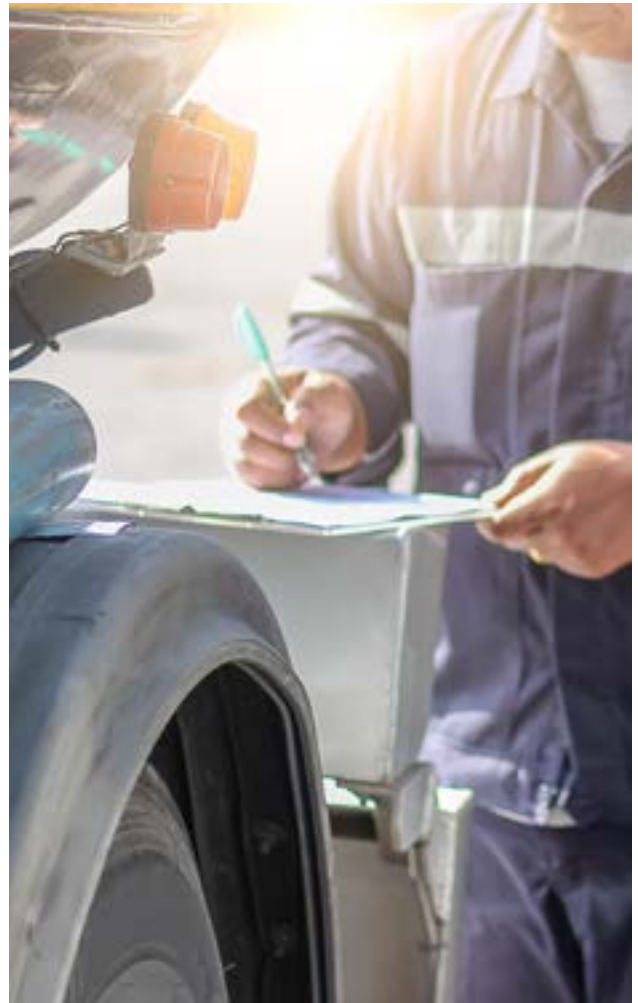
Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Objectivity - If you have reported your concerns to your senior, ie, the FD, you need to consider if this is enough for someone in your position; or if you are under undue pressure from the FD not to raise these matters further.

Professional competence and due care - Should due care extend to raising a voice on matters where you can see a risk to stakeholders albeit not directly created by the finance department.

Professional behaviour - If you are concerned that the quarantine law could be broken what should you do? Need to consider whether the public interest is being adequately taken into account.

**ACTIONS TO TAKE**

- As an accountant, you would not be expected to have a level of understanding of laws and regulations wider than those required for your role.
- You would have acted correctly in this scenario in raising the matters with your superior, in this case the FD, to address the matter.
- The issues in this scenario are ones that HR (human resources) should be made aware of, since this is likely to be their area of responsibility.
- NOCLAR (Non-Compliance with Laws and Regulations) permits a professional accountant (whether in practice or business) to make disclosure to the appropriate authority (in this case the Health and Safety Executive (HSE)) without first reporting the matter to management, but only under exceptional circumstances. Typically, there must be reason to believe that there will be an imminent breach of law or regulation that would cause substantial harm to stakeholders.
- In this scenario, although further substantiation/verification would clearly be needed, it sounds as though the situation could be close to this.
- While you may have done everything you should in the circumstance, the FD is in a senior position. They have a greater ability to influence policies, decision-making and actions taken. The FD should therefore be doing more.
- In any situation such as this, you should document the issue and actions taken including the results of any discussion, and the response.
- If some of the issues escalate the board may end up needing to take legal advice.

TAX AND ADVOCACY

You work in the tax department of an ICAEW registered firm. You are starting work on an assignment which is part of the tax compliance services for a client. You see from the permanent file that the client is also an audit client of your firm.

You begin the preliminary schedules for the corporation tax return, and you find you have several issues you don't understand.

The company makes a large number of sales over the internet. There seems to be a disproportionately high number of transactions going through in different jurisdictions in the early hours of the morning. Plus, you can see various journal entries that have narrative saying the place of supply is somewhere you know to be an offshore tax haven.

The sundry expenses ledger seems to have some very small items with the narrative of just 'petty cash'. You are not sure whether further narrative is required and whether these are too small to bother your manager with.

After emailing your manager, he telephones you in response and says why don't the two of you have a face-to-face meeting with the client.

You look forward to the meeting as it will be really good experience. However, once there, the client is very demanding, and it turns out they want assistance from the firm in discussions with the tax authority. There is a disputed treatment with the tax authority.

**What are the ethical principles involved in providing both services?
What ethical threats would there be?**

**What would the potential ethical principle at stake here be?
And is the threat suitably avoided in what follows?**

Would this prompt any new ethical thoughts in your head?

And this?

**What ethical issues are involved here?
And what threats to the fundamental principles?**

MODULE 5 - ETHICS IN PRACTICE

PRINCIPLES AT STAKE

Integrity - To be honest and not be associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias or conflict of interest. In undertaking the assurance engagement, the firm must not only be, but also appear to be, independent.

Professional competence - To ensure that the client receives competent professional service.

Professional behaviour and due care - To comply with relevant laws and regulations and avoid any conduct that might discredit the profession.

THREATS TO THE PRINCIPLES

This scenario has many threats, below are some of the major ones:

Self-interest - The threat that the financial or other interest will inappropriately influence the firm’s judgement or behaviour.

Self-review - The threat that during the audit the firm will not appropriately evaluate the results of previous judgements made by the firm ie, in connection with the tax work.

Intimidation threat - Exerting undue pressure or influence.

ISSUES TO CONSIDER

Professional competence - Tax treatment needs to be correct. Only a certain amount can be learned from theoretical studies. Consulting seniors/specialists is always to be advised.

Integrity - Could be seen to not be honest.

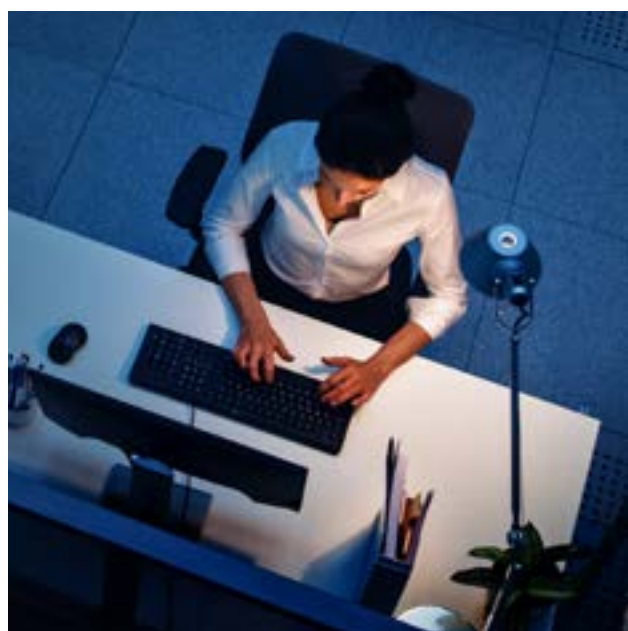
Objectivity - Independence could be impaired. The threats to objectivity would be:

Self-interest and self-review threats - If the same team provided both services.

Intimidation threat - There could also be a threat to independence due to a demanding client. Intimidation involves exerting undue pressure or influence. The client acting in this manner could influence the actions of your firm in the tax work. This could be seen as ‘bullying’. Clearly the tax advisor should not be influenced by this behaviour.

Advocacy - Need to consider whether adopting a position too closely aligned to that of management ie, including representing the entity in any negotiations or proceedings involving the tax authority. If this was the case, this would affect/compromise the independence of the advisor.

Professional behaviour - Some of the aspects of the scenario, such as the association with the offshore tax haven and the sundry expenses should prompt professional scepticism in your work.



ACTIONS TO TAKE

- You have acted appropriately here, in contacting your manager to ensure the professional competence of the job.
- You should also keep on your guard re any issues where your professional scepticism prompts this.

MODULE 6 - ETHICS IN A TRANSFORMING WORLD

PROMPTS FOR DISCUSSION

GREEN WASHING

You work as an associate in business development for a large management advisory company. The company has a strong brand and lists many green credentials in proposals and pitches for new clients. The management have made a commitment to net zero carbon emissions and describe the company as proud of its zero waste credentials.

