



Course information

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ETHICS – WHERE THE RUBBER MEETS THE ROAD

PRESENTED BY:

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Ottawa, Ontario
VP, Finance & CFO & Corporate Secretary
SureWx Inc.**

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WWW.PRACTICALPD.COM



Welcome

- My purpose is to help you navigate ethics dilemmas more effectively
- And to get you the ethics hours you need..
- I hope it would help in real life situations
- I have had my share of ethical dilemmas, some of which get shared here



Notes

- I will fill in the blanks in the handout in this presentation, it will make it more interesting...
- Send me an email when you finish, spriddle@bell.net, and I will send you fully completed slides and a written case solutions



Where am I?

SureWx, helping flights in the winter – safer, less cancellations

VP, Finance & CFO & Director, co-owner after 2015 MBO





My background

- Employers
- Designations
- Writing
- Speaking

All my live seminars/webinars have an opportunity to win prizes

- So what are we going to do in this video course
- Send me an email after the course, with useful feedback, a joke, or a good question, and you will be put in a draw to win a prize...
- spriddle@bell.net





Quebec ethics code changes

- Effective date of changes, May 9, 2024
- The only impact on this course is the Rule numbers change, their content is effectively the same
- Rule 34 general ethics, now Rule 26
- Rule 48 confidentiality, now Rule 39
- The handout, completed slides have been update, the video will be revised later

We must make a phone call





Enron Corporation

- Possibly the greatest accounting scandal of all time...
- Who was hurt?
 - Enron shareholders
 - Innocent Enron employees
 - Innocent Arthur Anderson employees

fering blackouts and paying sky-high electricity bills.

The utility wants an administrative-law judge to order Enron to surrender as much as \$2 billion in ill-gotten gains. California politicians want Enron to reimburse customers there at least \$8.9 billion.

The latest documents show Enron manipulated the market on 473 of 537 days from January, 2000, to June, 2001, the utility said.

The documents also show Enron maintained five separate sets of accounting records.

Enron, which filed for bankruptcy protection in 2001 amid a giant accounting scandal, refused to comment on the records except to say it is cooperating with all investigations.

Federal Energy Regulatory Commission spokesman Bryan Lee said the agency would review the documents to see what new information they contained.

ENRON

**\$4.8 billion
bid now**

**15-month
option**

LAS VEGAS—pushing the
create the
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being rebu
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MGM M
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Ethics intro

- An important, difficult area
- I used to sit on the CMA Ontario Ad Hoc Ethics Advisory Committee
- Deadly serious, but I can't resist a few jokes!



One day

- The ethics advisor for a CMA legacy asked me if I knew any good ethics courses
- She said a member was sentenced to take one as part of the discipline for being found guilty of professional misconduct
- She said she found in the philosophy department of Athabasca University



Result

- I told her to send them to this course....
- If they ever attended, they didn't tell the class and I why they were there...



Ethics - intro

**WARNING – DO NOT
CLICK THIS BUTTON!**

- Ethics in society – a comment
- In the news more than ever
- Our perception in society has been damaged by others' conduct
- Do people trust accountants in society?
- Who was the greatest Canadian business/accounting crook of all time?

Nortel executives shifted accounting funds to achieve results: Crown



Former Nortel CEO Frank Dunn leaves the Toronto court house where he and two other former executives are on trial for fraud, Jan. 12, 2012.

TRENDING

- 1 What we'll see at the L.A. auto show
- 2 From skeptics of Frank Lloyd Wright to believers 🔑
- 3 Honeymoon in Ireland: Making my new love fall for my first love 🔑
- 4 Price cut and relisting moves Leaside house during summer lull 🔑
- 5 Hudway Cast helps keep your eyes on the road

Nortel executives shifted accounting funds to achieve results: Crown



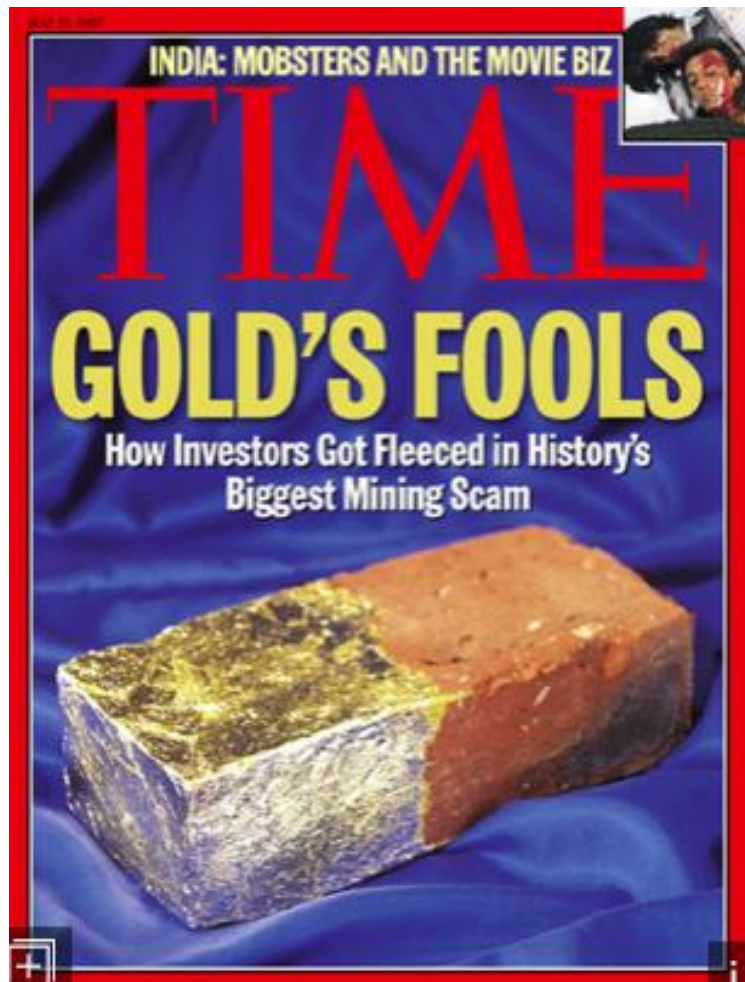
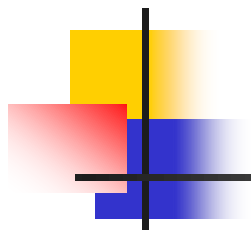
Former Nortel CEO Frank Dunn leaves the Toronto court house where he and two other former executives are on trial for fraud, Jan. 12, 2012.

