

Whatever Happened to All Those Credit Slips? Teaching Notes

What Are the Relevant Facts?

1. The company (Mr. Dalton) relies upon the audit report for tax preparation and administrative control purposes.
2. Chauncy Dalton appears to be defensive to questions regarding personal accounting transactions.
3. Chauncy Dalton has the power to appoint the auditing firm.
4. Personal items may be disguised as business and tax deductions.
5. Chauncy Dalton's compensation may be understated because of the possibility of personal expenditures listed as T&E.
6. The \$25,000 travel advance may not be an asset.
7. Internal control procedures have been overridden by top management.

What Are the Ethical Issues?

1. Is the audit going to be conducted in accordance with GAAS?
2. Will the deviations from internal control be addressed in the management letter?
3. Should Tim discuss the T&E issues with Mr. Dalton?

Who Are the Primary Stakeholders?

- Dalton Enterprises, Inc.
- Chauncy Dalton
- George Smerlas
- Tim Johnson
- IRA
- Tim's firm

What Are the Possible Alternatives?

1. Propose reclassifying the T&E as personal.
2. Modify the audit report.
3. Outline the deviations in the management letter.
4. Have the engagement partner discuss the issue with William Dalton.
5. Set up the uncleared T&E expenditures as a receivable.

6. Propose no adjustments to the T&E balance.

What Are the Ethics of the Alternatives?

- Ask questions based on the utilitarian perspective (moral behavior that produces the greatest good for the greatest number). For example:
 1. Chauncy's current behavior appears to only benefit himself at the expense of all other stakeholders.
 2. If the ME expenditures are in fact legitimate and treated as personal, the company's earnings and tax liabilities are overstated (costs) in order to satisfy the spirit of an internal control policy (benefit).
 3. Are there long-term benefits to all stakeholders by establishing the proper role of the auditor in monitoring all aspects of internal control compliance?
- Ask questions based on the "Rights and Duties" perspective--moral behavior that takes into account the moral rights belonging to each stakeholder and the duty each one owes to the other and the relative weight of these rights and duties. For example:
 1. Whose rights, if any, are violated in each alternative?
 2. What duties do Tim Johnson and his firm have in this scenario?
 3. What does each stakeholder in this scenario have the right to expect?
- Ask questions based on the "Justice" perspective--moral behavior based on an examination of alternatives that distribute the benefits and burdens among the stakeholders in a way that is fair or unfair, just or unjust. For example:
 1. For each decision to be made by Tim, the controller, and the CPA firm, which alternative distributes the benefits and burdens most fairly among the stakeholders?

What Are the Practical Constraints?

1. Since Chauncy is the heir apparent to operating the corporation, the risk of alienating him may cause the appointment of new auditors now or in the immediate future.

2. Without proper documentation supporting the T&E expenditures, it may not be prudent to assume that these expenditures are not proper.
3. The expenditures may never be subject to an IRS audit.

What Actions Should Be Taken?

1. What action should Tim take?
2. What alternatives would you choose if you were in his position? Why would you make that choice?
3. What ethical theories (utilitarian, rights, justice) make the most sense to you as they relate to this situation?

