



Ethical Dilemmas Case Studies

**Professional Accountants Working
in the Voluntary Sector**

December 2011

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CCAB Ethical Dilemmas Case Studies for Professional Accountants Working in the Voluntary Sector

Introduction

The following case studies were developed by the UK and Ireland's Consultative Committee of Accountancy Bodies (CCAB). They illustrate how the ethical codes of the CCAB bodies can be applied by professional accountants working in the voluntary (or 'third') sector. These scenarios are not intended to cover every possible circumstance, but instead to outline key principles and processes that could be considered when attempting to identify, assess and resolve ethical problems in line with the ethical codes. These case studies were published in December 2011. The CCAB welcomes comments on these cases. Please email admin@ccab.org.uk.

The professional accountant in the voluntary sector

All members (and registered students) of CCAB bodies have a responsibility to behave professionally and ethically at all times. In addition, a professional accountant in a visible role within an organisation will have a particularly important role to play in creating, promoting and maintaining an ethical culture within that organisation. You may be approached by others wishing to report unethical behaviour and, as a senior figure within the organisation, you will have an impact on its ethical tone. An accountant in the voluntary sector carries a great deal of responsibility, and may be subject to scrutiny by the staff and members of the local community.

A professional accountant working in the voluntary sector has a responsibility to further the legitimate aims of the organisation for which he or she works. The ethical codes of the CCAB bodies do not seek to hinder the fulfilment of that responsibility, but address circumstances in which compliance with the fundamental principles may be compromised. The professional accountant is required to act in the public interest, which requires objectivity to be exercised at all times. On occasions, it may be difficult to reconcile this requirement with the duty to act in the interests of the voluntary sector organisation. Therefore, it is important to understand the conceptual framework approach to resolving ethical dilemmas.

Resolving ethical dilemmas

These case studies are compatible with the ethical codes of the CCAB member bodies, which are derived from the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA).

The case studies illustrate the application of the 'conceptual framework' approach to resolving ethical dilemmas. This approach focuses on safeguarding the fundamental principles of:

- integrity,
- objectivity,
- professional competence and due care,

- confidentiality, and
- professional behaviour.

In order to do so, it is important to be alert to situations that may threaten these fundamental principles. Identified threats need to be evaluated and managed, to ensure that they are either eliminated or reduced to an acceptable level. Threats may arise as a result of any of the following:

- self-interest: the threat that a financial or other interest will inappropriately influence your judgement or behaviour
- self-review: the threat that you will not properly evaluate the results of a previous judgement made or service performed by you (or someone else within the organisation) when forming a judgement as part of providing a current service
- advocacy: the threat that you will promote a position (usually your employer's) to the point that your objectivity is compromised
- familiarity: the threat that, due to a long or close relationship with someone, you will be too sympathetic to that person's interests, or too accepting of their work
- intimidation: the threat that you will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over you.

When resolving an ethical conflict, consider carefully whether other parties could or should be involved in discussions and, if appropriate, how those parties should be approached. You should keep in mind confidentiality obligations. However, if you are facing, or think you might be facing, an ethical dilemma, you may wish to seek advice from a trusted colleague within the organisation, your professional body or an independent lawyer.

As a professional accountant in the voluntary sector, you may have a significant level of trust placed in you – for example, by the beneficiaries, donors and trustees. The organisation may not be large, and there may be limited scope for robust internal controls. This makes it particularly important that you document thoroughly your actions in response to any ethical dilemma, including any advice obtained. Such documentation may be by way of minutes or by way of your own records. In many situations, the perception of a reasonable and informed third party will be relevant to the resolution of the dilemma, and you might be required to evidence the steps you took to resolve the issue.

These case studies do not form part of the CCAB bodies' ethical codes. You may find it useful to refer to the advisory services and websites of the individual CCAB bodies for further information. The IFAC website may also be of use.

December 2011

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Outline of the case

You are a self-employed consultant, engaged by the executive board ('the board') of a charity to write an internal report concerning the operation of the charity's internal controls. The board manages the charity on behalf of the trustees. You are concerned that unauthorised payments have been made by former trustees using the charity credit card for their personal use. Therefore, in your report, you have suggested various policies and procedures that should be put in place to prevent this practice in the future, and have recommended that the individuals in question should be investigated by the appropriate authority.

