

# [Koger properties, inc.](https://assignbuster.com/koger-properties-inc/)

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Facts Before the merger, Michael Goodbread served as an audit partner in Touche Ross. In December 1988, Goodbread bought 400 shares of common stock from Koger Properties, Inc. After the effective year of the merger in 1989, Koger automatically became an audit client of Deloitte & Touche instead. Also, Goodbread got an identical position in Deloitte & Touche in the same year. In the following year, Goodbread was assigned to be an audit engagement partner in association with Koger’s financial statements for the fiscal year which was ended on March 31, 1990.

Goodbread was in charge of all facets of Koger audit. Then Goodbread signed the Koger “ audit planning memorandum” on February 21, 1990. Audit planning for the engagement and field work was conducted from that time until June 27, 1990, on which date Goodbread signed the “ audit report record” which was a formal completion of the Koger audit. During the operation, Goodbread sold all his 400 shares of Koger common stock on May 10, 1990. Issues Did Goodbread violate the SEC’s independence rules? 2. Was Goodbread’s equity interest qualified as a material investment? Was it relevant? 3.

Under what conditions could Goodbread have later served as the audit engagement partner? Analysis The SEC strongly claimed that Goodbread violated its independence rules because of the following reasons. Rule 2-01(b) of SEC states, “ an accountant will be considered not independent withrespectto any person... in which... he, his firm or a member of his firm had, or was committed to acquire, any direct financial interest or any material indirect financial interest... ” Clearly, it was a direct financial interest for Goodbread to own 400 shares of Koger common stock in this situation.

According to the Code of Professional Conduct, “ Independence shall be considered to be impaired if: During the period of the professional engagement a covered member was committed to acquire any direct or material indirect financial interest in the client (ET § 101. 1). ” In Goodbread’s case, the fact was that he owned 400 shares of Koger common stock which were direct financial interest when he was the audit engagement partner who oversaw the audit of Koger. “ Public confidence would be impaired by evidence that independence was actually lacking, and it might also be impaired by the existence of ircumstances which reasonable people might believe likely to influence independence (SAS § 220. 03). ” An auditor must not only be independent in fact which is related to the evidence that the public have, but must also avoid any actions that may likely seem to influence independence. No matter how many shares of Koger common stock Goodbread owned, it still affected his independence. The reason was the public tended to think that Goodbread would maximize his own benefit by unfaithfully making the audit decision for the company. The profession has established, through the AICPA's Code of Professional Conduct, precepts to guard against the presumption of loss of independence (SAS § 220. 04). ” As an independent auditor, it is important to let the public maintain confidence in order to strength the belief of an audit’s profession. This will all be collapsed after realizing the auditor is holding common stock which is not supposed to. I believethat the investment was a material interest. Common stock has its true existing value knowing as an investment, because it is not just a piece of paper.

Having the stock means that the stockholder has the ownership in a specific company. As an auditor, it is unlikely that the public will accept people like Goodbread claimed himself as an independent auditor to audit for the company since he was the one who had the great impact on the audit decisions. Goodbread might not think this way, but the public tended to think he would be biased when he dealt with the financial statements of the company. Therefore, the materiality of this investment was a relevant issue for Goodbread.

He really needed to avoid this kind of situation which might lead outsiders to doubt his independence. Goodbread signed the Koger “ audit planning memorandum” on February 21, 1990. It was since that date he had the fullresponsibilityfor being independent as an audit of Koger. If Goodbread could sell his 400 shares of Koger common stock before February 21, 1990, there would not be this kind of serious situation happening to him. However, the fact was he did not sell those stocks until May 10, 1990, so he completely lost the ability to be served as an audit engagement partner for the company legally.

Conclusion After evaluating the codes and standard, it is not doubtful to see why the SEC took action against Goodbread. The public did not want to believe Goodbread was independent because of his partial ownership in Koger. Goodbread’s Koger ownership must be prohibited during the time of the Koger audit since he did not fully maintain his independence and was not legally responsible for the audit work. The auditor must be honest to claim himself as independent, and he must be away from any interest in the client.