

Professional Ethics Practice

Case Study

2021



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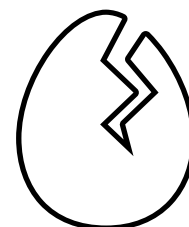
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Case Study 1: Under Pressure

Sam Fitzpatrick had been working in a large accounting firm for a number of years and had risen to the level of senior manager. Although she had the ambition to reach partner level, Sam believes this was not going to happen in the timeframe that was acceptable to her. Recently, a former auditing client had approached her advising her that the position of financial controller will soon become vacant, with a salary that was significantly better than she was currently on.



The client was in the telecommunications industry. Sam thought this was both an exciting, but challenging industry to be involved with, and decided to put in an application for the position. Sam read up all about the current challenges of a fast moving telecommunications company with its demands both on expanding infrastructure and dealing with multiple small clients. Sam's interview went very well and she was offered the position of financial controller which she accepted.

Sam's boss, Chris Ellis, was a veteran of the telecommunications industry with over 25 years' experience. Chris knew the workings of the industry and had done extensive work on the profitability of each of the pricing plans the company offered, and Sam was very impressed both with his knowledge and intellect. Chris was very likeable but also very demanding.

The company was a publicly listed subsidiary of an American parent which required it to produce quarterly results that were released to the market on specified dates. One of Sam's first jobs was to produce the results for the quarter ending 31 March 2021. Using all her previous experience as an auditor, Sam was reasonably confident that the results were accurate. However, when she presented them to Chris, his immediate reaction was to say that they were incorrect. When Sam asked why, Chris said that with all his knowledge of the telecommunication industry, the margins she was reporting could not be that low. Chris referred to the work he had been doing on the pricing plans as evidence of this. He said if we reported a margin that low to the market the impact on the share price could be catastrophic. "Sam you need to go away and rework the numbers".

Obviously new to the job, Sam was a bit shocked but acknowledged that Chris had a lot more industry knowledge than she did. Sam reworked the numbers and although she found a small number of errors they did not materially change the result that she had previously reported.

It was 8 o'clock Monday evening when Sam finally caught up with Chris with the amended results. Chris was furious. He told Sam in no uncertain terms that the margins were wrong. Based on his industry knowledge they cannot be that low and there must be a significant error in the system somewhere. However, we have another problem, the results are due to be released to the market by 9am tomorrow morning.

"I tell you what I want you to do now Sam" said Chris. "I want you to do a manual journal entry that will correct the margins to the level I know they should be. That way we will have three months to find out where the error was and then the next quarter results will be correct and no one will be any the wiser that we had an issue".

Case Study 2: Electrician On Call

Husband and wife team Joe and Jan operate a successful electrician business. As their accountant you usually deal with Joe who is the electrician although you are aware that Jan is a director and 50% shareholder in the business, and you meet with her once a year when the couple sign the business and personal tax returns.

In meeting with the couple last year you were aware of tension between the couple, and have heard through the grapevine that their house is for sale.

Joe has now contacted you to explain he is setting up a new company and will be operating through that in the future.



All assets in the existing business are to be transferred to the new company, of which he will be the sole shareholder.