

YEAR 13 – ACCOUNTING

WEEK 2 – SUMMARISED NOTES AND WORKSHEET

STARND ONE: NATURE OF ACCOUNTING

STRAND OUTCOME: Explain ethics and fraud

SUBSTRAND: ETHICS AND FRAUD

ACHIEVEMENT INDICATOR: Define ethics

ETHICS

Ethics are moral principles that guide the way an individual behaves.

ACHIEVEMENT INDICATOR: Describe the role of the accounting profession.

The role of the accountancy profession is:

- The responsibility to act in the public interest.
- The professional accountant should observe and comply with the ethical requirements of the ethical code of conduct while acting in public interest.

ACHIEVEMENT INDICATOR: Discuss the code of conduct for professional accountants.

1. **Integrity:** to be straightforward and honest in all professional and business relationships.
2. **Objectivity:** to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
3. **Professional Competence and Due Care:** to maintain professional knowledge on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
4. **Confidentiality:** not to disclose any information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage.
5. **Professional Behavior:** to comply with relevant laws and regulations and should avoid any action that discredits the profession.

ACHIEVEMENT INDICATOR: Define fraud.

Fraud which is also referred to as fraudulent act is an intentional deception that causes its victims to suffer an economic loss.

ACHIEVEMENT INDICATOR: Describe the various types of fraud.

1. Embezzlement

Is the act of withholding assets for the purpose of conversion (theft) of such assets by one or more persons to whom the assets were entrusted.

2. Forgery

It means falsely altering a writing of an official document by which the legal rights or obligations of another person are affected. For instance, falsely signing a cheque.

3. Corruption

It is unlawful or wrongfully misuse of influence in a business transaction to gain personal benefit contrary to an individual's duty to his or her employer or the rights of another.

4. Bribery

It means offering, giving, receiving or soliciting of something of value for the purpose of influencing an official act.

5. Asset Misappropriation

Asset misappropriation involves the theft or misuse of an organization's assets. For instance, stealing inventory, payroll fraud etc.

6. Tax Evasion

It is the situation in which businesses illegally avoid tax.

7. Skimming

Skimming is the theft of cash from the victim entity prior to its entry in an accounting system.

8. Cash Larceny

It means the theft of an organisation's cash after it has been recorded in the accounting system.

ACHIEVEMENT INDICATOR: Explain the term whistleblower.

A **whistleblower** is a person who exposes any kind of information or activity that is deemed illegal, unethical, or not correct within an organisation that is either private or public.

ACHIEVEMENT INDICATOR: Identify the institutions that deals with fraudulent activities in Fiji.

Fiji Independent Commission Against Corruption (FICAC)

FICAC is an anti-corruption agency in Fiji, which fights against corruption and promotes transparency and accountability to create a sustainable environment.

Functions of FICAC:

- Conduct investigations on any alleged offences of corruption and bribery.

- Receive and assess complaints received from the public and private sectors through State Counsels in the legal and complaints departments.

Fiji Financial Intelligence Unit (FIU)

The Fiji Financial Intelligence Unit (FIU) collects, analyses and discloses financial information and intelligence to Government Law Enforcement Agencies and Revenue Agencies.

Fiji Revenue and Customs Services (FRCS)

The main function of FRCS is to:

- collect, regulate and monitor activities of tax payers.
- advise the State on matters relating to taxation and customs and excise and liaise with appropriate Ministries and statutory bodies on such matters.

Ethics and Fraud Worksheet

Short Answer Questions

1. Define ethics.
2. What is the role of the accounting profession in Fiji?
3. State the five fundamental principles of ethical code of conduct for professional accountants.
4. List at least two organisations that deal with fraudulent acts in Fiji.
5. Explain the term whistleblower.
6. What are the roles of Fiji Financial Intelligence Unit and Fiji Revenue and Customs Services.