TRENDING

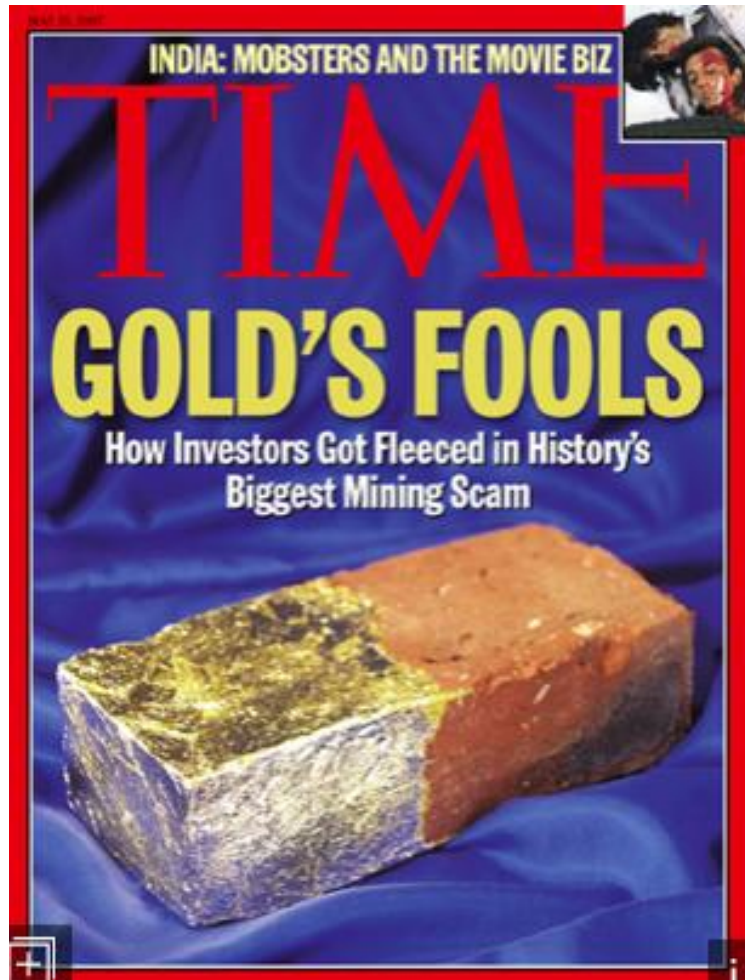
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- 5 Hudway Cast helps keep your eyes on

Nortel executives found not guilty on all counts of fraud

Three former top executives of fallen Canadian technology giant Nortel Networks Corp. were absolved of all counts of fraud on Monday



Bre-X?





Livent auditor Deloitte ordered to pay \$84.8-million for failing detect fraud



DREW HASSELBACK | April 6, 2014 4:21 PM ET

[More from Drew Hasselback](#)



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Reprint





Conrad Black sentenced to 78 months in jail



Must report to begin sentence on March 3

CBC News - Posted: Dec 10, 2007 12:12 PM ET | Last Updated: December 10, 2007

Canadian-born Conrad Black was sentenced Monday in Chicago to 6½ years in prison for his role in the misappropriation of millions of dollars from the newspaper empire he once headed.

Settlements approved for Castor Holdings in two-decade legal battle



Financial documents belonging to Castor Holdings Ltd. are seen in a file photo.

SHAUN BEST/REUTERS

JANET MCFARLAND > REAL ESTATE REPORTER
PUBLISHED JULY 22, 2015
UPDATED MAY 12, 2016

Investors win more than \$1-billion in Castor Holdings case

A Quebec judge has ruled in favour of investors seeking more than \$1-billion in damages in the infamous Castor Holdings Ltd. fraud case, writes Kathryn Leger on the Moves, Deals and Takes blog for the Montreal Gazette.

TRENDING

1 The berry with more antioxidants than blueberries was no secret for Indigenous people

2 OPINION
We need to come clean with millennials on big-city home ownership dreams

ROB CARRICK

3 OPINION
Off-court defiance rather than court skill defines Eugenie Boreaux

ried on:
to have t



BUSINESS DAY

Ebbers Sentenced to 25 Years in Prison for \$11 Billion Fraud

By JENNIFER BAYOT JULY 13, 2005

Bernard J. Ebbers, the founder and former chief executive of [WorldCom](#), was sentenced to 25 years in prison today for his role in the record \$11 billion accounting fraud that brought down the telecommunications company in 2002.



DR Capital assets \$3.75B USD

CR Cash \$3.75B USD

SHOULD HAVE BEEN DEBIT EXPENSES, BUT ARTHUR ANDERSON MISSED THIS!

A recent nomination from someone in the class



Someone else said....



In scathing pre-election report, Ontario auditor general says deficit is \$11.7B, not \$6.7B

The accounting disagreement stems from a longstanding dispute over whether around \$11 billion in the OPSEU and the Ontario Teachers' pension plans can be counted toward the bottom line.





My nomination

- My career paralleled this guy's
- We both were planning to become CAs
- He was at PWC, I was at KPMG in Ontario
- I passed
- He failed
- He now lives near Kingston, Ontario
- Here is his home:

My nomination

- Here is his home:



My nomination

- Here is his home





Paul Bernardo

Serial Killer

Paul Kenneth Bernardo, also known as Paul Jason Teale, is a Canadian serial killer and rapist, known for the highly publicized sexual assaults and murders he committed with his wife Karla Homolka and ... [Wikipedia](#)

Born: August 27, 1964 (age 51), Scarborough, Toronto, Canada

Nationality: Canadian

Spouse: [Karla Homolka](#) (m. 1991–1994)

Parents: [Kenneth Bernardo](#), [Marilyn Bernardo](#)

Convictions: [Murder](#), [Sexual assault](#)

Education: [University of Toronto Scarborough](#), [University of Toronto](#), [Sir Wilfrid Laurier Collegiate Institute](#)



Ethics - more

- Were you taught ethics at university/college?
- Can you lose your university degree/college diploma for being unethical? – normally no
- “Many accountants are careful in public practice but do anything in industry” ethics advisor quote
- We will discuss some principles
- Then we will go through some mini cases



Question

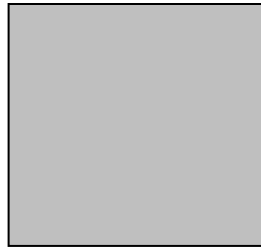
- Do you ever read the disciplinary notices on CPAs for:
- Education
- To see if former colleagues got in trouble
- Entertainment?

Decisions, Orders and Reasons in Cases involving Disciplinary Proceedings

Index Of Disciplinary Proceedings By Name

A	Rule(s)	
A MEMBER	201.1	Get File
ABRAHAM, D.M.	201.1	Get File
ADAIR, J.A.	201.1, 205	Get File
ADAIR, L.E.	201	Get File
ADAMS, L.	104	Get File
ADAMS, L.	203.2	Get File
ADAMS, S.Z.	201.1	Get File
AGULNIK, M.B.(SETTLEMENT)		Get File
AITKEN, J.D.(SETTLEMENT)		Get File

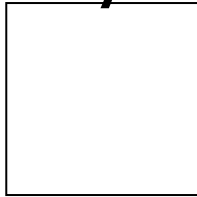
Some might say, "it's just a gray area..."





“It’s just a gray area...”

