



PUBLIC TRUST & ETHICS

Sample Solution – Drysdale Biscuits Ltd

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.

The layout / order of this sample solution is slightly different from others on the course due to this being an older case when the wording of the requirements was slightly different. The overall content is the same.

©ICAS 2023



BLANK PAGE

DRYSDALE BISCUITS LTD

Introduction

The current state of affairs at Drysdale Biscuits Ltd (“Drysdale”) highlights several ethical concerns around the operation of the business and certain activities that we, as Chartered accounts, would be moved to act upon in accordance with the fundamental ethical principles.

1. Identification of Ethical Issues

There are several key ethical issues in this business:

1. Misrepresentation of products (in particular claiming that the biscuits are made in the UK, when in fact they are made in Bulgaria)
2. Sami's immediate focus on personal issues in relation to redundancy decisions rather than professional concerns and objective evaluation
3. Jan's ethical dilemma in relation to whether to alert Susan to her possible impending redundancy
4. Employee misappropriation of assets – taking biscuits home when they are meant to be repackaged and sold
5. Manipulation of financial forecasts – altering profit and cash flow forecasts

2. Evaluation of Ethical Issues & Impact on Stakeholders

2.1 Misrepresentation of products

Marjorie has proposed that biscuits that are brought in pre-made from Bulgaria and then packaged in the UK are this year advertised as being a UK product. This decision seems to be based on the fact that market research has shown that customers value the use of available local produce, and so intends to capitalise on this by advertising the biscuits as locally made.

This is a misrepresentation of the product, as despite Marjorie's claims that the biscuits being packaged in the UK qualifies them as 'made in the UK', the fact of the matter is that they have been made in Bulgaria and thus Drysdale would be lying to their customers by claiming otherwise.

Marjorie's desire to essentially lie during the marketing of the biscuits in order to sell more and profit shows a lack of integrity – and further, this could be construed as intentional deception for profit, which would amount to fraud. Whether or not that is technically the case from a legal standpoint is not clear, but the intention to deceive is certainly present.

There is an obvious impact on customers who buy these products on the assumption that they are locally made, hoping to support local producers and the community around them, who are in fact being misled.

This may well lead to complaints from customers upon finding out this misrepresentation of the making of the products, which would impact the company as they may well find sales are adversely affected (as customers stop buying biscuits), or customers begin to complain or demand refunds. It may be that as biscuits are not a significant expenditure that this will be a limited number of people, however the reputational damage to the company may well affect it financially as retailers recognise the drop in demand for Drysdale biscuits due to the outrage, and stop stocking them. This could impact the public trust in the company, and the brand reputation of Drysdale could be damaged.

Local producers will also be affected, if not actively then passively – as they are essentially being misused for a marketing campaign, and not receiving any of the economic benefits of the trade.

2.2 Sami's focus on personal issues

Drysdale is unfortunately having to make redundancies. Employment law states that it is not possible to make an individual redundant. It should be a role which is made redundant. All individuals carrying out that role should then be evaluated and considered equally and fairly as part of the process. The evaluation should be carried out on the basis of the quality of employee's work, their contribution to the company and their track record – in essence this should be objective and based on well thought out professional judgment and the standard of an employee output, rather than any personal issues or bias.

However, Sami seems to have instantly decided that Susan should be made redundant – seemingly on the basis that she irritates him and is a 'waster', rather than professional reasons.

Not only should Sami ensure that any redundancy decisions have had a sufficient amount of thought put into them, and refrain from making rash decisions, his inclusion of personal opinions and bias towards Susan in deciding that she should be redundant shows a lack of professional competence in understanding the correct procedure, and also a lack professional behaviour, and insulting her in the process further demonstrates this. As financial director, Sami will likely be qualified with a professional body and should act in accordance with certain ethical standards – including the requirement of objectivity, and not letting bias cloud business decisions.

This lack of independence and the presence of bias will mostly affect Susan – if she indeed made redundant this will have a significant impact on her personal livelihood, due to the sudden lack of income. Further, there are more far reaching consequences for all employees if Sami (as well as potentially others) are making business-related decisions on the basis of personal opinion and bias.

2.3 Jan's ethical dilemma

Jan has been made aware of Susan's likely redundancy on a confidential basis, however after speaking to Susan coincidentally Jan has been made aware that Susan is not only completely unaware of this, but she is going for a promotion and about to put a deposit down on a new house (and that specifically this mortgage will be a 'bit of a stretch' financially for Susan).

Knowing this puts Jan in an uncomfortable position – clearly if Susan is made redundant having financially committed to a large expenditure, this will be an extremely large strain on Susan and she will likely suffer as a result. By forewarning her, Jan could potentially seek to mitigate this future issue for Susan, and spare her a financial burden – in the process saving Jan potential guilt from feeling as though she could have prevented Susan from being harmed in this way.

