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06. Considerations for Professional Accountants in Business

This module will focus on the threats to the fundamental ethical principles for accountants in business, including the following:

- potential conflicts;
- preparing and reporting of financial information;
- acting with sufficient expertise; and
- financial interests and inducements.

Considerations for Professional Accountants in Business

1. Overview
2. Professional accountants in business
3. Threats to the fundamental ethical principles for professional accountants in business
4. Potential conflicts
5. Preparing and reporting of information
6. Acting with sufficient expertise
7. Financial interests
8. Review

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6.1.1 Overview

This module will cover some of the considerations that professional accountants working in business may encounter. Whether you work in practice or in business, you always have a responsibility to comply with the fundamental ethical principles.

Professional accountants in business may often be solely or jointly responsible for the preparation of financial and other information, which may be relied upon by their organisations as well as investors, creditors, and other parts of the business community.

This module will focus on the threats to the fundamental ethical principles for accountants in business, including the following:

1. potential conflicts;
2. preparing and reporting of financial information;
3. acting with sufficient expertise; and
4. financial interests and inducements.

VIDEO – Accounts in business

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6.1.2 Overview

Learning outcomes

After studying this module you will be able to:

- apply the theory of the ICAEW Code of Ethics to a given business situation;
- identify which ethical principles and threats apply to a particular scenario; and
- advise on appropriate safeguards or courses of action to address the ethical threats in a particular situation.

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6.2.1 Professional accountants in business

One of the challenges that you will often face when moving from practice into business is that you may often be working alongside colleagues who are not professional accountants and so may not have such a strong awareness of the need for ethics in the workplace. You may therefore find yourself with a conflict between your professional and organisational obligations.

When you work in business you have a responsibility to further the legitimate aims of your employing organisation. You should encourage an ethics-based culture and emphasise the importance that senior management places on ethical behaviour.

The following case study will help to demonstrate that this is not always easy.

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6.2.2 Professional accountants in business

Business Case Study:

This case study explores the ethical issues that can arise as a result of a cost cutting exercise. It also raises some practical ethical issues about dealing with different cultures.

Objectives

Having completed this case study, you should be able to:

Recognise your responsibilities as a professional when working as an employee of a company

Know where to go in the guidelines for guidance on what action to take

Transfer what you have learned to your own work situation

All organisations, individuals and events in this case study are entirely fictitious and do not refer to actual organisations, individuals or events.

Chemco - a multinational chemicals company with a UK Head Office. Chemco's main chemical plant is located in Africa, from where its products are exported globally. Each division is being asked to cut its budget by 10%, but concerns have been raised that chemical storage tanks may be leaking, polluting local land and water supplies.

Characters in the Story

Angela : a keen and enthusiastic chartered accountant employed as a financial controller at Chemco - a good job with excellent prospects in the commercial sector. She is an avid environmentalist and a member of Friends of the Earth.

Giles : Financial director and Angela's boss

Anthony : Head of Operations at the Dakar chemical plant

Jessie : Former university friend of Angela's and a reporter with the Daily Chronicle

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SCENE 1: Head Office

Angela : I've been working on these budgets for next year and I've got most of the information we need but I would like your advice on what to do about Africa.

Giles : Oh yes, what's the problem with Africa?

Angela : Well, they say they can't make the 10% cuts that have been requested and they've asked if someone can go out to give them some help in identifying potential areas to cut from their budget.

Giles : That's a nuisance - we really need to finalise those budgets right away... I think it's going to be best if you fly out for a day or so - meet Anthony, discuss the options and make sure he makes the cuts needed.

SCENE 2a: Africa

Anthony : ...so you see we've consistently been asked to reduce costs year on year and there's just no slack left. We've also had to cancel our planned maintenance programmes in the last few years. The plant's getting old and quite honestly we need to be looking at some major

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repairs now - or even replace some of the plant before things become too critical. So you can see we really need to increase our capital expenditure not agree to yet more budget cuts.

Angela : I can see this is a problem but I really don't think that there would be any scope for additional expenditure and anyway all the divisions are being asked to make the same cuts.

Anthony : If you look at my proposed budget I included some repair work on the storage tanks. I think this is absolutely essential. It's possible that the tanks are already leaking and we really need to be addressing the problem this year and not delay again. But if you're asking for cuts that's all that's available to me... the plant's operating costs have already been cut so much that we're running with only minimal staff - all on low wages and none of them have had a pay increase for the last two years. There is nothing else to cut other than the proposed repair costs. Are you telling me these have to be postponed again?

1

Question

Are there any other options open to Anthony and Angela rather than making the required 10% budget cut?

Answer

They could collect together a dossier of information outlining the current position and identifying the need for additional funds to be spent on urgent repairs. That report should emphasise any long-term cost savings and other benefits such as compliance with any local health and safety legislation.