You hadn't been working there for long when you started to realise that many of these green credentials are in fact 'green wash' (ie, giving the impression that the company is behaving in an environmentally-friendly manner to increase sales, when it is not doing so) and most of the company's practices are unsustainable or take no account of environmental or societal impacts.

The company's policy is to advise client companies to use the cheapest energy provider. You are expected to convey this advice. Your concern is that no-one spends any time looking into what the environmental practices of these energy providers are. When you suggest doing so, you are strongly reminded that that wouldn't be time that you could be charging to any client.

The rubbish collection points with huge colourful bins laid out in a modernist design pattern to encourage you to go there and recycle your waste at the large headquarters office where you work are a talking point among your co-workers. However, you have noticed the office waste collection vehicles. They are provided by a waste management facility company. On looking the company up, you find a host of news reports and media comment about the waste company burning waste with seeming disregard for its environmental impact.

Your employer has a policy of asking you to pitch for new business focussing on how green the company is and asks you to post on your personal social media endorsing this. The management advisory company is entering an award as 'Green advisors of the year'; the winners will be decided as those with the most posts on social media.

Is 'green wash' a term you are familiar with?
Have you come across examples of it in real-life?

Do you think they should be doing so?
What do you think about the balance between commercial priorities and ethical ones?
Is it clear cut?

Is it fair if you won't be allowed to log any chargeable time to this research?

To what extent does a company have a responsibility to look into the further chain as to what happens to something like waste disposal?
Once your company has passed the waste to the contractor company does their responsibility end?

MODULE 6 - ETHICS IN A TRANSFORMING WORLD

PRINCIPLES AT STAKE

Integrity - To be straightforward and honest in all professional and business relationships. Not knowingly being associated with misleading information.

Objectivity - Not compromising judgements due to the influence of others.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Taking the scenario as a whole, consider whether you think the company is deliberately 'green washing'? Are they taking enough account of wider stakeholders? Who are the wider stakeholders?

Integrity - The need to decide to what extent you think you helping promote your consultancy's 'green' reputation would amount to you misrepresenting and being associated with misleading information.

Objectivity - If pressure is put on you to not look into the ethical practices of third parties you are promoting ie, the energy providers, you need to consider if this is compromising your own ethical position.

Professional behaviour - The need to consider to what extent you think this 'green washing' by your employer is behaviour that might cause discredit to the profession. You are on the first step to working towards the public interest by identifying the issues as described in the scenario.

**ACTIONS TO TAKE**

- The first step is going to be reporting your concerns to your immediate superior or to some other mentor who supports you in the company. If you don't feel you are getting the support that you would expect and that you think the seriousness of the matters deserves, as might be the case from the discouragement you experienced in terms of looking into the energy providers, there is nothing to stop you looking to approach another senior person in the company who might be able to give you guidance and support.

SCENARIO 7 - SOCIAL MEDIA

PROMPTS FOR DISCUSSION

SOCIAL MEDIA

Both you and Jack are trainee ICAEW Chartered Accountants at FLT & Co., with two years' experience in audit. You are both currently auditing contract provisions for a listed construction company, Rinter plc. Jack identifies that Rinter is not recognising unavoidable future costs on a number of long-term contracts. He stays late one evening to produce a schedule of audit evidence explaining why the losses should be recognised on these contracts in the current year, in accordance with IAS 37. However, when he shows this to the audit manager, she dismisses his concerns, arguing that 'unavoidable' is something quite subjective. If the client thinks they are avoidable, then we run with that.' She even goes on to tell him to remove his concerns from the audit working papers.

You have recently become aware that Jack has been posting adverse comments on social media about the client and FLT, although he has never explicitly named either entity in his posts.

The next day you see one of Jack's posts on Facebook:

Does anyone else find it really annoying when you're not listened to by your boss? Working on the audit of a large construction company and my manager is refusing to challenge the FD when it's obvious they're not accounting for provisions correctly. It's so frustrating plus I'm starting to get a bit worried as I don't want to be implicated if there's anything untoward going on - anyone got any advice?

You also notice a follow up Facebook post made by Jack as follows:

I work for an audit firm, but I think it is unethical and I want to leave. I am working on the audit of a construction company and the audit partner is terrified to challenge the FD over the draft accounts. The audit manager is terrified of the partner, so she won't do anything. They both seem to want to make any excuse, so they do not have to modify the audit report. I really don't want to be associated with this client when a scandal emerges - it's going to be another Carillion. I need to speak out now.

In a private conversation Jack said to you recently 'I feel strongly about the matters I am raising in my posts, but I will be able to say much more after I leave FLT. However, I would like your advice on what I should do now.'

What ethical obligations does knowledge of this matter create for you?

Is Jack likely to be correct in his judgements? If Jack is right, is he right to speak out? What ethical principles are at stake for Jack and you?

Are there different ethical principles at stake for the two social media posts by Jack?

What advice, if any, would you give Jack on the actions he should take? What ethical difference would it make if Jack had made the same social media posts, but after he had left FLT?

SCENARIO 7 - SOCIAL MEDIA

PRINCIPLES AT STAKE

Confidentiality - There is a professional duty to respect the confidentiality of information acquired as a result of professional and business relationships. Not to disclose such information outside the organisation, unless there is duty or right to disclose, or disclosure is in the public interest and permitted by law.

Professional behaviour, competence and due care - To comply with relevant laws and regulations and avoid any conduct that might discredit the profession. Ensuring a competent professional service, which is compliant with technical and professional standards and legislation.

Integrity - To be honest and not be associated with misleading information.

Intimidation - Exerting undue pressure or influence.

ISSUES TO CONSIDER**(1) Public disclosure of confidential information in social media.**

Confidentiality - There is a risk that, despite not naming the client in the social media postings, somebody who knows Jack could identify the audit firm and the client. This would be a serious breach of confidentiality given the nature of the disclosures. As Rinter is a listed company, this could be a particularly serious matter as its shares could be traded at a profit, based on the information in the postings.

Social media disclosures by Jack about the firm that employs him are also a breach of confidential information and perhaps also his employment contract. However, they are not necessarily a breach of client confidentiality.

The duty of confidentiality does not end when Jack leaves the firm.

Duty to report or disclose - As you are aware of Jack's behaviour on social media and the possible consequences, you should consider your obligation to report the matter to somebody senior in the firm, perhaps the staff partner or ethics partner.

(2) Possibility of inappropriate financial reporting by client and lack of challenge by audit firm.

Professional behaviour, competence and due care - With only two years' experience, Jack may not be in a position to make a reliable judgement on the required financial reporting treatment of long-term contract losses.

However, he has the right to voice his opinion within the audit team and make his case.

Intimidation threat - An intimidation threat, or a perception of an intimidation threat may mitigate Jack raising the issue internally and may constrain subsequent open and honest discussion of the issues within the audit team.

The instruction by the engagement manager for Jack to remove his concerns from the audit documentation does not suggest his view has been heard and considered.

**ACTIONS TO TAKE**

- You should inform Jack that he must make no further social media postings disclosing confidential information about the client or the firm.
- You should take advice from a senior colleague about who to inform about Jack's historic disclosures on social media.
- The matters raised by Jack need to be discussed honestly and openly within the audit team to resolve the technical application of IAS 37 and audit judgements surrounding the relevant issues.
- If matters are not resolved appropriately internally within the audit firm, for you or Jack, then, to gain support, you could contact the ICAEW ethics helpline.
- If there is still no internal resolution, consideration should ultimately be given, by you and Jack, as to whether there is a duty to disclose (eg, whether a crime has been committed, such as false accounting).

SCENARIO 8 - CONFLICT OF INTEREST

PROMPTS FOR DISCUSSION

CONFLICT OF INTEREST

You work for a small firm of chartered accountants and are carrying out work for a client who operates a wedding services business. It is run by Gareth and Mia, husband and wife directors who are equal shareholders. Your firm's partner, whose client it is, flatters you by saying they think you will be able to handle the whole accounts and taxation job. You are hesitant and would have liked some supervision.

You have an exploratory look in the folder with the client's files and find some of your firm's records confusing. Your firm provides advice for the directors regarding their personal tax as well as for the company, but there seems to be only one client acceptance document and engagement letter. You are not sure whether there should be separate versions of these sorts of things. You have future ambitions to set up your own practice and want to ensure you are clear on proper procedures.

Your first task is to go on a visit to the client. The partner has forwarded an email saying they would like to decide on the dividend payment for the year at the meeting. When you arrive, you are met by Mia who suggests you conduct the meeting in a coffee shop nearby. It becomes apparent Gareth isn't going to be attending. You wonder whether discussions on the company's dividends can take place without Gareth there. It soon becomes clear that they have separated. Mia says they want to split the business and asks you to explain what this would mean for the business.

