

# **Ethics and You**

## **A Guide to the CIPFA Standard of Professional Practice on Ethics**

June 2006

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance.

Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the only UK professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services for our public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance around the world.

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## **INTRODUCTION**

The Standard of Professional Practice (SOPP) on Ethics, June 2006, is published in full on CIPFA's website (<http://www.cipfa.org.uk/conduct/ethics.cfm>). It applies to all CIPFA members and students. It replaces the SOPP of December 2000. While it marks no fundamental change in the ethical and behavioural expectations of professional accountants, it is a significantly different document, with important new conceptual underpinning, in the context of a greatly raised profile for ethics. Adherence to the SOPP is an obligation of membership of the Institute, and all members and students are required to act in accordance with it. As is general practice in all professional bodies, departures from the standard may be subject to disciplinary action. CIPFA members and students are therefore encouraged to make sure that they understand the SOPP, and know how to seek guidance if a situation arises in which they are uncertain whether they are complying with it.

This text contains reference to UK legislation. CIPFA members and students elsewhere should inform themselves about relevant local legislation.

## **BACKGROUND**

Following widely publicised company scandals, in which the actions of accountants both within the organisations concerned and in their external auditors were criticised, there has been a worldwide movement in the accountancy profession to review and update standards. This first covered governance and financial reporting and has now extended to the ethical and behavioural context in which accountants operate. Professional accountancy bodies generally issued guidance on ethics, and adherence to a code of ethics is indeed one of the hallmarks of true professionalism. But they contained differences of emphasis, and their existence did not prevent a number of widely publicised corporate failures, such as Enron, Parmalat, WorldCom.

In response to this the International Federation of Accountants (IFAC) took the initiative to draft a Code of Ethics that would apply to all accountants, all over the world and in all types of work environment, which would address the perceived causes of failure. The Code was agreed by the IFAC Board in 2005, and elevated to the status of a membership obligation. That means that all member bodies, including CIPFA, and the other CCAB bodies, must adopt the Code as their own or show that their own code complies with the IFAC Code in all material respects.

CIPFA has adopted the IFAC Code as it stands; a CIPFA foreword has been added highlighting and interpreting ethical issues with particular reference to the public service context in which most CIPFA members work. The IFAC Code with the foreword form the

CIPFA SOPP. The original American English (IFAC's working language) of the IFAC document has been retained in the interest of economy and simplicity. This accompanying guide explains how it works and why it is important, including some case studies on applying it. **While this introduction will give a general understanding, and is designed to be more accessible, it is not itself the Standard, to which CIPFA members and students will need to refer whenever a professional ethical dilemma arises.**

## **THE IFAC CODE**

The IFAC Code is divided into three sections:

- part A applies to all accountants and students irrespective of their work role
- part B is intended only for those who work as auditors in public audit practice
- part C applies to everyone else.

IFAC uses the expression 'in business' to describe the general working environment of accountants outside public practice: this description embraces all public and voluntary sector roles, as well as consultancy.

Most CIPFA members and students will therefore need to be familiar with parts A and C. Staff of the United Kingdom national audit agencies (National Audit Office, Audit Commission, Audit Scotland, Accounts Commission, Wales Audit Office, Northern Ireland Audit Office) will be aware that the agencies have agreed that public auditors should in general follow the Auditing Practices Board's Practice Note 10, which is consistent with part B of the IFAC Code. Although IFAC includes public audit within its definition of 'in business', it will be necessary for CIPFA members and students in the national audit agencies to be familiar with part B of the SOPP, and to secure an understanding of how their employing body is applying those parts of the Standard. Any CIPFA member working in an audit firm must become familiar with parts A and B of the SOPP.

This is a principles-based Standard, which, although it contains some highly prescriptive requirements, especially for auditors, needs to be approached by understanding the concepts. It is not a set of rules for all occasions.

## **THE IMPORTANCE OF ETHICAL BEHAVIOUR**

The work of accountants needs to be trusted by society at large, as well as by individual employers, clients and other stakeholders. It is expected to be free from personal bias, done competently, and capable of being verified. It is the principal added value of the accountancy professional that such matters are assured by membership of a professional

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body, which enforces standards of independence and competence; all the more so now that these standards are international in application. CIPFA members should also have in mind that a further expectation of high standards of behaviour is overlaid on those who work in the public services, who are perceived as being in positions of public trust.

Whether by accepting a public role, or by becoming a professional accountant, we put ourselves in the public eye, observed by those around us, and potentially vulnerable to the attention of the media. So what we do reflects not only on ourselves, but on our employing organisation, on the Institute to which we belong, and ultimately on our profession.

As accountants, we submit to rigorous education, training and assessment, coupled with continuing professional development (CPD). This equips us to deal with complex issues, frequently with a high technical content that might not be accessible to everyone who relies on our work. Accepting to be bound by published, high standards of ethical behaviour is a powerful way of creating confidence that we will not use our knowledge power to mislead, or gain personal advantage.