- No, ultimately, if it looks gray, it needs to be pushed into one of these boxes for you:





It's just a gray area

- Name of a seminar by a CFO who got out of jail: *The gradual slippage from "it's just a gray area to what were we thinking?"*
- Little matters become big matters, little compromises become big compromises



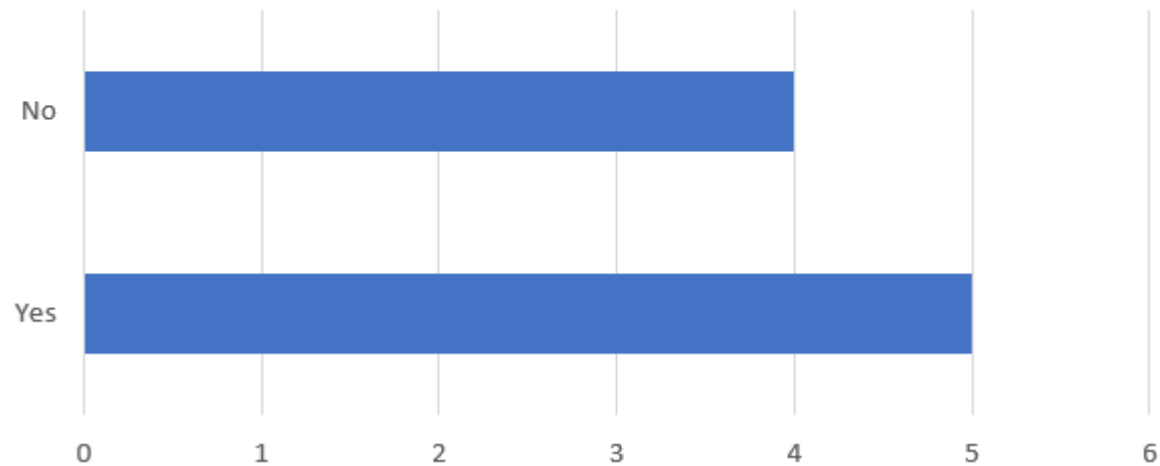
Note

- A lot of unethical behaviour seems to come from the over-bearing, no one dares to question, founding CEOs
- I have run into this myself...



Polling question

"Have you ever worked for a difficult over-bearing, no one dares to question owner or CEO?"





Ethics - advisors

- I obtained input from an ethics advisors some of the scenarios (two former advisors have taken this course with me)
- CPA ethics advisor can be consulted in confidence
- Will not/cannot give you absolutely conclusive answers and usually nothing in writing



Rules of Professional Conduct

Chartered Professional Accountants of Ontario

CPA Code of Professional Conduct

205 False or misleading documents and oral representations

RULE:

A member or firm shall not

- (a) *sign or associate with any letter, report, statement, representation or financial statement which the member or firm knows, or should know, is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility, nor*
- (b) *make or associate with any oral report, statement or representation which the member or firm knows, or should know, is false or misleading.*

26. Le comptable professionnel agréé ne doit pas préparer, produire ni signer des déclarations, des lettres, des attestations, des opinions, des rapports, des exposés, des états financiers, des avis ou tout autre énoncé ou document, par complaisance ou alors qu'il sait ou devrait savoir :

1° soit qu'ils contiennent des informations fausses ou trompeuses;

2° soit qu'ils omettent ou dissimulent des informations dont l'omission ou la dissimulation est de nature à induire en erreur;

3° soit qu'ils contiennent des informations non conformes aux lois, aux règles de l'art ou aux normes applicables.

De la même façon, il ne doit pas non plus s'associer à de tels énoncés ou documents.

CPA non
Quebec

Quebec



Rules of Professional Conduct

- Notes: something can violate 205/26, but not break any law...
- Ultimately they are about lying
- We can all be tempted to lie, but no one likes being lied to!



Example

- You give a false or mis-leading budget number out internally at work, this almost certainly doesn't violate any law, but it does violate CPA 205/Quebec 26



Question

- Does saying, “I was just following my boss’ orders”, avoid ethical problems?
- Answer: no!
- Not in the world of war crimes

Nuremberg trials 1945-46 of Nazi leaders for war crimes



I was just following Hitler's orders,
I am not responsible





Conclusion at Nuremberge

- “Superior orders, even to a soldier, cannot be considered in mitigation where crimes as shocking and extensive have been committed consciously, ruthlessly and without military excuse or justification”

The answer





Or the CPA world

- You are responsible for your conduct...



Ethics – difficult situations

- Public companies
- Management incentives
- Imminent takeover
- Survival of organization/raising financing
- Incomplete information and ____ pressure
- Does being a contractor, not an employee change anything?
- What about working outside Canada?



Ethics – difficult situations

- Public companies
- Management incentives
- Imminent takeover
- Survival of organization/raising financing
- Incomplete information and time pressure
- Does being a contractor, not an employee change anything?
- What about working outside Canada?



Bribe request I heard about recently (seminar attendee)

- *"It will take several months for your company to get government approval, by the way I would like my son to study at university in Canada, this is what the tuition fees cost"*
- Response from Canadian company: "we can wait"



Ethics – some advice

- What is the intent? (can it be achieved ethically?)
- Is it illegal? (Consult a lawyer)
- Is it fair?
- What would people think?
- Does anyone get hurt?
- What is the impact on the various stakeholders?



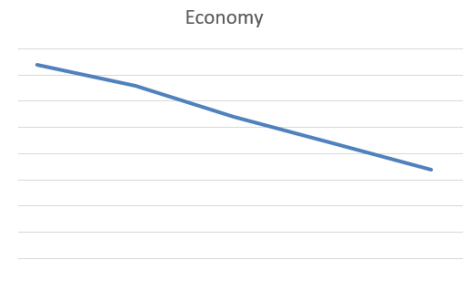
Ethics – some questions

- Consider your reputation/reputation of profession
- Would you be proud of your actions?
- Think about your whole career, not just the moment
- Would you tell your son/daughter to do it?



Ethics – other considerations

- Are you telling the truth?
- Does materiality matter?
- Would you rather be an ethics hero, than a villain?
- Who were the Enron heroes? Watkins and Bass
- The economy and ethics





Ethics - pragmatically

- Make your ethical standards clear to all
- Then they will respect you
- Should you have final say on the numbers if you are the CFO?
- Could you reference the CPA code of conduct in your employment contract?



Chartered Professional Accountants of Ontario **CPA Code of Professional Conduct**

205 False or misleading documents and oral representations

205-1

A member of the CPA must:

- 205-1.1 not prepare any financial report, statement, representation or financial statement unless the member is duly qualified to do so, or knowingly, whether or not the report or statement is subject to audit or independent review.
- 205-1.2 not prepare any financial report, statement, representation or financial statement unless the member is duly qualified to do so, or knowingly, whether or not the report or statement is subject to audit or independent review.