You find the meeting awkward because Mia also says a lot of derogatory things about Gareth and how he doesn't split car-related expenses equitably between the business and his personal use and never keeps his mileage records properly.

On returning to your office, you realise you must have left your work laptop in the coffee shop. You telephone and the person answering promises to go and look and ring you straight back. You wait for what seems like an eternity.

In the meantime you check your emails on your phone and find there is one there from Gareth, saying he is sorry he missed you and would you let your partner know that he would of course like your firm to continue acting for him after the imminent divorce which he understands you know about. You realise you don't know what should happen here. Can your firm continue to act for both Mia and Gareth?

What should you do here?
Should you carry on with the job?

Should you continue on the job when you are not certain all correct client procedures have been followed?

What should you do here?
Should you talk with just Mia about what the possibilities might be?
And is it ok to relay to a client general text-book like scenarios, when you won't have the full specifics of their situation?
Are you competent to do so?

What should you do about Mia telling you these things?

What should you do if the laptop has been lost?

What would the answer to this be?
What should you do now?
How should your firm deal with this?

SCENARIO 8 - CONFLICT OF INTEREST

PRINCIPLES AT STAKE

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Integrity - Not being associated with misleading information.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation.

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.

ISSUES TO CONSIDER

Objectivity - In this situation, careful safeguards will need to be implemented in order to act for both the parties. It will be difficult to know who to listen to and who to take instruction from.

Conflicts of interest - There is guidance on conflicts of interest over and above what is stated in the Code of Ethics itself.

Integrity - You will need to make a note of the points about the potential inappropriate treatment and keeping of records re: the motoring expenses. You will then need to follow this up, to ensure that both yourself and your firm are not associated with misleading information.

Professional competence and due care - If you do not feel competent to carry out this job in the first place, you will need to make this clear to the partner. You will also need to follow up whether the correct client acceptance documents, Know Your Client documents and engagement letters are comprehensive and up to date. When Mia asks you about splitting the business and matters that are outside your level of expertise, you should make sure you let her know this fact and that someone will get back to her. However, it would be ok to say very general points about possibilities for going forward in a text-book like fashion.

Confidentiality - Talking in the coffee shop was not to be advised, especially as one of the parties wasn't present, and you could be disclosing his information. The potential loss of the laptop has now clearly compounded the confidentiality breach and may also have compromised GDPR (General Data Protection Regulations).

Professional behaviour - Again, talking in the coffee shop about the client's affairs could well be construed as not professional behaviour. You also need to make sure that you take reasonable precautions not to lose client information ie, in the form of taking care of the laptop.



ACTIONS TO TAKE

- On the potential inappropriate motor expenses, you will need to write this up and bring it to the attention of the partner. It will be necessary to scrutinise the records carefully in order to resolve the concerns.
- With regard to the splitting of the business, you will need to pass this situation on to the partner and to most probably the engagement manager in your firm to sort out the arrangements re: the splitting of the business.
- In this circumstance there are effectively three clients, each of the husband and wife directors, plus also the business. The key thing is consent and to ensure that this is obtained in the appropriate way from the appropriate party.
- It will be possible to keep acting for the two individually. The most important thing will be safeguards and that there are information barriers.
- As far as the company is concerned, it will have to be made clear that your firm can no longer take instruction from one of the parties. There will need to be unanimous consent from the board.
- The missing laptop will need to be reported straight away. It may be possible for information to be locked down remotely. If the laptop turns out to be lost, the risk to client information may need to be reported to the client.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

You work in the environmental, social and governance (ESG) reporting department of a firm of ICAEW Chartered Accountants. Your firm has recently signed up to reporting under a new framework of metrics. These cover issues ranging from carbon emissions to social factors and governance targets.

Your department is struggling with trying to keep its ongoing assignments going at the same time as researching the new framework.

One problem has been over social metrics which it is found have been harder to measure with precision. You can also see that some companies that adopt specific social policies can end up appearing stronger than other companies that by the nature of their strategy can deliver social impact.


Another problem has been ensuring there is a staff knowledge base in all the areas. There has been a big recruitment drive for staff with a STEM (science, technology, engineering and mathematics) background. One of the recent recruits to the department is Jane. Jane has a degree in Natural Sciences and has been a real asset with regard to the emissions reporting.


You are currently the senior on an engagement for a cement manufacturing client. Jane reports to you on this assignment. The company has introduced a new manufacturing technology. Your assignment is to provide assurance on its claims that this technology can cut emissions by more than two-thirds. The technology does not use natural resources and importantly does not involve use of the high temperature kilns.


You are called to meet with the engagement partner on the assignment. The partner informs you that the CEO of the company has made a complaint that he himself heard Jane chatting informally by one of the coffee stations with a member of the company's accounting staff, saying that she didn't really believe the CO2 emissions reduction that the company was claiming.


He is demanding that Jane be removed from the assignment and threatening that the company might start looking for an alternative assurance firm.


You speak to Jane after the meeting. Jane tells you that she has seen board minutes in which the operations director admitted that she has doubts about the effectiveness of the new technology.


- 


Are you aware of initiatives on ESG reporting? Is it an area you have worked in?
- 


Too much time pressure could result in rushed assignments.
- 

Do you think it is possible to have comparability in these type of criteria just as you can in financial criteria? How important is this to encourage responsible investing?
- 

Have you tried looking at CO2 emissions reporting? Do you think a scientific background is required to understand the data?
- 

What ethical issues will be important when providing assurance on future claims?
- 

It seems Jane has chatted about the company within earshot of the CEO. What should be done about this?
- 

Should Jane be removed from the assignment? What stance should the partner take in terms of the CEO saying this?
- 

How does this fact impact the situation?

SCENARIO 9 – ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

PRINCIPLES AT STAKE

Integrity – Not being associated with misleading information.

Objectivity – Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care – Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Professional behaviour – Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity – You will need to consider the possibility of being associated with misleading information in terms of the claims that the company is making about the new technology. Jane has been using her professional scepticism, though it would seem not dealing with her concerns in an appropriate way.

Objectivity – The CEO is putting the firm under pressure after he heard Jane's comments. It will be necessary to safeguard against being influenced by this and in particular by his threat to take his business elsewhere.

Professional competence and due care – In having appropriate staff in the ESG department, the firm is taking care to ensure professional competence and due care.

Professional behaviour – In signing up to the new framework for ESG reporting, your firm will need to ensure that it upholds the standards of that framework.

If your firm is associated with ESG assurance that is found to have been carried out incompetently, this could clearly discredit the profession.

**ACTIONS TO TAKE**

- It is entirely appropriate to talk to Jane about this incident.
- It will be necessary to caution Jane with regard to 'casual' chatting, no matter how true the content of what she is saying.
- With regard to the doubts about the efficacy of the new technology in reducing CO₂ emissions, you and Jane should assemble evidence to support whatever level of assurance it is felt can, or cannot, be given. Jane will be able to make use of her scientific knowledge to interrogate the data presented.
- Your department overall is clearly working under time pressure. This creates a threat to ethical behavior, in particular to the principle of professional competence and due care. You should ensure that each of your tasks is carried out to a high standard. If it appears that it is not going to be viable to undertake everything that is expected then you should inform the partner or other relevant senior managers as appropriate.

SCENARIO 10 - BANKING

PROMPTS FOR DISCUSSION

BANKING

You are an audit senior on the final audit visit of a large UK bank with a premium listing on the London Stock Exchange. It has a 31 December year end. It's the first year for which your firm is auditor, having won a tender initiated by the maximum auditor tenure requirements for public interest entities (PIEs). The bank's policy is to announce its preliminary results before the end of February and all audit work needs to be completed by that date.

You were pleased to have been selected as this is a prestigious new audit client for your firm, a household name and you even have your own bank account with them. At the initial planning meeting the engagement partner mentioned that this was an excellent career opportunity for everyone in the audit team and that it was important for the first year of the audit to go really well.

You have the responsibility for coordinating the audit of the bank's proprietary trading and structured finance operations. This includes valuation of financial instruments held in the bank's trading book. These include over the counter (OTC) derivative positions which have been valued by the bank using sophisticated derivative pricing models. A derivative valuation specialist has been engaged as an auditor's expert to assist in obtaining sufficient appropriate evidence. You have always found derivatives a challenging area and are glad that an expert has been employed to cover this area. As he is an expert, you have accepted his conclusion that all derivative positions are valued appropriately.