## **HOW THE IFAC CODE AND OUR SOPP WORK**

The Standard is built on two conceptual foundations:

- (i) a set of fundamental principles
- (ii) awareness of threats to complying with the principles, which must be addressed by safeguards.

### **Fundamental principles**

The principles in the 2006 SOPP cover the same ground as those in the 2000 SOPP, but there are slight differences in wording. The value of this is that it brings CIPFA into line with the principles underlying ethics for accountants everywhere where there is a professional body affiliated to IFAC.

The terms will be familiar, and may cover ground we tend to take for granted, but collectively they are a tough requirement. Occasionally to work through them and ask ourselves self-critically how we stack up against them would be a valuable check. The principles are:

**Integrity:** this is about being truthful, straightforward and honest, dealing fairly with people and situations; it rules out making misleading or false statements, whether by omission or inclusion of information, either knowingly or without taking care to find out.

**Objectivity:** the avoidance of bias, whether for personal self-interest, or because of pressure from another, and closely allied to independence.

**Professional Competence and Due Care:** this is about acquiring and maintaining appropriate technical and other relevant skills and competence to perform our work, doing it thoroughly and correctly, on a timely basis, and ensuring that users of our output understand its context and limitations. (It is why IFAC has also made CPD compulsory in all its member bodies.)

Confidentiality: information about organisations and people encountered in the course of accountancy assignments should not be disclosed, inside or outside the work environment, to anyone who does not have a legal or professional right to it, and especially not to secure a personal advantage for anyone. This principle is overridden only by the force of law. But if information has to be released, for example under the Freedom of Information Act 2000, or other Acts of Parliament (eg as a 'protected disclosure' under the Public Interest Disclosure Act 1998), the SOPP expects it be reviewed to ensure that it is complete and presented in its proper context. So although at first sight this may appear at odds with the openness principle of public life, there is no material conflict.

**Professional Behaviour:** this is about complying with standards and laws, and avoiding actions that might bring the profession into disrepute, such as making unsubstantiated criticisms of a fellow professional, or exaggerating one's experience.

### **Principles of public life**

In addition to the ethics principles, public sector people are expected to be familiar with, and to apply, the seven 'Principles of Public Life'. Of these, integrity, honesty and objectivity are clear overlaps with the fundamental ethics principles.

*Selflessness* – the avoidance of doing things for personal gain – resonates closely with the notion of professional conduct, buttressed by the specific prohibition of insider dealing under confidentiality.

*Openness*, as noted above, may seem to sit uncomfortably alongside the exhortation to confidentiality, but in practice they are complementary. Openness recognises that activities undertaken with public money ought to be visible to the public, so that temptation to doubtful or corrupt activity is made harder: so a breach of the confidentiality principle through abuse of a piece of inside information for personal gain would be easier to spot if the consequent transaction was open.

*Accountability* is required in the overall conduct of business. It applies to public sector accountants as to other public sector employees. It might be argued that this principle is encompassed within professional competence and due care, but it is possible to say that this is not a special requirement that marks the accountancy professional out from public service people in general.

*Leadership* in public life is about setting a good example, implicit for all professional accountants in the fundamental principles. But the SOPP reminds us that the burdens of example setting grow with seniority. So while all professionals must set a good example by their conduct, there is an extra obligation on those who are finance directors, chief executives or heads of other functions. All professional accountants who manage staff should ensure that they lead by example, and provide proper training, including in ethics and other aspects of professional behaviour, for their teams.

For the public sector accountant this combination of principles represents a formidable standard to live up to. For some accountants (like the local government Section 151 responsible officer) there are specific additional statutory or regulatory duties to maintain independence. The remit to operate and report ethically applies across the whole range of an accountant's duties, too, including those exercised in a role outside the finance function. Many public sector accountants and students work in areas that process information about non-financial performance. Recognising that the systems supporting non-financial performance information may not contain all the controls, checks and balances associated with financial figures, there is no less duty on the accountant to report accurately, objectively and fairly – ie professionally – on such measures.

### **The concept of threats and safeguards**

The approach of IFAC and the CIPFA SOPP is to consider the most likely reasons why someone would fall short of the standards of behaviour called for by the fundamental principles. It identifies a series of motivations that could persuade an individual to override objectivity, cut corners, mislead or otherwise breach any of the principles, which

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it calls **threats**. Some are more likely to be experienced in the circumstances of an audit, where independence may be compromised, but wherever members and students work, the Standard expects us to watch out for them.

A *threat* needs to be countered by a **safeguard**, ie an action or process put in place to make the *threat* unlikely to result in an ethical lapse. Safeguards range from removing the threatened individual from the threat or entirely eliminating it, to introducing checks and balances in organisational procedures.

While this does not of itself introduce new ethical issues, the systematic consideration of situations to identify whether a threat exists, how it might influence matters, and how to counter it with *safeguards* is a useful way of looking at things. The approach strongly resembles what we are accustomed to doing in another context under the badge of 'risk management'.

