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"Pioneers in Professional Education"

FINANCIAL CONTROLS AND AUDIT

AAT LEVEL -111

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by

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OVERALL OBJECTIVE OF THE INDEPENDENT AUDITOR AND CONDUCT AN AUDIT IN ACCORDANCE WITH SRI LANKA AUDITING STANDARDS

(S.L.Au.S - 200)

SESSION OUTLINE……

A) Introduction

B) Independence

C) Integrity

D) Objectivity

E) Professional Competence and Due Care

F) Confidentiality

G) Professional Behavior

Introduction

Every professional needs to adhere to Code of Professional Conduct and Ethics, when performing the respective professional services. Likewise, as a professional, auditor also required to adhere to Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

Independence

Auditor needs to have complete independence when expressing independent audit opinion on the Financial Statements of the business entity.

"The Auditor's ability to express in unbiased audit opinion" is defined as Independence.

When conducting audits, the auditor should have both Physical and Mental Independence. The auditor should not allow anyone to have any uncertainties about the Auditor's ability to express an independent opinion

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Factors which will have a negative impact on the Independence

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Integrity

The Auditor should be straightforward and maintain the honesty in all professional and business relationships. The Auditor should not purposefully deviate from the Professional Code of Conducts and Ethics when performing the professional services.

Objectivity

The Auditor should not allow bias, conflict of interest or undue influence of others to override professional or business judgments/objectives. Sole objective of the audit is to express an Independent Opinion on the Financial Statements. Therefore, Auditor should not allow any personnel interest to be contradicted with the/override the professional objective which is express of independent opinion. The Auditor should recognize the responsibility vested with him with regard to the stakeholders who are using the Audited Financial Statements when taking the Economic Decisions.

IMPORTANT

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Professional Competence and Due Care

Prior to accepting an Assurance Engagement/Audit, auditor needs to evaluate whether he/she is having the required Competencies, Capabilities, Skills and Experience to accept the Professional Services.

Once the auditor accepts the professional services, proper attention needs to be devoted for the professional service until it completed.

Auditor should not accept any professional services, if he/she does not have the required Competencies, Capabilities, Skills and Experience.

Confidentiality

Auditor should have an unlimited access to the information of the business entity/client, which is applicable to the audit. So, the business entity is bound to provide all the information which is requested by the auditor in connection to the professional services. So, while using that right, the auditor has the privilege of obtaining sensitive information.

However, the information obtains in connection to the audit,

1) Should not use for any personal advantage of the auditor
2) Should not provide that information to any personal advantage of a third party.
3) If the auditor provides that information to a third party, auditor needs to obtain proper and specific approval from the business organization/client.

However,

A) If there is a legal requirement – (Court order received to the auditor)

B) If there is a Professional right or duty to disclose

C) When there is a breach of right of an Auditor, where the situation demands to safeguard the rights of the Auditor

D) When that information requested by ICASL,

the auditor need not want to seek the approval from the business entity/client

The auditor needs to protect the Confidentiality of the information, even after the termination of the professional relationship.

Professional Behavior

The auditor should not do anything which is harmful to the Profession, in his/her personal life as well as in the professional life.

PRACTICAL APPLICATIONS

Both "A" and "B" are Chartered Accountants and "A" is working as the Finance Manager of ABC PLC and whereas "B" is working as an Audit Manager at PQR audit firm. Since both of them are Chartered Accountants, they need to comply with the Code of Ethics established by CA Sri Lanka.

Critically evaluate the above scenario

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Integrity

Chartered Accountants should be straightforward and maintain the honesty in all professional and business relationships. The Chartered Accountants should not purposefully deviate from the Professional Code of Conducts and Ethics when performing the professional services. Integrity also implies the fair dealing and truthfulness.

Objectivity

Chartered Accountants should not allow bias, conflict of interest or undue influence of others to override professional or business judgments/objectives. They should always focus on the main objective and should not have any personnel interest which has a conflict of interest with the professional objectives

Professional Competence and Due Care

All Chartered Accountant should maintain the professional knowledge and skill at the level required to ensure that the client or the employer received competent professional services based on current development in practice, legislation, and techniques. Once the professional services are accepted, all Chartered Accountants, should perform the professional services with proper Due Care, to provide the best service to the client or to the employer.

Confidentiality

Chartered Accountants, should respect the confidentiality of information acquired as a result of the professional and business relationships and therefore, not to disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties

Professional Behavior

Chartered Accountants should not do anything which is harmful to the Profession in his/her personal life as well as in the professional life.

IMPORTANT

Both "A" and "B" should comply with the above mentioned 05 ethics when performing their Professional Services. However, in addition to the above mentioned 05 ethics, "B" needs to comply with Independence as well, since "B" is a person who is having the Chartered Accountant qualification who is engaged in public practice

Threats

Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

A) Self-Interest Threat

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B) Self-Review Threat

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C) **Familiarity Threat**

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D) **Intimidation Threat**

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E) **Advocacy Threat**

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IMPORTANT

The Chartered Accountants should take the necessary safeguards and other measures that may eliminate threats or reduce them to an acceptable level

If not, the Chartered Accountant needs to evaluate and see whether he or she is in a position to provide the professional services.

Therefore, all the Chartered Accountants (irrespective of the designation), should comply to all the Ethics imposed the Institute of Chartered Accountants of Sri Lanka, when performing the respective professional services

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Additional Notes...

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