The bank's structured finance department sets up special purpose vehicles (SPVs) as part of asset securitisations. You have identified that several of these entities have not been consolidated. You wish to review the structure of all non-consolidated SPVs to confirm that they don't require consolidation under the provisions of IFRS 10. You discuss this issue with the head of the structured lending team and ask for details of the relevant SPV structures. He is a very forceful individual and tells you that he doesn't understand why you need this information, that the previous auditors have reviewed these and so he does not understand why you are wasting everyone's time on the matter. He is reluctant to provide the information and adds that if this information was required it should have been requested during the interim audit.

To make matters worse, you also don't know how to proceed with regard to the following matter: a female member of your team has come to you to complain about the manner in which she has been treated when making enquiries regarding the valuation of equity positions. She states that she has had to suffer 'a barrage of micro-aggressions' including being frequently addressed in patronising and sexist terms by the bank's staff. She tells you that she has frequently described how difficult she finds the environment at the bank on her social media accounts and many people have advised her that she shouldn't put up with a toxic work environment. You are unsure how to proceed.

What additional pressure does this create? Might there be a self-interest threat? How could this be mitigated?

Does this create a conflict of interest?

Is there undue pressure being put on you here?

Can you be sure that you are not breaching the ethical principle of professional competence in this tricky area? How can you ensure your professional scepticism isn't compromised?

Is the head of structured lending attempting to intimidate you and apply undue influence? Are you allowing his behaviour to undermine your objectivity? How should you proceed if he won't supply the information you request?

What issues are raised by the fact that your colleague has turned to social media to speak out on this matter?

What should you do in this circumstance?

SCENARIO 9 – ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Confidentiality - To respect the confidentiality of information acquired as a result of professional and business relationships. Not disclose information outside the organisation.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - You will need to ensure that you are not associated with misleading information, by ensuring enough safeguards in relation to not fully understanding the derivatives pricing model and by fully interrogating the situation of the SPVs.

Objectivity - The fact of the student loan does not create a conflict of interest if the loan is on normal commercial terms.

The engagement partner mentions that this is an excellent career opportunity and that it is important for the first year of the audit to go well. This creates a self-interest threat due to the potential pressure being put on you.

There is a potential intimidation threat in relation to the head of the structured lending team. You need to make sure that you don't compromise your judgements as a result of his attitude. There could also be a self-interest threat with you not wishing to cause problems for the client.

Professional competence - You need to make sure this ethical principle isn't breached with regard to the challenging area of derivatives. Using an expert is an appropriate way to help with this, however you still need to keep control and responsibility. You will need to make sure that your professional scepticism isn't compromised.

Confidentiality - Social media content can create a breach of this principle.

Professional behaviour - It would bring the Institute into disrepute if you did not engage with the situation of your colleague suffering from potential discrimination and seek the appropriate avenue for it to be investigated and fed back to the client that your firm will not allow their staff to be subjected to this behaviour.

**ACTIONS TO TAKE**

- With regard to the derivatives valuations, you need to make sure that you satisfy the auditing standards' guidance as to reliance on experts.
- You should also make sure that how you dealt with your professional scepticism concerns is documented.
- With regard to the setting up of special purpose vehicles as part of asset securitisations you need to make sure that you gain what information you consider necessary and are not intimidated by the attitude of the head of the structured lending team.
- The discrimination suffered by a member of your team during the audit is an important matter to follow up. You will need to reassure your colleague that she did right to speak up and find the appropriate avenues in your firm for advice on how you should deal with this. At the same time as being supportive on this matter, you will need to advise your colleague that she should take care with regard to putting confidential client sensitive material on social media, again hopefully your firm has advice to give out on this. Advice can also be sought from ICAEW.

SCENARIO 11 - STAFF SURVEILLANCE

PROMPTS FOR DISCUSSION

STAFF SURVEILLANCE

You are a manager at a services support company. The division you are in charge of provides payroll services for a healthcare provider, Westerncare.

Westerncare's staff don't tend to work a fixed number of hours per month. Most work overtime according to business needs. Employees log any additional hours on an overtime request form; this is then signed by their manager and sent to your team to process. There have been various issues with this system in recent years...

You are due to attend a meeting with some of Westerncare's directors. An agenda item is the possible introduction of electronic staff-tracking lanyards (a cord worn round the neck to hold an identity card) or badges (that would pin on to employees' uniforms). These staff tracking devices would be swiped by staff when they start and end their shift and the data sent to your team to calculate each employee's pay for the month.

Before the meeting, Westerncare's finance director (FD), an ICAEW member like yourself, telephones you with his concerns about the lanyards. He thinks there is a safety risk for staff doing physical work. He knows the forecasts show electronic lanyards are much cheaper than electronic badges. However, he is considering not revealing this to his fellow directors. He tells you that Westerncare's operations director is a major shareholder in one of the companies being considered to supply the lanyards. He asks you if there are any conflict of interest rules which would prevent that company from becoming a lanyard supplier.

At the meeting, a director is concerned about staff who forget to swipe the lanyard. The other directors argue that this is the individual's own responsibility and as they won't be able to go through the newly fitted automated doorways without the device, it shouldn't happen too much. One of the directors comments to you that it would be extremely surprising if staff could actually work out the detail of their hours anyway, as there are various formulas for the calculation of overtime - eg, if working an evening, weekend or national holiday. When you get back to your own office, one of your directors is keen to talk to you. She asks your opinion on the use of surveillance technology in your own company. There is a proposal that surveillance software should be installed on all staff computers to monitor work activity. She thinks that benefits will include seeing who the most efficient accounting staff are and trusting more staff to work at home. You know your company is trying to reduce the cost of office space. You have concerns about your own staff's welfare if they can no longer work at the office. An office rule says that anyone dealing with a third party's pay details must carry out this work from office premises. However, it now seems this is being disregarded in favour of cost-cutting.

How much should you enter into private conversations with the FD on this? Should you encourage him to wait and speak openly about this at the meeting?

What would your response to the FD on this be?

Is there a potential conflict of interest here?

What do you think about the directors' attitude here?

Should you in your role get involved with their responsibility towards their staff?

How would you feel about supporting a payroll procedure where you knew the payees would be unlikely to be able to check the accuracy of what they receive?

Is this your problem?

What are the ethical issues with regard to surveillance of staff in this fashion?

Have you come across any similar procedures?

How does the matter of trust in staff relate to ethics?

What responsibility for the health and safety of staff does your company have?

Do you have responsibility as a senior staff member?

Does cost-cutting threaten confidentiality?

SCENARIO 11 - STAFF SURVEILLANCE

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Confidentiality - To respect the confidentiality of information acquired as a result of professional and business relationships. Not disclose information outside the organisation.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - If you process a payroll knowing that due to the access method for hours, the staff won't know whether their pay is correct or not, do you have some responsibility for being associated with misleading information? Or is it too far removed from you? Once you know the information may be misleading does this change your responsibility?

Objectivity - Would you have a conflict of interest in taking part in the healthcare provider's decisions regarding obtaining staff time? Would you want to encourage whatever provides the cheapest and easiest source of information for your own company to process the payroll?

As the operations director is a major shareholder in one of the companies being considered to supply the lanyards, do they have a conflict of interest in terms of the decision between using the lanyards or the badges as the tracking device?

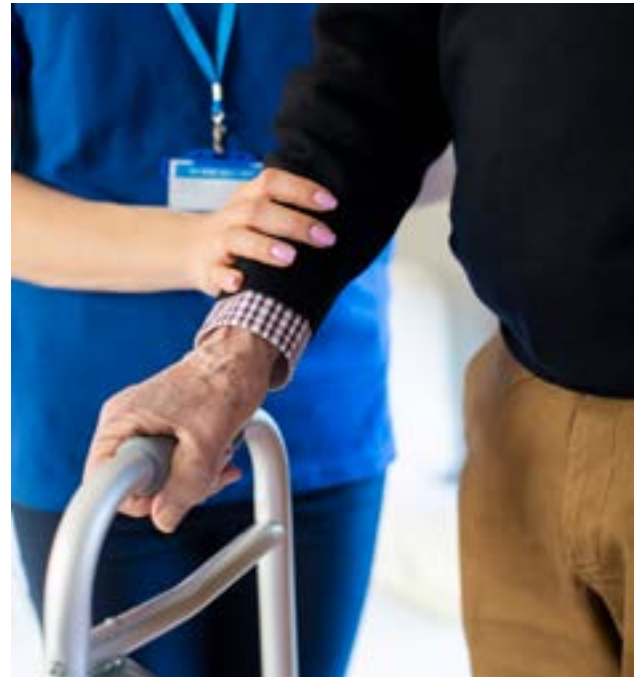
Professional competence and due care - Can you be said to be performing a task with adequate due care, if you know that the data you have been supplied with from a third party is potentially unreliable?