## Threats

**Self-interest** can arise in many forms to threaten our professionalism. Any situation in which we have, or someone close to us has, a vested interest in an outcome, over which we have some degree of influence or control, has the potential to tempt us to unethical behaviour. We might be charged with calculating a particular result on a particular outcome of which we might be due a bonus, for example. This threat is not limited to purely financial interests: if something we were working on had the ability to influence a child's education, a friend's planning application, a relative's healthcare, or the activities of a voluntary body on which we serve, our objectivity might be compromised. And a *self-interest* threat would exist if our employment status were under question: it might make us more vulnerable to *intimidation*.

**Intimidation** involves the exercise of disproportionate pressure by someone in a position of power and influence. At worst this could involve threats of violence against the accountant or someone close, but in the work context is more likely to take the form of a hint at damage to your career, the loss of a contract, or some withdrawal of co-operation that will make your life difficult. In the public sector, top managers and politicians are themselves under significant pressure to achieve, and *self-interest* may occasionally drive them to create downwards pressure to report a particular result, say, that can feel like *intimidation*: the perception of this threat can be as powerful as its actual existence.

**Self-review** is a threat to independence caused when you are called on to check, audit or approve a piece of work you were involved in originating. This might happen if, for example, you took up a position in a central unit involved with approving investment cases, having moved from a position in a unit where you had been working on the data that justified a case currently under review. A public auditor who had previously worked in an authority that is now an audit client would be vulnerable to *self-review* if later undertaking its audit.

**Familiarity** arises through long association with individuals, whether in your own organisation, a client, a supplier or a customer. Objective critique of the work of someone you know well becomes harder because it impacts on the relationship. Similarly, long association with a buyer or salesperson may influence the commercial relationship, substituting habit or 'not wanting to upset' an individual for objective analysis and judgement. The offering of inducements becomes a more potent temptation in the context of a relationship of familiarity.

**Advocacy** is a threat to independence mainly affecting auditors who take on a role representing a client, or pushing the client's interest in another context. There are legitimate circumstances for this to happen, but the threat to independence is that in taking the client's part the accountant is compromised if an issue arises where the facts do not suit the case. Accountants in business are expected to promote the interests of their employing organisation: an *advocacy* threat only arises if it leads to making false or misleading statements, or presenting judgement as fact.

**Political Bias** is not specifically recognised as a threat in the IFAC Code and the SOPP. But in the UK and Ireland it is normally expected that public servants will be politically neutral. So this variant of the *advocacy* threat may arise in any public body where the leadership is democratically elected. Accountants and students in such an organisation should of course act in accordance with its policies: they should however be aware that the fundamental principles require them to ensure that their support of (or opposition to) proposals having a party-political dimension is based on sound evidence and objective analysis. It is unethical knowingly to misstate or falsify a case, or deliberately to suppress relevant information, in furtherance of a party-political position.

## **Safeguards**

The SOPP catalogues many safeguards that can be used to counter the risk of unethical behaviour arising from these threats. It might be helpful to think of them in two broad categories.

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## **Institutional safeguards**

Public service organisations and the accountancy profession are heavily controlled by statute and regulation, which include standards of conduct. Extensive safeguards are also built into internal procedures. Financial regulations, schedules of reserved or devolved authority, separation of powers, regimes of corporate governance and internal control, declaration of personal and financial interests, rules for reporting gifts and hospitality and contact with suppliers and so on all exist to create an environment free from abuse, fraud and corruption.

Sound systems like these are the first line of defence against unethical conduct. As professional accountants, particularly in senior positions, we should review such procedural mechanisms to ensure that they are fit for the purpose of countering the *threats* identified above. Operating in compliance with these institutional safeguards should be second nature. But following the rules is not enough on its own: professional, ethical conduct requires us to think about the reasons behind the rules, and constantly to monitor their effectiveness.

Our organisation may also have adopted a code of conduct for all its people. This is another helpful safeguard. In this case we should ensure that it does not conflict with any of the ethical requirements of the SOPP, and work to secure changes to the local code if necessary. And we should make sure we understand where the SOPP imposes ethical considerations specific to our profession. In auditing organisations the SOPP specifically requires the creation of dedicated controls and monitoring of ethical issues, with a very senior person holding an ethics brief.

Unethical conduct is always less likely in an open organisation subject to public scrutiny. Where public feedback and complaint is encouraged, even though it probably usually focuses on operational performance, it can be monitored for hints of ethics issues. The existence of 'whistle-blowing' procedures also provides a route to detection of unethical conduct.

## **Personal safeguards**

Although this expression does not occur in the SOPP and IFAC Code it is included here as a reminder that ultimately the responsibility for our ethical conduct is a personal one for each of us. However good the procedural framework is, sometimes the threats will be strong enough to create pressure to bypass a control, ignore the procedures, and breach the ethical standards. Whether it is we ourselves or a colleague who has reached that

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point, if we have analysed the threat as suggested above, we should at least recognise the situation. The ethics principles should guide what we should do, but some situations are not clear-cut. In such cases, taking guidance from a fellow professional would be a sensible step.

This would normally take place within the organisation, but if the matter concerns a colleague, and particularly a superior in the reporting line, one may need to seek advice outside the organisation. For such situations CIPFA offers the opportunity to get confidential, informal advice on ethical issues from members of a carefully selected group of members – the Ethics Sounding Board.