You have presented your report to the board, but you suspect that it will not act on your recommendations, as it would prefer to avoid negative publicity. You are unsure whether to take this matter forward yourself or leave it to the charity to address.

Key fundamental principles

Integrity: Having presented your report, can you overlook these unauthorised payments by the former trustees and still demonstrate integrity?

Confidentiality: To whom should you turn for advice? Do you have whistleblowing obligations?

Professional behaviour: You must comply with relevant law and regulations. What are your responsibilities? How should you proceed so as not to discredit yourself or your profession?

Considerations*Identify relevant facts:*

The former trustees have committed fraud. You have brought this to the attention of the board and provided your recommendations. The priority of the board is to protect the charity's reputation, and so it appears likely that the charity will amend its procedures but will not take action against the former trustees who have misused the charity's credit card.

Consider the published ethical policies of the charity, and also any applicable law and regulations. Quantify the extent of the fraud, and ensure you have sufficient evidence.

Identify affected parties:

Key affected parties are you, the former trustees and the board. Other affected parties may be the current trustees, and the beneficiaries of the charity.

Who should be involved in the resolution:

You should involve the board and one or more of the current trustees.

Possible course of action

You are right to be concerned about the ethical implications of this situation. You have met your responsibilities to the charity in providing the board with an objective report. However, you have knowledge of an illegal act, and you must consider your whistleblowing responsibilities.

First, you must check the relevant facts. You know that the former trustees have misused the credit cards in their possession but, if possible, you should quantify the extent of the fraud, and evaluate the evidence you have. The fact that the charity is concerned about negative publicity suggests that the extent of the fraud is not insignificant. You are required to have regard to the interests of the charity and its beneficiaries, as well as the wider public interest.

If the board has already discussed your report, you should request a meeting with the board, at which you should highlight and explain some of the report's contents. If you are still of the opinion that the illegal acts of the previous trustees will not be properly addressed, and you consider the extent of the fraud to be significant, you should discuss your responsibilities with one or more members of the board. If you cannot reach agreement, you should consider how you might best address the board of trustees.

Ultimately, you should determine whether it is either required by law or in the public interest to disclose the fraudulent activity to a third party. Where the public interest is involved, you should bear in mind the need to balance the interests of the charity and its beneficiaries with the wider public interest. However, if you have a legal obligation to whistleblow, your judgement of the public interest becomes irrelevant.

You must consider your responsibilities according to civil and criminal law. You may seek assistance from your professional body, and it may be necessary to obtain independent legal advice.

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

Outline of the case

You are an accountant appointed as a voluntary member of a school governing body. You also serve on the finance and buildings committee of the school, which is responsible for awarding building contracts. The membership of the committee includes a number of local businessmen. One is a builder – a long-standing governor who is well respected by the community and the board of governors ('the governors').

At your first meeting, the committee considers a report from the head teacher about the condition of the school hall. The report sets out a scheme of remedial building works, with estimated costs. After discussion of the scheme, and recognising the need to move quickly if the work is to be carried out during the summer vacation, the builder on the committee offers to do the work at a competitive price. The other members of the committee are minded to accept the offer.

The finance and buildings committee reports to the governors. In this case, the governors are not considering the use of a formal tender process, or making any reference to the existing governance arrangements in respect of tenders.

You are concerned that the committee (and consequently the governors) will be unable to demonstrate reasonable decision-making and stewardship of public money. Although it may be in the best interests of the school to accept the builder's offer, you are concerned that established procedures are not being followed, and that the decision made is somewhat subjective. The governors and the committee may be vulnerable to criticism.

Key fundamental principles affected

Integrity: Can you demonstrate integrity by highlighting the lack of due process, while not impeding the progress of the building works?

Objectivity: Is it possible for the governors to demonstrate objectivity without implementing a tender process? Can you remain objective in the face of pressure from the committee to accept the builder's offer?

Professional behaviour: The need for you to demonstrate professional behaviour in a voluntary appointment is just as important as it is in paid employment.

Considerations*Identify relevant facts:*

Consider the school's policies and procedures regarding tenders. Do the governors have a code of conduct? Study the head teacher's report to establish the urgency of the building work, and determine the summer vacation period during which the work should be performed.

