



The International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting body that develops the *Code of Ethics for Professional Accountants* (the Code).

According to the Code, the fundamental principles of professional ethics for professional accounts in the Code are as follows:

Integrity – to be straightforward and honest in all professional and business relationships.

Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

Professional competence and due care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

Professional behaviour – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Case Study Conflicts and Confidentiality

Outline of the case

You work for a firm of accountants. The firm provides audit services to JediCell (a manufacturer of mobile phones) and SithStem (who produce electronic components for phones).

The audit fee for SithStem is significantly higher than for JediCell and retaining this lucrative client is important for your promotion prospects.

During your audit of JediCell you discover that a number of faults have emerged with a recent batch of components and the business is in trouble. The company may have to shut down in the next few months.

You also discover that JediCell owe a substantial debt to SithStem.

SithStem are not aware of JediCells financial difficulties and are showing the debt at full value in their accounts.

Due to a tight deadline you are now under pressure to sign off a clean audit report for SithStem knowing that.

What do you do?

Key fundamental principles

Integrity: It is important that your audit opinion reflects the true situation. You cannot allow yourself to be involved in the publication of information that is misleading.

Objectivity: Your objectivity and independence could be impaired by having two audit clients that have a pre-existing trading relationship. Whilst there is nothing improper about this the situation may need to be managed to avoid threats to objectivity, such as bias towards one company. This may be a particular risk in the scenario above due to one client providing more fee income for the firm (self interest). In addition you may be facing an intimidation threat due to the time pressure.

Professional behaviour: You are required to perform your work in accordance with applicable law and regulations, including relevant auditing standards. You should not discredit yourself or your profession.

Confidentiality: The big issue here is that you have confidential information about one client that affects another. If you tell SithStem about the bad debt then you are breaching confidentiality, however signing off an incorrect audit report is a breach of your professional duty.

Considerations

Identify relevant facts:

- Two audit clients have a pre-existing financial relationship.
- You have information about one of them that affects the audit opinion on the other.

Identify affected parties:

- SithStem, JediCell, you, the firm that employs you.

Who should be involved in the resolution:

- Your colleagues.
- The matter should not be discussed with SithStem.

Possible course of action

This is a difficult scenario to which there may be no 'right' answer.

One party should not be favoured over the other.

It may be that normal audit procedures can be followed and information about JediCell's financial situation obtained from a public source. In which case your recommendations can be safely based on public information instead of confidential information.

If you are able to delay sign off the situation may resolve itself when SithStem request payment of the debt.

With the benefit of hindsight the controls that could have been put in place might have included using separate audit teams to avoid the sharing of confidential information. At the very least the existing trading relationship should have been identified.

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