SCENE 2b: Africa

Angela : As I said I'm not sure there's an option. All I can do is go back to head office and try to make a special case for your division. Do you have information to support the suspicion of leaking tanks? And anything on the potential consequences of delaying the repairs that I can use to support your case?

Anthony : I think I've got just what you need - I'll get some information put together for you...

SCENE 3a: Head Office

Giles : Ah, Angela - how was the trip?

Angela : I'm afraid it wasn't straightforward, and having had a long discussion with Anthony I'm inclined to agree with him that Africa is a special case.

Giles : Oh yes and why's that?

Angela : Well... it's largely because of the sensitive nature of their work and the potential environmental impact of delaying basic repairs. It seems that any budget cuts would result in tank repairs being delayed. The likely result is chemical leaks with goodness knows what result. I've put it all in this detailed report for you to consider.

Giles : (putting the report to one side on a large pile of other unread material) What's your recommendation?

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Angela : I would suggest that no cuts should be made to the Africa plant budget and that funds are made available urgently to enable the proposed repairs to go ahead as planned.

Giles : Do me a cost-benefit analysis - once I've seen that I'll decide whether to take the matter to the board to ask for their agreement for the additional expenditure.

Cost-Benefit-Analysis

Benefits : Savings: 100,000 litres spilled chemicals, damage to water supply × 5,000 individuals, damage to farmland × 15,000 acres, moderate poisoning of 500 individuals, severe poisoning of 50 individuals, 5 deaths from poisoning. Unit cost £20 per litre, £50 per individual water supply, £10 per acre of poisoned farmland, £750 per moderate poisoning, £5,000 per severe poisoning, £50,000 per death

Total benefit: 100,000 × (£20) + 5,000 × (£50) + 15,000 × (£10) + 500 × (£750) + 50 × (£5,000) + 5 × (£50,000) = £3,275,000

Costs : Costs: Repair of 3 main storage tanks (£5,000) and 2 subsidiary storage tanks (£3,500), 200,000 litres lost productivity over period of repairs and wastage of 25,000 litres. Unit costs of chemicals lost productivity and wastage £20 per litre

Total cost: 3 × (£5,000) + 2 × (£3,500) + 225,000 × (£20) = £4,522,000 The cost benefit analysis shows that the potential lost revenue together with the cost of the actual repairs outweighs the anticipated costs associated with 'lost' chemicals, anticipated fines, legal and compensation costs.

SCENE 3b: Head Office

Giles (on phone to Angela) : As you know I referred the Africa cuts to the board following your work on that division. I'm afraid that the board decided that the economic position of the company at present is such that we have to delay the repairs and insist on the 10% budget cuts. I want you to get onto Africa and get this sorted asap.

Angela (thought) : This is ridiculous - how can they afford NOT to make the repairs. If this gets into the press there'll be a public outcry. (pause - thinking) I wonder... Jessie still works at the Daily Chronicle - perhaps we could meet for lunch...

2

Question

Angela is torn between her sense of loyalty to her employer and her belief that failure to act may cause human suffering and and environmental disaster. Do you think she would be justified in leaking the story to the press? What are the potential implications? Are there any other, less drastic, options open to Angela?

Answer

Angela is clearly unhappy with the decision taken by the board. She questions the morality of placing a monetary value on the potential costs to human health and the environment and thinks that this policy is short sighted. As the storage tanks get older the likelihood of a major leak increases and this could result in the plant being forcibly closed, huge fines and potential compensation awards, as well as considerable adverse publicity which would be seriously

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detrimental to the company. Despite this, however, she continues to owe a duty of confidentiality to her employer and should not normally disclose such information outside that organisation. Leaking the story to Jessie would be a clear breach of that duty of confidentiality.

Instead Angela could consider how to make her point more forcibly to her boss and to the board. She could for example estimate the potential costs of any adverse publicity as a result of a leak. By putting a further financial cost on their actions she may be able to make the Board sit up and take notice.

SCENE 4: Busy Bar

Angela & Jessie (standing chatting)

Angela : Oh no, there's my boss - I hope he doesn't see us!

Giles : Angela - I didn't know you frequented this place... are you going to introduce me?

Angela : Oh course - this is Jessie, an old university friend of mine

Giles : Jessie - delighted to meet you. Are you a fellow number cruncher?

Jessie : Oh no. Whilst Angela went on to train as an accountant I decided I'd had enough studying and I joined a local paper. I work at the Daily Chronicle now.

Giles : Now Angela, make sure you don't spill any company secrets - ha, ha.

3

Question

What is the extent of Angela's duty of confidentiality to her employer? In what circumstances may she be justified in breaching that confidentiality?

Answer

In general terms Angela has a duty of confidentiality to her employer and should not disclose anything related to her work to a third party unless there is a legal requirement to do so. There is, however, an exception to this general rule and that is where disclosure would be justified in the public interest. In such circumstances the disclosure would be protected by the Public Interest Disclosure Act 1998 assuming certain procedures are followed.

