

QUESTION 4: ETHICS (CAF7 S18)

Umer Sheikh, ACA is Manager Finance at Charming Limited (CL) and reports to Abid, FCA who is the Chief Financial Officer of CL. Abid is also a close relative of the major shareholder of CL.

CL is negotiating an important financing arrangement with Union Standard Bank (USB) in order to expand its business in foreign markets. The rate quoted by USB is comparatively higher than existing rates being paid by CL.

During a meeting with the Executive Vice President (EVP) of USB, where Umer Sheikh was also present, Abid revealed that his son has applied for a house financing in USB last month but has not received any response from USB so far. Abid requested EVP to consider his application. EVP agreed to look into the matter. On conclusion of the meeting, Abid asked Umer Sheikh to prepare a note for the board of directors proposing the acceptance of the rate offered by USB.

Required:

Briefly explain how Abid may be in breach of the fundamental principles of ICAP's code of ethics. Also state the potential threats that Umer Sheikh may face in the above circumstances and how he should respond. (08)

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In the given situation, CFO may be in breach of:

Principle of professional behavior:

This principle imposes an obligation on all chartered accountants to avoid any action that the chartered accountant knows or should know may discredit the profession. CFO should have avoided discussing his personal interest in official meeting.

Principle of objectivity:

Chartered Accountant should not compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. In this circumstance, he has compromised his professional and business judgment due to his personal interest as he requested the EVP to consider application of his son who has applied for house financing in USB.

Principle of integrity:

Chartered Accountant should be straight forward and honest in all professional and business relationship. It seems that CFO may be inclined to accept higher mark-up rate as compared to existing rate being paid by CL, resulting breach of integrity.

Intimidation threat faced by Mr. Umer

Umer may face intimidation threat from his superior if he would raise his objection on acceptance of higher mark-up rate offered by the Bank specially where his superior i.e. Abid is a relative of principal shareholder too.

Available safeguards

If this threat is significant Umer should consult with superiors within the organization in order to eliminate or reduce it to an acceptable level.

Where it is not possible to reduce the threats to an acceptable level, Umer:

- should refuse to associate with this financing arrangement.
- should consider informing appropriate authorities like Audit Committee / CEO.
- seek legal advice or may resign.