Confidentiality - What issues are there with confidentiality when staff increasingly carry out work away from a formal workplace? What difference does the sort of accountancy work it is make? Is it appropriate for payroll work?

Professional behaviour - If you know there is a safety risk with the lanyards, would it be acceptable for you to sit at a meeting where they are decided upon and excuse yourself from a contribution because it is outside your remit?

Is it acceptable to talk to the FD about his company's affairs outside the formal work meeting?

Is the Westerncare FD, as another ICAEW member, being inappropriate in not explaining to the other directors why he doesn't want to present the beneficial cost aspect re: the lanyards due to his concerns on health and safety grounds?



ACTIONS TO TAKE

- You should explain to the FD of Westerncare that he should present his concerns to the other directors at the meeting. It is understandable that the FD wants to consult someone else who he considers might be a 'like mind' for moral support. You should encourage the FD to follow the ICAEW Code of Ethics and use the ICAEW helpline. The FD should not present misleading financial information to his fellow directors. He should present both sides of the argument.
- You should make it clear that some parts of the meeting are not relevant to you, but if ethical principles are threatened you should speak out.
- You should suggest a working group be set up on the use of surveillance software at your own company. This should include all stakeholders including the Human Resources department and staff representatives.
- The meeting must discuss the wider ramifications of the proposed changes. The physical and psychological welfare of staff must be considered and constantly reviewed. The issue of trust of staff is an important one, both in terms of staff welfare and also in terms of staff motivation. With the introduction of new technology small scale samples or trial periods can then seek feedback for what unintended consequences there could be.
- The impact on confidentiality of staff working at home is important. The type of work is relevant. Payroll work demands high levels of confidentiality and it may be decided it is not suitable for it to take place remotely.

SCENARIO 12 - MODERN SLAVERY

PROMPTS FOR DISCUSSION

MODERN SLAVERY

You are working as an associate on the audit of a large food and consumer goods company with complex supply chains.

Whilst reviewing the internal controls system relating to purchases for the company's food division, you are told by a member of staff in the procurement department that an NGO (non-governmental organisation) has reported to the company that it had uncovered evidence of working conditions in an overseas division of the company that could be modern slavery. This occurred during the last financial year, but the staff member believes that no action has been taken by the company to investigate the report.

The staff member has not reported their knowledge to any member of the company's management team, as they say they fear they will lose their job for speaking out.

You speak to the audit manager about this. The manager just says that you should try and encourage the staff member to speak out if they are concerned.

You read the Section 54 statement¹ for the previous year and see that it makes no reference to the NGO's concerns or whether the company has investigated it, or what remedial action it has deemed necessary, if any.

You believe that this indicates that the company is not in compliance with the Modern Slavery Act requirements. You again speak to the audit manager, raising the fact that you are concerned that the company's Section 54 statement might be inaccurate. The manager says the statement is not part of the financial statements, it is not relevant to the audit so there is no need to follow this up.

You have a look at the NGO's website but cannot find any reference to accusations of misconduct against the company, and are unsure what to do.

What are your responsibilities if something like this is brought to your attention while out on audit?

The staff member claims they have not reported the matter to anyone but you - they might be afraid of reprisals or they could harbour a grudge against another staff member or the company itself. Should you act on information that could be made up?

How could you encourage the staff member to speak out?
Or should you tell the company's management about the issue?
If the manager says to leave the matter at that, should you follow this advice?

Is this correct?
Do auditors have any responsibilities on matters like this?
If the company has not followed up the NGO's concerns or disclosed them this means that the company's most recent published statement was not compliant with the Modern Slavery Act. Is it an auditor's role to point this out?

Were you aware of the Section 54 statement before considering this scenario?
Have you come across circumstances which you think questionable in terms of modern slavery?

¹ Section 54 of the Modern Slavery Act 2015 (the Act) requires certain organisations to produce a slavery and human trafficking statement each year.

SCENARIO 12 - MODERN SLAVERY

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Confidentiality - To respect the confidentiality of information acquired as a result of professional and business relationships. Not disclose information outside the organisation.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - Auditors are required to 'read' all of the 'other' information that appears in the annual report as well as the financial statements, and to deal with any actual or apparent inconsistencies between the financial statements and the other information, and any 'misleading' information. Section 54 statements are not part of the annual report but must be published on the company's website so are in the public domain - therefore if the section 54 statement is misleading / untrue etc this could impact the financial statements.

Objectivity - Is the manager putting an undue pressure on you by saying you should do nothing further?

Confidentiality - If you let the company's management know that this has been drawn to your attention will this be breaking the confidence of the staff member?

Professional behaviour - Ignoring this matter could bring discredit to the profession if allegations of modern slavery are not taken seriously.

**ACTIONS TO TAKE**

- Although the line manager is technically correct to say the Section 54 statement is not part of the audit, any information regarding possible misconduct should be followed up.
- This is the case even though you have no way of knowing if the staff member's report is accurate. Some NGOs do not name and shame companies, and others do so only after a full investigation, so the lack of information on the NGO's website may just be a question of timing, not proof that there was no such report.
- If your manager continues to be non-responsive to your concerns, you should consult another senior person within your firm. A lack of action by the company could also be indicative of fraud, bribery or money laundering, not just a desire to ignore modern slavery.

SCENARIO 13 - MACHINE LEARNING

PROMPTS FOR DISCUSSION

MACHINE LEARNING

You are an ICAEW Chartered Accountant working as a consultant in a machine learning advisory company which specialises in agriculture. Your client list comprises agricultural laboratories and large-scale farms. Your boyfriend, who works for a micro-finance charity, often makes comments about the high prices companies like yours charge and the 'millions of small-scale farmers across the globe who can't afford your products'. You don't like to admit it but you do have a slight dilemma about this yourself. Smart farming involves the use of algorithms to drive efficiency. Your own specialism is presenting the financial savings related to this.

Yield prediction is in increasing demand. You have often heard your computer analyst colleagues explaining the technology, and you trust their word that these are well defined models, but they seem almost magic to you. You like the reassurance of working on a spreadsheet or a calculator and directly seeing how inputs affect outputs. Economic conditions are even factored in.

Your boyfriend shares your concerns, saying, 'How do you know what you are selling people will turn out to be correct? Particularly when you are showing them 5 and 10 year forward plans. You will probably be long gone from your role by then.' You must admit you would be happier if you could understand the uncertainties in the predictions. The analysts have given you some details on them, but would it really be helpful to share them with the clients? They would probably understand them even less than you.

Your advice to clients inevitably involves both showcasing and sometimes specifically recommending certain software and hardware. These are supplied by separate, unrelated companies. However, your company earns a percentage fee for any of your clients who you put in direct touch with suppliers. You always feel slightly uneasy about this, wondering whether there is a conflict of interest and whether the fee arrangement should be in place. The fact that your company earns this commission is made clear to your clients.

One of the latest packages that you are advising farming businesses on is species selection and weed/disease identification. Deep learning algorithms take data from satellites and drones and analyse crop performance in relation to local climate patterns and soil nutrients. Farms can be advised to run these programmes in such a way that their own live-time data is constantly fed in, advising them of optimum planting combinations for forthcoming seasons. On advising the clients you produce histograms and other financial presentations to convince the enterprises of the benefits of operating in this way. These include optimum water utilisation and minimum waste. You feel as though these ends justify the use of the technology in themselves leading to sustainability gains. Sometimes when the financial result isn't totally clear-cut you are aware you are slightly 'creative' in order to encourage environmental best practice.

What do you think about this dilemma?

How can you be certain to use your professional scepticism appropriately and be confident in your professional competence when technology is becoming sophisticated at such a fast pace?

Should you be making this judgement on the clients' behalf?
Or should you be completely transparent with all data you have, however confusing?

Is there a conflict of interest here?
Is it acceptable for the consultancy to earn the fees?
Does this make any difference to the ethical dilemma?

Is this acceptable professional behaviour?
Does the greater sustainability goal justify not being fully transparent with the client as to whether there will be a financial gain to them?
Could it be argued that there would necessarily be a long-term financial gain to them as it would be really costly to introduce irrigation systems at a later stage if water isn't used wisely?

