

Auditor's Role and Ethical Considerations

Welcome to Week 4 of our course, where we'll explore the critical role auditors play in society and the ethical framework that guides their work. We'll examine auditor responsibilities, independence requirements, and how ethical failures have shaped the profession.



Role of the Auditor in Society

Auditors serve as guardians of financial integrity in our economic system. They provide independent assurance that financial statements are free from material misstatement, enhancing trust in capital markets.

The auditor's opinion enables stakeholders to make informed decisions based on reliable financial information, reducing information asymmetry between management and external users.





Responsibilities under ISA

Obtain Reasonable Assurance

Auditors must obtain reasonable assurance that financial statements as a whole are free from material misstatement, whether due to fraud or error.

Exercise Professional Skepticism

Maintain a questioning mind and critical assessment of audit evidence throughout the engagement.

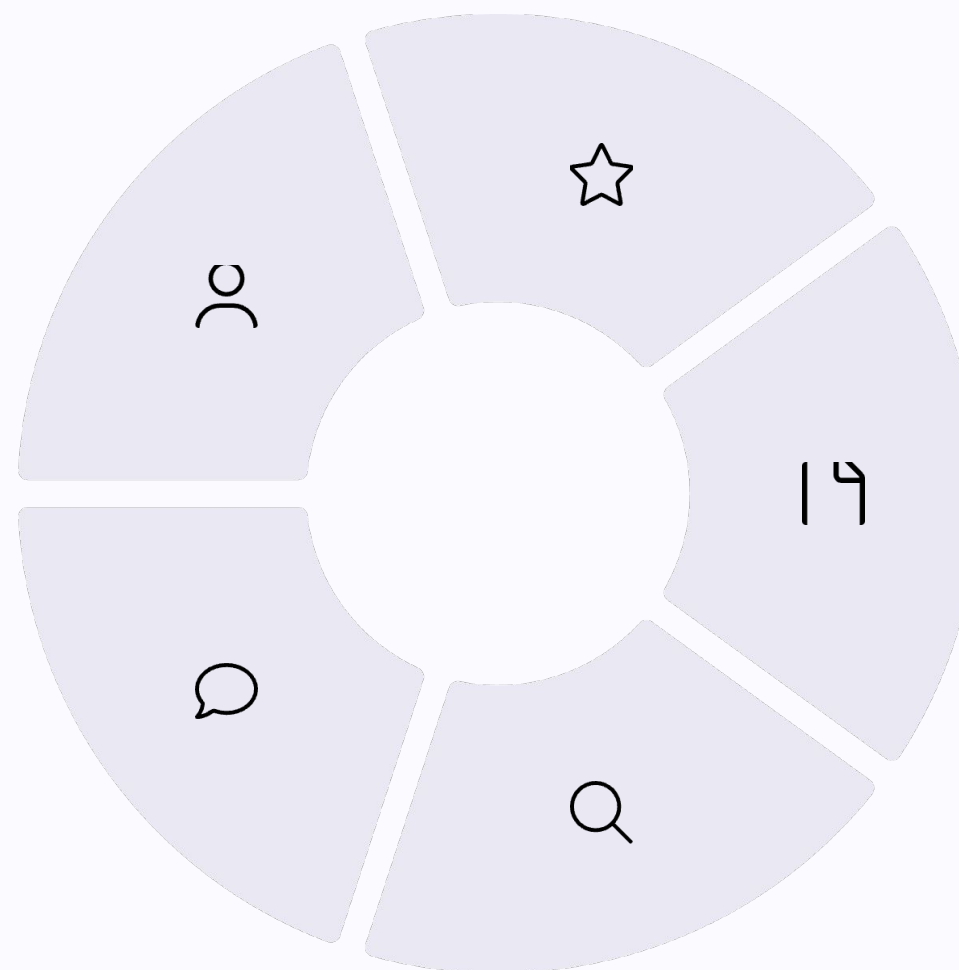
Report Findings

Express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Ethical Framework: IFAC Code of Ethics

Integrity
Being straightforward and honest in all professional and business relationships.

Professional Behavior
Complying with relevant laws and regulations and avoiding actions that discredit the profession.



Objectivity

Not allowing bias, conflict of interest or undue influence to override professional judgment.