A conflict of interest is best resolved by removing its cause. This can be achieved by withdrawing from the activity or decision that involves the conflict, by passing it to a colleague, perhaps in a different department or to someone more senior: devolving the matter to someone who reports to you may put them under pressure if they know your interest, and is not guaranteed to remove the *threat*. Where extreme conflict of interest exists, possibly fostered by intimidation, it may be impossible to apply sufficient safeguards: in such a (hopefully extremely rare) case the situation may become intolerable for the accountant. Where the employment context does not permit compliance with the fundamental principles (for other than legal reasons), resignation may be the only remaining course.

### **Financial interests**

A financial interest in the outcome of a matter you are dealing with can often simply be disposed of. If the interest is material and the link to your activity direct, that would be essential. From an ethical point of view the potential beneficiary may be, for instance, a family member or someone close to you, not necessarily yourself.

### **Gifts and hospitality**

Just as openness and transparency work at the organisation level to reduce the risk of unethical behaviour, documenting and disclosing potential threats to objectivity and independence is a sound course for an individual. For example, it should be routine to report the offer of hospitality or gifts to a superior, and to consider whether it would appear reasonable to an outside observer. Public service organisations generally have rules on this. CIPFA recommends that a register of all gifts and hospitality should be maintained, irrespective of whether they are accepted, declined, returned, or given to

charity. Members should be aware of the Public Bodies Corrupt Practices Act 1889, and the Prevention of Corruption Acts 1906 and 1916. Offering or accepting **bribes** is of course illegal, and if there is any doubt about the intention behind hospitality or a gift as an inducement, or the possibility of its being perceived as influencing an outcome such as the award of a contract, it should be declined.

### **Insider dealing**

In contrast there are clearly situations where openness is not the correct response. If you have knowledge not yet in the public domain, whether of a current situation or an impending decision, it is unethical – and probably illegal – to use it for personal advantage or that of another, and care must be taken not to leak it even inadvertently. Public sector work can involve knowledge of future legislative plans, upcoming regulations affecting sectors of industry or individual companies, large contracts, planning applications and a host of other matters that could give advantage to someone having the knowledge in advance. This area is not only concerned with information about clients.

### **CONCLUSION**

The SOPP requires members and students to uphold fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. In the public services it is expected that behaviour will also accord with the principles of public life, especially, in this context, openness and selflessness. Because it is a principles- rather than rules-based Standard, it does not attempt to define a set of exhaustive rules to follow, but rather considers how threats such as self-interest, intimidation and familiarity create the conditions in which people might be tempted to act contrary to the principles, and invites the application of safeguards in the form of institutional procedural frameworks and personal responses to overcome them.

Although the Standard contains some quite prescriptive actions, neither the SOPP nor this introductory digest can hope to cover all the circumstances that may face the professional accountant in the public services. It is for the individual to become familiar with the principles, and regularly review his or her work situation for threats to integrity, objectivity and independence.

A short series of generic case studies follows, in which some ethical dilemmas are worked through in this way. These are intended to help CIPFA members and students understand the ethical issues in particular circumstances. They are neither prescriptive nor exhaustive, because every ethical dilemma is different.

### **WHERE CAN MEMBERS GET HELP?**

CIPFA members and students should usually find it sufficient to follow the advice in this guide. But if an ethical issue arises, and particularly if a disciplinary case may result, then it is essential to refer to the full SOPP, which will be the benchmark in any disciplinary case. The full SOPP can be found at <http://www.cipfa.org.uk/conduct/ethics.cfm>

The Ethics Sounding Board (previously known as the Ethics Advisory Panel) is a list of CIPFA members who are willing to discuss ethical issues with members. It is a confidential service and is separate from the Institute. The advice which may be offered is not considered to be official CIPFA advice and it is not intended that this advice should have any legal status.

Queries should be about ethical issues concerning a member's professional conduct in relation to the Standard of Professional Practice on Ethics.

## CASE STUDY – GRANT CLAIM

### Sector

Any

### Scenario

An accountant is responsible for the preparation of a grant claim. This is the first year she has prepared the claim as she is new to the organisation, although the organisation has been claiming the grant for a number of years.

When reviewing the detailed cost information, she found that some inappropriate expenditure items were included which increased the amount of grant awarded. This incorrect approach was consistently applied to previous claims where the auditor has signed off the claim without qualification. The accountant's predecessor had a close working relationship with the auditor.

Her manager is also new to the organisation. He is a member of the same golf club as the appointed auditor, and she is concerned that they might have a close working relationship that could prevent the issue being addressed.

The accountant must decide if she should raise her concerns over claims with her manager and the auditor so that both are aware of the previous ineligible claims.

### IFAC principles involved

State which principles apply and comment on their relevance:

- **Integrity**
- **Objectivity**
- **Professional competence and due care**
- Confidentiality
- Professional behaviour

Threats and safeguards which could apply

- **Self-interest**
- Self-review
- Advocacy
- **Familiarity**
- Intimidation

### Suggested course of action

The accountant should bring her findings to her manager's attention so that he is aware of the errors included in previous claims.

