SAICA
Ethics Case Study

SAICA DIFFERENCE MAKERS™

Ethics case studies

From SAICA's Code Refresher Update Webinar
by Prof Jimmy Winfield

These case studies have been derived from a variety of sources, including past SAICA disciplinary cases, questions submitted to the ethics team at SAICA, and discussions with CA(SA) about actual or hypothetical scenarios. Some have been adapted to make for a rich and concise case study. No information here is private or confidential. The author hereby given permission to reproduce these case studies for the purpose of educating current and future members of the profession.

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Case study 1

I am the accounting officer of a close corporation engaged to compile financial statements, submit income tax returns and file VAT and PAYE returns from information supplied by the client. I have verified that the financial statements conform to the accounting records, but I have also discovered through speaking to people that certain sales transactions are absent from the accounting records and financial statements, with the effect that income tax and VAT are under-declared. I have spoken to management who acknowledge the practice, but they have also pointed out that the legal duty of an Accounting Officer in terms of the Close Corporations Act is to verify that the financial statements conform to the accounting records, which they do. Perhaps they are correct, and I have done what is legally required, but if so is it ethical for me to sign the report and move on?

Answer to case study

No, it is not ethical for you to sign the report and move on. It's not clear that you have done what is legally required but even if you have, it's very important to see that there is a difference between what is legally required and what is ethically required. It is a professional ethical requirement to obey the law, but ethics goes well beyond that. Ethics requires that professional accountants uphold five fundamental ethical principles, which together set a much higher standard than simple legal compliance. In this case, the most relevant fundamental principle is integrity, which requires that a professional accountant is straightforward and honest, and – in paragraph R111.2(c) – requires the professional accountant not knowingly to be associated with reports which misleadingly omit required information.

Case study 2

You are a manager in a small practice. You have assigned some complicated reconciliation work to a senior trainee, but that person has been on extended sick leave, and you yourself are about to take annual leave. You instruct the only other person in the team – a more junior trainee accountant – to do the work. The trainee is a capable first-year, however they may not be sufficiently experienced to complete such complex work alone, especially given the tight deadline and the unavailability of people to supervise them. Nonetheless, these are challenging times for the firm, and you decide just to go on holiday and hope that the work gets done. Which fundamental principle of ethics is most directly under threat?

Answer to case study

The fundamental ethical principle most directly under threat here is professional competence and due care, which requires that a professional accountant attains and maintains the professional knowledge and skills required for competent service, and acts with diligence in accordance with the relevant standards. This obligation extends even further by requiring – in paragraph R113.2 – that the professional accountant take reasonable steps to ensure that those working under the professional accountant have appropriate training and supervision. By leaving the underprepared first-year to do the work alone, you are clearly in breach of this ethical requirement.

Case study 3

An accountant with his own practice has custody of the assets of a trust for which he does the accounting. For 18 years, he has managed the funds wisely, and invested them to produce strong returns. When the circumstances of his life change – his wife divorces him and he can no longer afford his children's private school fees – he spends R500 000 from the trust to pay his own personal expenses, disguising the withdrawals as fees and other disbursements. He plans to pay the money back when he can. Which fundamental principle of ethics is most directly under threat?

Answer to case study

The fundamental ethical principle most directly under threat here is professional behaviour, which requires – in subsection 115 – that a professional accountant complies with relevant laws and regulation, acts in the public interest, and avoids conduct that might discredit the profession. In this case, the accountant has violated this principle by breaking the law and by risking discrediting the profession. (It is also plausible to answer instead that a different fundamental principle, integrity, has been most directly threatened, since – as stated in paragraph 111.1 A1 – integrity involves truthfulness and fair dealing, both of which the accountant has failed to uphold.)

Case study 4

A newly formed firm of young accountants decides on a big marketing push, and so creates targeted YouTube ads to promote their firm to small and medium-sized potential clients. In these ads, to indicate that they are cutting edge and tech savvy, they mock older accountants who they say mostly use paper systems, including the postal system, and do not take proper advantage of technology. Which fundamental principle of ethics is most directly under threat?

Answer to case study

The fundamental ethical principle most directly under threat here is professional behaviour, which, presumably to ensure that a professional accountant avoids conduct that might discredit the profession, requires – in paragraph R115.2(b) – that, when undertaking marketing activities, a professional accountant avoids making disparaging references or unsubstantiated comparisons to the work of others.

