

THREAT

January 16, 2021

Threats to Auditors Independence!

Issues that can affect
the integrity and
reliability of auditor
reports

Our
Principles



Chartered
Accountants
Act, 1949



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Let's

begin!

Are you ready?



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What is Auditors Independence?

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What about Internal Auditors?

2

What about External Auditors?

Auditors are expected to provide an unbiased and professional opinion on the work that they audit. An auditor who lacks independence virtually renders their accompanying auditor report useless to those who rely on them.



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Independence of Internal auditors

Internal auditors are concurrent auditors and they work in tandem with the workflow of the enterprise. Independence here implies independence from parties whose status may be harmed by the outcome of an internal auditor.

The issues that internal auditors face are inadequate risk management, governance issues, and so on.



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Independence of External auditors

Generally, external auditors are statutory auditors out of love for compliance with the regulations and in public sectors, hired by the public accounting bodies.

Identification of threats to Auditors' independence



Self Interest Threat

A self-interest threat exists if the auditor holds a direct or indirect financial interest in the company or depends on the company for a major outstanding fee.

For Eg: The audit team is preparing to carry out its 2020 audit for XYZ Company. However, the audit team has not received its 2019 audit fees from XYZ Company.

Issue: The audit team might be tempted to present a pleasing report to XYZ company so that the company can secure a loan to pay the outstanding fees for their 2019 audit.

Self Review Threat

There is self-review threat if the auditor is auditing his own work or work performed by colleagues in the same company.

For Eg: The auditor prepares the financial statements for XYZ Company while also working in ZYZ company as an auditor.

Issue: By having the auditor audit his or her own work, the auditor is not expected to form an unbiased view on the financial statements of the company.

Self Advocacy Threat

There is an existence of advocacy if the auditor is involved in promoting the client, to the extent the auditor's objectivity is compromised.

For Eg; The auditor is helping in selling XYZ Company while also working as the company's auditor.

Issue: The auditor may present a favorable report to increase the worth of XYZ Company.

Familiarity Threat

There is familiarity threat if the auditor has a close relationship to or too familiar with staffers, officers, or directors of the client company.

For Eg: The audit of XYZ Company is done by the same auditor for more than 10 years and the auditor often plays snooker with the CEO and CFO of XYZ Company.

Issue: The auditor may have become very familiar with the client and, therefore, lacks objectivity in his/her report.

Intimidation Threat

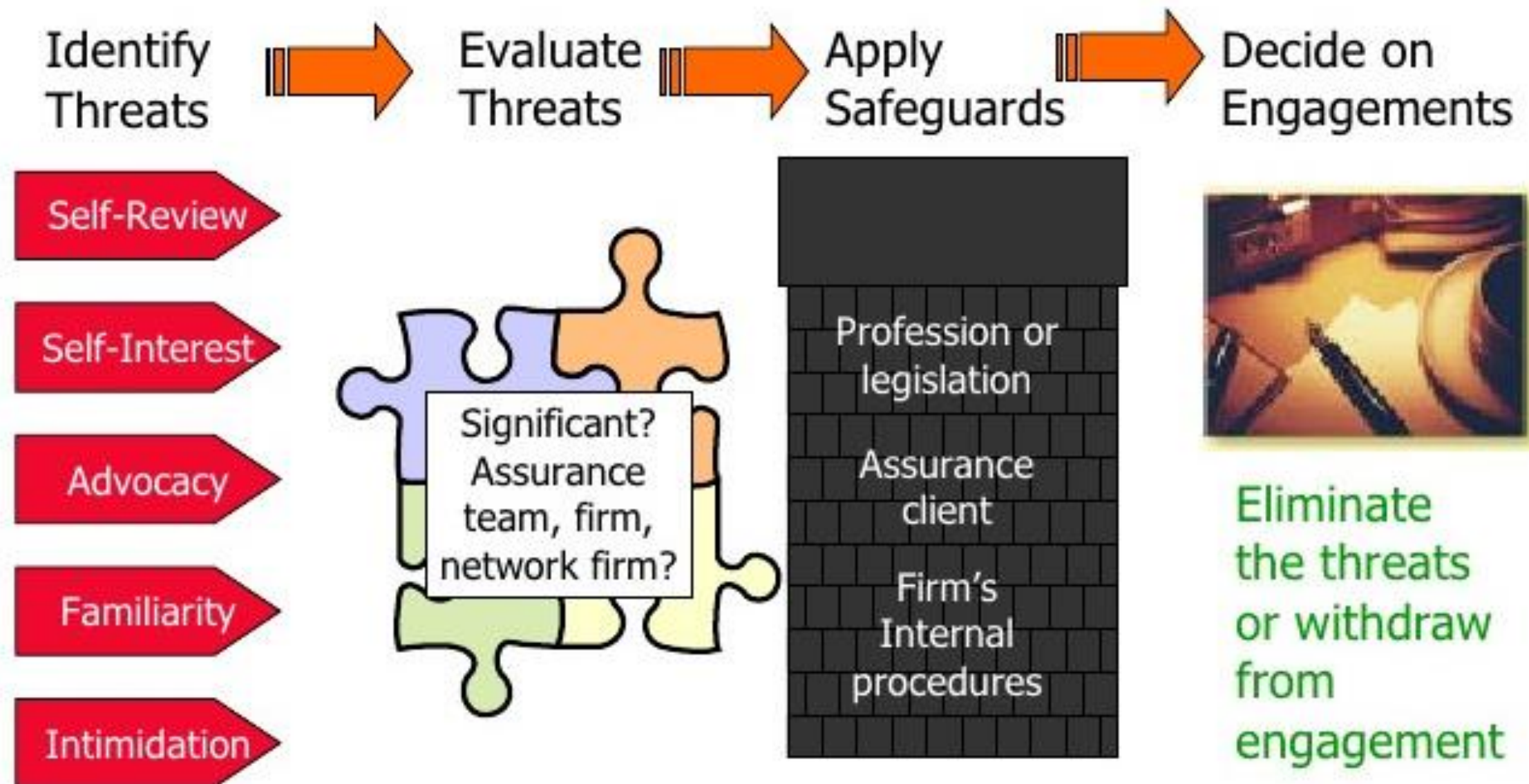
Intimidation threat exists when the management or its board of directors intimidate the auditor to the point that the auditor is discouraged from acting objectively.

