Administrative Auditing

“Case: Conflict of Interest” ”

Audit Objectives”



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| **Group: F53A Date November 21st to 24th** |  **Profra. Rosa María López Larios** |

**OBJECTIVE**: Identify situations in which the auditor is involved in a conflict of interest and analyze possible consequences of that behavior

**INSTRUCTIONS**

Read the following information obtained from the Sydney Morning Herald newspaper and analyze the situation involved

The real conflict is that auditors get paid by the company that they have been hired to independently audit. It is a flawed system because it puts auditors in the invidious position of being torn between getting paid by retaining the audit job - which is code for keeping the client happy - and suffering the ignominy of being sued for complacency if a company blows up.

It is a problem that manifested itself in the latest audit inspection report from the corporate regulator. The report found that from inspections of 20 audit firms over the past 18 months, audit quality went backwards.

An example is when a partner in a national accounting firm challenged the accounting treatment of one of its listed clients, which created tensions with the chief financial officer. The accounting firm replaced the partner. But at the end of the day, companies don't fail because of an audit oversight. They fail because management have done the wrong thing, either due to incompetence or fraud.

The problem is a lack of professional scepticism from some auditors when it came to conducting external audits on a company. Where disclosure deficiencies were identified ''it often appeared that the auditor was willing to agree with the audited entity's disclosures rather than challenge them.'' This could be a combination of wanting to keep the client happy and laziness on the auditor's part.

According to the information above, write the answer to the following questions:

1.- Explain the reason of conflict of interest according to the paragraph

2.- What is the relation between money and ethic?

3.- Which would be your behavior if you were in a similar situation?

4.- How important are authorities to identify this type of cases?

5.- Give your recommendations to avoid this type of conflict

Write your answers and prepare your report according to the specifications given in class