Case study 5

A junior CA working for an investment bank arrives late for drinks with his friends at the Radisson Hotel in Cape Town. "I'm sorry," he says, "we are working on this massive M&A deal". The friends push him for more info about it, identify the target company, and buy shares based on the info. Which fundamental principle of ethics is most directly under threat?

Answer to case study

The fundamental ethical principle most directly under threat here is confidentiality, which requires – in subsection 114 – that a professional accountant respects confidentiality of information acquired as a result of professional and business relationships. Paragraphs R114.1(a) and (e) specifically require the professional accountant to be alert to inadvertent disclosure in a social setting, and to avoid disclosing information that might benefit a third party.

Case study 6

My firm audits a company that has grown to the point where it has just reached the public interest score to require an audit. I have become aware that purchases of the company's goods by staff are authorised by production managers, and then credited to the expense account for the firm's end-of-year staff party. I have explained to the Board that this is contrary to accounting standards and tax legislation, but they are unwilling to stop. They say that if staff are good enough to spend their money on the business's products, then they deserve a bigger party. I plan to report this practice to IRBA. Am I at risk of breaching any of the fundamental principles of ethics?

Answer to case study

No, you have not breached any fundamental ethical principles – rather, you have acted professionally by doing as required by paragraph 111.1 A2: "challenging others as and when circumstances warrant". Furthermore, you are unlikely to be in breach of the principle of confidentiality if you report this practice to IRBA, since disclosure of confidential information is permitted when there is a professional duty or right to disclose, as per paragraph 114.1 A1(c). After the Board – the body charged with governance of the client – refused to resolve the issue, it is likely that section 360 would require you to take such action.

Case study 7

A company has a policy that payments over R150 000 need to be signed by two directors. It's Friday afternoon, the Rand is rapidly losing value on exchange markets, and no directors are available. A junior accountant has responsibility for processing an overseas payment for USD50 000 that is due. On Monday, the Rand equivalent may be a lot more. The junior accountant's demanding and volatile boss instructs her to process the overseas payment without the required signatures. If she doesn't, he says, she can forget about the promotion that he was about to recommend her for. Which fundamental principle is most directly under threat, and which category/ies does the threat fall into?

Answer to case study

This one is quite tricky. A case could be made for integrity, professional competence and due care, and professional behaviour all being directly under threat – but perhaps the principle *most directly* under threat here is objectivity. Objectivity requires – in subsection 112 – that a professional accountant exercises professional or business judgement without being compromised by bias, conflict of interest, or the undue influence of others. In this case, by failing to follow a policy clearly designed expressly to avoid anyone but directors approving sizeable payments, the junior accountant has failed to exercise her professional judgement; and this appears to be the result of her surrender to the undue influence of her "demanding and volatile" boss. It is also worth noting that paragraph 111.1 A2(a) states that integrity requires that a professional accountant stand their ground when confronted by difficult situations.

The threat here falls into the following two categories: self-interest (because presumably the professional accountant is motivated by her financial interest in obtaining a promotion) and intimidation (because her boss is pressuring her not to act objectively.

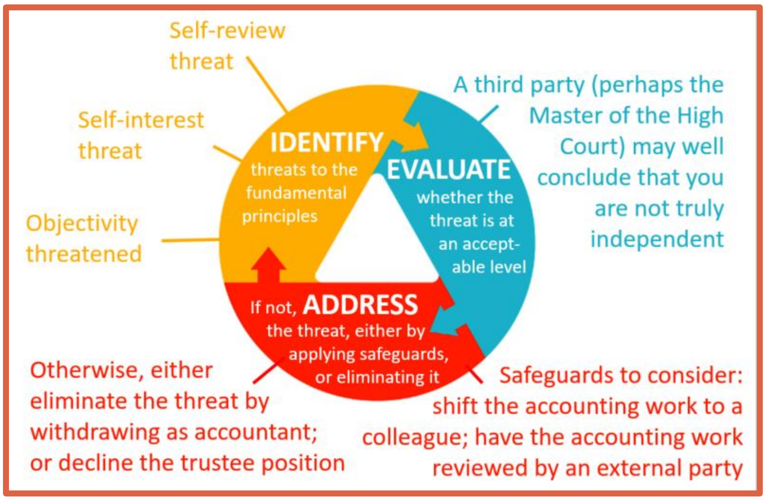
Case study 8

I act as the accountant for a Trust, compiling the financial statements and doing tax compliance. I have been asked to accept appointment as an independent trustee for this client. The Master of the High Court requires only that independent trustees are not related to the other trustees or beneficiaries, and are not beneficiaries of the trust. I therefore appear to qualify, but I am the accountant of the trust. Which fundamental principle is most directly under threat, and which category/ies does the threat fall into? Also, apply the conceptual framework to this situation.