Excerpt from my current employment contract

Code of Ethics:

The Company understands that the Employee is bound to follow the Code of Ethics and Professional Conduct for Ontario Chartered Accountants, as amended from time to time.

<http://www.icao.on.ca/resources/membershandbook/1011page2635.pdf>



What to do under pressure

- Play dumb (may help you get around a problem - won't help in court/disciplinary proceedings)
- Tell them to put it in writing
- Suppose they refuse? Send them an email to confirm the instructions
- Explain the situation in another way



From: Stephen Priddle [<mailto:spriddle@company.com>]

Sent: November-08-19 4:27 PM

To: David Fraud <CEO@company.com>

Subject: Your request

David,

This is to confirm that at 10 AM in the large headquarters meeting room, you requested me to falsify the November 502 report to the stock exchange, so they won't know that the company_____

Stephen Priddle



The correct invoice

INVOICE

Harkom Corporation

1 Hamilton Drive
Canada

BILL TO

Asia Imports Limited
213 Ching Chong Street
Asia

INVOICE #

101112

INVOICE DATE

30/11/2018

DESCRIPTION	AMOUNT
One Fiber Optic Multiplier XG442 Unit	100,000.00
TOTAL	\$ 100,000.00



They want this

INVOICE

Harkom Corporation

1 Hamilton Drive
Canada

BILL TO

Asia Imports Limited
213 Ching Chong Street
Asia

INVOICE #

101112

INVOICE DATE

30/11/2018

DESCRIPTION

AMOUNT

One Fiber Optic Multiplier XG442 Unit

10,000.00

TOTAL

\$ 10,000.00



Note

- You could face the value for customs issue while doing on-line shopping...



Note

- You could face the value for customs issue while doing on-line shopping...



amazon.ca



Ethics - pragmatically

- Keep a chronology of all events
- The importance of good documentation
- Get someone else involved
- Be very careful before going above your boss
- Huge personal and career implications of taking a stand
- You may have to resign



Real life mini case

- The CFO and I (the controller) disagree on revenue recognition on a contract that is coming up, he wants to recognize revenue three times on the same deal
- What should I do?
- Solution: Can't, S. 3400 of Handbook, Got CEO involved to help. Agreed to let auditors settle the argument.
- Lesson: Get someone else involved. Third parties like auditors may help to settle ethical dispute.



Dealing with pressure

- A parenting tip, that may help you with ethics
- We taught our kids the respectful appeal rule
- If you feel there is confusion about an order, or your parents are being unfair
- Respectfully say to us, “Mum or Dad, I would like to appeal _____”



Dealing with pressure

- Don't over-use it and make sure the appeal is well-grounded
- Do the same with the person who is trying to get you to be unethical
- "I would like appeal this request you have made of me, for the following reasons"
- Make sure some reasons have self-interest for them



Note

- Don't sign anything if you are not comfortable with it
- CPA signing something brings a lot of credibility, but it must follow relevant professional standards and ethics



One day

- I have been with a company for 6 weeks
- An important board member orders me to sign (for self-directed RRSP purposes) that the company's share are worth \$2/share
- He almost has a melt down, when I say I can't just sign that, because I saw no support for the amount



One day

- We were able to resolve this issue by me writing a note
- “Independent investors have bought common shares of the company 8 weeks ago for \$2/share, suggesting a market value at that time”
- Factual, supported, resolved the problem



A KPMG ethics situation

- I am doing a Review Engagement Report file for a small retail client in my first year
- I must determine the “plausibility” of this year’s gross profit %
- Notes in the file say the target gross profit is 43%, although last year’s looks like about 30%
- This year’s gross profit is about 30%
- I can’t sign off that gross profit is plausible, based on the information I have



A KPMG ethics situation

- This caused quite a controversy until someone found that the target mark-up not gross profit, for items sold was 43%, this was not the target gross profit, so the issue was resolved
- \$70 item, marked up 43%, times 1.43 = \$100
- Gross profit $\$100 - \$70 = \$30 \rightarrow 30\%$

Ethics – your organization

- Is violating company policy unethical?
- Is an ethical approach projected from the top down?
- Does company have a written code of ethics?
- Do you have a whistleblower line?





Sample code of ethics

- We are dedicated to conducting business according to all applicable local and international laws and regulations, including, but not limited to, the U.S. Foreign Corrupt Practices Act, and with the highest professional and ethical standards.



Sample code of ethics

- We are dedicated to conducting business according to all applicable local and international laws and regulations, including, but not limited to, the U.S. Foreign Corrupt Practices Act, and with the highest professional and ethical standards.
- At Enron, we treat others as we expect to be treated ourselves. We believe in respect for the rights of all individuals and are committed to promoting an environment characterized by dignity and mutual respect for employees, customers, contractors, suppliers, partners, community members and representatives of all levels of Government.



|Code|of Ethics

July, 2000



Question

- (to the only Canadian who went to jail for the Enron scandal – not for the accounting side)
- How could you have gone ahead with it?
- Everybody had nice suits and ties and this made it sound legit' and I didn't want to stand up and say, we should not do this..."



The only Canadian who went to jail for Enron crimes – from the public record

In a letter to a U.S. probation officer, a copy of which was filed in court, Mr. Delainey acknowledged that his rapid rise through the Enron ranks had become "intoxicating," and that by 2001 he participated in financial manipulations that he knew were wrong.

"At the end of the day, I lacked the courage to stand up and do the right thing," he wrote.



Peer pressure

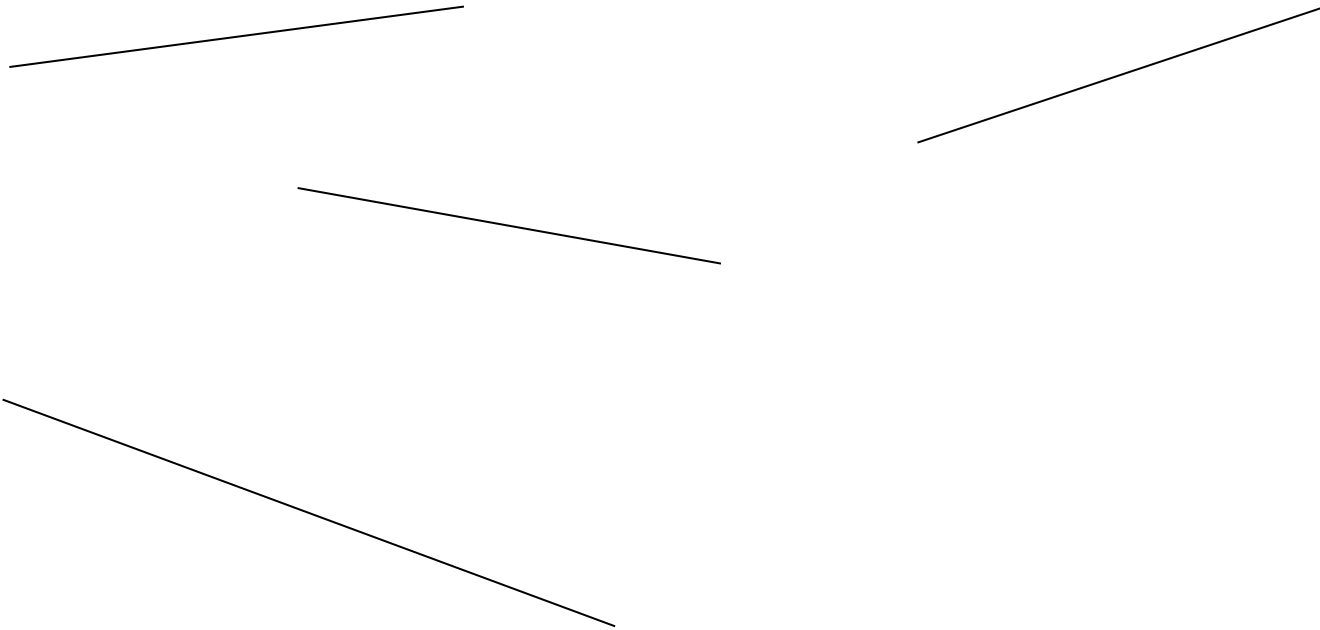
- Exists in businesses, not just for teenagers
- If the peer pressure is to be unethical, don't follow it!
- I like to do the "peer pressure" test on people, particularly teens...