Identify affected parties:

Key affected parties are you, the other members of the committee (including the builder) and the governors. Other possible affected parties are other local builders, who might wish to tender for

such work, and the general public, as the work is to be financed by public funds.

Who should be involved in the resolution:

You should involve the chairman of the finance and buildings committee and ultimately the chairman of the board of governors. You might be able to gain support from other members of the committee, and it would be diplomatic to involve the builder on the committee.

Possible course of action

You should make your concerns known, and explain to the other members of the committee why you feel acceptance of the offer from the builder on the committee could be inappropriate in the absence of a formal tender process.

You should make it clear that you are acting in the best interests of both the school and the local community. If you have to raise your concerns forcefully, you should try to provide constructive advice, rather than be seen as simply impeding the building works. Try to demonstrate how the process of tendering for and performing the work may still be completed during the summer vacation. If this is not possible, explain that the benefits of delaying the work will include protecting the school's reputation.

If, in your opinion, the building work is significant, you should try to insist that the award of the contract be subject to a proper tendering process. You will encounter less resistance from the committee if you gain the support of other individual members, including, if possible, the builder and the committee chairman.

You should explain that the committee needs to demonstrate a proper decision-making process that would support any contract awarded. This would protect the governors from the potential reputational risk that the school is not seen to award contracts properly. If your views are not heeded by the committee, you should raise the matter at the next meeting of the governors. You would first need to refer the matter to the chairman of the board of governors. It may be advisable to discuss the matter with other governors in advance of the meeting.

After taking these steps, if the prescribed tender process is not adopted, you should consider disassociating yourself from the board of governors. The value of resigning as governor should be weighed against the value of remaining in order to influence events.

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

Outline of the case

You have recently been appointed management accountant for a charitable company, and have been asked to prepare a grant claim. As you are new to the company, this is the first year you have prepared the claim. However, the company has been claiming the grant for a number of years.

When reviewing the detailed cost information, you find that some inappropriate expenditure was included in the past, which increased the amount of grant awarded. This incorrect approach was consistently applied to previous claims, and the external auditor signed off the claims without qualification. Your predecessor had a close working relationship with the auditor.

Your manager is also new to the organisation. He is a member of the same golf club as the external auditor, and you are concerned that they might have a close relationship which could prevent the issue being addressed objectively.

Key fundamental principles

Integrity: Can you overlook the inclusion of the inappropriate expenditure and still demonstrate integrity?

Objectivity: In view of the good relationship that the company has built up with the auditor, how can you retain objectivity and also persuade your manager to do the same?

Professional competence and due care: Do you have the competence to explain to the interested parties the errors made in the past and how to disclose them and account for them?

Professional behaviour: How do you safeguard your professional reputation?

Considerations*Identify relevant facts:*

Consider the charity's policies, procedures and ethical guidelines. Ensure you fully understand the grant application process and how to amend past errors. Do you need to perform further work to quantify the errors made in the past?

Identify affected parties:

Key affected parties are you, your manager and the charity. Other possible affected parties are the auditor, your predecessor, the grant-awarding body and the beneficiaries of the charity.

Who should be involved in the resolution:

Consider not just whom you should involve but also why and when. You should involve your manager, the board if necessary, and possibly the external auditor.

Possible course of action

You are right to be concerned about the ethical implications of this situation. A professional accountant must prepare information in a manner that represents the facts accurately in all material respects. Accordingly, you should not be associated with reports, returns or other

information which you believe may contain materially false or misleading statements.

First, you should check the relevant facts. You should then discuss the situation with your manager, so that he is aware of the errors included in the previous claims. You and your manager may agree to raise the errors with the external auditor together, in order to reach a decision on how to address the previous grant claims. If your manager's response is not satisfactory, it may become necessary for you to involve the board or the audit committee yourself.

You might not have direct access to the external auditor. Therefore, if the board does not seek to disclose the errors to the grant-awarding body, you should consider your whistleblowing obligations. In the case of a charitable company, the public interest considerations may be complicated, and you should seek advice where necessary, for example from your professional body or an independent lawyer.

You should try to ensure that future grant claims are accurate and honest. If you believe that the charity is submitting inaccurate claims, you should take steps to disassociate yourself from them. In extreme circumstances this might require your resignation.