Following the discussion with her manager, they should agree to raise the error with the external auditor so that they can make a decision on how to approach the previous grant claims. She should ensure that her manager will not allow his friendship with the auditor to prevent the issue being addressed. Making the manager and auditor aware demonstrates that the accountant is not afraid of raising difficult issues.

### Comments

**Integrity** – by being open and honest about the situation with both her manager and the auditor.

**Objectivity** – by recognising that previous claims may have been based on ineligible items and making the relevant individuals aware.

**Professional competence and due care** – by acknowledging that she cannot address the previous errors alone, and ensuring that her manager and auditor make any final decisions.

## CASE STUDY – CONTRACT INSIDER INFORMATION

### Sector

Any

### Scenario

The head of internal audit in a public sector organisation is about to tender for the contract for the internal audit service.

A new member of her team has been recruited in the normal course, from the department responsible for devising the tender contract. He is employed as a support administrator. Although he was not involved with the tender process, his former colleague and friend is responsible for the tender specification document and the evaluation process.

Her new employee had sight of some of the requirements and has offered to share with her information that may be of use when preparing the tender. However, this information is confidential and should not be seen by any of the tendering parties.

It will be an open tender process for both external and internal providers. Bids from external providers are being encouraged. The evaluation process has been designed with this in mind.

If the contract is awarded externally, the head of internal audit will be unsure of her personal position in the organisation.

She understands the use of any insider knowledge of the tendering process would be inappropriate when preparing the tender proposal, but she feels she would have a better chance of success if she used this confidential information.

### IFAC principles involved

State which principles apply and comment on their relevance:

- **Integrity**
- Objectivity
- **Professional competence and due care**
- **Confidentiality**
- Professional behaviour

### Threats and safeguards which could apply

- **Self-interest**
- Self-review
- Advocacy
- **Familiarity**
- Intimidation

## Suggested course of action

The information that is being made available is confidential and should not be used in her tender document. Although there is potential personal gain from using the evaluation information, she should not refer to it in the proposal.

She should explain to the member of staff who is making the information available that his offer of assistance cannot be acted upon as this would be in breach of CIPFA guidelines.

She should stop her member of staff from saying anything further about the tender. She should explain to the tendering department if she has been made aware of any additional information so that they can make it available to the other bidders.

She must also make her employee aware that she will not be using any confidential information and that he should inform his former colleague of this. She does not want to be subject to any rumour that she had sight of any evaluation documentation as this could jeopardise her tender proposal.

By openly stating her intended actions, she is also demonstrating a level of expected ethical behaviour to the department.

## Comments

**Integrity** – the head of internal audit's decision demonstrates integrity as she has not allowed herself to be influenced by the information that could be made available to her.

**Professional competence and due care** – she has resisted temptation to use the information and has chosen to base her tender proposal on her own professional knowledge and ability.

**Confidentiality** – her actions have respected the confidential nature of the process.

## CASE STUDY – SELF-EMPLOYED

### Sector

Any

### Scenario

A self-employed CIPFA member prepares accounts on behalf of a small independent trader. An annual audit certificate is not required.

This is the first year the member has prepared these accounts. When compiling the most recent accounts, he noticed that some errors were noted in the previous accounts. It appeared that the accounts were based on incomplete records as certain costs were excluded, either intentionally or because records were not maintained.

The client has also requested some additional work to be completed on a complex tax issue. However, the member has no prior experience and does not feel competent to do the work.

The client would also like him to provide an audit opinion as they are planning to apply for a bank loan and the bank would like some additional assurance.

### IFAC principles involved

State which principles apply and comment on their relevance:

- **Integrity**
- Objectivity
- **Professional competence and due care**
- Confidentiality
- **Professional behaviour**

### Threats and safeguards which could apply

- Self-interest
- **Self-review**
- Advocacy
- Familiarity
- **Intimidation**

### Suggested course of action

The accountant should raise his concern about the previous accounts as there could be an explanation for the excluded items. Based on the reason provided by the trader, he can either update the approach taken to the accounts preparation or he can maintain the previous methodology. If he feels that the response is not adequate, he should explain to the client how the disputed items should be disclosed.

He should consider what sort of tax advice the client requires. When he has a clear idea what type of work is required he should establish whether he has sufficient knowledge and experience to offer advice on such a matter. If he has any doubt about the type of work, he should not complete the tax assignment as he would not be competent enough to do the work.

As the client would like him to also provide an opinion on the accounts, he should explain that an opinion or independent examination is normally given by an accountant independent of the accounts preparation process. He should establish why the client would like the accounts to be signed and if so, any thresholds that apply. It would be best practice not to prepare and audit the same set of accounts.

### Comments

**Integrity** – the accountant has highlighted his concerns to his client and explained his views with a clear rationale.

**Professional competence and due care** – the accountant has acknowledged his professional ability and has identified a situation where he may not be the most appropriate accountant to complete a specific piece of work.