However, this only allows disclosure to the relevant authorities and not to the press. In addition Angela would need to be clear that disclosure was in the public interest. She should consult ICAEW's ethics advisory service, a specialist solicitor or the charitable organisation 'Public Concern at Work' before proceeding any further.

Note: further information about the Public Interest Disclosure Act 1998 is available on the website of the charity "Public Concern at Work" http://www.pcaw.org.uk/law.

SCENE 5: Head Office

Angela (reading situations vacant) :

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Angela : (puts down paper) No, there must be something else I can do - the board's being so short sighted here. Let's look at those figures again - what have I missed out that might change their minds?

Giles : How am I going to manage this? If only we could delay the expenditure for a couple of months till that new contract starts paying. Perhaps I could be a little 'creative' so that the expenditure isn't shown in the books until after the contract takes off...

4

Question

What are the implications of Giles' proposed creative accounting techniques?

Answer

'Creative accounting' is a euphemism for accounting practices that may or may not follow the letter of the rules of standard accounting practices but certainly don't apply the spirit of those rules, so that you are, in effect, making false or misleading statements (perhaps simply by omitting relevant information).

If such practices are used by those in authority in an organisation it creates an environment in which not enough emphasis is placed on high ethical standards, because the focus is on following the rules rather than adhering to principles. This can lead to a culture in which staff believe that it is acceptable to act in a way that may not be consistent with the Fundamental Principles. If this remains unchecked standards are likely to fall further and the organisation may become open to other major abuses such as theft and fraud, with the consequent loss of reputation.

Recall what Lord Woolf said about the environment at BAE: "the company did not in the past pay sufficient attention to ethical standards and avoid activities that had the potential to give rise to reputational damage."

SCENE 6: African Plant

Anthony (talking to contractors on the telephone):

Anthony : Yes, we really are going ahead this time. We'll be draining and closing each of the storage tanks in turn to allow for the necessary repairs. I've got a couple of other firms tendering for the work but I'd be pleased to see your proposal as well.

Anthony : Sorry what's that? Oh, 'incentive' payments - I understand. What are the terms you suggest? ... I look forward to seeing your figures...

5

Question

It seems that Anthony is being asked to make an 'incentive payment' which it appears the contractor will pay to public officials to ensure that all the necessary permits etc are in order to allow the work to proceed quickly. What are the implications of such payments? If Angela becomes aware of them, what should she do?

Answer

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The payments may be illegal under the UK's Bribery Act 2010. Under this Act both individuals and commercial organisations can be found guilty of the criminal offence of bribery. The fact that the 'incentive' payment will be offered to public officials in another country, ie, not within the UK, does not exonerate Anthony from responsibility; the Act expressly covers the offence of offering a bribe to a foreign public official.

If Angela became aware of such payments she would need to check their legality and appropriateness. If the payments can be classified as bribes under the UK Bribery Act 2010 it would clearly be out of the question to condone them. There may also be money laundering implications. Even if the payments were legal, Angela may have valid doubts about their wider ethical implications.

In the first instance, Angela should raise any concerns with Giles, her manager.

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6.3.1 Threats to the fundamental ethical principles for professional accountants in business

All of the five threats which we have covered in earlier modules still apply if you work outside public practice. In fact there are additional threats which relate to working in business, so you should always look to address these through the appropriate safeguards.

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6.3.2 Threats to the fundamental ethical principles for professional accountants in business

The advocacy threat

Generally an employee of a company would always be expected to further the interests of their organisation in a legitimate manner. As long as you don't make false or misleading statements you won't be creating an advocacy threat if you promote the position of your employer.

Intimidation threat

Just like any other employee you are likely to be reliant on your job from a financial and career perspective. An unscrupulous employer could threaten your job or career prospects to try and manipulate your behaviour.

Safeguards

To help you deal with threats to the fundamental ethical principles there are safeguards created by the profession (as covered in Module 3) and in the work environment. These include:

- the organisation's systems and procedures for corporate monitoring eg, the audit committee;
- ethical workplace training and disciplinary processes;
- strong internal controls; and
- policies and procedures.

Real-life example: self-interest threat

You are the financial controller of a small charity, and are responsible for preparing the financial statements for the company. The charity has made a loss in each of the past three years.

At your annual appraisal the chief executive informs you that he would like to introduce a performance-related pay element into your pay package, where your bonus will be directly linked to the company's bottom line surplus figure.

There would be a significant self-interest threat if your remuneration was directly linked to the financial performance of the company.

This remuneration structure may just about be acceptable if the financial director, who signs off the financial statements, is not on a similar incentive scheme.

The safest course of action would be to explain the ethical threat to the chief executive and suggest that your bonus is linked to something other than the financial performance of the company.