During the resolution process it would be helpful to document, in detail, any discussions held, and the reasons for the decisions reached in resolving your dilemma, in case your ethical judgement is challenged in the future.

Outline of the case

You are director of finance for a charitable organisation. Aspiring to improve standards, you have worked hard to introduce tighter internal systems and to enhance inter-departmental relationships, and this has helped mould the finance staff into a more effective and dedicated team.

Two years ago you recruited a deputy, David, who, while technically competent, has increasingly sapped your own job satisfaction. Some of your longer-serving staff have commented informally to you that they find it irritating how David often seems unwilling to share information without being pressed. Some volunteers and staff have also told you that his attitude to them has made them consider resigning. However, no staff have formally complained or yet left the organisation.

There is tension between yourself and David. He seems to resent any suggestions that you offer and to be incapable of receiving even mild criticism without taking offence. He has implied, several times, that he feels he is being unfairly harassed and bullied when you believe that you are simply requiring 'best practice'.

You have discussed this situation informally with the chief executive. Although she has found David sometimes awkward and defensive, and she knows that another director also considers him somewhat abrasive, she has identified nothing that would warrant disciplinary action.

David informs you that he has reached the shortlist for director of finance at another charity, and he believes he is a strong candidate. Quietly, you feel elated at the prospect that he might be leaving.

The following day you receive a letter from David's prospective new employer. (David has offered your name as referee without seeking your agreement.) The letter asks questions concerning the ability of the candidate to work in teams, to motivate volunteers and to accept advice. For several reasons, you would very much like David to be offered the position with the other charity. However, you are concerned that an honest response to the enquiries would jeopardise his chances of success, as such a response can only be negative.

Key fundamental principles

Integrity: Can you respond to the letter in an honest and straightforward manner?

Objectivity: Can you provide a response that is unbiased? Can you avoid producing a response that is unduly influenced by either self-interest or the interests of the charity for which you work?

Considerations

Identify relevant facts:

Consider your professional body's code of ethics, applicable law and regulations concerning the disclosure of employee information to a prospective employer, and your organisation's policies and procedures.

Identify affected parties:

Key affected parties are you, David and the two charities concerned. Other employees and volunteers within the charity for which you work are also affected by David's ongoing employment by the charity and his perceived behaviour.

Who should be involved in the resolution:

As this dilemma concerns sensitive information about an employee, you have limited opportunities for consultation, and you should act with discretion. If the charity for which you work does not have a personnel department with adequate knowledge, you may have to seek external legal advice. You should consider involving the chief executive and the board.

Possible course of action

A professional accountant has an obligation to comply with the fundamental principles. There may be times when these obligations and the professional accountant's responsibilities to an employing organisation are in conflict. Where compliance with the fundamental principles is threatened, you must respond appropriately.

As you have discussed David's behaviour with the chief executive in the past, it would be advisable to involve her, either as the author of the response or the reviewer of your own response. This will provide a degree of objectivity, but will not completely overcome the threat imposed by the interests of the charity.

If there is a personnel department or a lawyer within your organisation, you should seek advice concerning the appropriate response to the letter. If you cannot obtain the necessary advice internally, you should consider taking independent legal advice. It may be appropriate to provide a limited response, indicating that it is not your organisation's policy to provide references beyond confirming that David was deputy director of finance for the period for which he was employed. Above all, your response must be honest; if you have any doubts, you may seek advice from your professional body.

If David remains with your organisation, the issue of his compatibility with you and your colleagues will remain unless it is addressed. Currently, disciplinary action is not appropriate. However, you, a member of the personnel department, or the chief executive should discuss the problem with David with a view to resolving it. If the approach is reasonable but David is uncooperative, disciplinary action may become unavoidable.

You should document, in detail, the decisions you take in resolving your dilemma, in case your ethical judgement is challenged in the future.

Outline of the case

You have been working as director of finance for a medium-sized charity for just under a year. A more junior colleague informs you that your predecessor incorrectly declared the various benefits of the charity's senior staff over a number of years, with the intention of reducing the charity's employment tax liability.

The value of the undisclosed benefits is high in relation to the size of the charity, which is not considered to be in a sound financial state. Your colleague has performed some broad calculations, and advises you that the amount of tax relating to the undisclosed benefits would probably be large enough to push the charity into insolvency. Accurately calculating and declaring to the tax authority the undisclosed benefits might create a tax liability that would force the charity to cease operating.