**Professional behaviour** – throughout this scenario, the accountant has behaved professionally as he has explained his rationale to his client and not completed any work that he was unable to finish to an appropriate standard.

## CASE STUDY – EXTERNAL AUDITOR

### Sector

Public sector external audit

### Scenario

An NHS trust expects to achieve foundation trust status on the following 1 April. As the trust approaches the year-end, unexpected financial liabilities come to light and the director of finance identifies a number of accounting adjustments which will ensure the trust achieves its statutory financial duties including breakeven. The adjustments include changing the accounting policy for some items of stock, capitalising certain salaries and failing to account for its share of liabilities under a partnership agreement with a local authority which has yet to prepare the memorandum account.

The director of finance and chief executive have reported to the board and local strategic health authority that the trust will break even for the year.

The adjustments come to light during the audit, and the external auditor does not accept that the accounting treatments are correct. As the adjustments are material, if the trust does not amend its accounts the external auditor will have to qualify her opinion/report on the accounts. When the issues are discussed with the director of finance, he states "These are legitimate interpretations of accounting policy and if you do not accept them I will ensure that we appoint different auditors when we are a foundation trust." He also tells the local newspaper that "Our auditors are determined to make our financial position look worse than it is."

### IFAC principles involved

State which principles apply and comment on their relevance:

- **Integrity**
- **Objectivity**
- **Professional competence and due care**
- Confidentiality
- Professional behaviour

### Threats and safeguards which could apply

- **Self-interest**
- Self-review
- Advocacy
- Familiarity
- **Intimidation**

### Suggested course of action

The external auditor should report the implications of the director of finance's proposals to the trust's audit committee, setting out her interpretation of the accounting treatment based on the evidence and professional standards, and amendments required. She should also explain the consequences for her report (a qualified audit opinion) if the trust fails to amend the accounts.

The external auditor should also consider whether the director of finance's threat should be reported to the chief executive and the chair of the audit committee, and given the director of finance's comments in the local press, consider whether a public interest report is warranted to explain the circumstances around the trust's financial position.

### Comments

**Integrity** – the approach demonstrates integrity because the external auditor has not been influenced by the director of finance's comments about future audit appointment.

**Objectivity** – the auditor has reported the facts and her interpretation of accounting and auditing standards to the appropriate committee of the trust, and potentially the public.

**Professional competence and due care** – by following the relevant standards, the external auditor has demonstrated her professional competence.

## CASE STUDY – SCHOOL GOVERNOR

### Sector

Voluntary

### Scenario

A CIPFA member has been appointed as a member of a school governing body on a voluntary basis. She has also been appointed to the finance and buildings committee that awards building contracts. The membership of this committee includes a number of individuals with private sector experience and local businessmen. One is a local builder who has been a governor for a number of years and is well respected in the community and by the governing body.

At her first meeting, the committee considers a report from the head teacher about the condition of the school hall and 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 governor offers to do the work at a competitive price and the other governors on the committee are minded to accept the offer.

However, although the offer has been made, the governors are not considering the use of a formal tender process or making any reference to governance arrangements that could exist for tenders. The CIPFA member is concerned that the committee is unable to demonstrate reasonable decision making, stewardship of public money and reputational risk.

### IFAC principles involved

State which principles apply and comment on their relevance:

- **Integrity**
- **Objectivity**
- **Professional competence and due care**
- Confidentiality
- **Professional behaviour**

## Suggested course of action

The CIPFA member should make her concerns known and explain to the other committee members why she feels acceptance of the builder governor's offer could be inappropriate.

She should explain that award of such a contract should be subject to a proper tendering evaluation process. This would ensure that any tenders awarded would be subject to a proper process with integrity.

The member should also explain that the committee needs to demonstrate a proper decision-making process that would support any contracts awarded. This would also protect the governors from any potential reputational risk that the school did not properly award contracts, especially as it is funded by public money.

## Comments

**Integrity** – by identifying that the committee could be exposing itself to accusations of inappropriate activity when awarding contracts, she is demonstrating personal integrity to the committee.

**Objectivity** – the information provided to her could result in the CIPFA member saying nothing. However, when evaluating the situation and identifying the potential risk, she has not been tempted to agree to the apparently easy solution.

**Professional competence and due care** – this is demonstrated through understanding the issues before explaining the consequences of the committee's actions.

**Professional behaviour** – a CIPFA member should continue to demonstrate professional behaviour when holding a voluntary appointment and not just when in paid employment.

## CASE STUDY – STUDENT OR JUNIOR OFFICER

### Sector

Any

### Scenario

A second-year trainee accountant is due to go on study leave. However, he has been told by his manager to complete some complicated reconciliation work before his leave commences, because a more senior colleague is on long-term sick leave. The deadline suggested is unrealistic, given the complexity of the reconciliation work.

The student feels that he is not sufficiently experienced to complete the work as he would need additional supervision to complete the work to the required standard. The manager is unable to offer any additional support.

If he completes the work within the deadline suggested, he will be unable to meet the expected quality standards of his work and could face repercussions on his return.

He feels threatened and intimidated by the deadline given.