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6.3.3 Threats to the fundamental ethical principles for professional accountants in business

Approach to resolving ethical issues in business

When you are faced with an ethical issue you should adopt the following process:

Gather the relevant facts and identify the problem
Find out as much about the situation as you can in order to clarify and identify the problem and the key issues. Ask yourself the following questions: ▪ Do I have all the facts relevant to the situation? ▪ Am I making assumptions? If so, could facts be identified to replace these assumptions? ▪ Is it really your problem? Can anybody else help? If relevant facts are not readily available, you may be able to get more background information to address the limitations by: ▪ referring to the organisation's policies, procedures, code of conduct and previous history; and ▪ discussing the matter with other appropriate people such as trusted colleagues and managers.

Identify the relevant parties
▪ Who are the individuals, organisations and key stakeholders affected? ▪ In what way are they affected? ▪ Are there conflicts between different stakeholders? ▪ Who are your allies? Those affected may include, but are not limited to, employees, employers, shareholders, consumers, clients or customers, investors, government and the community at large.

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Consider the ethical issues involved
▪ Have you considered the ICAEW Code of Ethics? ▪ What are the professional, organisational and personal ethical issues? ▪ Would these ethical issues affect the reputation of the accountancy profession? ▪ Would these ethical issues affect the public interest? Use the information collected to identify the key personal, professional and organisational ethical issues involved.

Identify which Fundamental Principles are affected
Clarify the ethical issues by considering which of the five Fundamental Principles (integrity, objectivity, professional competence and due care, confidentiality and professional behaviour) are under threat in this particular situation. ▪ Are the threats to compliance with the Fundamental Principles clearly insignificant? ▪ Are there safeguards which can eliminate or reduce the threats to an acceptable level?

Refer to your employing organisation's internal procedures
▪ Do your organisation's policies and procedures provide guidance on the situation? ▪ How can you escalate concerns within the organisation? ▪ Does the organisation have a whistleblowing procedure? ▪ At what point should you seek guidance from external sources such as ICAEW? As a student, you would normally raise any ethical issues with your immediate supervisor or manager. Alternatively discuss them with your counsellor, training partner, ethics partner or equivalent if there is one. There may also be other parties within your organisation with whom it might be appropriate for the issues to be discussed, eg, an audit committee or other corporate governance body, or specialist departments such as legal, audit or human resources. It is likely, however, that as a student it would be inappropriate to approach such parties without the consent of your supervisor or manager.

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Consider and evaluate alternative courses of action

Consider the available courses of action and their consequences. In particular you should consider the organisation's policies, procedures and guidelines and any applicable laws or regulations. You will also need to bear in mind the universal values and principles widely adopted by society and think about the long and short-term consequences as well as any private, public or symbolic consequences (ie, the statements you might be making by taking a particular course of action).

When evaluating a course of action it is important to test the adequacy of the approach by considering whether:

- all the consequences have been discussed and evaluated
- the action will stand the test of time
- a similar course of action would be undertaken in a similar situation
- you would feel comfortable with scrutiny from peers, family and friends.

Decide on a course of action and monitor its progress

Having considered all of these issues you need to determine the most appropriate course of action that is consistent with the Fundamental Principles identified and to implement this decision.

As a student, however, it is unlikely that you will have to take the ultimate decision yourself. This is likely to be reached in consultation with your manager, counsellor, training partner, ethics partner or equivalent.

Document

You should document the whole process including your thoughts, any discussions and the decisions reached. Keeping records is not formally part of the ethical decision making framework but you may need them at a later date, either to justify your course of action or as part of an ongoing review of the situation.

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Learn from your experience
You should of course always find out if the consequences of any decisions were what you expected them to be (and if not, why not?) to learn for the future. - Are the threats to compliance with the Fundamental Principles clearly insignificant? - Are there safeguards which can eliminate or reduce the threats to an acceptable level?

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6.3.4 Threats to the fundamental ethical principles for professional accountants in business

PRACTICE CASE STUDY – ETHICS AND THE SMALL FIRM

All organisations, individuals and events in this case study are entirely fictitious and do not refer to actual organisations, individuals or events.

You are employed in a small two partner local practice. One of the partners, Dennis, also has a separate property development business with his brother. This has recently begun to take off and is providing Dennis with a very healthy return.

At the same time, however, it is taking up more of his time. Reluctant to give up his involvement in the accountancy practice he is trying to keep this quiet from the other partner, Clive, and instead you find you are increasingly being asked to cover for him and to look after his portfolio of clients.

1

Question

What are the ethical implications for the firm?

Answer

This situation has a number of different ethical implications. In terms of the fundamental principles the key ones are:

Integrity

Dennis is not being straightforward with his partner, Clive. It is also possible that the clients believe that their work is being carried out by a partner.

Professional Competence and Due Care

Are the clients being provided with the level of expertise they are paying for? Do you have the experience to carry out the work effectively? Is your work being properly reviewed and supervised?

Professional Behaviour

Ultimately it is possible that the behaviour of Dennis and the consequences of that could discredit the practice and ultimately the profession.

