

The auditing ethical issues accounting essay



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Auditing plays an important roll in providing reasonable assurance for investors and other parties looking to put money into a company or corporation. For auditors to be able to help provide assurance they must have an important attribute, which is independence. An auditor's primary purpose is to represent the public. This requires auditors to work with clients in acquiring knowledge if the company or corporation is in accordance with the Generally Accepted Accounting Principles (GAAP) and Generally Accepted Accounting Standards (GAAS). When auditors are truly independent of their clients there are some ethical issues that surround the operation and problems can also arise when auditors are not independent of their clients.

Auditors must follow a code of professional conduct called the AICPA. The AICPA includes many principles that auditors must abide to in order to maintain a high performance in professional engagements. The principles include Responsibilities, Public Interest, Integrity, Objectivity and Independence, Due Care, and Scope and Nature of Services.

Responsibilities for auditors require auditors to perform consistently with the role of either an internal or external auditor. External auditors are independent third party users of financial statements. They check reports and locate errors within the records of the firm. Internal auditors are usually employees of a firm that is auditing their own company's reports. Internal auditor's responsibilities are very similar to external auditor duties but internal auditors have the responsibility to check all reports within the company they work for. As professionals, auditors play a major role in society. Auditors must continue to cooperate with each other to improve reporting results in accounting. They must also maintain public confidence

and self-governance to be able to collectively maintain and enhance the profession.

Public interest is essential to effective auditing because the auditing profession deals with many clients from different branches of the economy. Clients include governments, credit grantors, employers and investors. These clients rely heavily on the professional performance of auditors, which requires auditors make opinions that will serve the public. One example of how public interest is essential to effective auditing because investors in wall street require opinions from auditors to make financial decision on investments. An opinion on a corporation is important for the public who are looking invest. Public interest can't co-exist without integrity and independence. Audits must be conducted with accuracy and honestly for the public so the conclusions can be used to make decisions. Maintaining integrity and independence is important for effective auditing.

Due care requires auditors to strive to improve competence and quality of service for clients. With due care it allows auditors to perform with equality and independence to discharge conclusions to the best of the auditor's ability. Due care allows auditors to provide the best service for clients. If due care is not applied when issuing reports your duty as an auditor with responsibility and public interest will be affected negatively.

The objectivity and Independence of an auditor is a major principle that must be applied in order to make accurate conclusions on engagements. An auditor should be free of conflict of interest and perform audits with independence. Failure to operate with independence will cause dishonesty.

Dishonesty violates the code of the AICPA and public trust is lost. As stated before, auditing is a profession that requires to engagement reports to be accurate and honest. The reports and conclusions of auditors will be used to make financial decisions.

Scope and Nature of Services are services that auditors are able to provide to clients. In order to accomplish scope and nature of services, auditors must practice in firms that have well supervised internal control to ensure that services are comply with audit standards. Also auditors should determine if their judgments would create a conflict of interest in performance and an activity is consistent with their role as an audit professional.

These principles work together to provide a guideline for auditors to perform professionally. Services that auditors perform like Assurance Services and Consulting Services require the auditor to keep independence and integrity. With Assurance Services, Auditors must review and evaluate the efficiency and effectiveness of the corporation. Consulting services allows auditors to come to an agreement on the nature and scope with management.

Auditing ethical issues arise when duties toward a group are inconsistent with the responsibilities to another. If an auditor decides to publicize a discovered violation or impropriety, the auditor risks violating confidentiality, risks facing litigation and losing clients trust. But also if the auditor decides to withhold from releasing violations and impropriety information, the auditor's actions may be considered negligence. The auditor also runs into a situation where his reputation as an auditor will be looked upon as being

lenient. The decisions by auditors will always have a potential to carry liability along with it.

There were several studies done that may bring evidence against an auditors claim of independence. Conflicts with auditor independence can be concerned with lack of independence or with the inefficient functioning of accounting firms. There have been talks about accounting firms who obtain contracts for auditing and consulting services allows an increase in already financial dependency of an auditor on the client. According to an article written by Gordon Cohn he provides an explanation to a study done that can bring evidence against an auditors claim of independence.

In reference to Gordon Cohn's article, "Klions (1978) attests that in the fifteen years of research -Firstly, he notes that the AICPA's ambiguous and difficult to make operational Code of Ethics definition of independence could be one reason that no violations have been found. Secondly, he observes that considerable litigation against CPAs are settled out of court without an admission of liability or a discussion of grounds."

Auditing is a major factor in influencing financial decisions for investors. Auditors serve an organization that will respond to the risks to the investing public. This brings us to the proposed thesis that inefficient functioning accounting firms can cause auditors to have ethical conflicts relating to independence. In an article from the New York Times, James R Doty a chairman of the Public Company Accounting oversight Board says "public companies still appear to structure transactions for no other reason than to reach strained accounting results, and auditors are pressured to sign off on

those accounts.” The article provides solid evidence for the relationship between independence and accounting firms.

Adding to James R Doty’s statement, the relationship with auditor’s independence and accounting firms were examined in 1990 by Kelly and Margheim and released supporting evidence for ethical conflicts regarding independence. Kelley and Margheim evaluated the impact of time pressure that influences dysfunctional auditor behavior. Firms use very strict time schedule to control the pricing of audit engagements, which in turn have many shortcomings. Audit staffs lack the supervision by managers because they are occupied with their own tasks. From this study they found that “ an alarming number of under-reporting of audit time and audit quality reductions are occurring in practice”. This results in auditors signing-off engagements prematurely and poor work and investigations. These are some of the ethical conflicts with the lack of independence in auditors.

In conclusion, the AICPA code must be followed strictly in order to have the best results from the auditing profession. Independence is key and is required with every engagement with a client. Auditing is an important profession for the public because it enforces the basic accounting principles of checks and balances. There must be an enforcer to check if reports of companies are in compliance with GAAP. The public relies on the opinions of auditors to make There were many ethical conflicts regarding the lack of independence of auditors but with increased supervision amongst engagements, it can help maintain an auditors primary attribute. It is important to encourage practicing ethics in accounting and auditing to future increase reliability and accuracy of reports.

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