

# CFRR>>

Centre for Financial  
Reporting Reform



WORLD BANK GROUP  
Governance

GROUP  
CHALLENGE

The Ethical Dilemmas  
Board Game

## Audit Training of Trainers



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- Institute of Authorized Chartered Auditors of Albania (IEKA)
- Association of Accountants and Auditors of Republika Srpska (AAARS)
- Union of Accountants, Auditors and Financial Workers of Federation of Bosnia and Herzegovina (SRRF-FBH)
- Auditors Chamber in the Federation of Bosnia and Herzegovina
- Institute of Certified Public Accountants of Bulgaria
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- Estonian Auditors' Association
- Society of Certified Accountants and Auditors of Kosovo (SCAAK)
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- Council for Advancement and Oversight of the Audit (CAOA)
- Institute of Certified Accountants of Montenegro (ICAM)
- Philippines Board of Accountancy
- Chamber of Financial Auditors of Romania (CAFR)
- Chamber of Authorized Auditors of Serbia (CAA)
- Serbian Association of Accountants and Auditors (SAAA)

## Introduction

### Objective

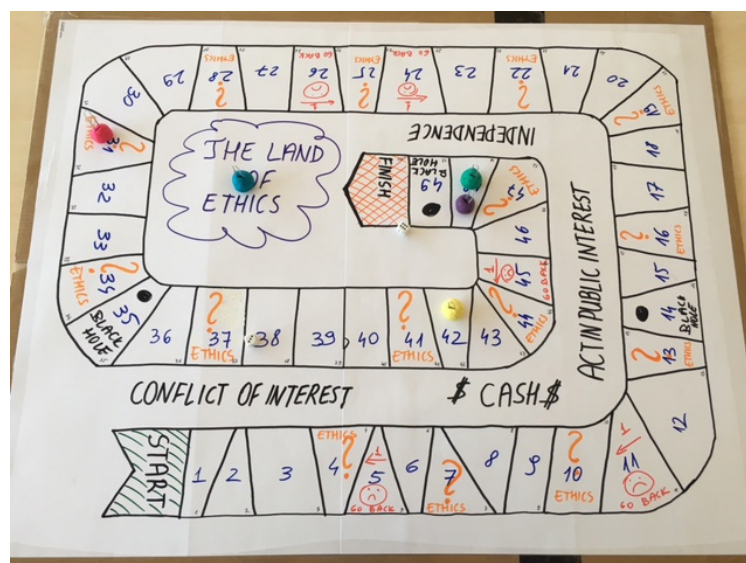
The objective of the exercise is to enable participants to approach professional ethics training and education in a practical way, by analyzing threats that arise and selecting an appropriate course of action in line with the fundamental principles of the IESBA Code of Ethics.

### Approach and Format

The session's duration is 90 minutes. It starts with a brief presentation to serve as a reminder about the fundamental principles, threats that arise and safeguards covered by the IESBA Code of Ethics [app. 30 min]. It will be followed by the board game, which includes the short ethical dilemmas [app. 60 min].

Participants are divided into groups and a game board is prepared as illustrated below. A path leads from the "start" to the "finish" divided into numbered spaces. Each team has a different colored counter. In turn, the teams throw the dice then advance their colored counter the number of spaces shown on the dice. If they stop on a space with a yellow question mark they must address an ethical dilemma. The dilemmas are prepared in advance (see examples later) and written on individual cards which placed upside down in a pile next to the game board and taken from the top of the pile in turn. Other spaces can have other instructions, for example on this game board the "Black hole" field where the team must move back six spaces and the "Go Back 1" field.

The team that gets the highest score by rolling the dice starts the game. Open, inclusive team discussion of the ethical dilemmas is encouraged throughout. The first team to reach the "Land of Ethics" wins a distinguished certificate pronouncing the team members as "The Champions of Ethics".



## Expected outcomes

- An interactive platform that brings in views and ideas of participants in a constructive method
- Develop ethical decision-making skills and apply sound judgments regarding how the ethical dilemmas can be practically resolved or mitigated



## Short Ethical Dilemmas and Questions

Some proposed ethical dilemma scenarios and questions are provided below, together with proposed answers (in bold).

### Question 1

You are the most junior member of an audit firm that you have recently joined. The firm is preparing an audit proposal for a listed client. You are a shareholder with this company. The audit firm has strict rules on reporting employees who hold shares but you failed to do so upon joining because of neglect. One of the partners who is very happy with your work has proposed you as a member of the audit proposal team. There is very little chance that this audit client will be appointed as it has a longstanding relationship and clear preference for its existing auditor. The best course of action is to:

- A. Do nothing as it is likely that the audit client will not be appointed; you do not wish to sell your shares because the price has fallen since you acquired them and you will therefore be exposed to a loss in the transaction
- B. Call your broker and immediately sell you shares at a loss
- C. **Report that you are a shareholder, in line with the firm's policy. Discuss with the audit partner and seek appropriate advice on how to resolve the conflict, most probably leading to the disposal of the shares**

### Question 2

The World Bank has approached your audit firm asking you to provide them with access to your client's working papers as part of their auditor's assessment program. You:

