



Public Trust & Ethics - Practice Paper

May 2023

Guide to Answer – JQS

Note to Students:

This is a sample solution for the case study and should not be taken as the only correct answer. There were a number of different methods of completing the case study successfully.

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INTRODUCTION

The paper put you in the position of Sammy, a newly-appointed Financial Controller at Johnstone Queen Solutions Plc ('JQS') You report to Eddie, the CFO (who is not a CA) and the company is run by CEO Lucas. You are asked to identify the ethical issues arising in the scenario. You are given 4 requirements.

This guide is structured to look at each requirement in turn, which is one recommended approach to answering this paper. However, students should note that this is not the only approach, and other well laid out structures will gain credit. In particular, students may prefer to analyse each ethical issue in turn.

Requirement 1: Identify the public trust and ethical issues in this scenario

- 1.1 Poor governance / controls / lack of oversight
- 1.2 Project X – manipulation of forecasts and lying about viability to obtain grant funding
- 1.3 Running environmentally unfriendly trips while claiming publicly to be a paragon of environmental virtue, and inducing staff
- 1.4 Incorrect use of charity asset, including being asked to partake in this
- 1.5 Inappropriate social media posts by secondees

Marker note: student may not separate the issues as above, however full credit should still be awarded where issues are noted and subsequently evaluated.

Requirement 2: Evaluate the public trust and ethical issues, considering the impact on the relevant stakeholders

Note – students would not be expected to draw out every stakeholder noted below to score good marks. In fact, it is impossible for them to do this in the allocated exam time. It would be expected that a variety of stakeholders would be considered across all issues, but not every suggested stakeholder below would need to be considered. To score highly, students would be expected to explain the issue, explain why it is an ethical problem and give sufficient consideration to some of the stakeholders.

2.1 Poor governance / lack of controls & oversight

You are responsible for the completion and submission of grant application forms. As CFO, Eddie provides very little oversight of your work. Nothing appears to be reviewed or checked. This can lead to errors going undetected and also provides an opportunity for fraud to be committed (such as the manipulation of the grant application discussed at point 2.2 below).

Stakeholders

- **You/Sammy** – You have been given a great deal of autonomy, which is great for your personal development, but you are still new in your role therefore could make mistakes which could go undetected. You also have the opportunity to commit fraud and manipulate figures as Lucas is encouraging you to do with the grant application. Fraud / errors if identified could damage your personal reputation and if you are found

to have committed fraud this will affect your CA status and could have serious personal consequences.

- **Lucas** – Lucas has encouraged you to manipulate the forecasts, as he is probably aware of the lack of controls. This means there is a real chance there are other areas where he is taking advantage of poor controls and committing fraud.
- **The Directors** – company directors are responsible for implementing a sound system of internal controls. By not doing this they are breaching their responsibilities as directors and could face penalties / reputation damage.
- **JQS** – it is a direct stakeholder as, if fraud / error is happening, it could be making decisions based on inaccurate financial information and the company could find itself in difficulty. It could also suffer reputational damage.
- **The UK Government** – as a large plc, the government and regulators will have an interest in the actions and behaviour of JQS.
- **The public / public trust** – as a high-profile plc, there will be a public interest in the performance and behaviour of JQS.
- **The Celebrities** – the celebrity supporters of JQS are stakeholders as they will be assumed to support any decisions / action taken by the company.
- **The South American Government & locals** – if JQS is accepting money from the South American Government then that Government will have an interest in how it is being spent. Linked to this, the local community will have an interest in how the money they have paid in taxes is being spent.

2.2 Manipulation of grant application for Project X

You have been asked to provide the status update to the South American government to release the next set of funding. However, to do this you have been asked to manipulate accounting figures and include an untrue statement regarding the viability of the project. This would involve committing fraud by manipulating figures as well as compromising your integrity and therefore your ethics as a CA. Furthermore, there seems to be a hint of bribery, as you have been promised access to a “trip of a lifetime”, clearly on the condition that you keep quiet and do as Lucas has asked.