However, Rachael (HR Director) and Bradley (CEO) have specifically requested that news of the redundancies be kept confidential, and Jan as a qualified CA has a responsibility to respect confidentiality as this is one of the fundamental ethical principles by which chartered accountants abide.

This puts Jan in a significant dilemma – and the effect of the decision that Jan makes will impact Susan significantly, as well as any dependents she may have.

2.4 Employee misappropriation of assets

Members of staff from the production line have been taking home misshapen biscuits, despite the fact that these should actually go on to be sold in repackaged boxes.

Whilst this may seem a 'minor' practice – due to the fact that employees believe that they don't make 'much' money for the company, and further due to the fact that 'everyone' does it, this still in fact amounts to the misappropriation of assets and it is theft.

This seems to be an established practice – and given that a small increase in revenue could have major effects on profit, this is doing more harm than it may seem to begin with. The impact of the actions of these workers is firstly on the company – the lack of further revenue as a result of the theft of product will affect its profit and overall performance.

It will further affect other employees, and a wide variety of other stakeholders – for example, if the broken biscuits had all gone on to be sold (instead of stolen), and this did indeed have a large effect on profits, then would there be any need for redundancies?

As a CA Jan has a responsibility for integrity, and in this case as it stands Jan is compromised by possessing information of theft and misappropriation within the company.

2.5 Manipulation of financial forecasts

As the finance manager, Jan has a duty to ensure that the accounts are a true and fair reflection of the company performance. However, Sami has asked that Jan 'make the profits look good', and further bolstered this by stating that less people may be made redundant if Jan does so. It seems that Sami is doing this for the purposes of securing a pay rise for himself.

This amounts to manipulation of the financial forecasts. As stated above, Sami should not be encouraging Jan to act in this way as it is unethical and shows a lack of integrity. Jan must act professionally as a CA, and deliberately manipulating forecasts would not be doing so.

By mentioning the consequences of these actions, Sami is in effect intimidating Jan as he is passively implying that by not making profits 'look good', Jan would be condemning more colleagues than necessary to redundancies – this is also unethical.

The consequences of this ethical issue will affect the company's directors, who have to make decisions based on the financial performance of the business – and any misinformation may lead them to make the wrong decision. It will further affect Sami, in the pursuit of his pay rise, and it will affect employees (as they may be spared redundancy).

Further, any analysts, investors or followers of the company's finances will be affected by manipulation of the forecasts. Investors rely on the integrity of published financial information – any indication that there has been manipulation of this could seriously impact the Public Trust in Drysdale, and in particular the staff in the finance team. Public trust in the accounting profession is already damaged, therefore Jan should not be acting in a manner which could jeopardise this further.

3 Relevant Ethical Theories

There are a number of ethical theories which can be considered in relation to the issues identified above, and the possible courses of action. These are outlined below in order to give an explanation of each, and then discussed alongside each option for action / inaction in section 4. *(Examiner comment – there are no marks awarded for this copy / paste below – marks are awarded for the use of the theories in section 4)*

Virtue Ethics – The Right

Virtue ethics dictate that personal qualities can lead an individual to make the 'right' decision in any ethical dilemma - with no regard for the consequences of their actions – in essence, this emphasises moral character and personal virtue rather duties or rules (deontology) or consequences (teleological ethics).

Deontological Ethics – The Right

Deontological ethics is the theory that certain principles must be followed at all times irrespective of the outcome or context involved – essentially emphasizing duties and rules as the fundamental principles of morality and ethical behaviour.

Teleological Ethics - Consequentialist

Consequentialism holds that the consequences of one's conduct are ultimately the basis for deciding whether any action is morally right or wrong, without any other form of judgement as to fundamental 'moral' values.

It is important to note that these theories contain a certain amount of overlap, and the existence of one does not deny the relevance of another's fundamental theory – for example whilst virtue ethics concentrates on personal qualities, this does not mean that consequentialists or followers of deontology deny the existence of moral virtue – rather a consequentialist will believe that moral 'virtues' are qualities that will lead an individual to take the action with the least reprehensible outcome, and a deontologist would argue that moral virtues are what leads an individual to take action in accordance with certain rules and principles.

4 Options for actions / inaction, including implications, consideration of ICAS Code of Ethics and relevant legislation

4.1 Misrepresentation of products

Jan could ultimately decide to do nothing regarding the marketing strategy of the biscuits, and allow them to be sold as 'made in the UK' despite knowing that their origins are in Bulgaria. Jan may decide to do this on the basis of some form of consequentialist moral theory – and believing that if customers are not aware of the real origin, and enjoy the biscuits all the same, and the company benefits – then no harm is done. Further, Jan may be satisfied that she has already raised some concern at the meeting, and be content with Marjorie's retort on the issue.