The peer pressure test

- You need 5 people
- The first 4 are in on the test
- In sequence, they are each asked a question in front of the others, which they deliberately get wrong
- You then find out if they “follow the crowd” the peer pressure and give the wrong answer, or they stand up independently and give the right answer

For example, which line is longest?





Code of ethics reinforcement

- At IBM – my friend said he had to re-sign it once a year (in Sales)
- One guy said he had see it every time he logged into his computer!



Whistleblower line

- Who has one?
- Let me call it right now, we could test it with fictitious fraud story...
- One past attendee said he called it once as part of an internal course on ethics!



From: Stephen Priddle [<mailto:spriddle@company.com>]
Sent: November-08-19 4:27 PM
To: David Fraud <CEO@company.com>
Cc: Whistleblowerline <whistleblowerline@company.com>
Subject: Your request

David,

This is to confirm that at 10 AM in the large headquarters meeting room, you requested me to falsify the November 502 report to the stock exchange, so they won't know that the company_____

Stephen Priddle



Put the whistleblower number
on the wall of your office?

1-800-WHISTLE



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Ethics overall

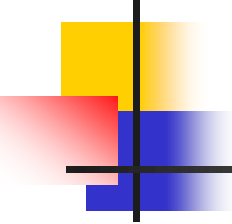
- Work ethics are a subset of ethics in life
- Is the solution regulation, or inner character
- Biggest influencer on you may be your family upbringing
- The bigger question...

New Professional Conduct Rule 269.1



- *Each member must report all highway traffic offences to the Professional Conduct Committee which will consider disciplinary procedures with due consideration to the damage to the reputation of the profession.*

JOKE!!!

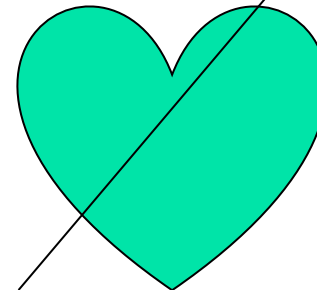


Are there good accountants and unethical accountants out there?

- “If only there were evil people somewhere insidiously committing evil deeds, and it were necessary only to separate them from the rest of us

Are there good accountants and unethical accountants out there?

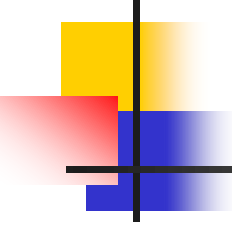
- “If only there were evil people somewhere insidiously committing evil deeds, and it were necessary only to separate them from the rest of us **But the line dividing good and evil cuts through the heart of every human being**”
(Solzhenitsyn)





Suggestion

- Let's all evaluate our own hearts...



A course teaches the following are needed for fraud to take place

- Opportunity
- Incentive
- Rationale
- (one might add: the idea that no one will ever find out about it)
- But I would say **if you have good character, it does not matter!**



Case

You are the CFO of a company that has a bank operating credit facility with a major Canadian bank. The operating facility is based on 75% of Good Domestic Accounts Receivables with some other adjustments. The phrase Good Domestic Accounts Receivables is not defined in the Banking Agreement. Your company is having some financial difficulty and the CEO asks you to sign off the monthly banking report for May 31, including three receivables in the margin calculation, with a face value of \$156,344. You know that authorizations for goods to be returned by these customers of \$84,000 have been issued by Sales. About half of these were authorized before May 31 and half after May 31. You have recorded accounting provisions for the returns authorized before May 31



Case

- \$84K or receivables don't really exist for all intents & purposes, no customer will ever pay them, credit notes will be issued
- The time of authorization has no impact
- You clearly know this, thus accounting return provisions
- Mis-leading and false to the bank
- Bank would not be able to realize on them as collateral
- Therefore cannot sign
- However, if the CEO allows me to **disclose** this situation in a note, not a problem at all
- Lesson: Full disclosure sometimes takes away the ethical dilemma, the communication is no longer misleading

A recent personal ethical issue

- I am in a situation where some of my merchandise is

some



- I did full disclosure to take away the ethical issue...They said "don't worry sir"



Forecasting

- Two things we can forecast for sure
- Death and taxes....
- Benjamin Franklin)



Case

- You are the Controller of a company and the senior finance person, reporting to the President. For years the company has been able to earn a gross profit of 45-47% on its product sales. In some future-oriented financial information you are preparing for potential new investors in the company, the President instructs you to show a gross profit of 54% explaining that it is imperative that the company gets this new investment. You need to e-mail the forecast to the investors later this afternoon.



Analysis

- Let's give the benefit of the doubt, to the President
- Play dumb, ask how is this justified, given the historic gross profit
- Perhaps the new investment will justify the cost reduction because it finances better production equipment
- Disclosure of past margins would certainly tell users that these future results are unlikely
- But if there is no justification, there may be a problem



More analysis

- (The information can't be false, because there is not truth, it is the future, we don't know for sure what will happen)
- If not justified, this forecast may be misleading and could get you in trouble under rule 205/26 Quebec
- Noting that it is the President's forecast, not yours, doesn't help
- You are associated with information and ought to know
- A disclaimer if you email it doesn't help (CPAs outside Quebec)



Case # 2

- Consider FOFI rules principles
- The Handbook says in 4250
- **A forecast** (plan and probable economic conditions) versus
- **A projection** (plan plus hypotheses, not necessary most probable)
- Therefore, if called a **projection**, you are probably OK



The relevant standards

- Consider FOFI rules principles
- The Handbook says in 4250
- **A forecast** (plan and probable economic conditions) versus
- **A projection** (plan plus hypotheses, not necessary most probable)



Forecast versus Projection



Forecast versus Projection

FIVE YEAR GC FORECAST/PROJECTION								
Historic	Year	2020	2021	2022	2023	2024	Total	
2014-2019								
5 Forecast		1		1		1	8	
5 Projection		2		3		3	13	



Case # 2

- Many CPAs object: users won't know technical difference between a forecast/projection per the Handbook
- I tend to agree, but this is what the rules say
- Some say that in the start up fund-raising world, investors know any forecast is a hope, rather than a prediction, after all the product is not even complete...so it doesn't matter
- I always call forward looking numbers **projections** to be safer, but also want them to be reasonably justifiable
-



Case

- You are the new CFO of a private company. You have just become aware that sales has been rigging bids on government contracts. You have seen a recent newspaper article, where a company engaging in a similar rigging operation was fined \$1.2M
- What would you do?