2

Identifying the ethical issues helps to determine what action, if any, to take to address such situations. Having done that (and collected relevant information, identified those affected and considered internal procedures) you now need to consider and evaluate the

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options that are available to you and their associated consequences. You identify three possible options:

Think about these options and their potential implications. What would you do?

A

B

C

A. Inform Clive of the situation

Possible outcomes:

i. Clive and Dennis argue over the issues. The partnership dissolves acrimoniously, business is lost and you are made redundant.

ii. Informing Clive acts as a catalyst to Dennis who now decides to put all his efforts into property development and retires from the partnership. Clive looks at reorganising the remaining staff and there is an opportunity for you to get a promotion.

B. Tackle Dennis

Possible outcomes:

i. Dennis takes stock and divides his time more equally between his business interests. He also provides you with additional training so that you can more formally take over some of his portfolio in time.

ii. Dennis takes offence at what he perceives is a criticism of him personally. You feel that your prospect of future success and promotion in the firm is now threatened.

C. Do nothing

Possible outcomes:

i. In no time your exposure to this extra work helps you to develop new skills and expertise putting you in a good position for an early promotion.

ii. It is not long before your lack of experience is exposed when you make a serious error in a client's tax computation leaving them open to fines and penalties. The client claims against the firm's professional indemnity insurance and you are disciplined.

3

Question

Despite these problems with Dennis you enjoy your work and being in a local practice suits your current needs. You continue to work there. It is not long, however, before you have some additional concerns - this time about potential conflicts of interest. You have noticed that the practice has been taking on a number of new clients who are themselves involved in property development.

What are the ethical implications of undertaking such work?

Answer

The main ethical implications in this scenario relate to potential conflict of interests between Dennis and clients and between the interests of different clients. It also raises questions of

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objectivity and of confidentiality - in particular in relation to making sure that confidential information is not misused to the benefit either of Dennis or anyone else including other clients.

4

You consider what to do about your concerns about the direction in which the partnership is heading and identify three options:

Think about these options and their potential implications. Which do you think would be the most appropriate course of action?

A

B

C

A. Do nothing. Although you are obliged to consider potential threats and safeguards there is nothing in the Code to Ethics that specifically prevents the firm from acting for clients whose interests may be in conflict

Possible outcomes:

i. Dennis and one of the firm's clients are soon in direct competition to re-develop a local brownfield site. When Dennis is successful the client accuses him of misusing confidential client information in order to outbid him. Although there is no evidence to show this is the case, rumours circulated by the client soon damage the firm's reputation and clients begin to move elsewhere. Luckily though no complaint has been made to IACEW - otherwise Dennis would need to justify his position.

ii. Although Dennis continues to pursue both of his business interests care is taken to ensure that such potential conflicts are properly handled. In particular Dennis does not personally act for any property development clients, while their records are protected by passwords and other security devices.

B. Raise your concerns informally with Dennis as the chief protagonist.

Possible outcomes:

i. Dennis suggests that you consult the Code of Ethics - pointing out that there is nothing wrong with what the firm is doing (although, as far as you can see, it is not clear whether he has formally assessed threats and safeguards, as is required). You sense that you are beginning to irritate the partner.

ii. Dennis acknowledges your concerns and seeks to reassure you that proper procedures are in place to protect the clients' interests such as the use of confidential passwords to protect the client information.

C. Put your concerns in writing to both partners.

Possible outcomes:

i. The partners recognise your concerns and reassure you that Dennis's personal experience of property development enables the firm to provide an improved service to its customers but that while using his experience there is no question of clients' interests being compromised.

ii. The partners point out that this is a lucrative and growing area of business that the practice cannot afford to lose out on. Rather than curtailing work, plans are in place to market the

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practice as a specialist in this area. You can either stay and benefit from the anticipated expansion or move on.

Thinking about these options and their potential implications, decide which you think would be the most appropriate course of action consistent with the Fundamental Principles.

You stay with the partnership and help to put in place appropriate safeguards to protect clients' interests - including a policy of obtaining the informed consent of affected clients. Everything is going well. The practice soon expands and moves into new premises - coincidentally an old building that was redeveloped by Dennis' company. The firm holds a reception for clients to celebrate the opening. One of the guests gets chatting to you. She admires the new offices but says that it's a shame that the building wasn't kept residential. She goes on to explain that she had submitted a bid to purchase the property and redevelop it as flats and couldn't understand why she had been unsuccessful - sure that her bid for a residential re-development would've paid more than the office conversion.

You are left feeling slightly uneasy and decide to look into the client's files. You discover that Dennis did a feasibility study for the client for submission to her bankers to obtain finance for her planned re-development. The study includes all the relevant figures - including the amount of their proposed bid. You are now absolutely convinced that Dennis used this information to ensure that his own bid was higher and therefore accepted - providing the partnership with prestigious new offices in a central location.

5

Having identified this potential misuse of confidential client information you use the decision making framework to collect together relevant information, identify those affected and consider internal procedures. You should really talk to Dennis again but, unwisely perhaps, you shirk confrontation, deterred by his reactions so far. You evaluate the options that are available to you and their associated consequences and identify three possible options:

Think about these options and their potential implications. Which do you think would be the most appropriate course of action?

