

# ETHICAL DILEMMAS:

What would you do?



At some point in your career you may be faced with an ethical dilemma. Given that you are required to comply with the CIMA Code of Ethics in order to uphold your professional standing – what would you do?

Ethical dilemmas do not always have a prescriptive and clear cut response (unless there is evidence of breaking the law or accepted regulations). You may have discovered something you believe to be illegal or fraudulent, or someone may be pressuring you to mislead, or to report in a way that is against or marginal to accepted accounting standards or outside the law. Conflicts of interest and confidentiality are also ethical issues.

By using the Code as guidance members and students can review their options and decide on a course of action in order to resolve the issue. As a trained professional you have a responsibility and a professional duty to exercise good judgement and be accountable for your actions to the profession and the public. Understanding the wider strategic implications and the impact on the business, or society, is part of your role.

These case studies are linked to the fundamental principles which a CIMA professional accountant is required to uphold:

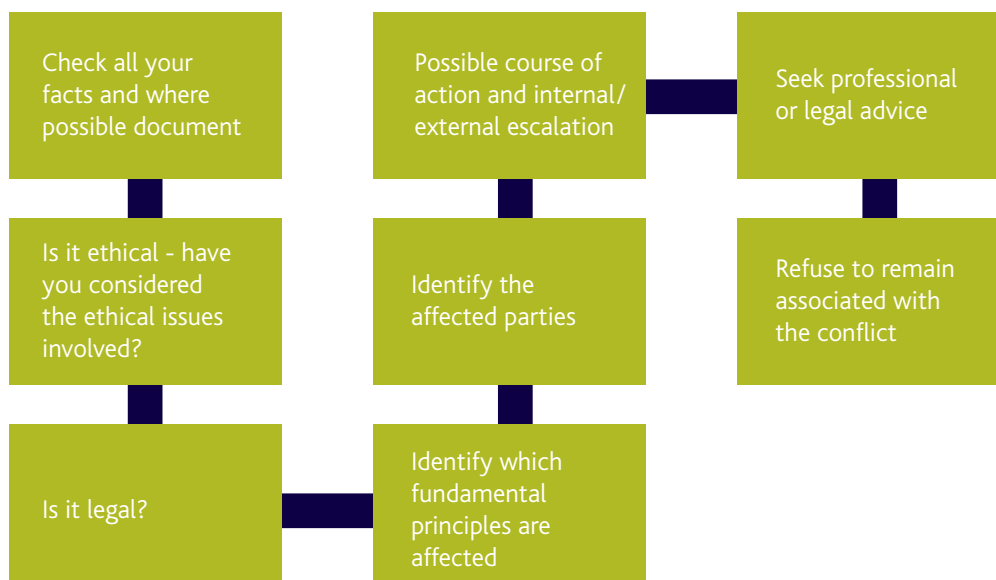
- a) Integrity
- b) Objectivity
- c) Professional competence and due care
- d) Confidentiality
- e) Professional behaviour

The case studies demonstrate how the Code of Ethics works in practice and guides you to areas in the Code which would apply. It is not exhaustive. There is also a checklist (see full checklist) you can work through when faced with an ethical dilemma to help you determine a course of action.

### CHECKLIST (summary)

Key questions to also consider when facing an ethical dilemma rest on a personal feelings – you generally know if something feels right, if you are unsure ask yourself:

- Would I feel comfortable about my professional peers, family and friends knowing about the situation?
- How would I feel if I saw this in a newspaper?



If you have concerns – you most probably have a dilemma! The longer you leave resolving it, the more chance there is for there to be repercussions for the organisation, yourself and the standing of the profession.

Please see CIMA's full ethical checklist.



## CASE STUDY ONE: TAKEOVER INFORMATION

You are financial director of a large multinational organisation and have been privy to information about a takeover bid to acquire a rival firm. A family friend is considering selling shares in this rival organisation and has asked you, as an expert in the industry, for advice on this matter.

What would you do?

Integrity	This situation has a clear impact on you integrity – fair dealing and truthfulness. Your obligations in this instance are to confidentiality. See section 110.
Objectivity	Your objectivity would be at risk if you allow a personal relationship to influence the ethical and legal responsibilities you have to your employer. See section 120.
Professional competence and due care	You have a duty to maintain professional knowledge, to act diligently in accordance with professional standards and to uphold legal requirements. See section 130.
Confidentiality	You have an obligation to refrain from disclosure of information outside the firm or employing organisation. See sections 140.2, 100.5d.
Professional behaviour	You cannot compromise your professional judgement as a result of a personal relationship. See sections 150.1, 100.12.

### Integrity

110.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.

110.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

- a) Contains a materially false or misleading statement;
- b) Contains statements or information furnished recklessly; or
- c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.

110.3 A professional accountant will be deemed not to be in breach of paragraph 110.2 if the professional accountant provides a modified report in respect of a matter contained in paragraph 110.2.

### Objectivity

120.1 The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.

120.2 A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A professional accountant shall not perform a professional service if a



circumstance or relationship biases or undue influences the accountant's professional judgment with respect to that service.

### **Professional Competence and Due Care**

130.1 The principle of professional competence and due care imposes the following obligations on all professional accountants:

- a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
- b) To act diligently in accordance with applicable technical and professional standards when providing professional services.

130.2 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phrases:

- a) Attainment of professional competence; and
- b) Maintenance of professional competence

130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

130.5 A professional accountant shall take reasonable steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.

130.6 Where appropriate, a professional accountant shall make clients, employers or other users of the accountant's professional services aware of the limitations inherent in the services.

### **Confidentiality**

140.2 A professional accountant shall maintain confidentiality, including a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate family member.

100.5d Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, 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, nor use the information for the personal advantage of the professional accountant or third parties.

### **Professional behavior**

150.1 The principle of professional behavior imposes an obligation on all professional accountants to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know my discredit the profession. This includes actions that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude adversely affects the good reputation of the profession.



100.12 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstances creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

- a) Self-interest threat – the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour;
- b) Self-review threat - the threat that a professional accountant will inappropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organisation, on which the accountant will rely when performing a judgment as part of providing a current service;
- c) Advocacy threat – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- d) Familiarity threat – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise influence over the professional accountant.

Parts B and C of this Code explain how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in practice may also find Part C relevant to their particular circumstances.



## REFERENCE AND FURTHER READING

- *CIMA Code of Ethics For Professional Accountants*, CIMA, 2010
- *Ethical Dilemmas: What would you do*, CIMA, 2012