Answer to case study

The principle most directly under threat is objectivity. Objectivity requires – in subsection 112 – that a professional accountant exercises professional or business judgement without being compromised by bias, conflict of interest, or the undue influence of others. In this case, you are risking compromising your professional judgement by putting yourself in a position that is subject to potential conflicts of interest: your interests in your role as the trust's accountant could come into conflict with your interests as a trustee. Also, your role as the accountant could bias you when making decisions as a trustee.

The threat here falls into the following two categories: self-interest (since presumably you stand to make more money by accepting appointment as trustee) and self-review (because as trustee you will be in a position where you will be relying on, and evaluating the results of, activities you perform as the accountant).



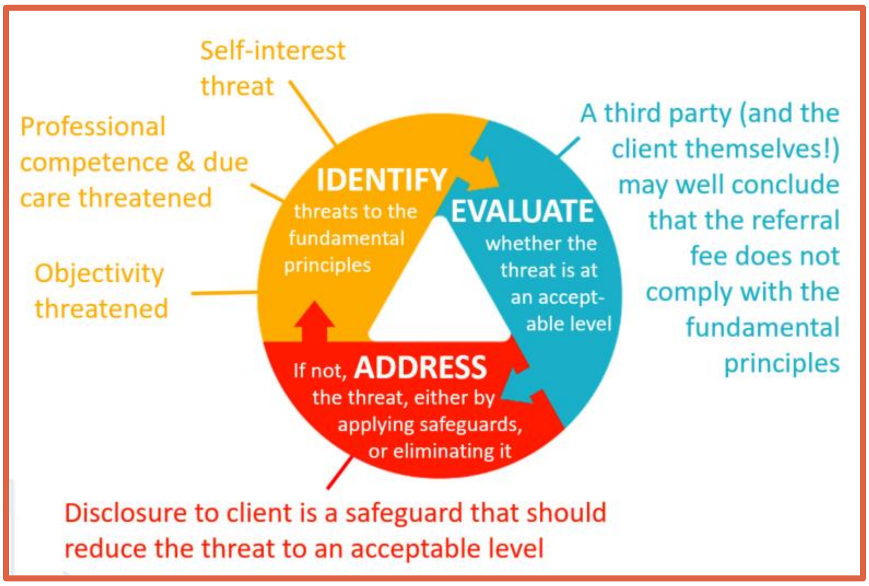
See the diagram alongside, in which the conceptual framework is applied to this situation.

Case study 9

You provide accounting services to a mid-size food retailer. They are looking to acquire a fintech startup. You do not have any knowledge or experience in valuing tech businesses, but your friend, Precious, works for a firm that specialises in such valuations. You know she needs to impress the partners at her firm by bringing in new clients, and her firm pays referral fees of 10% of fees billed to new clients. You are considering referring the client to Precious' firm. You have no reason to believe that it would be the wrong choice. You plan to ask Precious's firm to pay you the referral fee, if they engage the client. Apply the conceptual framework to this situation.

Answer to case study

See the diagram below, in which the conceptual framework is applied to this situation.



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Case study 10

Sabina is a CA(SA) and a senior manager in the Accounts Department of Cats Ltd. Her boyfriend is the COO of their closest competitor, Dogs Ltd. While they are on a date, her boyfriend says to her: "I need to get Dogs listed within six months, and I need to improve our performance. Please tell me the latest strategic thinking at Cats, so that I can use the information to improve our market share. I guarantee you no-one will ever know where I got the information. Bear in mind that if you can't tell me anything, I'm going to be so busy trying to improve performance in other ways that we'll have to end our relationship." Apply the conceptual framework to this situation.

Answer to case study

See the diagram below, in which the conceptual framework is applied to this situation.