

Suspicion of false accounting

We outline a case from the CCAB's ethical dilemmas for professional accountants working in business

Outline of the case

You are a recently qualified accountant and have accepted a job as financial controller for a well-established family business which supplies equipment to photographers, both online and from its warehouse outlet. Its customers range from enthusiastic amateurs through to part-time professionals and owners of busy studios.

The customers' payment methods reflect their diversity. There are debit/credit card transactions and customers with 30-day credit business accounts. There is also a surprisingly large number of customers who collect their goods from the warehouse and pay in cash. You are told that cash payment probably reflects the nature of the customers' own receipts, as some photographers will often be paid in cash for weekend wedding assignments. In your first week at the company, the sales director (the principal shareholder's close family relative) brings to you a cheque in settlement of the account of a major customer. They explain that the cheque (which appears to clear the amount due) is in fact an overpayment, as the balance showing on the sales ledger is before allowing a bulk discount (which is calculated retrospectively).

The sales director shows you the calculations and the agreement as authorised by the board of directors. The sales director states that the customer's managing director has come to collect the discount in cash. They say that this is not an unusual occurrence for some of the company's better customers. It helps to maintain a good relationship with those customers, which leads to purchasing loyalty. Another benefit of this arrangement is that it gives the sales director regular face-to-face meetings with the senior staff of those customers. It also reduces the high charges that the bank makes for handling cash.

You ask the sales director why the customers prefer to receive a refund in cash, rather than simply pay the net amount needed to settle the account. They reply, with a smile, that it is not for them to question the customers' motives.

Questions

As a professional accountant in business:

- Which fundamental principles feature more prominently for safeguarding?
- What would be your key considerations in your approach to resolving the dilemma present?
- What course of action would you take to resolve the dilemma?

Key fundamental principles

Integrity: You and the sales director have suspicions about the motives of some customers who regularly overpay the company and receive refunds in cash. Are you acting with integrity if you do not question those motives?



Objectivity: Being new to the company, you are likely to feel intimidated by the directors, who are all members of the same family. Can you ensure that the intimidation threat does not adversely affect your ability to make ethical decisions?

Confidentiality: You should consider whether you have a responsibility to discuss the practices of the company and its major customers with third parties, once all other reasonable steps have been taken.

Professional behaviour: You must comply with relevant laws and regulations and not assist others to act illegally or unethically. You must not do anything that may discredit you or the accountancy profession.

Considerations

Identify relevant facts: You are aware that some of the company's customers are overpaying their accounts with the company and receiving repayments in cash. If credit notes are issued to the customers in respect of the retrospective discounts, these could be concealed by the customers, who can then understate their profits. Although there are quite legitimate benefits to your employer, you and the sales director have reasonable suspicions that the customers concerned are false accounting.

Identify affected parties: These include you, the sales director, some of the company's customers, the tax authority and other stakeholders in the company.

Who should be involved in the resolution: You, the sales director and maybe those charged with governance should be involved in the discussions. Are there other trusted colleagues with whom you can discuss your position? Is it necessary to involve those charged with governance in the customers' businesses?

Possible course of action

As you are currently unfamiliar with the

procedures of your new employer, you should try to establish the extent of the issue. You might achieve this by reviewing the sales ledger accounts that have shown credit balances in recent months and have subsequently been cleared by cash refunds. If your understanding is correct, these accounts will relate to some of the company's major customers.

Having established the facts, you should discuss the issue with the sales director and then, if necessary, those charged with governance such as the other board members. In each case, you should prepare for the meeting and try to propose an acceptable solution to overcome any resistance that you may encounter. You may wish to discuss the issues, taking care to maintain confidentiality, with a trusted advisor, e.g., a colleague or your professional body. You should advise the directors of the opportunity for fraud that you have noticed regarding the cash refunds, and that the company could suffer adverse consequences and reputational damage if it is allowed to continue.

You could also explain to the directors the ethical code of your professional body, and that you cannot simply ignore the situation.

If you feel the need to resign in order to disassociate yourself from the unethical practices, then you may wish to seek legal advice on your employment and whistleblowing rights and responsibilities and any protection you might seek from legislation. However, resigning is not a substitute for taking required actions.

You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in the future. **PQ**

• The CCAB case studies illustrate how the codes of ethics of the CCAB bodies can be applied by professional accountants and the five sets can be found at <https://tinyurl.com/ycxj4pxx>