You fear the repercussions for you, your colleagues and other stakeholders, most notably the charity's beneficiaries. Nevertheless, you feel that you have a duty to declare the undisclosed benefits to the tax authority. You have spoken to the charity's trustees, and made them aware that there is a large outstanding tax liability. However, they have denied you permission to declare the undisclosed benefits to the tax authority, or to account for the tax liability in the charity's financial accounts.

Key fundamental principles

Integrity: Can you comply with the wishes of the trustees, and still be deemed to be acting in a straightforward and honest manner?

Objectivity: Can you determine the appropriate course of action, despite the threats to your objectivity in the form of self-interest (regarding your future employment) and intimidation by the trustees?

Confidentiality: Without proper authority, you should not disclose to third parties any information acquired as a result of your employment, unless there is a legal or professional obligation to disclose. Therefore, you must consider any whistleblowing responsibilities you may have.

Professional behaviour: You are required to comply with relevant law and regulations. Could any of the actions you are considering discredit you or your profession?

Considerations*Identify relevant facts:*

The charity has a liability in respect of employment tax, which is thought to be material, and could threaten the ongoing existence of the organisation. You must determine the best estimate of the actual tax liability, and establish the facts with regard to the responsibilities of the charity and the trustees when possibly facing insolvency. Should the trustees refuse to sanction the disclosure of the undeclared benefits to the tax authority, you must determine your whistleblowing obligations in the light of relevant legislation. You must also be aware of your responsibilities should the trustees refuse to sign the financial accounts containing the estimated tax liability.

Identify affected parties:

Key affected parties are you, the charity, other senior staff, the tax authority, the trustees, and the beneficiaries of the charity. It also appears likely that other stakeholders, such as creditors, are affected by the threat to the charity's ability to continue as a going concern.

Who should be involved in the resolution:

Although you have already brought the matter to the attention of the trustees, you should continue to involve them and seek their cooperation. If you have any doubts concerning your competence to calculate the tax liability or claim mitigation to the tax authority, you should involve someone with the necessary experience. There may be other directors and senior staff with whom you can discuss your ethical dilemma and the technical issues involved.

Possible course of action

You must quantify as accurately as possible the tax liability arising on the undisclosed benefits, so that you can advise the trustees of the implications. Even before accounting for the liability, there is a threat of insolvency, and so you should already be providing the trustees with regular and detailed financial information.

You have discussed the additional tax liability with the trustees, and so they are aware that there is an amount outstanding that could render the charity insolvent. However, your responsibilities do not end there. As a qualified accountant, you should be aware of relevant insolvency legislation, and advise the trustees accordingly (obtaining detailed advice on their behalf from an insolvency practitioner if necessary). You should make absolutely clear to the trustees the possible consequences of concealing the liability and continuing to trade, which may have legal implications for the charity and its trustees personally.

You should also explain to the trustees the code of ethics by which you are bound as a professional accountant. You cannot simply ignore the situation. You are expected to have a higher level of knowledge and skill than other employees. Therefore, you should determine your own liability should the charity be deemed to be trading illegally. It would be advisable to make the trustees aware of your responsibilities.

Having made the trustees fully aware of the issues, you should seek to offer some positive advice. For example, you might be able to suggest ways in which the tax liability may be mitigated (which is more likely through voluntary disclosure), and you might explain the possibility of the tax authority agreeing to the payment of the liability by way of instalments.

You cannot help the trustees to conceal the tax liability. If they cannot be persuaded to disclose it to the tax authority, you must not be associated with the deceit. With regard to the financial accounts, it may become necessary to resign in order to disassociate yourself from them.

In addition, you must consider any obligations you may have to disclose the liability to the tax authority, without the charity's permission, or to disclose to the appropriate authority the concealment of the liability in the financial accounts. You could consult a lawyer or your professional body for advice. There are also organisations that can provide advice regarding your employment rights in such a situation.

You should document, in detail, the steps that you take in resolving your dilemma, and any discussions held. This may serve to protect you if the charity goes into liquidation, or your ethical judgement is challenged in the future.

