Ethical Dilemmas

A Compilation of Case Studies For discussion

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PIGA PICHA HARAKA LTD.

You are a recently qualified accountant and have accepted a job as financial controller for a well-established family business which supplies equipment to photographers, both by mail order and from its warehouse outlet. Its customers range from enthusiastic amateurs through to part-time professionals and owners of busy studios.

The customers' payment methods reflect their diversity. There are credit card transactions and customers with 30-day credit business accounts. There is also a surprisingly large number of customers who collect their goods from the warehouse and pay in cash. You are told that cash payment probably reflects the nature of the customers' own receipts, as some photographers will often be paid in cash for weekend wedding assignments.

In your first week at the company, the sales director (the principal shareholder's son) brings to you a cheque in settlement of the account of a major customer. He explains that the cheque (which appears to clear the amount due) is in fact an overpayment, as the balance showing on the sales ledger is before allowing bulk discount (which is calculated retrospectively). The sales director shows you his calculations and the agreement as authorised by the board.

The sales director states that the customer's managing director has come to collect the discount in cash. He says that this is not an unusual occurrence for some of the company's better customers. It helps to maintain a good relationship with those customers, which leads to purchasing loyalty. Another benefit of this arrangement is that it gives the sales director regular face-to-face meetings with the senior staff of those customers. It also reduces the high charges that the bank makes for handling cash.

You ask the sales director why the customers prefer to receive a refund in cash, rather than simply pay the net amount needed to settle the account. He replies, with a smile, that it is not for him to question their motives.

1. Discuss the case and highlight the key issues regarding the inherent ethical dilemmas
2. Briefly explain the course of action you can take

3Z & ASSOCIATES

You are one of three partners in a firm of accountants. Five years ago the firm was appointed as external accountants to a young, successful and fast-growing company, engaged to prepare year end accounts and tax returns.

The business had started trading with a handful of employees but now has a workforce of 200, while still remaining below the size of company requiring a statutory audit. Due to your close relationship with the directors of the company (who are its owners) and several of its staff, you become aware that staff purchases of goods manufactured by the company are authorised by production managers, and then processed outside the accounting system. The proceeds from these sales are used to fund the firm's Christmas party.

Discuss the implication of above finding and your course of action.

MID SIZE LTD.

You are a non-executive director of a medium-sized company. The company's financial director (who is also the company secretary) is advocating that the company make an acquisition and has implied that, if the company does not act quickly, the opportunity will disappear.

The CEO has also said that she wants to move quickly. However, you are not convinced that the figures presented to you indicate that the acquisition is currently the right thing to do, and you think it warrants further discussion. One year ago, shortly after you had joined the board, a similar decision was made which, to you, seemed unusual given the company's trading position at that time.

However, none of the other board members (who had been on the board for several years) challenged the CEO. You have tried to contact, through the company, an independent specialist to get an expert, impartial view on the acquisition. However, the CEO seems to be discouraging you from proceeding with this.

You are considering whether you should raise your concerns with other board members or simply allow the company to go ahead with what could be a profitable acquisition.

Should you insist on waiting for the impartial professional advice at the risk of the company missing the opportunity of the acquisition? Discuss

You are an accountant appointed as a voluntary member of a school governing body. You also serve on the finance and buildings committee of the school, which is responsible for awarding building contracts.

The membership of the committee includes a number of local businessmen. One is a builder – a long-standing governor who is well respected by the community and the board of governors ('the governors').

At your first meeting, the committee considers a report from the head teacher about the condition of the school hall. The report sets out a scheme of remedial building works, with estimated costs. After discussion of the scheme, and recognising the need to move quickly if the work is to be carried out during the summer vacation, the builder on the committee offers to do the work at a competitive price. The other members of the committee are minded to accept the offer. The finance and buildings committee reports to the governors.

In this case, the governors are not considering the use of a formal tender process, or making any reference to the existing governance arrangements in respect of tenders. You are concerned that the committee (and consequently the governors) will be unable to demonstrate reasonable decision-making and stewardship of public money. Although it may be in the best interests of the school to accept the builder's offer, you are concerned that established procedures are not being followed, and that the decision made is somewhat subjective. The governors and the committee may be vulnerable to criticism.

What would you do?

KWISHA CHARITY

You are director of finance for a charitable organisation. Aspiring to improve standards, you have worked hard to introduce tighter internal systems and to enhance inter-departmental relationships, and this has helped mould the finance staff into a more effective and dedicated team.

Two years ago you recruited a deputy, David, who, while technically competent, has increasingly sapped your own job satisfaction. Some of your longer-serving staff have commented informally to you that they find it irritating how David often seems unwilling to share information without being pressed. Some volunteers and staff have also told you that his attitude to them has made them consider resigning. However, no staff have formally complained or yet left the organisation.

There is tension between yourself and David. He seems to resent any suggestions that you offer and to be incapable of receiving even mild criticism without taking offence. He has implied, several times, that he feels he is being unfairly harassed and bullied when you believe that you are simply requiring 'best practice'.

You have discussed this situation informally with the chief executive. Although she has found David sometimes awkward and defensive, and she knows that another director also considers him somewhat abrasive, she has identified nothing that would warrant disciplinary action. David informs you that he has reached the shortlist for director of finance at another charity, and he believes he is a strong candidate.

Quietly, you feel elated at the prospect that he might be leaving. The following day you receive a letter from David's prospective new employer. (David has offered your name as referee without seeking your agreement.) The letter asks questions concerning the ability of the candidate to work in teams, to motivate volunteers and to accept advice. For several reasons, you would very much like David to be offered the position with the other charity.

However, you are concerned that an honest response to the enquiries would jeopardise his chances of success, as such a response can only be negative.

How would you respond?