Stakeholders

- **The South American government & locals** – the South American government are being essentially tricked into providing funding for a project that is never going to be completed and is therefore a direct stakeholder in this issue. As noted above the local community will also be a stakeholder in how their money is being spent
- **Other companies missing out** – it is likely that grants will be restricted. By manipulating figures to ensure JQS receives the grant, other companies, which may be playing by the rules, may lose out on vital funding, impacting their projects as well as their potential going concern.
- **Potential suppliers in South America** – companies or individuals would be likely to benefit from work with JQS should they go ahead with the project. Therefore, any decision that would abort the project could impact them directly.
- **The environment** – if grants are not given to genuine companies, real developments which could have had a positive impact on the planet may be prevented.
- **JQS's staff** – to continue with the project, staff members will have to dedicate time to it. This could be considered to be wasted time that could be spent on more useful projects. It is likely that a lot of the staff are environmentally conscious and would not

want to be spending their time this way. In addition, the staff closely involved in the project are being asked to breach their own ethics by knowingly deceiving the government.

- **JQS as a company** – it appears that this decision is being made to generate publicity and obtain grant income. If information later comes to light that the grant was not obtained correctly, JQS could find their reputation damaged, and the public may be reluctant to trust their information on future.
- **Lucas** – as the Director in charge, Lucas will be directly responsible for the decision to continue with this project. He will have culpability should it be discovered that he knowingly continued with it despite knowing it was non-viable. He is also encouraging you to manipulate the figures and therefore could face consequences if that become public knowledge.
- **You as accounts preparer** – it could be that the accounting treatment for expenditure on this project is incorrect, especially if you have manipulated figures to over-capitalise the project. Development expenditure must meet certain criteria to be capitalised and it appears those criteria are not being met here (no intention to complete, not commercially viable). You may be at fault for incorrect accounting. As a CA, you should never manipulate figures for any reason.
- **Users of financial statements** - the users of the financial statements may be affected if the impact of the incorrect treatment is material, and they are using the information for decision making.
- **Public/customers** – The public is ultimately a stakeholder as it is the public's money that the government is spending. Any misuse of this for business gain could severely impact public trust in large companies and their dealings with the government.

2.3 Environmentally unfriendly trip

You have been told about a trip to South America to scout locations for Project X. This trip seems to be unusually luxurious and wasteful; as first-class travel is not a necessity. It appears that the trip itself may not even be necessary if there are local experts that JQS can use instead. Although there is nothing illegal happening here, you know that the company promotes itself as leading the way in tackling climate change. This type of unnecessary trip is directly in contrast to this claim, suggesting that JQS is misleading the public. This is not in keeping with the green credentials that the company is attempting to promote publicly. You therefore have an ethical dilemma over whether you can allow this trip to go ahead without expressing concerns about hypocrisy.

Stakeholders

- **Shareholders/Customers** – the public has been led to believe that JQS practises what it preaches and is a carbon neutral company. Minority shareholders and customers will likely deal with JQS for this reason. They would therefore be very interested to learn about this type of trip which is not in keeping with the ethical values of the company. They may feel let down and withdraw their support.
- **JQS** – if shareholders and customers were to withdraw support, this would be a problem for JQS and impact their going concern going forward
- **JQS's staff**
 - Those going on the trip. If they can reconcile themselves to the environmental impact, it does seem like an excellent opportunity for them. If it were to be cancelled or scaled back, then these staff members would be disappointed.

- A luxury trip will be very expensive. This money could arguably be better used elsewhere in the business to benefit all members of staff.
- **You/Sammy** – you have been invited to go on the trip so have a personal decision over whether or not to go, as well as whether or not to make your concerns known, particularly as it sounds as though Lucas is attempting to induce you to manipulate the grant application in return for a place on the trip.
- **Celebrity shareholders** – these celebrities have invested in JQS because they believe in their values and ethos of sustainability and reducing the effect of climate change. If details of the trip are made public, this could damage the celebrities' reputations and may cause them to re-think their involvement with JQS.