A

B

C

A. Resign from the firm - you prefer to work somewhere with a higher ethical stance - also consider whether you have a duty to report Dennis to ICAEW.

Possible outcomes:

i. Having explained your reasons for leaving you are provided with a poor reference and find it difficult to obtain another local post.

ii. You soon find another job with a local firm and are able to use the experience of your time working for Clive and Dennis to help put in place effective procedures to identify and protect against loss of objectivity, conflicts of interest and breach of confidentiality.

B. Report Dennis to ICAEW - you have a duty to do so.

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Possible outcomes:

i. After a lengthy investigation Dennis is disciplined by ICAEW. This triggers him to re-think his position and he decides to put all his energies into the property development business, resigning from the accountancy practice.

ii. Dennis is able to satisfy ICAEW that there was no misuse of confidential information. He is disappointed that you contacted ICAEW rather than raise the issue with him and feels that this indicates a breakdown in your relationship. He suggests that you consider moving on.

C. Collect further information from the vendor of the property to support your suspicions.

Possible outcomes:

i. Your attempts to gain further information soon arouse the suspicions of the vendor who contacts Dennis to see what's going on. When you explain yourself Dennis simply laughs and accuses you of being melodramatic. You still don't know if your suspicions are justified.

ii. You can't find any further information to support your suspicions and you leave the matter there - still unsure whether or not there has been any wrong doing.

This case study shows how resolving ethical dilemmas is not necessarily easy or straightforward. Often there are a number of different options and even if a particular course of action is clearly indicated the outcome can be uncertain.

This case also raises a number of different ethical issues on which there is detailed ethical guidance within ICAEW's code of ethics and elsewhere in the members handbook (icaew.com/membershandbook). That guidance is reviewed periodically and you are advised to keep up to date with the latest version. All the references shown are to the members handbook and the code of ethics.

Fundamental Principle: Integrity (Code of Ethics 100.4(a))

A professional accountant should be straightforward and honest in all professional and business relationships.

Fundamental Principle: Objectivity (Code of Ethics 100.4(b))

A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

Fundamental Principle: Professional Competence and Due Care (Code of Ethics 100.4(c))

A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

Fundamental Principle: Confidentiality (Code of Ethics 100.4(d))

A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

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Fundamental Principle: Professional behaviour (Code of Ethics 100.4(e))

A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Conflicts of interest (Code of Ethics 220)

A professional accountant must take steps to identify any potential conflict of interest between those of the practice and clients or between the interests of different clients, and put in place safeguards where the threat of a conflict of interest is other than clearly insignificant.

The duty to report misconduct (Members Handbook Statement 2.7)

A member is required to report to ICAEW misconduct where it is in the public interest to do so and where the reputation of ICAEW could suffer if no such report was made.

Of course the Code of Ethics cannot cover all situations you may come across in your professional career but you should always comply with the spirit of the code in all circumstances. Failure to apply the Fundamental Principles and statements could lead to a complaint and possible disciplinary action against you. If you are in doubt about your ethical position, you may seek advice from ICAEW's Advisory Services helpline. This is a free, confidential service to students and members free from the duty to report professional misconduct within ICAEW. You can contact the helpline by calling Tel: +44 (0)1908 248 250 or email your enquiry toethics@icaew.com Further information on the ethics helpline, including helpsheets and answers to frequently asked questions is available at http://www.icaew.com/en/technical/ethics/resolving-ethical-problems

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6.4.1 Potential conflicts

There may be times when your responsibilities to an employing organisation and your responsibilities to comply with the fundamental ethical principles conflict with each other. For example you may be put under pressure (explicit or implicit) to:

- act contrary to law, regulation or professional standards;
- facilitate unethical reporting or earnings management strategies; or
- to lie or intentionally mislead others eg, auditors or regulators.

In situations such as these you should try to apply the safeguards available to you. This may include seeking advice from within or outside of the organisation, or using your employer's formal dispute resolution process.

Real-life example

You have recently been appointed management accountant for a company that is eligible for an annual environmental grant from the government. When preparing this year's grant claim you notice that inappropriate expenditure has been included in previous years' grant claims by your predecessor. The external auditor has signed off these claims without qualification.

You know that your manager, who is also new to the organisation, plays rugby with the external auditor. You are therefore concerned that they might have a close relationship which could prevent this issue from being addressed.

In such a situation the first thing to do is to check the relevant facts and discuss them with your manager. If the concern is valid you should raise the issue with the external auditor.

If your manager's response is not satisfactory then you should consult with ICAEW or someone that you trust within the organisation who is more senior. This includes the board of directors or the audit committee. It is always helpful to document any discussions held in case you are challenged on this in the future.

You should ensure that future grant claims are accurate and honest.

