

ETHICS EDUCATION TOOLKIT

**SCENARIO THREE
COUNTRY PRACTICE**

IAESB

**International Accounting
Education
Standards Board™**

SCENARIO THREE: COUNTRY PRACTICE

Participants

Frank Munson	Senior Partner
Stephanie Small	Accountant
Charlie Walters	Farmer

Setting the Scene

(Use this paragraph as an introduction before the video is shown)

Stephanie Small works in a country accounting practice specializing in tax and general accounting advice. The practice has a broad range of clients developed over many years by Frank Munson. Frank has a high profile in the town and is proud of his reputation. Stephanie has recently qualified as a Chartered Accountant after completing her pre-qualifying program and working for an accounting practice in a large country town. Stephanie has returned to work in her home town, together with her husband.

Facts of the Case

Stephanie has completed the tax return of Charlie Walters, a long-standing client of the firm. During her review and return preparation work, she noticed that several items were incorrect in the calculation of inventory and depreciation. Stephanie recalculated the tax return and accounting entries and the effect was a large increase in income tax payable. Stephanie also has suspicions that the same sort of “errors” have occurred in previous years. Stephanie documents her findings in preparation for Frank’s review. Stephanie subsequently finds that no changes were made to the tax return when it was lodged. She raises this with Frank who tells her that he knows what he is doing, his clients trust him and she should not worry about it.

Suggested Discussion Points

1. What are the relevant facts?
2. What are the ethical issues?
3. Who are the primary stakeholders?
4. What are the possible alternatives?
5. What ethical issues arise from these alternatives?
6. What are the practical constraints?
7. What actions could be taken?
8. Could the situation have been approached differently? If so, how?

Discussion

Issues for discussion include:

- Responsibility to the client;
- Responsibility to the Tax Office;
- Responsibility to comply, as a professional accountant, with the IESBA Code of Ethics for Professional Accountants; and
- Consideration of Frank's obligations based on two scenarios:
 - 1) that he is deliberately falsifying clients' record; and
 - 2) that he is meeting his professional obligations and Stephanie is in error.

SCENARIO THREE: COUNTRY PRACTICE

Application of American Accounting Association 7 Step Model

1. DETERMINE THE FACTS

What? Who? Where? When? How?

What do we know or need to know, if possible, that will help define the problem?

- Stephanie Small has recently completed her professional qualification and returned to her home town with her husband to work for Frank Munson in tax and general accounting;
- Frank, who is highly respected in the town, has built a practice with a broad range of clients.
- Stephanie has completed Charlie Walters' (a local farmer and long-standing client of Frank) tax return and noted possible errors made by Frank historically that have the effect of increasing taxable income.
- Stephanie documents her findings for Frank's review but subsequently discovers Charlie's return has been lodged without any amendments.
- Stephanie raises the issue with Frank who reminds her of her lack of experience and lack of career prospects should she continue with her stance.

2. DEFINE ETHICAL ISSUES

List the significant stakeholders. Define the ethical issues.

Make sure what precisely the ethical issue is (for example, Conflict involving rights, questions over limits of an obligation, etc).

a) List all stakeholders

- Frank Munson
- Stephanie Small
- Stephanie's husband
- Charlie Walters
- Taxation Office

b) Identify the ethical issues

- Stephanie's obligation to Frank versus her obligation to the Tax Office
- Stephanie's obligation to Frank versus her obligation to Charlie and other clients
- Stephanie's obligation to Frank versus her professional integrity and career
- Stephanie's obligation to Frank versus her responsibilities to her husband

c) Discuss the ethical threats

- Stephanie is faced with the ethical threat of self-interest, advocacy and intimidation.
- Stephanie's self-interest regarding her plans to return and work in the country town with her husband is under threat if she blows the whistle regarding Frank's practice.
- Stephanie is also faced with the threat of advocating her employer and the long standing client's profit (lower tax liability) which may compromise her integrity and professionalism.
- Stephanie is also being intimidated as Frank indicated her inexperience in the work the firm does with local clients.

3. IDENTIFY THE MAJOR PRINCIPLES, RULES, VALUES

(For example: integrity, quality, respect for persons, profit)

- Integrity (Stephanie and Frank)
- Professional Competence (Stephanie and Frank)
- Ethical Behavior (Stephanie and Frank)
- Loyalty to client (Stephanie)

4. SPECIFY THE ALTERNATIVES

List the major alternative courses of action, including those that represent some form of compromise or point between simply doing or not doing something.

- Stephanie can do nothing and accept that she has fulfilled her responsibilities by raising the matter with Frank.
- Stephanie can advise the client of the problems and attempt to have him confront Frank
- Stephanie can raise the matter with the Tax Office
- Stephanie can resign.
- George can notify the other directors and seek their support to delay/withdraw the prospectus.

5. COMPARE VALUES AND ALTERNATIVES - SEE IF CLEAR DECISION

Determine if there is one principle or value, or combination, which is so compelling that the proper alternative is clear. (For example, correcting a defect that is almost certain to cause loss of life).

Note: See how many of the group will move to a decision at this point based on the force or strength of a norm or principle. Regardless of whether a decision is reached, work through **steps 6 and 7**.

6. ASSESS THE CONSEQUENCES

Identify the short and long run, positive and negative consequences for the major alternatives. The common short run focus on gain or loss needs to be measured against the long run considerations. This step will often reveal an unanticipated result of major importance.

Stephanie can do nothing

- Frank will be happy
- Client will be happy with less taxable income
- Future career prospects enhanced
- Tax Office may discover error through audit
- Levying Charlie with penalties

Stephanie can advise Charlie

- Client and other clients may lose faith in Frank
- Stephanie's career aspirations will be destroyed
- May result in amendment to the Tax Return and avoid the risk of penalties in the future

Stephanie can raise the matter with the Tax Office

- Ruin Stephanie's career in the firm and may affect her husband
- Result in penalties for Charlie
- May result in disciplinary action by the Tax Office against Frank

Stephanie can resign

- Preserve her professional integrity
- Ruin her career
- Cause financial difficulties personally

7. MAKE YOUR DECISION

Balance the consequences against your primary principles or values and select the alternative that best fits.

Copyright © January 2015 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store, transmit, or make other similar uses of this document. Contact permissions@ifac.org.

ISBN: 978-1-60815-199-8