

STAND YOUR GROUND



***The work of
auditors is not
without its risks***

Not only are the liability claims rising...

- ◆ **Financial Times (March 2010) – Negligence actions against auditors rise**
- ◆ **Reuters: December 2012 – Auditors not doing their job (US government sues big firms over audits of Chinese companies suspected of potential accounting and disclosure fraud)**

..we are expected to know & do more



The role of Standards

There are extensive standards and pieces of legislation that assist in formalising the expectations from auditors and audit committees incl. the IIA standards, Public Audit Act and more.

We must know and apply these standards in our work!

Remember:
***Follow the correct
approach to your work!***
At all times.

So what do we do when...



***Stand your ground:
10 Tales from the real
world***

1

You don't understand my business!!!

This is perhaps one of the auditor's biggest fears!

Its difficult to imagine where it came from but this comment is ammunition commonly used against the auditor to take a more lenient stance due to the impact on auditor confidence! In some instances, it is used deliberately.

This normally results in the auditor relaxing their audit approach and incidentally dropping any findings he or she may have

2

Where is the value add?

Audit stakeholders want meaningful assurance information that allows them to play their oversight role.

It has always been about independent assurance but individual perceptions of “value add” have skewed this principle.

Value add in addition to the above is not discouraged but it shouldn't be the primary pursuit of auditors

In pursuit of value-add beware of straying into areas that you least understand thereby exposing the client/ auditee to unmanaged risk

3

You are not picking up the real issues

Auditors must accept that sometimes the client will volunteer areas of weakness to them

However, this approach sometimes may be used to direct attention away from the (often) bigger issues to a set of known and manageable issues.

It is most likely that in such engagements the auditor may feel pressurised to re-work their findings to align to those proposed.

This should be resisted if detrimental to the outcome of the audit.

4

You can do better in a bigger role

Auditors must remain wary of independence and safely guard it at all costs

Where auditors feel that their independence has been impaired or is about to be impaired, they should take all necessary steps to distance themselves from the subject matter

Auditors must remain aware of pressures that may be presented upon them at a critical point in the audit process

This approach may be used to remove “unwanted” auditors from this role if it seems they are straying too close to sensitive matters

5

Lets discuss how the audit is going

Auditors must be cautious of the content of audit status update meetings

If this meeting is called by someone who is ultimately the subject of an audit, the agenda and discussions should be carefully managed

Where auditors feel an overwhelming sense of loyalty to someone, this has an effect of impairing their independence

This approach may be used to secure the loyalty of the auditor



Trust your instinct

Auditors must rely a lot on their own judgment on matters before them

Sometimes bigger forensic cases have been uncovered by a seemingly small clue...often easy to ignore

Follow the course of your tests and don't ignore these clues

Do not be tempted by materiality considerations too early as you may ignore a much more material problem

7

The fear of guilty people

Auditors sometimes find themselves threatened either physically or verbally as they get involved in complicated subject matters

You must put your safety and welfare first by reporting any such threats to your direct report or alternative

Don't always believe what you are told or made to believe when veiled threats are being made

This approach is normally used by insiders under disguise to distract audit focus and change the auditor's course

8

Get proper management comments

It is not uncommon to read a report in which the finding and the management comments are opposing each other and yet the report is finalised anyway

Auditors must strive to reach a logical conclusion on matters and having done so to secure meaningful comments from management

Any points of material disagreement should be reported to the audit committee as specific reportable items

Audit committees must request details of any areas of specific disagreement as a risk mitigation method

9

Insist on proper audit evidence

A commonly used approach to derail audits is not to avail key documentation when requested

Auditors must not attempt to reach a conclusion on matters using alternative evidence without first exhausting primary evidence

Most large cases of fraud have been concealed through destroying of key evidence, so auditors must also remain wary of being used a rubber-stamps

10

Be willing to “walk-away”



“Our books are balanced. 50% of our numbers are real and 50% are made up.”

1. With the rise in auditor liability it is prudent for the auditor to constantly assess and re-assess their audit risk
2. Auditors must uphold the highest ethical and moral standards which may require them to disassociate themselves unsuitable and unhealthy circumstances

“I do not think there is any other quality so essential to success of any kind as the quality of perseverance. It overcomes almost everything, even nature.” ***John D. Rockefeller***



Thank you for your time!

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