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6.4.2 Potential conflicts

Resigning

As we saw in Module 5, if you work in practice you can, as a last resort, always resign from the engagement that you are working on if you cannot reduce ethical threats to an acceptable level.

In business you will usually work for just one organisation ie, your employer. While resigning is technically an option, it might be very difficult financially and personally to walk away from employment.

If you feel that resigning is the only appropriate course of action you can take, you should always seek legal and ethical advice first before taking this step.

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6.4.3 Potential conflicts

Question:

What if you are put under increasing pressure by the marketing director to provide such information? What would you do to tackle this pressure?

a) Explain the position to your immediate line manager, to another chartered accountant (if there is one), or to the director to whom you are responsible and get their help in tackling the problem.
b) Complain to the managing director about the bullying behaviour of the marketing director.
c) Start looking for another job - you don't want to work in that sort of environment.

Answer : A
The best approach is probably to try to enlist some support. Once you have others on your side it will be easier to tackle the problem and the marketing director is more likely to accept your refusal to co-operate if your position is backed up by someone more senior. Depending on the culture of the organisation it is probably unwise to go direct to the managing director on this sort of issue and to do so could make your position more uncomfortable. Although ultimately you may conclude that you would prefer to work elsewhere it would be better to try to resolve the issue rather than simply move on.

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6.4.4 Potential conflicts

Question:

Working late one night you receive an email. It appears to have been sent to you in error. The email is headed 'Strictly Private & Confidential' and appears to be from a customer to one of your company's main competitors. It relates to a legal action the customer is bringing against that business for damage caused by their workmen. What should you do?

a) Use the customer's contact details to promote your own company's services.
b) Destroy the email and notify the sender accordingly.
c) 'Accidentally' forward the email to everyone in your company's address book. You will subsequently apologise for this 'error' but by then everyone will be aware of your competitor's poor standards.

Answer : B
This might seem like a stroke of good fortune but it would be improper to use or disclose any information contained in the email. You should contact the sender and delete the email. If your competitor becomes aware of the error they may worry about the information being misused and therefore re-think their own marketing strategy in order to counter any adverse effect, but that is a business decision for them to make.

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6.4.5 Potential conflicts

Question:

The customer concerned subsequently seeks to replace the competitor named in the legal action and puts out an invitation to tender. They ask you to make a presentation as part of this process. The presentation goes well but when you leave, you forget your laptop. Unfortunately the hard drive has details of your customer database - even though it is your company policy not to hold such information on laptops. This information could be valuable not only to this customer, but to others involved in the tendering process - one of whom may have picked up your laptop. What should you do?

a) Immediately own up to the problem so that appropriate steps can be taken to minimise any harm either to your company or your customers - even if you subsequently recover the laptop.
b) Say nothing and hope that no one has accessed the information stored on your laptop. You are confident that you can either recover or replace the laptop very quickly and no one need know your mistake.
c) Keep quiet for now. If you are not able to retrieve the laptop tomorrow you will have to admit what has happened.

Answer : A
In such circumstances it is best to act as soon as possible. Even if your laptop is recovered quickly it is likely that your organisation will want to take some steps to seek to ensure that confidential information is not misused. In these circumstances honesty is the best policy even if it means you have to admit an error.

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6.4.6 Potential conflicts

Question:

As part of your internal audit check on returned damaged goods, you find that many such returns are being sold for nominal amounts to the brother of the production director who you see from the local paper has a thriving business selling those goods direct to the public. What should you do?

a) Raise the issue internally.
b) Find out if the board are aware of this and whether or not the production director has declared this family interest.
c) Report the transactions to the criminal authorities as you suspect that the production director's conduct is dishonest.

Answer : A
The first step is to check the facts. Having done that, you should initially report your concerns to your line manager. In doing so it is probably a good idea to make some recommendations as to the proper control of the sale of returned goods and also recommend that the production director declares his family interest to the Board - if he has not already done so.

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6.4.7 Potential conflicts

Question:

After making your report to your line manager you hear nothing further and the practice appears to be continuing. Is there anything further you can do?

a) No. You have satisfied your responsibilities by disclosing internally.
b) Report the transactions to the criminal authorities as you are still suspicious that the production director's conduct is dishonest.
c) Seek alternative means to resolve the issue internally.

Answer : C
Even if you have made an initial report internally it may still be appropriate to take further steps to try to ensure that the matter is dealt with appropriately. Check if your line manager has read your report and see if you can find out if any further action was taken eg was it reported upwards? Consider if there is someone else that you can tackle about this, such as your line manager's immediate superior. Can you provide further evidence outlining the potential loss to the company and the impact on standards generally if this sort of behaviour appears to be condoned?

Ultimately, of course it is up to the company to take what action it thinks necessary regarding an undisclosed gain made by the production director. If his conduct amounts to dishonesty the company will take the responsibility for deciding whether or not to bring his conduct to the attention of the criminal authorities.