However, as a CA Jan has to act in accordance with the ICAS fundamental principles of ethics and choosing this course of action would show a lack of integrity.

By following some form of virtue ethics instead, Jan may decide that she must act in some form in order to stop the proposed marketing campaign and maintain a level of integrity, as it is a personal quality of hers – without regard for the consequences (action may lead to her being treated unfavourably by her superiors).

Jan could alert Sami, her immediate superior, and see whether he is as concerned as her – this may lead to Sami using his more superior position to put an end to the proposed campaign by confronting Marjorie in a formal setting.

Alternatively, or if this course of action does not prevail, Jan could follow the 'power of one' guidance issued by ICAS, whereby every individual CA has the power to influence those around them, and confront Marjorie for a second time, in a more formal setting (perhaps by way of a letter or email, including CEO Bradley Johnson). This would demonstrate moral courage, as it would involve directly confronting a colleague in a more superior position, which may be difficult for Jan to do, whether or not it is the ethical course of action.

If there is no course of action that has the desired effect, Jan could consider resigning and play no further part in the development of the company, as it goes against her responsibilities as a CA.

4.2 Sami's focus on personal issues

Jan has the option of doing nothing with regards to Sami's clear lack of independence and objectivity, which would likely lead to Susan's redundancy. It may be for example that Jan believes on objective balance, Susan would be likely to be made redundant anyway – and thus since the consequences of her saying something may have no effect on the final outcome, taking any sort of action would only cause unnecessary drama.

This would show a lack of integrity, and a lack of concern for Sami's clear bias. There are other courses of action that Jan could pursue, but Jan must be careful to maintain confidentiality and not bring in members of the company who are not aware of the redundancy situation.

Confronting Sami may be an option, however this would likely have no real effect – Sami seems to be actively biased and compromised in his decision making, and by challenging him on this Jan may find that nothing changes except for an alteration in his already biased attitude.

Jan could therefore go to HR, and speak to Rachael Brigham. Rachael is aware of the redundancies, and has further issued instructions to carry them out – as HR director she will have an interest in how they are being carried out and a duty to all staff to make sure they are treated fairly. This could have consequences for Jan's relationship with Sami and her standing within the department, but by following virtue ethics she may decide to disregard these consequences and try to act morally.

4.3 Jan's ethical dilemma

Jan could tell Susan about the redundancies, as the consequences of doing so may well save Susan from significant financial strain and the burden of financial trouble in the upcoming weeks and months. By following a consequentialist theory of ethics, Jan may decide that this is the moral course of action and that sparing Susan this stress is the most important factor in her decision.

However, other consequences of this action would be that Susan would now be alert to redundancies when other colleagues are not – which would not be fair on other employees. It could alternatively mean that Susan spreads the word of redundancies amongst her colleague, affecting their morale and the performance of the company, and potentially causing a toxic work situation.

Further, regardless of the consequences, Jan may decide that as a CA she has a responsibility to keep information acquired as a result of business dealings confidential – in effect acting according to some form of deontological ethics.

Jan could also make use of the ICAS Ethics Helpline if she is unsure what to do. Clearly this is a difficult dilemma with consequences for close colleagues for Jan.

4.4 Employee misappropriation of assets

Jan has the option of doing nothing regarding the conversation she overheard, within which it was made clear that employees are stealing from the company. This would mean the practice continues unnoticed, employees continue to steal biscuits, the revenue continues to be understated as a result of this theft, and profits therefore continue to be lower than they should be.

This would also mean that the employees are never disciplined or punished for their actions, and Jan may feel that this theft is only 'minor' and 'everyone is doing it' so there is a level of acceptability – she may feel by taking some form of action that employees will be at risk of losing their jobs, and that this may be an overreaction as they are not acting in particular malice or harmful intent.

However, doing nothing would show a lack of integrity – and ultimately, these actions are the misappropriation of assets and are affecting the company's performance. Whether or not they seem minor, Jan has uncovered theft within the company. By following virtue ethics, and doing what she believes is right, Jan may be moved to take action.

She could seek to speak to the perpetrators and urge them to stop the practice of stealing biscuits – however there is a chance that this will not have any effect, and further since Jan only uncovered the theft coincidentally, she may never know if her actions succeeded. She could instead therefore report this to a superior within the production line, or if they are complicit, a director in the company. Ultimately Jan will only be able to be assured that her actions have had consequence if controls are put in place to prevent the practice from occurring.

