Auditor’s Position In Relation To Their Professional And Ethical Framework

Introduction

This report provides the analysis of the importance of the quality audit control and identifies and describes four tenets that contribute to a quality audit. Moreover, it is briefly explaining the auditor’s responsibilities regarding the appropriateness of the quality control use and the effects it can have on the company if the auditor will not apply transparency, confidentiality, independence and closeness. In addition, it interprets the significant role of audit’s contribution in the accounting field and especially after the adoption and application of the ISA’s on auditing. The case study evidences demonstrate the lack of success of some international companies, as well as the situation where an auditor’s ethical position has been negotiated leading to the awareness of poor audit quality.

Importance Of Quality Control In Audit

In a constantly changing environment, the auditor’s requirements are increasing year by year. Professional accountants have important obligations towards business’s clients, investors as well as to the government, while on the other hand, they are behavioral pattern (Gartenstein D., 2019) Quality control is important for several reasons. In the first place, quality control helps to establish that the business performs audits in accordance with the principles required by a professional body and it also constitutes the tool that an auditor can improve their performance, so they can satisfy the client’s needs. This in turns increases the confidence of the users of financial statements and the data contained within them. Thirdly it is used as a part of a company’s risk management process. Performance of audits to a high standard will protect the business from against potentially damaging lawsuit. The better quality, the happier the customer (FRC, 2017).

Audit Transparency And Confidentiality:

One of the important Fundamental Principles of Ethics, is for the auditor to be transparent and confidential in all business relationships. This is required for a quality audit, as the users anticipate the auditor to be transparent with them and not to conceal any substantial data from the audit report. Meanwhile, the statutory auditors and audit services should respect the privacy of their clients and should not disclose any information outside of audit firm. To ensure that, all the information and documents are protected by appropriate professional secrecy and confidentiality rules (ACCA,2018). In addition, when a statutory auditor knows that their work is appraised, diminishes the probability of lying and stealing. However, it is important for governments to know that they are spending money wisely.

An example, of this accounting standard is the Carillion collapse. In this case the failure of providing transparency, has led the company to its bankruptcy; the good use of the principle was certainly required on reporting the amount of intangible assets, like goodwill and providing full transparency about who runs the business’ services and how they perform. For the first

time Carillion announced, that their debts were increasing, and the firm started losing money and they started decreasing the shares at 70% (Sheldon, E., 2017) when they end up making their creditors waiting for payment up to 120 days, this is the answer to the most common question of “Why is not transparency working?”. Meanwhile, Carillion owed around £1.5M from their debt and other liabilities, and at the same time, 43.000 people of the company left unemployed. Carillion’s creditors include three of the most known banks RBS, HSBC and Santander UK (Bradley, S., 2018). As Rachel Reeves said (Financial Director, 2019) “The company’s unrealistic directors drove Carillion of a cliff and then tried to accuse everyone, but themselves.” In this case, one of the important reasons that the company has declared bankruptcy is because there was a failure of Ethical Standards (Smith D., Sheila,2018).

Confer to Association of Chartered and Certified Accountants (ACCA, 2016), one of the prerequisites for healthy entrepreneurship is to keep all the information confidential. A professional accountant has a significant obligation to the business, so he can be held liable to his clients for either fraud, negligence, breach of agreement or even for confidentiality. The commitment to preserve confidentiality is an obligation that involves everybody, without exception. Auditors have an ethical and legal duty to respect the confidentiality of a client, although in certain circumstances information may be disclosed if there is a legal or professional right or duty (FRC,2016) For instance, a professional accountant has confronted a fraud, the reporting of which could breach the accountant’s responsibility to respect confidentiality. In that situation, the accountant may examine the possibility of obtaining legal advice to determine whether it is necessary to report or not (ICAEW,2019).

In 2018 KPMG (The economist, 2018), failed to provide audit services in the lack of confidentiality. KPMG, after issuing the financial statements and the annual report of its audited firm Ambac, they found an illegal action of an early receipt of the list of audits of PCAOB. Furthermore, Brian Sweet after being threatening by the company to continue providing confidential information, was accused by court and then KPMG gave emphasize of its creation of monitoring program as a show of a legal process as a reaction of various breaches of auditing standards that has been distinguish by PCAOB. As a result, the audit firm was charged due to providing confidential information to third (McKenna, F., 2018).

Independence And Closeness:

Professional skepticism is closely related to auditor objectivity and independence as fundamental ethical considerations (Jules D., 2018). According to ISA 200 (FRC,2016), the independent auditor is required to obtain the reasonable assurance on financial statements and to express an opinion on the truth and fairness of a set of profit and loss statements. In a general sense, independence is a state of mind for exercise of professional judgement and is characterized as a theoretical concept that is simply misinterpreted (FRC,2016). Moreover, an independent auditor has in addition to legal, moral responsibility over society and of his specific clients. In the question of “Why an auditor should be independent, as it is recruited by management?”, the answer is simple; An auditor must be independent and be seen to be independent (aCOWtancy, 2019). A statutory auditor is responsible to all the parties who appeals to the company, for instance, the government, banks, creditors and shareholders (NAO, 2018) Moreover, the principle of the independent auditor aims at expressing his own opinion, by using the true and fair view and to find unintentional errors and intentional frauds in the financial statements. Independence is a basic rule in audit, thus to make sure the auditor is

carrying out an audit without be prejudiced (Pearse Trust, 2016).