SCENARIO 13 - MACHINE LEARNING

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - Are you being misleading if you know that there could be a short-term cost for the farms, but you want to encourage them on environmental grounds, and you believe there will be a longer-term cost gain?

Objectivity - Does the fact that your company earns a fee when clients purchase software and hardware from third parties you have recommended impact your objectivity?

Professional competence - Are you ensuring a competent professional service if you don't fully understand the mathematics and coding behind the models you are presenting to clients?

Professional behaviour - Is it behaviour likely to cause discredit if you are not fully transparent with the client; about the uncertainties in the data and about the full picture of the cost versus the environmental sustainability gain?

Could your consultancy also be criticised for not taking into account the welfare of the smaller farms around the globe who cannot afford access to this technology?

**ACTIONS TO TAKE**

- You should clearly be transparent with the clients about the source of the models you are presenting. You should also be honest about what you understand and don't understand in terms of the uncertainties in the predictions.
- You should make every effort to meet with the scientists, mathematicians and coders within your company to improve your understanding. However, in such advanced technical areas as the use of machine learning you cannot be expected to understand everything. What is important is to not be afraid to ask questions and to ask for help. Your professional scepticism will need to be heightened in areas where you are not an expert.
- You will need to constantly keep re-learning and checking in such a fast-moving area. This should be a vital part of your continued professional development.
- You also need to be honest about any commissions your company is earning. Your company should have company-wide procedures with regard to this.
- Stakeholders, including those far-removed from your company such as smallhold farmers in other parts of the globe, should be part of your awareness.
- You should find the balance, helping your company be successful whilst also remembering the public interest in a wider sense.

SCENARIO 14 - ACCOUNTING FOR REVENUE

PROMPTS FOR DISCUSSION

ACCOUNTING FOR REVENUE

You are the European financial controller for S plc, a large listed software supplier. S provides applications, and implementation and training services to healthcare providers. You are responsible for the finance function and for the monthly management accounts and are the principal point of contact for the auditors.

In 20X1 S plc is approved as a supplier by a health authority (SHA) for a multi-agency Hospital Information System procurement process. The contract is potentially an extremely profitable one for S plc. You are uncertain whether you will be able to include it in the interim results; you know it would be highly material. Complex negotiations in respect of the services to be provided are taking place.

Eventually a draft contract with SHA is produced. You meet with the FD, who you report to. He tells you the formality of ministerial approval is imminent. He also shares with you that he is suffering from depression and has now sought medical advice. He is highly stressed by discussions that are also taking place with regard to a merger with T Group.

Your boss instructs you to recognise the £20m licence fee revenue from the contract and has advised you not to disclose to the auditors the fact that the contract has not yet been signed by SHA.

Negotiations are also underway for the sale of cash flows receivable from the contract to an Asset Finance company (AF). A letter from AF agreeing to the arrangement is received. Although no funding has actually been received, you authorise the £15m to be posted in S plc's books as cash received. The auditors ask you for evidence supporting the AF cash. You supply the letter AF had sent. The half-year results are approved and published.

At the full year end the auditors ask further about the SHA contract. You know that the situation is still pending. You agree with the FD to relabel an amount of cash received from a genuine customer and show it as from the SHA contract in order to satisfy the auditors.

By the 20X2 year end the FD has gone off on sick leave. The T Group merger is now looking likely and their auditors are carrying out due diligence on S plc. You are asked to sign off their report which includes historical financial results.

Eventually during the year to 20X3 the SHA contract is finally signed. When the actual funding for the SHA contract is received, you explain this to the auditors as funding being unwound and replaced with a new funding arrangement. Later that year the stress is getting too much for you and you contact the auditors to say you would like to explain the whole situation.

Did you realise the contract is not binding?
Does this have any impact?

Knowing that T Group was going to be making merger decisions about valuation based on your figures should have made you even more aware that everything needed to be transparent and not misleading.

Are ethical principles now being breached?
Which ones?
Can you argue that it will be a simple timing difference?
What should you have done at this point?

You know that the auditors are relying on it.
So you know it is misleading.

This is deliberate improper conduct.

Your involvement is now worse, as you need to make the cash balances agree again.
You would have known those are inaccurate.

Does speaking up about this improper behaviour excuse your part in it?

SCENARIO 14 - ACCOUNTING FOR REVENUE

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - Clearly this was breached when you were responsible for the booking of the contract when it was not legally binding. The situation then gets compounded when you also account falsely for the AF funding. You also intentionally made statements to your own auditors and to those carrying out the due diligence which you knew to be untrue. The fact that you do eventually admit your role in the affair would only be taken account of in terms of what degree of sanction should be imposed.

Objectivity - You have allowed yourself to be influenced by others. When the FD said to not let the auditors know the precise picture, you should not have been influenced by him to act improperly.

Professional competence - This has not been ensured. You did not carry out your work with skill, care and diligence. It would not be acceptable to try to say these were just timing difference matters. They were matters of considerable substance. Revenue has been recorded incorrectly. Cash entries have been manipulated. Inaccurate published accounts have been produced.

Professional behaviour - Clearly there are issues throughout the scenario where the behaviour brings discredit to the profession. The scenario shows repeated incidents over a period of time. Financial statements are critically important to the market, investors and to financial institutions.

**ACTIONS TO TAKE**

- The scenario shows a picture of you getting more and more embroiled in an extremely serious matter. At every step of the way, you should have thought to bring this to a close. There would be a number of ways to do this. It could have been by speaking to a non-executive director or consulting ICAEW.

SCENARIO 15 - QUALIFYING AND JOB HUNTING

PROMPTS FOR DISCUSSION

QUALIFYING AND JOB HUNTING

Two weeks ago, you received the fantastic news that you had passed all your Advanced Level ACA exams. The financial accountant at the audit client where you were working, on being told your news, came back an hour later with an enormous bouquet of flowers to congratulate you. You then went straight to the gym near your home after work before celebrating your success. At the gym you happened to be next to an old school friend. You told them about the financial accountant and went on to chat about your audit team colleagues too and how nice the audit partner is.

The next day you proudly changed your profile on your social media sites to add 'ACA Chartered Accountant' in bold letters. At the weekend, you receive a message from a fellow trainee saying, 'Noticed your profile change on LinkedIn. Do you realise you shouldn't put that title yet? You need to formally apply for membership with ICAEW before you can call yourself an ACA'. This colleague has been really helpful as a 'study buddy'. You message back saying, 'Ever the perfect auditor! You are a rule-follower extraordinaire! However, I really don't think ICAEW are going to be worried about this, it's only a case of admin from now on! By the way, are you being bombarded by recruitment people? Every time I look at my work emails there has been a flood of approaches come in. I can hardly get any work done for being distracted at looking at what they are offering.'

You have really enjoyed your time at your firm. Your training has been excellent. However, having chosen the audit route four years ago, without having really understood what audit was, you are ready for something different. You are starting to spend lots of time during your working day searching through new opportunities. You keep not being able to re-find adverts that you might be interested in, so decide that since you are working in the office at the moment, the best thing is just to print off anything you are interested in and keep them in a 'job hunt' cardboard folder.

You see a position with a film company; production accountant. This is the exciting sort of role you would like. The advertisement says, '*Candidates with sector experience are sought. You did once get called in to help on some audit analysis work for a media company. It was really just putting together a simple spreadsheet. You contact the relevant recruitment consultant, who tells you to 'be creative' when tailoring your CV. You describe yourself as having, 'a sound basis of knowledge in the arts and media sector'.*

The other thought that starts to run through your head is that, while on one of your assignments, when you chatted about what you might do once qualified, the client said to get back in touch if you ever 'go it alone'. They had a quite separate small business that they could do with some freelance help on from someone with accountancy skills...maybe this could be interesting...

Was it ok to accept the flowers?
Does this breach the rules of hospitality?

Does this breach any ethical principles?
If the comments are quite vague, and complimentary, is this ok?
Does the fact that the gym is near your home, not near to the client, mean you can be any freer in what you say about the client?

Is the other trainee correct in this?
Is it ok to have changed the profile straight away?
What about the other elements of the ACA (Professional Development, Practical Work Experience and Ethics?)

Is it inappropriate that the recruitment people send these to your work email?
Is there anything you can do about this?

Is it acceptable to use work time to seek out new positions?

Is it acceptable for employees to use work facilities like this?

Where is the boundary between over-selling yourself and being honest?

Can you see any ethical problems from following this up?

