



Public Trust & Ethics

Practice Paper May 2023

Johnstone Queen Solutions

Notes:

- This paper contains a number of ethical dilemmas which you are required to evaluate.
- This exam has a time limit of **2 hours**.

This assessment is taking place remotely.

ICAS would remind you to continue to be ethical and observe the exam conditions applicable to the PTE exam.

EXAMINATION QUESTION

You are Sammy, a CA and the newly-appointed Financial Controller at Johnstone Queen Solutions plc ('JQS'). You report to Eddie, the Chief Financial Officer (CFO). Eddie is not a CA and works three days a week, leaving you with a considerable amount of autonomy in your work.

JQS is a technology company focussed on the development of carbon-neutral energy sources and products, and has customers worldwide. It markets itself as leading the way in tackling climate change and the company values are based around sustainability and protecting the environment. A recent marketing campaign has highlighted these values and led to an increase in public interest in the company and its sustainable products. Around the same time, a number of high-profile celebrities who are known supporters of the fight against climate change invested in JQS. In addition, the UK Government has adopted JQS as an example of a role model in relation to sustainability and has provided investment and various grants. JQS has recently set up an externally-run whistleblowing hotline to enable staff and other parties to report their concerns about any practices within the company.

Your day starts with a meeting with Lucas, the CEO, who reminds you that JQS relies heavily on UK and overseas government funding for many of its projects.

He states that he requires your assistance on a new project, Project X, which is an initiative to set up a wave farm off the coast of South America. The South American government is keen to promote foreign investment and is offering generous grants towards the setting up of such a venture. JQS has already started work on the project by developing a prototype wave device which has met with approval from the South American government. Lucas explains that it was particularly impressed that the prototype was manufactured using recycled materials.

To progress with the project, JQS now needs to complete the grant application and Lucas would like you to do this. He explains that successful award of the grant is key to the project reaching fruition. Having had its prototype approved, JQS is now able to apply for a grant which will cover the full costs of developing the prototype and a substantial portion of the costs to complete the project. Lucas tells you that you will have sole responsibility for completing and submitting the grant application, and your name and signature will appear on the final grant application form.

Lucas explains that he is particularly proud of the way he managed to minimise costs in developing the prototype. He explains that as some of the materials were reused from other projects, costs were significantly reduced. However, he still intends to include the full purchase price when calculating costs in order to maximise the grant amount. He informs you that he will provide the figures relating to the prototype for you to include in the grant application. When you question how you will be able to check the accuracy of his calculations, he tells you there is no need.

Lucas then discusses the costs to complete. This is the area where Lucas wants you to use your 'accounting creativity' as he calls it. He explains that the grant will be a percentage of the total costs provided in the forecasts therefore you should do whatever you need to ensure the costs appear as high as possible. Lucas finishes by telling you

that once the costs are calculated, the final section of the grant application requires you to complete a viability statement regarding the future success of the project. He insists that your name and signature will be on the final grant application form as he believes your CA qualification will impress the South American officials.

Feeling uneasy, you return to your desk. On the way you overhear two of the production directors discussing the new wave device which is being used in project X. Although you cannot hear the full conversation you hear enough to realise they are not at all convinced that the product is durable enough to withstand the tides and have doubts over the success of the project.

As you begin to prepare the forecasts, you think back to Lucas' request to maximise costs and realise that with your accounting knowledge and unrestricted access to the financial records, it would be easy to do this.

You are unsure how to complete the viability statement as you are aware of the scepticism among staff internally regarding the future success of the project. The narrative statement which you are required to prepare does not appear to require any additional evidence other than your signature. As you enter your details at the bottom of the draft form, the letters 'CA' stare back at you.

As you are still looking at the grant form, an instant message pops up from Lucas. He tells you that he forgot to discuss the next phase of the project. Rather than relying on information from local representatives and holding meetings via Skype, as is in line with the company values, he is planning to take a group of employees on a "trip of a lifetime" to see the locations for themselves. The team will be flown first class to South America and spend a week in a luxury resort. They will then be flown by private jet to inspect various possible locations for the wave farm. Lucas's message finishes by saying that he would be happy to include you in the team.

Before you have a chance to think further, you are called to a meeting with Eddie. He explains that JQS recently took possession of an emissions-testing machine which was donated by a high-profile UK national charity. The machine was provided specifically to assist one of JQS' other ongoing projects. However, work on this project is at a very early stage and it is currently unclear if they will continue. Eddie tells you that he is unsure if the ownership of this asset has been transferred to JQS outright or if the charity has retained residual ownership, however he tells you that should not hold you back. Eddie states that there is an active market for these machines and it would be much more useful to the business if it were to sell it to free up the cash. He is of the opinion that the charity was simply looking to assist in environmental "good works" and will not object to their gift being used this way. He directs you to make arrangements for the asset to be sold.

Returning to your desk, you find an e-mail from Linda who has recently been seconded to JQS by a large CA firm who have carried out corporate finance work for JQS. She is in the final year of her CA training contract and has been placed under your supervision. She has just completed her induction and been provided with copies of all company policy documents. You see that Linda has been proactive in setting up her e-mail signature and are surprised to see that she has included a few weblinks as part of this. Curious you click on her first link which takes you to her personal social media page.

Although clearly a personal page, she has included her employment history as part of her profile which links her to both her own firm and JQS. You don't have to scroll far to realise that Linda is very active online and a frequent contributor to blogs with a strong interest in the environment. Her most recent posts relate to a number of the celebrity shareholders, and are highly critical of their behaviours which she regards as contradicting their statements about their desire to protect the environment.

You look around the office to see if Linda is available however she has already left for the day. You consider this is probably for the best, as you would prefer to consider the issues that have arisen today and measure up your response to each situation. You therefore decide to follow Linda's lead, and head home to consider your options.

Required:

1. Identify the public trust and ethical issues in this scenario;
2. Evaluate the public trust and ethical issues, considering the impact on the relevant stakeholders;
3. Evaluate possible courses of action/inaction, including the implications of each, with appropriate consideration of the relevant ethical theories;
4. Recommend actions that you (as Sammy) should take.

Throughout your answer, you should demonstrate an understanding of the ICAS Code of Ethics and relevant legislation / regulations.

In addition, candidates will be assessed on appropriate structure and communication.

————— End of Paper —————