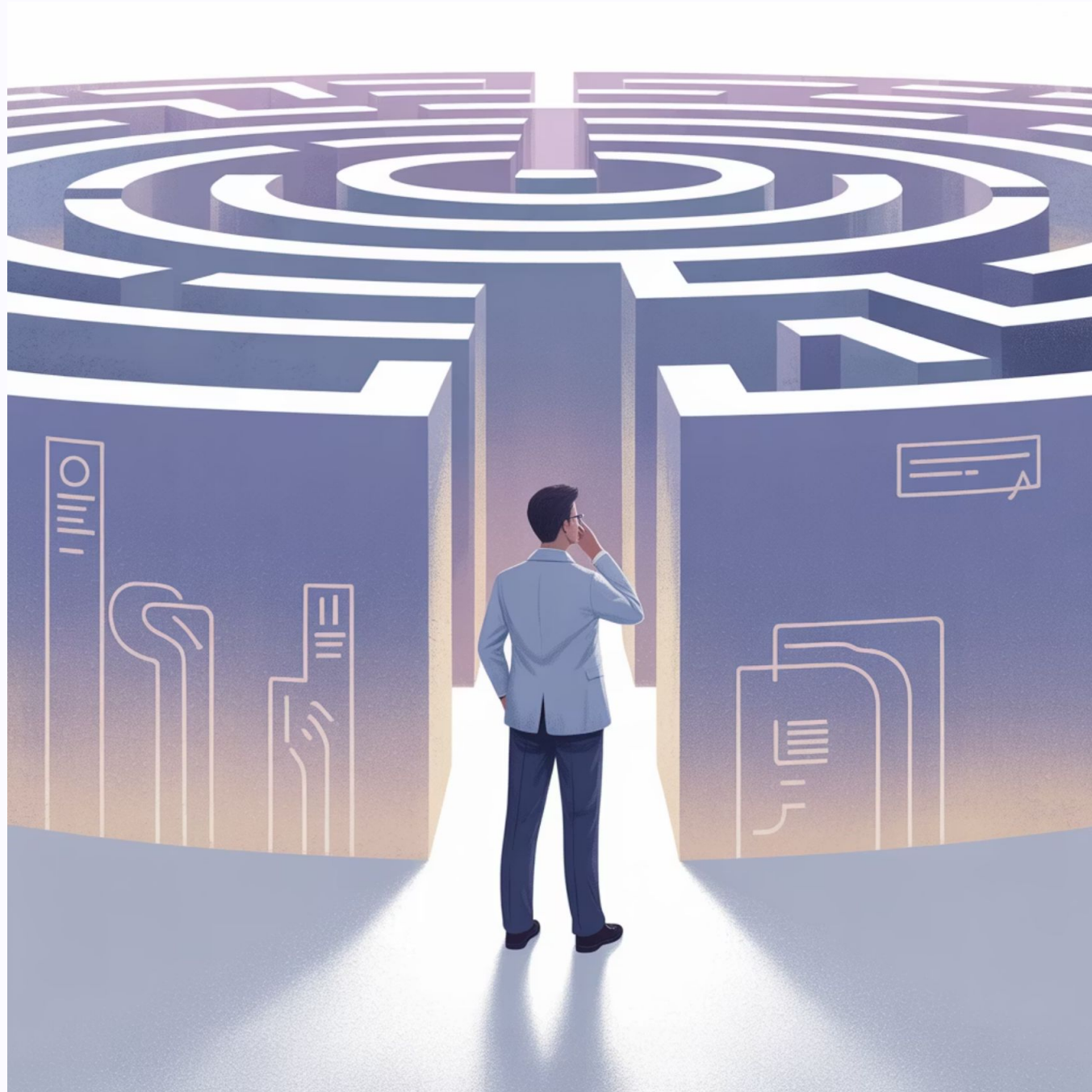
Confidentiality

Respecting the confidentiality of information acquired through professional relationships.

Professional Competence

Maintaining professional knowledge and skill at levels required to ensure clients receive competent service.

Threats to Independence



Self-interest Threat

Financial interests or dependence on client fees that could inappropriately influence judgment.

Self-review Threat

Reviewing one's own work or services previously provided to the client.

Advocacy Threat

Promoting a client's position to the point of compromising objectivity.

Familiarity Threat

Close relationships with client personnel affecting professional judgment.

Intimidation Threat

Actual or perceived pressures from clients that influence objectivity.

Professional Skepticism & Judgment

Professional Skepticism

An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement, and a critical assessment of audit evidence.

- Questioning the reliability of documents
- Considering contradictory evidence
- Evaluating management responses

Professional Judgment

The application of relevant training, knowledge, and experience in making informed decisions about appropriate courses of action.

- Determining materiality levels
- Assessing risks of material misstatement
- Evaluating sufficiency of audit evidence

High-Profile Ethical Failures



Enron/Arthur Andersen (2001)

Failure to maintain independence and professional skepticism led to overlooking fraudulent accounting practices, resulting in the collapse of both companies.



WorldCom (2002)

Auditors failed to detect \$11 billion in fraudulent accounting entries, highlighting the importance of thorough testing and professional skepticism.



Lehman Brothers (2008)

Auditors approved Repo 105 transactions that disguised the true financial position, demonstrating the consequences of prioritizing client relationships over public interest.