### IFAC principles involved

State which principles apply and comment on their relevance:

- **Integrity**
- Objectivity
- **Professional competence and due care**
- Confidentiality
- Professional behaviour

### Threats and safeguards which could apply

- Self-interest
- Self-review
- Advocacy
- Familiarity
- **Intimidation**

### Suggested course of action

The student should explain to his manager that he does not have sufficient time to complete the allocated work.

He should explain that if he commences the work, he would require supervision from a more senior member of staff due to its complexity.

It is unlikely that he could finish all of the work before his study leave commences: however, he could suggest completing it on his return.

### Comments

**Integrity** – by being open and honest about the situation.

**Professional competence and due care** – he has correctly refused to complete work that is technically beyond his abilities, but he suggested to his line manager an alternative approach which would enable him to complete the suggested work with the necessary supervision.

**Professional behaviour** – in that he raised his concerns with his manager, and provided an alternative solution.

## CASE STUDY – PERFORMANCE INFORMATION

### Sector

NHS

### Scenario

The deputy director of finance and information in an NHS trust has overall responsibility for the preparation and submission of non-financial performance information.

The newly appointed director of finance and information is putting considerable pressure on him to ensure that the collection and reporting of this year's performance information will result in the organisation retaining its 'excellent' rating by the Healthcare Commission. He is willing for performance information that is not wholly accurate or checked to be reported if it enhances the performance of the trust.

The deputy director is aware that some specialities have had difficulties hitting the targets during the last year due to funding constraints and staff shortages. From his scrutiny of the information systems he is concerned that the correct performance information could highlight severe performance shortfalls within the trust.

Furthermore, the deputy director is also aware of some instances where departments are double counting activity and are 'upcoding' patient spells to increase the income to the trust. This was highlighted in a recent audit report that will shortly be submitted to the audit committee.

The director is putting considerable pressure on the deputy director to conceal some of these performance issues in the short term whilst he reviews the position and puts in place a rectification plan.

### IFAC principles involved

State which principles apply and comment on their relevance:

- **Integrity**
- **Objectivity**
- **Professional competence and due care**
- Confidentiality
- Professional behaviour

### Threats and safeguards which could

- **Self-interest**
- Self-review
- Advocacy
- Familiarity
- **Intimidation**

## Sector

It is important that the deputy director maintain a good working relationship with the director. However, he should provide a rational, firm and honest statement of the position which is delivered with authority to the director.

As the responsible officer (which is a position that cannot be abdicated), the deputy director must explain to the director that the department has an absolute duty to ensure that the integrity of the performance information is maintained. This means that the reported information is a true reflection of the performance within the trust. This is enshrined in the Code of Conduct for NHS Managers issued by the Department of Health on 9 October 2002, which stated, *inter alia*, "I will be honest and will act with integrity and probity at all times. I will not make, permit or knowingly allow to be made, any untrue or misleading statement relating to my own duties or the functions of my employer".

However, the deputy director should prepare an action plan for the director that:

- (a) ensures that those collating the information are aware of the procedures for recording performance data and that they are aware of and follow the relevant definitions and guidance documents
- (b) introduces checks within the department to confirm that the correct processes and arrangements are being followed
- (c) requires reporting managers to verify, in writing, the completeness and veracity of the information that is submitted
- (d) reinforces the message to all involved about the need for timely and accurate submission of information.

Following circulation of the audit report, departments will need to be reminded that the correct performance information should be collected and agree a follow-up report with the audit committee in, say, six months' time.

## Comments

**Integrity** – by identifying that there could be issues relating to the preparation of the performance information. The deputy director could protect his own position by following the wishes of the director, but he is not acting with a self-interest – he is trying to maintain the integrity of the information.

**Objectivity** – the deputy director is not swayed by the views of or intimidation from the director, especially as he is seeking to ensure the performance information reported is a true reflection of the position in the trust.

**Professional competence and due care** – by acknowledging that there are some specific issues relating to the collation and processing of information in the department, and putting an action plan in place, the deputy director is acknowledging that improvements need to be made.

## CASE STUDY – POLITICAL PRESSURE

### Sector

### Local authority

### Scenario

The end-of-year accounts for a local authority have been closed and prepared. They will soon be adopted by council, ready for audit.

The head of social services finance has become aware that some work has been commissioned from a consultant which has resulted in a proposal to close an elderly persons' care home. Members want to suppress this information from becoming public knowledge because there is a forthcoming by-election in the electoral division where the care home is located. The consultants have agreed not to submit their fees, which are significant, for payment until after the by-election.

Normal accounting treatment would require consultants' fees to be included in the accounts. Additionally, the actual cost of the potential closure may need to be included as a provision and a contingent liability. As the cost would be a material item, the accounts may also need to include narrative explaining the policy decision. However, the members will not make their decision known until the election is held, which is after the formal audit is completed and the opinion is signed.

The head of social services finance would like to highlight his concerns to the S151 officer, who is unaware of this matter, and the external auditor, so that they are aware that the policy decision is being delayed, as the item may need to be included in the accounts under FRS 12.