This may well make Jan unpopular, and have adverse effects on her colleagues that have been stealing – however doing the right thing is not always the easiest thing to do, and this would demonstrate moral courage.

4.5 Manipulation of financial forecasts

Jan has a number of options in relation to Sami's request that she 'make profits look good'. She could firstly follow Sami's guidance, and 'window dress' in order to make forecasts look beneficial. This could take the form of active manipulation of forecasts by inflating certain numbers, or passively being less diligent and stringent in her calculations and assessment of the figures in order to ultimately present a better picture. She may decide to do this on the basis that less redundancies will be made, following a consequentialist teleological view of ethics.

The impact of this course of action would be that profit forecasts are inflated – Sami would get his pay rise, likely look favourably upon Jan, and potentially less employees would be made redundant. However in the long run, once these prove to be inaccurate and the real picture is unearthed, the company may be performing even more poorly as a result of the inflated forecasts, and this would then have an even more adverse effect on all stakeholders involved in the company. It may be that more redundancies are required than

originally thought as unnecessary staff have been retained and misguided pay rises have been awarded.

Further, Jan has a responsibility to show a true and fair representation of the company's performance and project performance, and act with professional competence and due care. By masking the true performance of the company, Jan could lose her CA status as punishment. Jan faces an intimidation threat as Sami is suggesting redundancies will be made as a result of her work, but she should not let this threat compromise her ethics.

She could do nothing – produce the forecasts as they should be, but not take any action regarding Sami's unethical request to 'make them look good'. This would show a true and fair representation of the company, fulfilling Jan's some of responsibilities as a CA, however it would still show a lack of integrity.

Jan could speak to Sami, and explain that she is preparing the accounts as they should be, and explain the consequences for herself, Sami and the company if it were to be discovered that they had deliberately misrepresented the figures. This may be difficult to do, but would demonstrate moral courage, and also virtue ethics as Jan would be doing the right thing.

By following the ICAS fundamental principles of ethics, and deciding that she should act morally regardless of the consequences, Jan could alert a superior to Sami's request. This should then be dealt with accordingly, and Sami disciplined – again, by informing someone at the Company that her immediate superior is acting in an unethical manner Jan may compromise her own position and relationship with Sami, but this would show moral courage.

If this does not occur, then Jan could make use of the ICAS ethics hotline in order to ensure that her next steps (potential whistleblowing) are dealt with in the correct manner as this can be a sensitive issue.

5 Recommended actions

5.1 *Misrepresentation of products*

Jan should demonstrate Moral Courage, and confront Marjorie regarding her concerns about the proposed marketing campaign. This could be in the form of an email to Marjorie, copying in CEO Bradley Johnson and if available, a member of the risk or legal department. If Marjorie does not respond, then Jan should contact Bradley or the legal team directly, again highlighting her concerns about the proposed marketing approach.

If there is still no course of action that has the desired effect, Jan should consider resigning.

5.2 Sami's focus on personal issues

Jan should speak to Sami about his proposed approach to redundancies. If (as expected) this does not have the desired effect, Jan should contact HR, and speak to Rachael Brigham to outline her concerns. This will not break confidentiality of the redundancies, and should ensure that the process is carried out fairly and objectively (as it should be), and that no individual employees are disadvantaged.

5.3 Jan's ethical dilemma

As a CA Jan has a responsibility to keep information acquired as a result of business dealings confidential, and thus she should do so regardless of the consequences for Susan. This may be difficult, but it would display strong moral courage and virtue ethics. Further, by reporting Sami to HR, the redundancy process will hopefully be carried out in a fair manner, meaning Susan may not even be at risk, therefore Jan could be causing unnecessary worry in addition to breaching the confidentiality principle of the Code of Ethics.

5.4 Employee misappropriation of assets

Jan should report the practice of theft from the production line to the production manager, or another suitable superior within the division that she is confident is not involved. – Based on the employee's request to 'not shout about it', superiors are unlikely to be aware of the practice. This will confirm whether employees actually have permission to be eating the biscuits, and if not it should lead to appropriate disciplinary action and adequate controls being put in place to prevent future theft of company stock.

5.5 Manipulation of financial forecasts

Jan should initially speak to Sami and tell him that she cannot go along with his request to make the figures 'look good'. She should also alert a superior to Sami's request. This will likely be Bradley Johnson, as Sami is Financial Director. This should then be dealt with accordingly, and Sami disciplined.

If this does not occur, then Jan should ensure she is familiar with the company whistleblowing procedures, and also make use of the ICAS ethics hotline in order to ensure that her next steps (potential whistleblowing) are dealt with in the correct manner, as this can be a sensitive issue. In order to obtain protection under the Public Interest Disclosure Act, Jan would need to have followed the correct internal reporting channels, before reporting externally.