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6.5.1 Preparing and reporting of information

Working in business you will often be involved in the preparation and reporting of information that may either be made public or used by others inside or outside the organisation.

You must prepare and present information fairly, honestly and in accordance with relevant professional standards.

Examples of how you could produce misleading financial information include the following.

Window dressing

Window dressing is the process of presenting the accounts in a better light than is really the case. An example of window dressing would be to not record sales returns until after the year end.

Inappropriate revenue recognition

Revenue may be recognised before it is allowed to be recorded under accounting standards. An example would be recording revenue before the year end for goods that were despatched after the year end.

Inappropriate accounting policies or estimates

An organisation could improve its profit figure by adopting an accounting policy or estimate which doesn't best reflect the position of the company.

An example would be to use an unrealistic long useful life to depreciate an asset.

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Profit smoothing

An example of profit smoothing would be the creation of general provisions in years where profit is higher than anticipated.

In subsequent years when profit is lower than anticipated the provision will be released.

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6.5.2 Preparing and reporting of information

Question:

You have just joined a new company and are working in the accounts department having previously held a similar position in a competitor company. The marketing director asks you to examine the prices set for the company's latest products and in particular how these compare with the products that were being developed by your former employer. What do you do?

a) Use the information you can remember from your previous role to help your new employer.
b) Give the marketing director pointers as to where and how he can find the information he wants.
c) Refuse to help out in this way as it would be a breach of confidentiality.

Answer : C
It would be inappropriate to use the confidential information which you had acquired in your previous employment in this way. It is also likely that your former contract of employment prevents you from doing so. You are, however, entitled to use the experience gained in your previous employment and that might include knowledge of where such information is available in the public domain.

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6.6.1 Acting with sufficient expertise

Professional competence means you should only undertake tasks which you have, or can obtain, sufficient training for. You should never intentionally mislead employers about your level of expertise or experience.
Examples of threats to the professional competence ethical principle include:

- insufficient time to properly perform your relevant duties;
- excessive pressure from more senior staff;
- insufficient experience, training, and or education; and
- inadequate resources or information to perform your duties properly.

These threats can be mitigated by the following safeguards:

- additional training or advice;
- adequate resource planning;
- obtaining assistance from someone with sufficient expertise; and
- consulting with superiors and/or ICAEW.

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6.7.1 Financial interests

You may sometimes find yourself in situations where a self-interest threat is created. In these cases you should follow the overriding principle of not manipulating information for personal gain.

Examples when this threat applies include:

- when you hold a direct or indirect financial interest in your employing organisation;
- when you are eligible for a profit-related bonus which could be affected by decisions you make; and
- when you will receive, directly or indirectly, share options in your employing organisation as part of your remuneration package.

In such situations you should apply appropriate safeguards to reduce this threat to an acceptable level. In this particular case an acceptable level would be one where the financial interest is regarded as insignificant. This would be determined by:

- internal policies and procedures;
- consultation with superiors, those charged with governance, and ICAEW; and
- internal and external audit procedures.

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6.7.2 Financial interests

Inducements

Inducements include gifts, hospitality, preferential treatment, and inappropriate appeals to friendship or loyalty**.**

A self-interest threat would arise if you, or an immediate close family member, are offered a significant inducement to try to unduly influence actions or decisions.

In some cases threats to the fundamental ethical principles may arise simply from the offer of an inducement being made, regardless of whether it is accepted or not.

In these situations possible safeguards include:

- informing management at a higher level than the individual making the offer;
- informing third parties of the offer; such as the employer of the individual making the offer or ICAEW; or
- advising management of any potential threats that may occur eg, where close family members are employed by competitors or potential suppliers.

A significant inducement is one where a reasonable and informed third party, weighing all the specific facts and circumstances, would consider the inducement to be significant and therefore likely to encourage unethical behaviour.

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6.8.1 Review

VIDEO - Completion

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6.8.2 Review

This module has covered the key ethical considerations and issues for a professional accountant in business. In situations where there is a potential ethical issue professional accountants should always be guided by the fundamental ethical principles.

The key learning points of this module are summarised below.

- A professional accountant in business has a responsibility to further the legitimate aims of their employing organisation. They should encourage an ethics-based culture and emphasise the importance that senior management places on ethical behaviour.
- Generally an employee of a company would always be expected to further the interests of their organisation in a legitimate manner. As long as false or misleading statements are not made by the professional accountant they will not be creating an advocacy threat by promoting the position of their employer as long as they do not unduly compromise their duty to the ICAEW Code of Ethics.
- Professional accountants must prepare and present information fairly, honestly and in accordance with relevant professional standards.
- A professional accountant in business, who feels that resigning is the only appropriate course of action that they can take, should always seek legal and ethical advice first before taking this step.
- Professional accountants in business may sometimes find themselves in situations where a self-interest threat is created. In these cases the overriding principle to follow is integrity ie, a professional accountant in business should not manipulate information for personal gain.

You have now reached the end of this module. Press the 'Exit' button to close this window.

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