SCENARIO 15 - QUALIFYING AND JOB HUNTING

PRINCIPLES AT STAKE

Integrity - To be straightforward and honest in all professional and business relationships. Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Confidentiality - To respect the confidentiality of information acquired as a result of professional and business relationships. Not disclose information outside the organisation.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - Indicating skills or experience you don't really possess on your CV/resumé suggests a lack of integrity.

Objectivity - Need to consider whether accepting the flowers from the financial accountant is likely to influence behaviour and impartiality on the audit.

Professional competence - Need to consider whether, were you to get the job at the film company, you would be compromised by not having the experience to perform a competent job.

Confidentiality - Talking about client and employer personnel in a public place could breach this principle. The comments don't have to be disparaging to result in an inadvertent leak of confidential information. (And could still result in disciplinary action.) That said, some proportionality needs to be considered. Simply telling a friend about how nice people have been during your day without specific identifying details such as names, should be acceptable.

Professional behaviour - Relating to the job hunt, care needs to be taken not to take advantage of your employer resources in terms of use of your chargeable time and the use of employer equipment. You also need to be careful not to breach any of your firm's rules with regard to considering following up a connected opportunity with one of your firm's clients.



ACTIONS TO TAKE

- In receiving any gifts from an audit client, you should check your firm rules with regard to hospitality and what is acceptable.
- Confidential matters should not be disclosed to others nor talked about in a public place. The fact that the gym is not near to the client does not make any difference.
- If you have passed all your ACA exams but not yet completed 450 days of practical work experience, you are not yet an ICAEW Chartered Accountant. You shouldn't be using the letters ACA after your name or on any of your networking profiles until you have received confirmation of your membership from ICAEW.
- It is not fair on your employer to use their time or resources on tasks that do not relate to your employment, unless they have expressly given their permission to do otherwise.
- You should make sure that any claims you make in your CV/resumé or in any covering letters are true. You should not be influenced by keen recruitment consultants to do otherwise.
- You must ensure you check any restraint of trade clauses in your current employment contract before following up any possibilities from your employer clients.
- If you do go on to carry out freelance work as an ICAEW Chartered Accountant, you will need to check and comply with all practice regulations with regard to this, including having a practising certificate and the appropriate professional indemnity insurance. It would be advisable to contact ICAEW if in doubt on any matters.

SCENARIO 16 - DIVERSITY

PROMPTS FOR DISCUSSION

DIVERSITY

You are an audit manager in a large firm of chartered accountants. One of the trainees in your team has asked if they could have a meeting with you. At the meeting the trainee tells you that they are wondering why they never get assigned to audit certain high-profile Government Agencies or Royal Charities. The trainee says they are seeking your advice because they have raised this with their People Manager, who is responsible for audit scheduling. The People Manager said that due to the profile of these clients the audit team members require the highest level of security clearance to be assigned to the client, and that the trainee probably didn't have the right immigration status to be allowed access to those clients. The trainee is clearly unsettled by this. It is not at all true. The trainee simply has a heritage that is non-white. The trainee pointed out to the People Manager that they were born in the UK and raised in the UK. This conversation with the People Manager took place six months ago and the trainee can see that there has been no effort made to redress this scheduling of audit work. You tell the trainee you will look into this and get back to them.

Your firm frequently makes statements that it makes every effort to promote diversity. You take it upon yourself to investigate further. This ends up taking a lot more time than you had expected, which brings your own dilemmas as you have a number of audit work responsibilities that are at a crucial stage. Initially you try emailing the head of diversity, however you get a rather generic response that the individual themselves would need to come forward on this and it wouldn't be appropriate for them to enter into an email correspondence that seems to be critical of a member of staff.

You decide to take the matter into your own hands, which involves you persuading various staff members to let you see records of the audit personnel assigned to jobs. You are not certain whether they are breaking any confidentiality rules in showing you, but you feel someone has to make a stand on this.

You try speaking to Human Resources (HR), explaining to them what you are researching, and asking if they could give you any sort of listing of staff with some sort of indication as to ethnicity. Again, you cannot obtain the information. You are told this information cannot possibly be disclosed. You ask if HR would like to carry out the research, but you just get told the names of various initiatives that they are already involved with that are related to promoting diversity in the firm.

You decide you will have to resort to carrying out an analysis based on whether a name sounds to be of a BAME (Black, Asian or ethnic minority) origin. You are rather concerned as to what timesheet code you can allocate the work to but press ahead with the project regardless.



**What would you do if something similar was happening in your workplace?
What is the most appropriate action to take?**



Does this add weight to your actions?



**Should you use your work time to investigate this?
Should you have handed it over elsewhere and stepped back?**



**Should you have spent more time trying to persuade the trainee to make more of a stand?
Whose responsibility is it to challenge the situation - the person who suffered the potential discrimination or others?**



**Do you think confidentiality rules are being broken?
Is it ok to undermine one ethical principle for the sake of another?**



How do you deal with this when you don't feel HR has acted appropriately?



What should you do now?

SCENARIO 16 - DIVERSITY

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Confidentiality - To respect the confidentiality of information acquired as a result of professional and business relationships.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - You are concerned that you are associated with misleading information if you know of a circumstance of discrimination taking place within your firm and yet the firm also promotes its strong diversity credentials.

Objectivity - If the firm really isn't putting forward people of certain ethnicity for high profile audits, it is potentially not taking a fair and balanced approach.

Confidentiality - Can it be justified to ask for staff details in order to further some other ethical purpose? This is a very difficult balance. Are there some circumstances where maintaining confidentiality would almost be in breach of the public interest?

It is important that in investigating the matter you don't put undue pressure on other staff members to contravene their own confidentiality rules for their departments. Senior authority should always be sought.

Professional behaviour - Discriminatory behaviour is the sort of behaviour that brings discredit to the profession. It could also be that unfair procedures on the basis of race contravene legislation (In the UK the Equality Act 2010).

**ACTIONS TO TAKE**

- Actions for this scenario will very much need to follow individual firm procedures.
- You have clearly done right in supporting the trainee in this matter of potential discrimination.
- Collecting evidence is a sensible way of going about researching this, however permission should always be gained for accessing records.
- It may well be necessary to escalate this matter up the various channels of seniority in the different departments in order to ensure this.
- It is appropriate that others look into this for the trainee. It would be compounding the unfairness if not only did they suffer the potential discrimination but also, they had to put their work time in jeopardy by trying to investigate the scale of the matter further.
- That said, it would be important that you didn't let any of your own audit work timeframes become compromised because you are working on this matter.

SCENARIO 17 - DIRECTOR'S LOAN ACCOUNT

PROMPTS FOR DISCUSSION

DIRECTOR'S LOAN ACCOUNT

You were delighted when invited to join a property development company as finance director. The company is owned by a family who your own family have been friends with for several years. You are in charge of the small accounting team. You soon become concerned about the record keeping. Expenditure of a general nature is just split against all the properties with no attempt to properly allocate it. You wonder whether the staff are competent at their jobs but you are unsure how to deal with this.

Approaching the financial year end there is a charge in the accounts for a replacement of a roof. You can see this is for the managing director's (MD) private residence. The bookkeeper tells you the transaction was going to be posted to the director's loan account, but the MD instructed that it be included as business expenditure. The MD is the majority shareholder. The other family member shareholders are not aware of the transaction in the accounts and are not actively involved in the business.

You have discussions with the MD advising that the transaction is not an allowable expense. But he refuses to accept this. The MD is your employer and you are concerned about job security.

You anticipate that the transaction will be identified by the external auditors, but this doesn't happen.

You don't feel you can discuss this with anybody else in the business.

Despite the pressure you are put under, you refuse to approve the statutory accounts.

That issue gets resolved, it is correctly treated and disclosed and then you do sign. However, the MD continues to have a slightly hostile attitude to you now, and you have lost your trust in the way the company operates.

It is now four months later, and you decide to resign from your position.

You are concerned about what you will say to future potential employers about your reasons for leaving your current job, and what references you will be given for this role.

You also have a nagging feeling that you ought to have done something about the auditors who you didn't feel were performing a competent task, as they did not pick up the charge, and were fellow accounting professionals.



Does this connection create a threat?



How should you deal with this?



What should you do?
Should you speak to the external auditors about the posting?



Who should you speak to about this?
Is this the appropriate thing to do?



Was this necessary?



What should you say to future employers?
What will you do about references?



Should you do/or have done anything about the auditors?

SCENARIO 17 - DIRECTOR'S LOAN ACCOUNT

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not compromising judgement because of undue influence.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation.

Confidentiality - Respecting the confidentiality of information.