XYZ Company is not happy with the outcome of the audit report and threatens to change auditor the following year. Meanwhile, XYZ Company is the biggest customer of the auditor.

Issue: Auditor's independence is compromised, as XYZ Company is their biggest client and normally, they do not want to lose such an important client. Therefore, the auditor may present a report that appeases XYZ Company.

Auditors' Independence rules

Framework of Principles:





Safeguards are actions individually or in combination that the accountant takes that effectively reduce threats to an acceptable level. Safeguards vary depending on the facts and circumstances.

Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.



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- Using different partners and engagement teams with separate reporting lines for the provision of non–assurance services to an assurance client might address self– review, advocacy or familiarity threats.
- Having an appropriate reviewer, who was not a member of the team, review the work performed or advise as necessary might address a self–review threat.



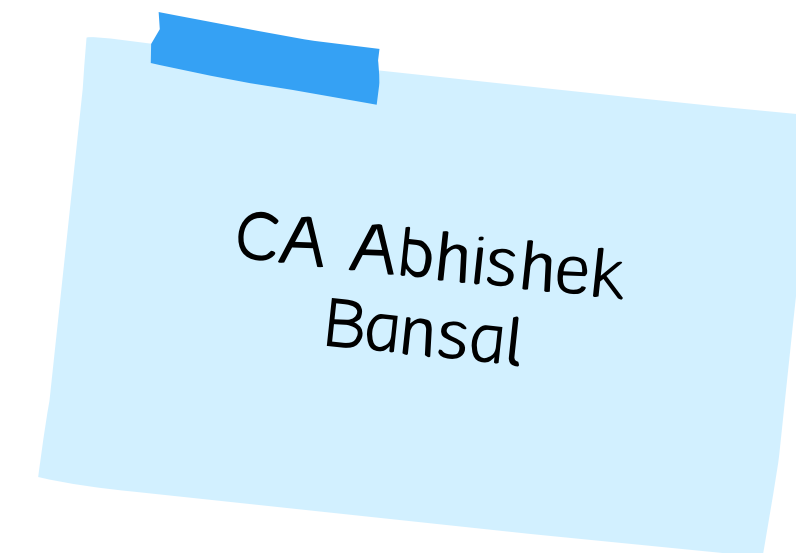
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- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.



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**The mind is just like a muscle
– the more you exercise it,
the stronger it gets and the
more it can expand.**





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**Thank you for
participating!**

Have a great day ahead.