A decorative graphic consisting of overlapping yellow, red, and blue squares with a black crosshair.

Joke

- In one seminar, a guy said call “Robert Half”
- Then a Robert Half CPA in the seminar starting handing out his business cards...

Robert Half recruitment agency in Canada provides professional recruitment and employment services. Call now and find the staff your business needs.

Bid rigging explained



- Several bidders work together to rig the bids on contracts
- Only bidder 1 and bidder 2 bid on this government contract, one bid very high, and the other bid just a little lower
- Next government contract, bidder 1, 2 and 3 will all keep their bids high, etc
- My brother was on the jury for bid rigging murder trial!
- A bidder stepped out of line, and the other paid someone something like \$10,000 to kill him, the trial was of the contract killer...



Analysis

- Don't worry, it has nothing to do with you? You are not involved or associated, you are minding your own business in the finance dept
- No, there are at least financial reporting implications of this if it is material
- But what is the **big** question?
- If the CEO/Board know about and support the bid rigging, a big problem
- If they don't, this is one or two rogue employees, when reported internally they will be fired and the matter cleaned up, then everything will be fine



More

- A contingent liability note will be needed at a minimum if you stay there
- The CEO would not like the matter explained in a note, so the note may have to be like this!

Note 9 Contingent Liability

The company may be required to pay a material amount to a certain government body. The amount and the outcome are not reasonably determinable at this time and no amount has been recorded in the financial statements.

Assuming a deliberate management plan



- The CEO and others will not want this to be revealed
- Call 911 or the Competition Bureau, this act might be criminal?
- No, you probably can't due to CPA/Corporate confidentiality
- Rule 39 Quebec, Rule 208.1 outside Quebec
- What an ethics advisor said – Ontario
- Other designations on confidentiality and reporting...
- Is there a whistleblower line or an Audit Committee, then confidentiality would not be a problem



Question

From: Stephen Priddle [<mailto:spriddle@bell.net>]

Sent: Friday, December 07, 2018 3:41 PM

To: Ethics Advisor

Subject: RE: Question

Ethics advisor,

Are there any conditions that a CPA can violate CPA confidentiality and reports something criminal to the police? Or does confidentiality, 100% always over-ride?

Stephen Priddle



Response

Stephen

...a member must follow Rule 208.1, *Confidentiality*. If a member is thinking of deviating from Rule 208.1 for any reason it is advisable that the member first seek legal advice and obtain a legal opinion.

Kind regards,

_____ CPA, CA, CBV
Regulatory & Standards, Advisory Services
_____@cpaontario.ca



The disclaimer attached

- *The Member Advisory and Practice Advisory service of the Chartered Professional Accountants of Ontario is a confidential service that is intended to provide informal feedback on accounting and assurance issues as well as interpretations of the Rules of Professional Conduct. Feedback is general in nature as the advisor may not have all the necessary information. The assistance provided is not an opinion and is not binding on CPA Ontario. By accessing this service, you accept responsibility for conducting your own due diligence and using your professional judgment, and you agree to release and indemnify CPA Ontario and the Member or Practice Advisor for any claim to damages that could result based on your discussion. We attempt to respond to all queries within 24 hours. Emails will likely be responded to by telephone.*



More

- You don't want to be employed with a company that has such practices. You don't want to be known in your career to be working for an unethical company
- Consider resigning
- A lady who took this course said she has only two companies on her resume – both famous & crooked!
- I once had a public company audit client accused by the government of bid rigging
- They maintained their innocence, but reported a contingent liability note in the financials for years
- Then they were found guilty and paid a large fine



Two employers

- Enron (Canada)
- And Philip Services





Two employers

- Enron (Canada)
- And Philip Services



Former Philip Services exec charged in \$28M fraud



CBC News - Posted: Dec 20, 2004 11:09 AM ET | Last Updated: December 21, 2004

A former executive at Philip Services Corp. was charged Monday by the RCMP with defrauding the company of roughly \$28 million.

Robert Waxman, 49, of Ancaster, Ont., faces 12 counts of fraud over \$5,000.

Waxman was president of the company's metals group from February 1996 until September 1997, when he was relieved of all his duties.

Police allege Waxman committed a series of complex fraudulent transactions, leading to profits being siphoned off into "shell companies" in which police say he was a "beneficial owner."

Exhausted jury finds Bob Waxman guilty of fraud and theft

NEWS Mar 12, 2011 by [Steve Arnold](#) Hamilton Spectator



Robert Waxman was convicted Friday of fraud and theft. - Hamilton Spectator file photo

Bob Waxman had a taste for the finer things in life — jewellery and expensive watches, investments in fine wine, exotic sports cars and race horses.

On Friday, the way he paid for those luxuries caught up with him as a jury convicted him of six fraud and theft charges dating back to 1996.





A really crooked company story

- There is a huge Canadian public company accused probably of being more crooked than any Canadian company in history!



The accusation

- The company is accused of helping the Sudanese government kill large numbers of people in the south of the country
- Many called for divestment of company shares and pushed the Canadian government to penalize the company



Situation

- My father writes letters to the government of Canada and to the company expressing concerns
- (He is a heavy weight in the industry the company is in)
- The public company surprises him by asking him to join the Board
- What should he do?



Result

- He decides to join the board, and makes a personal pledge to help this in Sudan from this position and give every \$ he makes to help those impacted in Sudan
- Goes to Sudan, speaks up for the those there, finds the oil company is very ethical (other oil companies there weren't)



Note

- Dad donated all this money and more based on his personal pledge...



The company

- **Talisman Energy Inc.** was one of Canada's largest oil companies, with a major investment in Sudan



Company Name TALISMAN ENERGY INC.SOCIETE DENERGIE TALISMAN INC.