2.4 Incorrect use of charity asset

You have been asked to sell an asset that was donated by a charity for a particular use to free up cash. This is ethically dubious for several reasons. First, you don't know who has ultimate ownership of the asset, and in the worst-case scenario, you could be accused of stealing the asset. Even if this is not the case, you will not be using the donation in the spirit in which it was intended which could impact the company's relationship with the charity and be seen as an inappropriate course of action.

Stakeholders

- **You/Sammy** – you have been asked to arrange for the sale of the asset, use the cash for other purposes and therefore are directly involved. You have a decision to make and could also be held accountable should the misuse of funds be discovered at a later date.
- **Eddie** – he has directly instructed you on what to do, making him directly involved in this issue. He has compromised his own ethics by ignoring the correct way to use the gift.
- **Employees/pension fund members** – they are actually benefitting from this issue, as it ensures they all get paid. Should you not follow through, this could directly affect them financially.
- **JQS as a company and their shareholders** – it is unclear what the cash will be used for when the asset is sold. Are there cash flow problems that shareholders are not aware of?
- **The donor charity** – its money is not being used for the purposes it was intended, and it is therefore affected. In addition, if it did retain residual ownership, it would be losing an asset under this proposal.
- **The UK Government** – it is a stakeholder in JQS, therefore if it is discovered that assets are being misappropriated this will impact the public trust in the government to invest public funds in suitable ventures.

2.5 Colleague's controversial views on Social Media

You have discovered that Linda, on secondment from a large professional services firm, is promoting harmful information relating to JQSs' shareholders and their motivations. This could greatly impact JQS's reputation and relationship with several parties and does not constitute professional behaviour.

Stakeholders

- **Linda** – may be subject to internal disciplinary proceedings from either JQS or her own firm. She would probably have her secondment cancelled, and if serious enough it could impact whether she is deemed fit and proper for ICAS qualification. She could even face criminal charges for defamation.
- **You/Sammy** – as Linda's direct line manager, it is your responsibility to deal with the situation promptly.
- **The celebrity shareholders** – they are being publicly criticised which will impact their reputation. If negative comments about them are seen to be coming from a company they support, this could be particularly damaging.
- **JQS** – the company's reputation is at stake here. Linda is including these links with her work e-mail address and makes it clear who she works for as part of her social media profile. Therefore, JQS can be directly linked to her opinions. It may look like JQS is associated with her opinions and holds the same views which would be particularly damaging to their reputation.
- **The professional services firm that employs Linda** – the behaviour of their employee could impact their relationship with their client (JQS) leading to a strained relationship going forward.
- **ICAS** – it is a CA student who is behaving inappropriately which could have repercussions to the reputation of CAs in general, who are required to demonstrate professional behaviour and confidentiality at all times.

Requirements 3 & 4 – Evaluate possible courses of action/inaction, including the implications of each, with appropriate consideration of the relevant ethical theories, and recommend actions that you (as Sammy) should take

3.1 Lack of oversight / governance / controls

Option 1

Do nothing, carry on working and try your best not to make any mistakes as you know nothing is being checked / reviewed. Clearly this is a risk and, despite your best efforts, there is a chance that errors could be made. This would not demonstrate integrity, which would be expected from you as a CA.

Option 2

Speak to Eddie and explain that while you appreciate that he trusts you so much to give you so much autonomy, you are concerned about the lack of oversight and would appreciate the benefit of his experience to review some of your work. This would demonstrate professional behaviour, and also virtue ethics.

Option 3

Raise your concerns with Lucas, although since he is the one telling you to manipulate the grant application, he is unlikely to understand your concern and it is more likely to cause a problem in your working relationship. By applying teleological ethics, you may consider that the consequences of speaking to Lucas (ie the future difficult working relationship) would be a reason to avoid the confrontation, however as a CA you should always demonstrate integrity and do the right thing.

