Audit & Assurance - Week Three - Acceptance and Ethics

Trust is needed – auditor must be & be seen to be independent.

The 5 Fundamentals of Ethics

Objectivity - unbiased, impartial, cannot be too friendly and it's **got to be perceived** as objectivity.
Professional Behaviours - Breaking laws, taking bribes and misleading advice.
Confidentiality - Cannot share information, keep information secret.
Integrity - No lying and be trustworthy.
Professional Competence & Due Care - No corner cutting and make sure you have qualified staff. Maintain **CPD**.
For ACCA every member has to do Continuous Professional development **(CPD)** which means reading, taking courses or anything else that keeps your knowledge up to date. This takes **40** hours a year and it is part of Professional Competence & Due Care.

5 Ethical Threats That Could Occur

Advocacy - Auditor takes on the position of the client by defending them in court. Cannot advertise the client's shares.
Self-Interest - Cannot receive gifts. By law, you have to sell shares before you audit that company. You are more likely to turn a blind eye to things if that company is 90% of your income.
Self-Review - You cannot prepare a company's accounts and then audit them, you are not likely going to admit you are wrong.
Intimidation - Managers may try to bully you so you don't find things out. Try to send experience staff in if it's the manager director.
Familiarity - You have to rotate who audits which companies so staff members do not get familiar and close to the clients. Cannot have **long association** or **close relationships**.

There are safeguards put in place to prevent these threats and keep the ethicalness of an audit nice and clean. They also reduce the threat as well.

Safeguards to Protect the Ethics

Monitoring fees - Income fees from a client are not to go over a certain limit but these are different for both Private and Public listed companies
- **Private Companies** - the income from a client cannot go over **15%**.
- **Public Companies** - The income from a client cannot go over **10%**.

Sell shares before you audit - as an auditor you must sell your shares if you are about to audit that company.
Use of separate team - If you prepare a company's accounts you must use a separate team. It is deemed that you are breaking Ethics if you don't.
Policy to say no to gifts - You are not allowed to accept gifts as it may seem dodgy and might motivate you to change the audit for the clients benefit. Most companies have a company policy in place and you could get disciplined. You must disclose information to the Audit Partner if this was to happen.
No advertisement of shares - You cannot advertise a company's shares if you think they are doing well. Staff should be trained so they know this is wrong.
Audit partner to be rotated - This so they do not get to familiar with the client and start letting things go for their benefit. This is classed as **long association**.
Resignation - If client is not going to pay you then you should seek for legal action.