Company No 3671119

Business Type Distributing corporation

Status Inactive Amalgamated

Governing Legislation Canada Business Corporations Act - 1999-10-15

Officers/Directors
LAWRENCE G. TAPP
ROLAND PRIDDLE
DAVID E. POWELL
JAMES W. BUCKEE
DALE G. PARKER
AL L. FLOOD
DOUGLAS D. BALDWIN
PAUL J. HOENMANS
STELLA M. THOMPSON



Case

The President and founder of the company, for which you are the Controller, asks you to book the following material journal entry, when the CFO is away:

DR	Accounts payable	\$3.24M	
	CR	Revenue	\$3.24M

She refuses to give you any explanation or supporting documentation for it and asks you to resign your position if you don't want to book it. The company is listed on TSX Venture Exchange and the year end audit starts in 5 weeks.



Discussion

- This is from the Enron school of accounting!
- Just book and reverse it!
- The big issue
- The A/P subledger won't balance!



More seriously

- This is called “management over-ride”
- Greater exposure and risk since public but same fundamental issue with any organization
- Obviously the entry is false and misleading if not supported
- Asking the President to put the request in writing may remove the issue
- Consider whistle blower line and Audit Committee
- Remember the CFO is above you, and hopefully you will take the same position on this issue
- CC the CFO on correspondence
- Call the CFO even though they are away and check on journal entry approval rules



What do you do?

- One attendee once suggested that if there are ethical difficulties, just drop an anonymous note to the auditors
- In my mind you can tell the auditor anything, especially if you are signing the management representation letter, essentially disclosing you have disclosed everything
- But one CPA ethics advisor wrote me:



The ethics advisor

"Hello Stephen,

Industry CAs' relationship with their company's auditors is a tricky one. Whether they can discuss the company's problems with the auditor is a grey area. I often suggest the CAs discuss their concerns with the audit committee and if they feel they should talk to the auditors, I recommend they first seek legal advice from a lawyer familiar with our rules of professional conduct."



Another angle

- An auditor was alone with a clerk
- The clerk said: “just look in this drawer, I am leaving the room..”
- Obviously revealing some kind of important secret file to the auditors
- A clerk is not bound by CPA confidentiality and possibly not corporate (executive) confidentiality
- A clerk or other colleague may be able to report something you can't
- Get legal and ethics advisor advice....



Employment law

- Don't resign under pressure
- Consult an employment lawyer
- Tell them to give you a package if they want you out
- They may be afraid to terminate you, because of what could come out if you sue and there is a court case



And

- Do really want to work for this President?
- Therefore, get them fired is the best outcome!



Case

You are the Comptroller of a company that invoices its customers for parts and labour on certain contracts. Your company is in the middle of a project for a customer. The customer has issued a purchase order for \$60,000 of project labour based on 600 hours of labour at \$100 per hour and another purchase order for \$10,200 of project materials. The project labour invoiced to date has been \$52,314 and is expected to be to be less than \$55,000 in total, and project parts have been \$10,200. Your company finds that there are \$4,000 more parts to invoice. The customer's project manager said to speed up approvals, "just invoice the parts against the labour purchase order as 40 hours of labour". Your company's sales representative has agreed to this.



Notes

- Typical big company situation
- Take a short cut, because doing the correct paperwork is such a hassle
- Maybe the most controversial case in this course!
- Some would say both parties agree, there is no cash impact, it is fine
- They hotly defend this practice, perhaps because they do it

INVOICE



Blaney Corporation

1 Hamilton Drive
Canada

BILL TO

Ways Property Limited
41643 Wander Street
City, Canada

INVOICE #

101112

INVOICE DATE

29/11/2019

DESCRIPTION

AMOUNT

40 hours labour @ \$100.00 per hour(PO#53432)

\$4,000.00

Subtotal

\$4,000.00

HST 13.0%

\$520.00

TOTAL

\$4,520.00



Analysis

- This is the invoice they are asking for
- Can you just say it is immaterial? No
- This does not comply with PO terms
- Only some parties agree, not all parties are aware
- A false and misleading invoice will be produced by your accounting system
- Accounts payable and approvers of bill at customer need to be able to trust the description on invoices
- You may be helping the customer's project manager deceive his/her superior
- What about the next time when they ask for a bigger false line on an invoice? \$70,000, \$700,000?



Analysis

- Issue may be uncovered by a supplier audit – large companies have them
- There may be commodity tax issues if parts and labour are taxed differently
- This could result in problems for the company's inventory accounting, inventory won't be relieved without special intervention
- There may be revenue recognition impacts
- There could be bonus calculation implications on the supplier side
- There could be bonus calculation implications on our side
- **I would not allow this to be done!**



More

- A participant said, if a normal person read this in the Globe & Mail, what would they think – were you cheating?
- I think they would if they fully understood it
- I stamped this out in a company I worked for
- I scared one sales person considering this approach, by writing a fake article in the newsletter of our famous customer's internal newsletter;
- Headline: **Supplier audit uncovers irregularities with Company X, staff terminated**



Management issues

- Need better management of prediction of costs
- Need improved management of cost overruns as a business practice
- Need better communications with sales



Case

- You are the new Manager of Finance for an owner-managed company. Recently the bookkeeper told you that the owner said that a \$7,850 bill for lumber shipped to the owner's cottage be charged to the maintenance and repairs account. She had originally booked it to the shareholder account. The bookkeeper has also mentioned that the owner's spouse is on the payroll and has never been on the premises.



Discussion

- Very common owner managed business situation
- Possibly number one ethics issue for small CPA practitioners
- First questions, let us not assume wrong:
- Does the owner use the cottage for business?
- Re salary, it is possible that the spouse does work at other locations or from home
- For income tax, small spousal salary with a small amount of work is OK



The real issue

- If not a real business expense, financials are false if booked as an expense, should be booked to shareholder loan
- Also tax fraud if done wrong, you can't sign or be associated with the tax return
- Consider rule 205, 26 Quebec
- If you can T4 the owner for the benefit, it is OK, but should be reclassified to compensation for accounting



Owner discussion

- Owner may say “I can do exactly what I want with my money”
- You say “of course, as long as it is reported properly in the financials and tax return”
- Could tell owner that this will hurt, if the company is ever put up for sale, expenses look higher
- Rips off outside shareholders if owner is not 100%



Me in real life

- I hold the line on this, and some owners have not even pushed it, very respectful and ethical
- Owner: “May I take my wife (an active employee) on the business trip?”
- Me: “Sure, but we only charge it the company if she is working on the trip”, and he tells me if she is or isn’t
- Owner: “All my daughter’s cell phones are on the company plan, for better rates, but make sure you charge it my shareholder account”



Humour

- Tell owner the finance staff are coming to stay at your cottage, since it is a business expense
- I was a CRA auditor, I saw and heard of all kinds of funny things, eg entrepreneur deducting cost of daughter's expensive wedding as promo expense
- Owner tattooing name of their business on the bum of a horse, they race for a hobby, and write it off for tax purposes...
- Taxpayer "There was a flood in the area, my records got destroyed...Auditor response, if your records were under water, so was this whole city, and there is no record of flood in this area....
- The fudge audit...



Case

You are a financial analyst in the government and are responsible for the financial analysis for an important procurement decision. You have been told by your boss, the Director of Purchasing, that a decision has been made higher up that supplier A will win and your analysis should support this. Your initial financial analysis tells you that Supplier B is clearly superior for the government.



