

## **Paul Robbins** training and consultancy

### **Ethics for Accountants**

#### **Threats and Safeguards to Fundamental Ethical Principles**

##### **Self Interest Threats**

***Olga works as an accountant for a local firm of Chartered Accountants.***

***She has recently been appointed by one of the partners at her firm to lead the audit of North & South Ltd.***

***Olga's husband holds a number of shares in North & South Ltd.***

***Which of the fundamental ethical principles are threatened by this self interest threat and why?***

***What safeguards should Olga put in place to deal with this self interest threat?***

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***Nigel works as a self employed accountant.***

***Whilst he is visiting Victoria, one of his clients, he takes a telephone call from his local garage that has got his car in for repairs.***

***It is unfortunately bad news for Nigel – it is not cost effective for his car to be repaired and it will need to be scrapped. He will need to buy a new car.***

***Victoria hears this and says she is sorry to hear it. Nigel tells Victoria that he will have to buy a new car but is worried because he just doesn't have the money.***

***Victoria then offers to lend Nigel £5,000 to buy a new car and tells him that he can repay the money over the following year.***

***Which of the fundamental ethical principles are threatened by this self interest threat and why?***

***What safeguards should Nigel put in place to deal with this self interest threat?***

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**Lee works as a self employed accountant.**

**One of his clients is Santos, who owns a popular local restaurant specialising in South American cuisine.**

**One day Santos telephones Lee to ask for accounting advice about an idea he has about buying a catering van and setting up a new business selling authentic South American street food.**

**During the conversation, Santos asks Lee whether he would be interested in investing in the new business. Lee knows that Santos is a good chef who runs a successful restaurant and is interested in investing in his new business.**

**Which of the fundamental ethical principles are threatened by this self interest threat and why?**

**What safeguards should Lee put in place to deal with this self interest threat?**

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##### **Self Interest Threats**

***Susanne works as a self employed bookkeeper and accountant and has a portfolio of approximately 30 clients.***

***Her largest client is Parks and Gardens, who own two jewellery shops locally. Currently Parks and Gardens provide Susanne with approximately 12% of her total income each year.***

***Parks and Gardens have asked Susanne if she can process their payroll for them each month in addition to her bookkeeping and accounting work.***

***Taking on this extra work would mean that Parks and Gardens would provide Susanne with approximately 21% of her total income each year.***

***Which of the fundamental ethical principles are threatened by this self interest threat and why?***

***What safeguards should Susanne put in place to deal with this self interest threat?***

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***Martin works for South Downs Accountants, a medium sized accounting practice in Sussex, as an Audit Senior. He is currently working on the statutory audit of Mount Caburn Ltd.***

***Glyn Bourne, the Finance Director of Mount Caburn Ltd, approaches Martin during the audit and asks him whether, once the end of the audit has been completed, he would be interested in joining the company as Finance Manager on a good salary (much more than he currently receives) plus a company car.***

***Martin is very happy with the offer and is keen to join Mount Caburn Ltd.***

***Which of the fundamental ethical principles are threatened by this self interest threat and why?***

***What safeguards should Martin put in place to deal with this self interest threat?***

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***Marta works as a self employed accountant.***

***She has been contacted by Elroy, a potential client, who is keen for Marta to complete his year end accounts and tax return. She has quoted a set fee of £500 for doing this work, based on the time it will take and her standard hourly rate.***

***Elroy is not happy with how much this will cost and has suggested instead that he will pay Marta £300 for completing his year end accounts and tax return and will only pay her the additional £200 if she can keep the amount of tax he has to pay for the year below £3,000.***

***Which of the fundamental ethical principles are threatened by this self interest threat and why?***

***What safeguards should Marta put in place to deal with this self interest threat?***

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**Ahmed works for Greene Keepers Ltd as a Finance Manager.**

**The Managing Director of the company, Mr Greene, has asked Ahmed to create a number of high value fictitious sales invoices at the end of the current financial year and remove these early in the new financial year by raising credit notes. This will result in the company showing too high a profit this year.**

**Ahmed really likes playing golf and Mr Greene tells him that if he creates these invoices, he will recommend him for membership of the Sunset Hills Golf Club, of which he is the club president, and also waive the £5,000 joining fee.**

**Which of the fundamental ethical principles are threatened by this self interest threat and why?**

**What safeguards should Ahmed put in place to deal with this self interest threat?**

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***Graham works for Congleton Construction Ltd as the Finance Director.***

***If the company makes a profit of more than £1 million, each of the company's directors will receive a Rolex Datejust watch worth £7,000 as a bonus.***

***It is the end of the financial year and Graham is preparing the draft accounts.***

***The profits are currently just over £1 million, but Graham has not yet increased the allowance for doubtful debts which he knows he should do, and the result of this is that it will reduce the profits to just under £1 million.***

***Which of the fundamental ethical principles are threatened by this self interest threat and why?***

***What safeguards should Graham put in place to deal with this self interest threat?***