Outline of the case

You are a trustee of a charity, which has total incoming resources of approximately £500,000 and total assets of approximately £200,000. You recently discovered that, almost a year ago, the respected, long-standing treasurer of the charity 'borrowed' £40,000 from the charity's funds. At the time, the charity's bank accounts held £100,000, of which £30,000 belonged to the general fund and £70,000 to the restricted fund.

The treasurer had been experiencing personal financial difficulties arising from the partition of his business following an acrimonious divorce. He has explained to you that he borrowed the money because his company was up to its bank overdraft limit, and he had to pay the employees' wages. He had used one of the blank cheques signed by another trustee that the treasurer traditionally held to cover emergencies while the other trustees were on holiday. His intention had been for this only to be for a few days, as he was expecting a large trade debt to be settled imminently, relieving the pressure on the overdraft.

To compound his misfortune, the debtor then went into liquidation, and the treasurer could not pay back the 'loan' from the charity immediately. Nevertheless, he had hoped to trade his business out of financial difficulty. All this occurred a month before the charity's financial year end. The treasurer successfully delayed the audit for a few months while he tried to pay back the money to the charity. He has managed to pay back £15,000 since the year end. The charity's audit will begin next week.

The other two trustees had known about the treasurer's divorce and the financial pressures facing him and his business, and they are sympathetic towards him. The treasurer is trying to persuade you and the other two trustees that £40,000 can be included in the charity's trade debtors at the year end, as a debt due from his company, and he will return the remaining £25,000 as soon as he can.

Key fundamental principles

Integrity: The treasurer's conduct was dishonest, and he is proposing to conceal it within the charity's accounts. If you agree to assist him in his deception, you will not be acting in a straightforward and honest manner.

Professional competence and due care: You need to ensure that you understand the necessary disclosures in the accounts and any whistleblowing requirements in respect of the treasurer's dishonesty.

Professional behaviour: How should you proceed so as to comply with relevant law and regulations, and not discredit yourself or your profession?

Considerations

Identify relevant facts:

The treasurer misappropriated a significant amount of money from an organisation whose interests you have been entrusted to protect. He appears to have been open with you and the other trustees recently, but you must now be sure of your obligations towards the charity, its auditors and users of the charity's accounts.

Identify affected parties:

Key affected parties are you, your fellow trustees, the treasurer and the auditors. Also affected are the charity, its beneficiaries and users of the charity's accounts.

Who should be involved in the resolution:

You should consider to what extent the treasurer and the other trustees should be involved. However, the auditors will certainly need to be advised of the situation.

Possible course of action

You should discuss the matter with the other trustees to ensure that they do not seek to cover up the treasurer's fraudulent behaviour. You should advise them that the accounts should reflect what actually occurred, and it should be explained to the auditors.

You need to consider whether the treasurer should be immediately removed as a trustee. Alternatively, if you and the other trustees consider that the treasurer, as a well-respected trustee in the past, has, for the vast majority of the time, served the charity well, you may determine that the charity would be best served if he were to remain. You and the other trustees may need to take advice on this.

Not only were the treasurer's actions dishonest, but there is no guarantee that the remaining £25,000 debt to the charity will ever be repaid. As a professional accountant, and also specifically as a trustee, you must be aware of your whistleblowing obligations under the law, as well as your responsibilities to safeguard the charity's assets. There are also likely to be other blank signed cheques in existence, and this undermines the charity's internal control system. You have a duty to cooperate with the auditors, and the auditors may have a statutory duty to report the fraud and whether or not the trustees have reported it. However, your own interest in the fact that the auditors may report you should not be relevant to your ethical decision.

Fraud has taken place and so you may also need to consider whether you have any other whistleblowing obligations. Failure to whistleblow might be construed as negligence, and the trustees might be opening themselves up to a personal liability.

You could consult a lawyer or your professional body for advice at any time. You should document, in detail, the steps that you take in resolving your dilemma, and any discussions held. This may serve to protect you if your ethical judgement is challenged in the future.

Consultative Committee of Accountancy Bodies

ICAEW | ACCA | CIPFA | ICAS |
Chartered Accountants Ireland

tel: 020 7920 8100
fax: 020 7920 8783
email: admin@ccab.org.uk
web: www.ccab.org.uk

PO Box 433
Chartered Accountants' Hall
Moorgate Place
London EC2P 2BJ