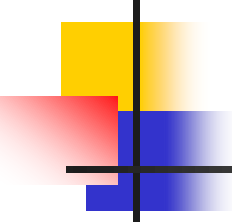
Analysis

- We all know there is a lot of procurement fraud in the government world
- Final decision is not the same as the analysis
- There may be qualitative swing factors
- Just play dumb and complete your analysis honestly and let the chips fall?
- Complete the analysis by noting items such as “I doubled this number without justification, because I was told supplier A must come out on top”



Analysis

- Refuse to do any analysis?
- Ultimately false & misleading issues
- Call the whistleblower line



Public sector procurement ethics story – a friend

- “I was given the responsibility for a -- project” (federal government)
- “My project evaluation team selected a small company ... This decision was a great disappointment to three of the largest -- companies in Canada”
- “These three companies....formed an unprecedented consortium”



Procurement ethics


- “The consortium’s proposal for the second phase was quite deficient in its technical aspects. Furthermore, their proposed cost was (way higher)”
- “My boss repeatedly gave the hint that I ought to follow the instruction given (*that consortium should win for political reasons*) I had no choice but to bring these distinctive differences to the attention of the --”



Procurement ethics

- “My big boss asked my supervisor to inform me that “he wants blood on the floor.”
- “Shortly afterwards, my big boss decreed that my Section would be closed and I got the notice to be transferred out of my job”

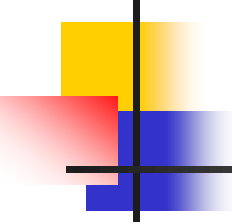
Procurement ethics

- “I went to talk to the lawyers of the Public Service Commission” (Whistleblower line of the time) 
- “After listening to what I told them in terms of what I went through, they were all too eager to take on my case in defending my rights”



Procurement ethics

- “Four years later my former big boss retired, and my former supervisor assumed his job.”
- “Very soon, I was really surprised to hear that my former supervisor was dismissed because of a sexual harassment allegation”
- **“The ADMTo my complete surprise ...personally called me and offered me the job of my former supervisor”**



Someone I know who interviewed in the public sector

- Job interview question: “the DM gets a bonus for spending less than X on _____. Would you book costs in the incorrect account, to ensure the DM gets their bonus?”
- His answer: No, I wouldn't
- Result: He did not get the job
- Conclusion: He is still not sure what they were looking for – an ethical person or a crooked accountant...



Case

You are the CFO of a private company owned by three siblings of the same family. Two are active in the business and one is not. The three shareholders are currently having a dispute. One shareholder who is active in the business asks you to join “her side”. The shareholder who is not active in the business, asks you for some financial information, other than year end information.



Analysis

- A not uncommon, but difficult situation, ethics is not the key issue
- You need to ask what she wants you to do specifically when on her side, so you can assess the situation
- Practically speaking, if you don't comply with the request and she wins the dispute, you may be out of a job
- Consult the shareholders' agreement
- Consider employer confidentiality and professional confidentiality and your job description
- Consult a lawyer



Conclusion

- Strictly speaking, under corporate law, the shareholder is not part of management or even an employee has no right to the information, unless approved by the Board, apart from the annual financials, which they are required to get
- If you can get all the parties to agree on the information disclosure, before providing it, you couldn't get in trouble
- Pragmatic solution, call the Mum: "your kids aren't getting along here, and I am caught in the middle, can you help?"



Other comments

- I was once asked to come back to a former employer and help a family fight
- I declined
- A seminar attendee of mine was working for a family company, involved in possibly Canada's most active family dispute



Case



- The CEO claims medical expenses not covered in her comp package, Chair of the Board has approved this, cheque is in the CFO's in-basket, CEO has signed it, waiting for 2nd signature
- What should the CFO do?



Analysis



- Play dumb: To Board chair: did your assistant miss this?
- Did the Board just amend her comp package without telling me?
- You could charge to loan CEO
- You could T4 the CEO if taxable, but this doesn't take away the comp problem



Note

- “Playing dumb” allows the person not be embarrassed about their error possibly unethical person or to be beat a graceful retreat, rather than getting defensive and fighting you if they were in fact unethical....



Recommendation



- Ultimately, can't sign. Don't break company policy

Creative solution



- He prepared his own fake policy-breaking claim
- She refused it
- He reminded her of her claim
- She tore it up
- CEO's hypocrisy revealed, she realized she was being unethical, problem solved without a word.
- Lesson: Sometimes there is a creative solution, although there are risks.



Notes

- To protect myself in a case like this, I would send an email to a colleague beforehand, saying my expense claim is not real, it is a test...in case she approved my claim...



Last case

- You recognize there is an opportunity to take \$6.3 million from your employer and you are certain you can cover your tracks, so no one will ever know
- What do you do?



Analysis

- In basically all the scenarios so far, you are under pressure from others. Here is a personal temptation situation, that doesn't involve any one else
- Obviously you cannot even contemplate doing it
- Clearly, there are control weaknesses
- You need to put some controls in place so your successor can't be in a position to do this!



Note

- Only about 3 years of my career in total have been very ethically challenged ...we just had a lot of stories on them in this part of the seminar
- Avoiding unethical employers/bosses is covered in my **Practical Tips for Controllers & CFOs** seminar, as well as some other ethics topics



Note

- I confess that I used to be somewhat unethical...
- For example
- “Finders keepers, losers weepers”
- But I reformed at 21
- I should have listened to my parents earlier....



Note

- Taking a stand is not easy, the human side is a huge issue
- Easier if you are 64 years old and your retirement savings are set
- Big 4 accounting firm partner's email to me, after resigning a position due to ethics: "we wish there were more CFOs like you" – the resigned as auditors...
- (They got me my next job...)



I hope you were listening carefully

- It is easy to do the right thing in a class room case when little is at stake



I hope you were listening carefully

- I would not want to read about you in the CPA disciplinary notices...



Other courses of interest

- **Practical for Controllers & CFOs** over 11,000 have attended
- **Practical Tips for Not-for-Profit Leaders**
- **Sharpen Your Business Loan Negotiation Skills**
- **Practical Tips for Government Accountants**
- **Practical Tips to Get Through a Cash Crisis**
- **Practical Financial Negotiation Tips**
- **Ten Practical Topics for Financial Leaders**
- **Practical Work Solutions from Case Discussions**
- **Practical Works Smarts for All**
- **Ethics – That Feeling In Your Gut**
- **Ethics – More Than Just The Code of Conduct**
- **Practical Tips to Improve Your Internal Financial Reporting**
- **Practical Foreign Exchange Management**
- **Contract Review Tips for Accountants**



Closing comments

- I hope course was useful
- Please provide a review
- You can request completed slides and case solutions, spriddle@bell.net
- I do LinkedIn, just say you took this video course....
- www.practicalpd.com