

Ethics in the case study exams

In the latest of a series of articles for students preparing for Case Study exams, David Harris discusses how to use your knowledge of the CIMA Code of Ethics to earn marks.

Introduction

Students seem to struggle with any 'ethical dilemma' in the Case Study exams, and I can't really decide why. In some cases, I think it may be that studying the textbook content relating to ethics is seen as 'boring', though it really isn't. In others, it may be that students fail to spot an ethical aspect to a discussion, as they are concentrating on the core issue' (which isn't ethics).

What are ethics?

Ethics are simply a set of standards for what sort of behaviours are seen as acceptable or unacceptable. Ethical standards exist at three different levels – personal, professional and business.

Personal ethics are your own, individual views as to what is right or wrong. Personal ethics can't be examined, because it's inappropriate to project your own values onto someone else. Each of us has our own ethical standards – what one person sees as inappropriate may be completely acceptable to another.

Business ethics can only really be examined if the pre-seen or unseen information includes the company's own ethical code. Thus far, this has not happened, but you should look out for it in future Case Study exams. However, we can apply our own Code of Ethics to the work and behaviour of *any* professional, whether they are a management accountant or not, as all professionals should share common standards.

This leaves us needing an understanding of professional ethics, either to equip us to judge what behaviour is appropriate for our fellow accountants, or others in the organisation. However, this shouldn't be something we have to learn just for Case Studies. CIMA's Code of Ethics for Professional Accountants (The Code) is included in the syllabus in various places in the qualification:

- E1 Sections A, C, E and F
- F1 Sections A, B and D
- P2 Section D
- F2 Sections B and C
- E3 Section A
- P3 Sections A and B

As you can clearly see, this means that The Code, and its implications, can be examined in any of the three Case Study exams. It also means that you should already be familiar with it.

You can (and should) download The Code [here](#).

The code – what is examinable

The simple answer is 'all of it'! However, questions tend to concentrate on two areas; application of the 'principles', and identification of the 'threats'.

The principles of The Code are:

- Integrity: being straightforward, honest and truthful in all professional and business relationships. You should not be associated with any information that you believe contains a materially false or misleading statement, or which is misleading by omission.
- Objectivity: not allowing bias, conflict of interest or the influence of other people to override your professional judgment.
- Professional competence and due care: an ongoing commitment to your level of professional knowledge and skill. Base this on current developments in practice, legislation and techniques. Those working under your authority must also have the appropriate training and supervision.
- Confidentiality: you should not disclose professional information unless you have specific permission or a legal or professional duty to do so.
- Professional behaviour: comply with relevant laws and regulations. You must also avoid any action that could negatively affect the reputation of the profession.

The Code explains these principles, and gives examples of their use for professional accountants in practice (Part B) and professional accountants in business (Part C).

A breach of one or other of the principles often happens as a direct result of a ‘threat’ to that principle. Very briefly, the threats outlined in The Code are:

- Self-interest threat: commonly called a “conflict of interest” which may inappropriately influence judgment or behaviour.
- Self-review threat: when you are required to evaluate the results of a previous judgment or service.
- Advocacy threat: arising if promoting a position or opinion to the point that your subsequent objectivity is compromised.
- Familiarity threat: when you become so sympathetic to the interests of others as a result of a close relationship that your professional judgment becomes compromised.
- Intimidation threat: when you are deterred from acting objectively by threats, actual or perceived.

There are two different situations in which you can earn marks for the application of the Code, in Case Study exams – when directly examined, and when volunteered alongside the discussion of an issue.

Directly examined

In the November 2016 Management Case Study (MCS) exam, three of the five exam variants had a direct requirement relating to ethics. One of these is reproduced here, as it illustrates how ethics can be applied at a professional level to the work of an accountant.

“...The Board is still unsure whether to proceed with Wonderfilm (*a new product, developed in-house*). ...the end of the financial year is approaching fast, and the lack of a decision may force us to write off the development costs.

Please tell me why it would be wrong for us to prepare the financial statements on the basis that we intend to make use of Wonderfilm. That would let us tick all six criteria (in IAS 38) and capitalise the development costs.” N16 MCS Variant 4 Section 2

It should be clear to you that this suggestion is unacceptable. The most straightforward way to answer the question is to test the proposal against each of the principles of The Code.

This was exactly the approach taken by the examiner in the suggested answer to this section.

“This is clearly a question of ethics. We have the opportunity to manipulate reported profits in a manner that would not leave us exposed to subsequent accusations. If we wish to protect ourselves, then we can simply minute our intentions to proceed with Wonderfilm at a board meeting and claim that we changed our minds.

The CIMA Code of Ethics gives us a good place to start.

Integrity requires us to be straightforward, honest and truthful. Lucy’s suggestion is actually deliberately asking the board to lie, because no final decision has been made.

Objectivity requires us to set aside any conflict of interest. Lucy’s argument is effectively stating that the board can impress the shareholders and strengthen its position by choosing a misleading accounting policy. An objective decision would start with the facts and would report those honestly.

Professional competence and due care would require us to comply with all relevant accounting standards. We have IAS 38, which tells us that expenditure can only be capitalised if it meets six criteria. Only five of those criteria have actually been met and so we will be in breach, albeit a breach that would be difficult to prove.