There are many prominent cases, of firms that have failed to spot key problems. Enron is a timeless example of financial fraud which was the result of perceived expert power and which has violated a framework tenet of audit quality. In 2001 Enron (Thibodeau C. J., and Freier D., 2014) which was one of the most known northern gas company, breached the ethical code of Independence and declared bankruptcy, after a series of controversial accounting actions. In the 90's the company was one of the Arthur Andersen's largest clients. Enron spend more than $80M for non-audit services as a result of hiring the vice president of internal audit and 40 personnel, to provide duties of internal audit as a team with Andersen. As the scandal was revealed, the company used the "snowball method" (Bradley Jr., R. 2018) to increase the company's share price from $90M to $200M. In addition, the scandal caused the dissolution of Arthur Andersen, which until then was one of the top five audit firms. At the end of that Enron owed more than $1B.

In recent years, getting closer to the client has been among the greatest essential intentions driving adjustments in many companies' organizational complex, frameworks and cultures. The research question is "How does the long-term auditor – client relationship affect the audit quality?". In fact, having too close relationships with the clients can affect the audit quality of the firm, as a result of violating the ethical standards (Khasharmeh H., and Hezabr A., 2016) The tenet of closeness not only means that an auditor should keep the information confidential, but also to be reasonable to preserve it. To achieve this, the professional accountant should not disclose any confidential data of outside firm, as a result of their personal benefit or benefit of third firms (CIMA, 2015).

A recent case of Ernst and Young (Marriage M., and Ford J., 2018) proved that, not always the biggest companies can fully provide the best audit quality to a client. Securities and Exchange Commission charged Ernst and Young for $9.3M because two audit partners had established inadequately close relationships with clients. One of the partners had developed their relationship with the chief accounting officer into a romantic one, at the company that she audited. More than $100,000 had been spent on corporate entertainment for the chief financial officer of a listed company that the other partner had audited (SEC, 2016).

Effects If The Auditor Failed To Provide The Ethical Standards

According to Stephen Griggs (Deloitte,2018), "The firm and the profession as a whole have made substantial investments in improving audit quality" the higher the audit quality of the firm the better the provision to stakeholders". The competitive economic environment in combination with the pressure of the administrative staff to achieve more goals, has increasingly led to the more frequent occurrence of the deterioration of the accounting situations. The auditor's ineffective use of the ethical standards has led many companies at a series of accounting scandals, such as WorldCom, Satyam, Parmalat. The role of the professional accountant is particularly serious to provide successfully those ethical standards, as an advantage to be right not only to the customer and business, but to themselves as well. For instance, during the audit the accountant several confidential customer information, if this information reveals to others the trusted relationship "breaks" and the accountant is confronted for damages caused by this disclosure. Moreover, these tenets, according to the theory of ISA's (FSB, 2015) are protecting the business from violating the principles and being responsible towards their clients. A certified

accountant must consider and apply the ethical standards in appropriate cases, to build up crucial values, such as trust, fairness and rectitude (IFA, 2016).

The Importance Of The Use of The Ethical Standards

The use of the code of ethics will not acknowledge any form of inequality and the auditors then will strive for a profitable target (Institute of Internal Auditors, 2019). The guidance and code of ethics for auditors can support the professional accountant in any case of the tenets of confidentiality and transparency and independence and closeness. Moreover, this code has to do with the recognition of the social responsibility imposed by the social dimension of the profession (ICAEW, 2017). In addition, ethics are the most important factor in preventing counterfeited financial statements.

Furthermore, each of the ethical standards provide to professionals a plan of the existence rules and how they can use them successfully (Leonard, K., 2019). Statutory auditor's clients need to trust him, in terms of his ability and intentions to help them with responsibility and personality and not just economic consistent. However, troublesome balance of closeness and independence, means difficult interpersonal relationships. By following the code of ethics in business, they can plan, assess administration acts and most importantly being responsible to their clients. Therefore, compliance of the moral codes is credible element to the auditor's function.

Conclusion

Taking the above into consideration and based on the ethical standards and the quality audit control, if a professional accountant follows in a right way the rules then they can achieve a better quality of an audit. Therefore, the International Standards of Auditing must be followed by the certified accountants, to be profession in about how they can handle a hard situation as a result the conscious relationship of trust between the auditor and the client remains professional. Also, the right use of the ethical standards in relation with the quality audit, improve the capacity both auditor's and the company and avoid the accountant to led to any accounting error.

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