Option 4

Raise your concerns with another senior board member / head of the audit committee. If you did this without first consulting Eddie, there is a chance he could find himself in trouble and your working relationship could be compromised.

Option 5

Contact the whistleblowing hotline. Again, doing this without firstly consulting Eddie could result in your working relationship being strained.

Option 6

Discuss the issue with the auditors. As above, this would be an option only where discussions with internal members of staff had proved futile.

Recommendation

Speak to Eddie, explain your concerns and try to work out a suitable level of supervision / review which provides you with reassurance but still allows you to have autonomy in your day to day working. If you are not able to reach an agreement with Eddie, then I recommend speaking to the head of the audit committee, or another relevant senior board member to raise your concerns.

3.2 Project X – Falsifying figures and providing untrue statements in order to obtain grant funding

Option 1

Exploit the weak controls and come up with cost figures that will result in the release of grant money. Also include a viability statement for the good of the company. Add your signature and CA status to add weight to the application. There are serious implications here if it is found out that the figures have been manipulated, and / or the project is not viable. This is an example of teleological ethics, where the end justifies the means, as it would result in the release of the grant money. However, as a CA, you are expected to act with integrity at all times, therefore could face serious consequences from ICAS and others if you commit fraud.

Option 2

Refuse to manipulate any figures and instead prepare the financial information correctly. This is likely to mean that JQS does not receive the grant which could result in Lucas blaming you personally and is likely to cause problems with your working relationship. However, this is the correct thing to do. It demonstrates virtue ethics and shows integrity which would be expected from a CA.

Option 3

Conduct further research into whether or not the project could be commercially viable. What you've heard so far is people's opinions, so you should verify them before basing decisions on them. If you are still unhappy with the viability of the project, refuse to compromise your ethics by manipulating figures or including the viability statement. As above, this could lead to failure to obtain the grant, and make Lucas unhappy with you.

Option 4

Speak to someone more senior perhaps the head of the audit committee) to express concern that the project is being continued for the wrong reason. This is likely to upset Lucas, especially if you do this without consulting him first and explaining your concerns.

Option 5

Contact the whistleblowing hotline with your concerns. As above, if you do this without speaking to Lucas / other internal employees first, this is likely to impact your working relationship.

Option 6

Disclose to the South American government that the project is not viable. This will have severe implications for JQS as the government will likely withdraw all funding. The reputation of JQS will be damaged if it becomes public knowledge that the company was claiming grants for a project which is not viable. It will also affect public trust in the company.

Recommendation

Do not manipulate the figures or lie about the viability. Instead, prepare the financial information correctly. This is likely to mean JQS does not receive the grant which could result in Lucas blaming you personally. However, this is the correct thing to do. It demonstrates virtue ethics, and shows integrity which would be expected from a CA.

3.3 Environmentally unfriendly trip

Option 1

Decide that it seems like a great trip and sign up for the chance to take part! There is a risk that the reputation of the company is damaged if it becomes public knowledge that the trip is taking place. If you are on the trip, there is a risk that you are implicated and your own reputation is also damaged. In addition, as Lucas has also suggested you manipulate the figures in the grant form, this could be viewed as a bribe and therefore if you accept then you could be breaching the Bribery Act.

Option 2

Consider that as there's nothing illegal going on, it isn't your place to do anything about how the company conducts its projects, so do / say nothing. As above, this is likely to have a reputational impact for the company and also the celebrities who are linked with the company.

Option 3

Speak to Lucas about the trip and ask her to explain how it fits in with the company's ethical principles (it could be that they are paying for carbon offsetting although this still doesn't appear to be in line with their ethos).

Option 4

Look into alternatives to the luxury trip. Could locations be scouted remotely or could the trip be scaled back to include fewer people and commercial flights? Pitch these suggestions to Lucas.