Finally, we are expected to exhibit professional behaviour, avoiding harming our reputation. The reversal of such a significant accounting choice could easily cause the shareholders to question our intentions and our honesty. They may not accuse us of dishonesty, but they could question our competence.” *N16 MCS Variant 4 Section 2*

Ethics can also be applied at a ‘business’ level, to the work of others. The following example comes from the November 2016 Strategic Case Study (SCS) exam. In this case, the person asking the question is not an accountant.

“We have now had three months of operation without any serious issues for the cattle and without an appreciable decrease in milk yields. However, we are spending almost as much on antibiotics as we did before. That implies that the shed managers are using almost as many doses of antibiotics. They are either being overcautious in treating cattle or they are defying the instruction to stop.

...what are the ethical issues of me just ignoring our continuing expenditure on antibiotics? I could argue that I am unaware of any actual abuse of these drugs.” *N16 SCS Variant 1 Section 3*

Once again, we can use the principles of The Code, to test the behaviour.

“The question is actually very straightforward. Should you ignore your doubts? It would be simpler to do so, but there could be an argument that it would be unethical to do so. We might address this using the CIMA Code of Ethics.

Objectivity would imply that the facts should be interpreted in an unbiased manner without allowing the consequences of that interpretation to intrude. The temptation would be to argue that there is no specific reason to believe that the shed managers are not implementing the new policy. The shed managers might resist any investigation and so they might be pressuring you to ignore your suspicions. That interpretation lacks credibility and, at the very least, it requires some further investigation before it can be accepted.

Professional competence and due care requires you to consider your duties as a director. Board members are instrumental in establishing the control environment. Overlooking a possible breach in

the rules sends the message that the Board does not mind if the rules are broken. There are wider implications to ignoring the rules that go beyond the breach itself. As a member of the Board, you should always be conscious of the consequences of your actions.” *N16 SCS Variant 1 Section 3*

Indirectly examined

Occasionally, you might come across a question which does not ask about ethical issues, but where you feel that there is an ‘ethical dimension’. Here’s an example from the Strategic Case Study.

“...our Head of Information Systems, has investigated and has found that a team of our engineers was working on a project... ...using Lokwurk (*a software package*). Our team leader installed illegal copies of Lokwurk on the team’s workstations, after disabling the software’s copy protection.

Please draft a briefing that I can present to the Board on the implications of this issue for our understanding of AutoAuto’s organisational culture.” SCS August 2017 Variant 2 Section 2

In this case, the suggested answer only considered the legality of the team leader’s actions, and ethics was not mentioned. However, the action of the team leader is clearly a breach of the ‘objectivity’ and ‘professional behaviour’ principles. The team leader was not behaving objectively, as they allowed their need to get the work done (and save costs) to take priority over the legal and moral requirement to register the software and pay a fee (a ‘self-interest’ threat). Their behaviour was also unprofessional, as we would expect any manager to avoid breaking the law (using unlicensed software is theft).

Had you mentioned these ethical issues, you would have been awarded marks, and possibly also an ‘integration’ mark (for recognising a relationship between different knowledge areas).

A similar situation arose in the Operational Case Study in February 2017. It’s about bees...

“Joseph raised the idea of importing queens from Bucland... He said that queens in Bucland were a lot cheaper to buy than here in Tucland. Joseph suggested that we could continue to market the queen bees as if we’d reared them, and sell them as our bees, and no-one would need to know... However, I’m not so sure about selling the imported queen bees as our bees, as there is a consumer protection law in Tucland which states that the origin of any goods which are sold to consumers needs to be declared.

I’d like you to help me by drafting sections for the report which cover... ...any corporate social responsibility issues arising from selling imported bees under our own label.” OCS February 2017 Variant 5 Section 4

In this case, we need to remember that ethical responsibility is a key part of CSR. Once again, the suggestion seems to represent a self-interest threat (a decision being made simply to increase profits) to the principles of integrity and professional behaviour. The examiner touched on this, in their suggested answer, but it would have been acceptable to include more detail in your answer, had you chosen to do so.

“If we were to sell imported bees as Mavis Venderby or Griggs Hives queen bees, without declaring that we had not reared them, this would be a breach of our corporate social responsibilities in two main ways.

Firstly, there will be a breach of our legal responsibility. If we do not declare the bees have been imported, then we will not be adhering to the consumer protection law that requires such

declarations. It's possible that we therefore expose the business to the risk of not only fines but also bad publicity as a result of breaking the law.

Secondly, there will be a breach of our ethical responsibility. To meet our ethical responsibilities, we must act with integrity and in a just and fair way. Misleading our customers will not be acting with integrity because we will not be telling the truth about the origin of the bees. The impact of this will be compounded because we will be selling bees that we potentially know little about in terms of their ability to cope with our Tucland climate and their temperament. If we act this way and are then subsequently found out, this will again damage our reputation as an ethical and moral business.”

OCS February 2017 Variant 5 Section 4

Conclusion

I hope this article has given you some ideas how you could improve the ways that you use your knowledge of The Code in your Case Study exams. Ethical behaviour is one of the key principles that underpins any 'profession' and, as such, will continue to be examined frequently at all levels of the qualification.

Next steps

As well as reading The Code, you should improve your ability to apply it. There's a useful quiz available [here](#).

This quiz will allow you to improve your familiarity with The Code, and its application to a range of situations.

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