Professional behaviour - complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

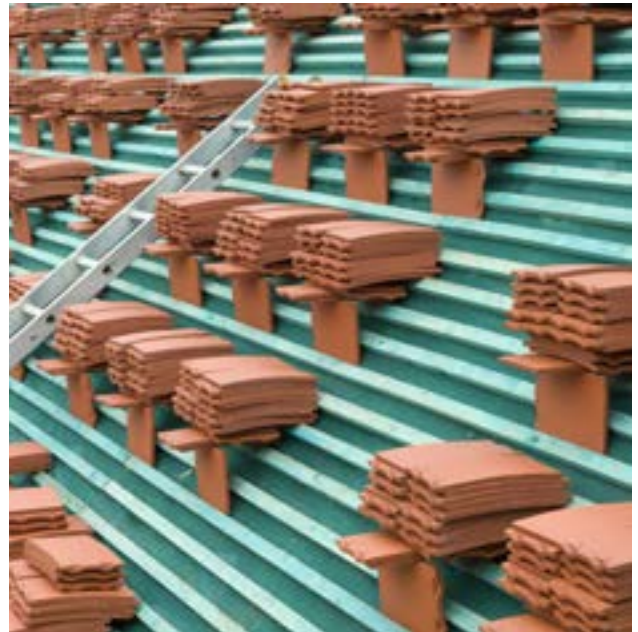
Integrity - The incorrect inclusion of the MD's roof expenditure.

Objectivity - The pressure put on you by the MD could have led to you compromising your professional judgement. It was important to stand firm.

Professional competence and due care - The accounting team you are in charge of who don't seem competent.

Confidentiality - Who to talk to about this matter? The other family shareholders? The external auditors?

Professional behaviour - Ensuring appropriate accounts in the role of Finance Director so as not to bring discredit to the profession.

**ACTIONS TO TAKE**

- Having taken a new position, you should have raised the fact that you felt uneasy about the competency of the staff in the accounting team with other senior members of the company. To do otherwise would compromise your own professional competence and due care. Your area of responsibility will only be as good as the staff working within it. You should have devised a plan and a budget for improving the situation, either through additional training or possibly further qualified staff.
- You correctly refused to sign the accounts when you knew there was a non-allowable expense included.
- What should you have done with regard to the external auditors? Should you have spoken to them about the posting at the time that the MD was still refusing to accept the treatment? As it turns out you were able to resolve the matter internally.
- It would have been appropriate to ring the ICAEW helpline if the matter wasn't resolved.
- It might not have been necessary to resign your position. Standing up for what is right and challenging decisions is often respected, even if resisted initially. However, it is understandable that you had lost your confidence in the MD and wanted to look elsewhere.
- What about your future references? Might you have trouble asking the MD for a reference now, since he developed a hostile attitude after you forced the correct treatment in the accounts?
- If necessary, you will need to be transparent with future employers that there was a difficulty in a previous role. However, you must ensure confidentiality is not breached, therefore you should not disclose any of the details.

SCENARIO 18 - GOING CONCERN

PROMPTS FOR DISCUSSION

GOING CONCERN

You are the head of management accounting at a large travel and rental company. The company's key activity is renting out everything from private jets to small electric cars for use in urban areas. It also has an extensive group of subsidiary companies. Some of these companies are the owners of the assets that the parent company rents out.

As an ICAEW Chartered Accountant you take a keen interest in your company's published accounts. You will be having lunch with the head of financial accounting (also a qualified accountant) and so that you are well prepared you take a look over the most recent published financial statements. One thing you want to explore with him is why published accounts have to be so long, with hundreds of pages of disclosures.

When you look you find that, in the current year, your company has lent almost £100 million cash to its subsidiaries and has received a similar sized dividend back from them. The dividend ends up in profit and distributable reserves, and means that your company is able to pay a large dividend to its shareholders, despite a loss-making year. When you take a closer look at the subsidiaries' financial statements, it is clear that, while profitable, none has an excess of cash and a number have significant outstanding bank loan liabilities.

At your lunch meeting, your colleague acknowledges the circular nature of these transactions, adding, 'What is good news is that as a result the parent company dividends can still be paid out.' As a shareholder yourself you feel slightly conflicted about this. It is good news from a personal perspective, but should the company be paying out, particularly when you can also see there are a number of long-term loans as well?

You can see some familiar faces from the external audit team in the canteen at the same time. You know they want to come and talk to you about the increasing trend for all the variances your department produces to be adverse. One of your team has let you know that a junior audit team member had raised this. They would like to discuss with you whether this suggests your team are not particularly competent at producing variances.

Your team member had reassured them that the company had an optimistic outlook. You admit to yourself you are actually wondering whether it is a rather too optimistic company culture.

At the end of your lunch meeting the head of financial accounting had headed off saying, 'Wish me luck, I've got to fend off an over-zealous audit partner who wants further written statements to back up the going concern assumption.'

Should you be wary of these high volumes of subsidiary companies and the separation between ownership and the renting parties? Or are they just normal arrangements in today's commercial world?

What should you do as an ICAEW member if you were not involved in preparing your company's published accounts but spot something in them that concerns you? Could long, complex published accounts like this create any ethical problems? How could they impact stakeholders?

Is this suspicious? Ethically ok? Are there any other considerations eg, tax implications for any overseas subsidiary? How recoverable is the loan? What if the subsidiary goes into administration? What about directors' responsibilities?

As your colleague is head of financial accounts and is happy with the accounting treatment, do you need to consider this further? Is this a conflict of interest?

Are you breaching the principle of professional competence yourself if your staff are not performing their work properly? Is your responsibility different if they are qualified themselves?

Do you have a duty to act if your accountant colleague is not acting in the public interest? Is there an ethical impact in publicly raising going concern doubts, when that could alarm markets and investors and add to the difficulties?

SCENARIO 18 - GOING CONCERN

PRINCIPLES AT STAKE

Integrity - Not being associated with misleading information.

Objectivity - Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others.

Professional competence and due care - Ensuring competent professional service based on technical and professional standards and legislation; and to act diligently in accordance with these standards.

Professional behaviour - Complying with relevant laws and regulations and avoiding conduct that might cause discredit to the profession.

ISSUES TO CONSIDER

Integrity - Once your professional scepticism has led you to have concerns about accounting arrangements at your company, as a senior member of accounting staff, you will need to consider whether you should try to speak out further about this, for example at a senior management team meeting in order to satisfy yourself that you are not at risk of being associated with misleading information? Published accounts necessarily have a wide range of professional judgement decisions behind them, it is important that the resulting picture that they give to stakeholders is honest and that there is transparent disclosure of relevant matters.

Objectivity - You will need to ensure that the potential conflict of interest threat of you having shares in the company doesn't influence your views about the right accounting treatment and a fair consideration as to whether a dividend should be paid out.

Professional competence and due care - As the head of the Management Accounting department, you need to take responsibility for the competence of the department overall. This would include ensuring staff have enough training and supervision, as well as that enough qualified staff are recruited.

Professional behaviour - Ensuring that the public interest is taken account of is a responsibility of all ICAEW Chartered Accountants. If your colleague is being judicious with evidence to present a more confident picture of going concern status to the auditors than judgement would suggest, his behaviour may well cause discredit to the profession.

**ACTIONS TO TAKE**

- It is highly relevant to potential actions that you are a senior member of staff, as well as being a qualified finance professional. While some matters might well be outside your remit and control, such as the published accounts being so long, other matters are more immediately ones where you should speak out.
- You should not need to remind your colleague that published accounts are relied upon by a wide group of stakeholders, however, it sounds as though you do need to be honest with him that you take transparent disclosures about going concern status very seriously.
- If you have doubts about your colleague's integrity in the matter, you should raise this with another senior colleague or with the board.
- You cannot turn 'a blind eye' to potential doubts you might have as to whether dividends should be being paid. At any top level company meetings you are at, you should make your views known; a responsibility is owed to those suppliers, staff, pension funds who might not be able to be paid if the company runs in to difficulties and cash has already been paid out in dividends.
- You should ensure that your department is producing competent information and should engage fully with the auditors to hear their suggestions to aid improvements to be made.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 202,450 members and students around the world. All of the top 100 global brands employ ICAEW Chartered Accountants.*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor around 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is the first major professional body to be carbon neutral, demonstrating our commitment to tackle climate change and supporting UN Sustainable Development Goal 13.

ICAEW is a founding member of Chartered Accountants Worldwide (CAW), a global family that connects over 1.8m chartered accountants and students in more than 190 countries. Together, we support, develop and promote the role of chartered accountants as trusted business leaders, difference makers and advisers.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

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