### IFAC principles involved

State which principles apply and comment on their relevance:

- **Integrity**
- Objectivity
- **Professional competence and due care**
- Confidentiality
- **Professional behaviour**

### Threats and safeguards which could apply

- Self-interest
- Self-review
- Advocacy
- Familiarity
- **Intimidation**

## Suggested course of action

The head of social services finance needs to formally raise his concerns to the S151 officer so that he is aware of:

- the significant omission of the consultants' fees
- members' decision to delay formalising their decision.

He should also request that the external auditor be informed, but feels that this would be most appropriately communicated by the S151 officer. If the matter is not raised with the external auditor, it could be a potential item for inclusion in the auditors 'Report to those Charged with Governance', issued at the end of the audit.

The consultants' fees, which are significant, should be included in the accounts and he and the S151 officer should discuss whether the accounts should reflect the pending policy decision of the home closure or whether it is more appropriate to exclude it.

It should be explained to the members who want to delay the formal approval of the home closure that although they have not formally made a policy decision, there could be an impact on the current accounts and that the decision may need to be mentioned. The head of social services finance could liaise with another responsible director (eg the director of social services) so that senior management within the authority are fully aware of the implications of the members' policy decision.

## Comments

**Integrity** – the head of social services finance needs to report the facts to the S151 officer so that he is fully aware of the members' plans. The head of social services finance cannot change the accounts on his own, and as the accounts will shortly be adopted by council, the S151 officer would need to instigate and approve any amendment that could be significant or material in nature. Furthermore, the involvement of the external auditor on a material item would be best initiated by the S151 officer.

**Professional competence and due care** – the current policy decision means that the accounts could be materially misstated as they stand. In order to demonstrate competence, the head of social services finance needs to raise his concerns and make the S151 officer aware.

**Professional behaviour** – the head of social services finance is aware that the accounts may need to include the proposed closure. By raising this matter, he is demonstrating that he is not content with a situation that could reflect badly on his department and on him professionally.

## CASE STUDY – DEALING WITH STAFF, PERFORMANCE ISSUES

### Sector

Any

### Scenario

A junior member of staff responsible for account reconciliations has just returned to fulltime work after taking special leave to care for her elderly mother. For financial reasons she needs to work full-time.

She begins to have difficulties with her mother's home care arrangements, causing her to miss a number of team meetings, which usually take place at the beginning of each day, and to leave work early. She is very competent in her work but her absences are putting pressure on her and her overworked colleagues.

Her manager, the chief accountant, is aware that targets are not being met. One of her colleagues is beginning to make comments that "a woman's place is in the home" and is undermining her at every opportunity, putting her under even greater stress.

### IFAC principles involved

State which principles apply and comment on their relevance:

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- **Professional behaviour**

### Threats and safeguards which could apply

- Self-interest
- Self-review
- Advocacy
- Familiarity
- **Intimidation**

### Suggested course of action

The chief accountant has to balance the needs of the individual with those of the organisation, whilst being fair to other members of staff. He must ensure that his department is managing its workload properly so that it is performing effectively and that all staff needs are being considered.

He could suggest a more flexible approach to team meetings so that they do not always take place first thing in the morning. At the same time, he might consider what work could be done from home. Clearly, he also needs to deal with the other member of staff, who needs to be reminded about proper conduct and that his behaviour amounts to harassment.

It is the chief accountant's responsibility to ensure that his team have the necessary professional competence to carry out their responsibilities and that they are appropriately trained for their roles.

### Comments

**Professional behaviour** – the chief accountant has acknowledged that the difficulties facing his employee should be addressed. Considering the issues and trying to identify a solution enables him to demonstrate that he is behaving professionally and trying to resolve the difficulties that the junior member of staff faces.

## CASE STUDY – SELF-EMPLOYED CONSULTANT

### Sector

Local government

### Scenario

A director of finance has recently retired, and she has decided to become a self-employed consultant.

In her first roles since retirement, she is filling an interim manager/consultant position in two organisations neighbouring her previous employer.

She has been employed due to her previous senior officer experience and her understanding of the local area.

The work being completed will include reference to politically sensitive and confidential information that cannot be shared between clients. However, she is aware of confidential information from her previous role that would be beneficial to both projects she is working on.

### IFAC principles involved

State which principles apply and comment on their relevance:

- Integrity
- Objectivity
- Professional competence and due care
- **Confidentiality**
- Professional behaviour

### Threats and safeguards which could apply

- Self-interest
- Self-review
- Advocacy
- **Familiarity**
- Intimidation

### Suggested course of action

The retired director of finance should not share any confidential information between the clients nor should she use any confidential information from her former authority.

Although her previous experience is valuable when completing the assignment, she should exercise very careful judgement when determining what information can or cannot be shared.

Should she want to use any politically sensitive or confidential information, she should seek formal approval for sharing or disclosing any further information from the relevant authority.

### Comments

**Confidentiality** – although she has been employed by the two organisations because of her previous experience, she should ensure that she does not share any information which would be politically sensitive or confidential to one of the organisations.