Option 5

Express your concerns about the environmental hypocrisy via the whistleblowing hotline

Recommendation

Lucas has offered you a place on the trip but has also separately suggested that you manipulate the grant application. Therefore, this could be viewed as a bribe, and you should not accept. You would be breaching the Bribery Act. Lucas could face prosecution under the UK Bribery Act. You should express your concerns about the trip to Lucas and, if he is not responsive, raise your concerns via the whistleblowing hotline.

3.4 Incorrect use of charity asset

Option 1

Start by reading the terms of the gift to determine who owns the asset and if there are any restrictions on it.

Option 2

Contact the charity to discuss the use of the asset. Explain the situation and enquire whether or not they would have an issue with the sale of the asset.

Option 3

Do as Eddie has told you and allocate the money as he has requested – the charity is supporting the company and the best way to do this is to keep it going. Who is to say what the “correct” way is to allocate the help they are receiving?

Option 4

Tell Eddie that you are not prepared to sell the asset. Explain that you know the asset was provided for a certain purpose and you must ensure this purpose is met. This could be an option even if you have determined from option a) that you are not breaking the letter of the rules as the principle could be more important to you. Selling an asset you do not own is theft, and would not be appropriate behaviour for a CA, who is expected to act with integrity at all times. This is likely to receive a backlash from Eddie who has instructed you to carry out the sale, however if you have enough evidence to suggest that the asset does not belong to the company, then you should not instruct the sale to go ahead.

Option 5

Report Eddie's request to someone more senior, such as the CEO, or someone else in governance. However, given that Lucas is willing to manipulate the grant application, he may not have a concern around this either. The only other option could be the externally monitored whistleblowing hotline.

Recommendation

Contact the charity to find out their views on the proposal. Do not proceed with selling the asset until you have done this. Raise your concerns with Eddie and, if he is not willing to take your comments on board, you could speak to Lucas, however given his willingness to manipulate the grant application, he may not have a concern around this either. As a CA, you must act with virtue ethics in this scenario, you should therefore resist Eddie's instruction and, if necessary, contact the whistleblowing hotline.

3.5 Colleague's controversial views on Social Media

Option 1

Speak to Linda privately. Explain that while working at JQS, she should refrain from posting anything that could bring the company into disrepute. Direct her to the social media policy which she was given at her induction. Follow up regularly to ensure that she follows your advice. Ask her to delete her recent posts and remove the links to her personal social media pages from her email signature.

Option 2

Report Linda to HR for them to discipline her. As part of her induction, she has been provided with the company policy on social media therefore she should be aware about the rules regarding posting personal information linked to company material.

Option 3

Report the incident to the legal team, as they should be aware of any potential litigation that the disgruntled shareholder could bring against the company.

Option 4

Seek advice from your own manager, Eddie, as to how to handle the situation.

Option 5

Terminate Linda's secondment as she has proved herself to be a danger to the reputation of the firm and should therefore be let go immediately.

Option 6

Report the situation Linda's employer and ask them to discipline her.

Option 7

Report the situation to ICAS to let them know of a breach of ethics (professional behaviour) of one of their students for them to investigate.

Option 8

Ignore the situation and hope that nobody clicks on her social media profile. There are huge implications which could massively affect the reputation of JQS and also the celebrities who are linked the company. This would not be a realistic option. As a CA, you are required to act with integrity, and ignoring this would not be doing so.

Recommendation

Firstly, speak to Linda to explain the issues with her social media posts, and the fact she has linked it to her work email account. Ask her to immediately remove the links and also delete the offending posts. If she refuses, you should report her to her firm, as this is a lack of professional behaviour, which is a breach of the ICAS Code of Ethics, which all students are required to comply with. You should also inform the HR team of the issue, and also any legal / public relations staff, to ensure they are fully informed to be able to deal with any external repercussions.