Case Studies

Question 1

Sharon was employed by FRCS as an auditor. She created 14 fictitious tax payers and tax identification numbers on FRCS internal system note. Over a period of five and a half years, bogus tax returns were lodged under the fake TINs with false certification from certain companies for PAYE deductions. Sharon had manipulated the data under false tax payers and enabled tax refunds to be paid to bogus tax payers. Sharon together with her accomplice, Jasime, collected these refund cheques and cashed them. The significant degree of planning and execution over a long period of time and the fact that the sum of \$1m was not recovered by FRCS were considered as aggravating factors. Sharon was convicted for two counts of money laundering and was sentenced to six years' imprisonment and not eligible for parole until she completes four years and six months' imprisonment term.

Source: <http://www.fijifiu.gov.fj>

- A. State two unethical practices by Sharon in the case above.
- B. Name the type of fraud that took place.
- C. Explain how a whistle blower can assist in identifying frauds in an organisation like FRCS.

D. Identify one organisation that deals with fraudulence activities in Fiji.

Question 2

Abisekh is one of three partners in a firm of accountants. Five years ago the firm was appointed as external accountants to a young, successful and fast-growing company, engaged to prepare year end accounts and tax returns. The business had started trading with a handful of employees but now has a workforce of 200, while still remaining below the size of company requiring a statutory audit. Due Abisekh's close relationship with the directors of the company (who are its owners) and several of its staff, he become aware that staff purchases of goods manufactured by the company are authorised by production managers, and then processed outside the accounting system. The proceeds from these sales are used to fund the firm's Christmas party.

- A. Use the 5 code of conduct for professional accountants to elaborate on the unethical practices. (*Use the example to answer for the other 4 conducts*)
1. **Integrity:** to be straightforward and honest in all professional and business relationships thus, in terms of the case above, Abisekh should have been honest on the staff income and reported accordingly despite having fair relationship with the directors.

Question 3

FICAC confirmed they would finalise investigations into the accommodation and allowance saga in the next few days. Nine Members of Parliament, from both sides of the House, are believed to have been implicated in a Fiji Independent Commission Against Corruption investigation.

Secretary-General to Parliament Viniana Namosimalua lodged the complaint to the anti-corruption agency, alleging that some MPs were abusing sections and guidelines of the Parliamentary Remunerations Act.

FICAC confirmed they would finalise investigations into the accommodation and allowance saga in the next few days. It is alleged that those allegedly involved had claimed for travel and accommodation allowance that does not match their current place of residence.

Source: <https://fijisun.com.fj/2020/05/30/>

- A. Are the members of parliament ethnical?
- B. Do you agree or disagree the above article can be considered as corruption?
- C. Provide reasoning for whether you agree or disagree for part (B)?
- D. Do you think Secretary-General to Parliament Viniana Namosimalua lodging the complaint to the anti-corruption agency reasonable or should it had been looked into by the parliament standing committee?

Research

Using the internet or other means conduct a research and identify businesses (in Fiji or abroad) which has collapsed due to unethical practises of accountants. Write a report on each and pres You may use the following as a guide:

- ✓ Names of firms affected.
- ✓ Factors that led to the collapse of the firm.
- ✓ Ways in which accountants can work together to avoid fraudulent acts.

An example is given below.

UNETHICAL BUSINESS PRACTICE BY 'MELBOURNE BUILDING WORKS'

05/08/2016 16:25

The Consumer Council of Fiji is urging consumers to refrain from hiring the services of a company, namely **Melbourne Building Works**. This company is engaged in construction business and has been taking money from consumers but failed to deliver in a timely manner.

The Council has received 16 complaints against this company with a monetary value of FJD\$76,899. 00. One Complainant made a payment of \$25,240 to the company on the 11 and 14 November, 2014 respectively but to date, Melbourne Building Works has failed to complete the work. Other complainants have suffered a similar fate.

Investigations by the Council shows the company is engaged in unethical practices by accepting money from consumers but failing to complete the work on time. It is evident that the company is in breach of Section 88 (1) (b) and Section 88 (2) of the Commerce Commission Decree 2010.

The Council is gravely concerned that more consumers may be affected by the dealings of this company but are reluctant to come forward with their complaints. As such, consumers who have faced a similar situation with Melbourne Building Works should come forward and lodge a formal complaint with the Council.