- A. Respond that access is permitted because the World Bank employees are of high integrity and would not breach your confidentiality with the client
- B. **You will seek written permission from your client and provided you obtain it, you will grant access to World Bank officials to make the inspection**
- C. Respond that permission will be granted but that World Bank employees conducting the assessment will be requested to sign a confidentiality statement

**Question 3**

During the summer, you and a few colleagues are enjoying a nice lunch outside in the city and have a few glasses of wine. Afterwards you return to the office and some colleagues even go to meet clients. The action is appropriate and ethical:

- A. Yes
- B. No**
- C. Partially

**Question 4**

You are a partner in a small audit firm that you recently founded after gaining significant experience with a big 4 firm. In your advertisement to clients, you state: "One of our team is an expert auditor who used to work for a big 4 firm. This gives us a clear advantage over other small audit practices in the country, making us the natural leader in the small audit firm market." The advertisement complies with the Code:

- A. Yes
- B. No**
- C. Partially

**Question 5**

You are a partner in a small audit firm that you recently founded after gaining significant experience with a big 4 firm. In your resume you state: "I was an expert auditor with a big 4 firm, bringing years of knowledge and experience to my small audit practice. I am also specialized in the construction industry." The advertisement complies with the Code:

- A. Yes**
- B. No
- C. Partially

**Question 6**

You are invited for a job interview with another big 4 firm. After the interview, in a casual conversation you are asked to reveal how many professionals work for the firm's competitor firm as well as to indicate their salary range, if known. You should:

- A. Provide the information in order to be liked and to get the job
- B. Reveal the number of employees but not their salary
- C. Refer them to the web page and other publicly available information where information on the staff and the capacity of the competitor can be sourced**

### Question 7

After years of trying, you finally got a job as a financial controller after six attempts with the largest company in your country. The new employer is a non-client. Before you leave your current employer, a public accounting firm, you:

- A. Copy all accounting models and materials you have developed while working for your old employer as well as clients because you may use some of them again in your new job
- B. Copy only materials you have developed for clients while working overtime
- C. **Pack and take away only personnel belongings and files**

### Question 8

A sizable audit client to your practice has asked you to accompany him and his wife skiing and has offered accommodation at his mountain house. You:

- A. Accept the invitation
- B. **Accept the invitation but pay for your own accommodation**
- C. Decline the invitation but take the money instead.

### Question 9

You are performing the audit for a first year client and notice unusual transactions which you believe are connected with money laundering. The appropriate action is:

- A. Report the client to the authorities immediately
- B. Decline to perform the audit further and disassociate your-self with the engagement
- C. **Report the findings to the audit partner and internal council and cease further audit work until appropriate action is agreed on**

### Question 10

In the current year's audit of your client of many years, you discover that he has recently become a non-going concern. You:

- A. Immediately stop working on the engagement
- B. Issue a qualified report
- C. **Ask the client to make this information public and change the terms of the engagement applicable for a non-going concern**

**Question 11**

While performing an audit, you were approached by the client asking you if you would be interested in working for them as part of their international business development team. As the manager of the audit team, the appropriate action is:

- A. Accept the employment position as it offers a better salary and career prospects than your current job
- B. Do not accept the position as it is not allowed by the Code since you have been a member of the client engagement team
- C. Disclose the situation and seek permission from the current employer before accepting or declining**

**Question 12**

Local regulations and laws have certain requirements for auditors which are stricter than the Code of Ethics. In these circumstances, IFAC member bodies are allowed to follow the requirements of the Code of Ethics.

- A. True
- B. False**

**Question 13**

The Code of Ethics outlines the Fundamental Principles. These are:

- A. Integrity, Objectivity, Professional Competence and due care, Confidentiality, Materiality
- B. Integrity, Objectivity, Professional Competence and due care, Confidentiality, Professional Behavior**
- C. Integrity, Objectivity, Professional Competence and due care, Confidentiality, Acting in the Public Interest
- D. Integrity, Objectivity, Professional Competence and due care, Confidentiality, Conflict of Interest

**Question 14**

The Code of Ethics speaks about circumstances and relationships that create threats. Such threats fall into one or more of the following circumstances:

- A. Public-interest, self-review, advocacy, familiarity, intimidation
- B. Self-interest, self-review, advocacy, familiarity
- C. Self-interest, self-review, advocacy, familiarity, intimidation**
- D. Public-interest, self-review, advocacy, intimidation

**Question 15**

Your wife is the CFO of a client company. You have disclosed this relationship to your firm and have been disassociated from the engagement. However, due to some unforeseen circumstances, the manager in charge of the engagement left the audit firm and now there is no other available senior person to coordinate and review the work of more junior members. The audit partner has therefore asked you to perform this role “from the office”, not revealing this to the client or your wife. The appropriate action is:

- A. You agree as it is time you check out your bossy wife’s accounting skills
- B. You agree but only if you are asked not to be involved in subjective and complex areas as you do not want to get your wife into trouble with her boss
- C. You disagree as this is a clear conflict of interest**

**Question 16**

You are the managing partner of an audit firm that employs another three certified auditors. In principle, you encourage them to maintain their professional competence and attend mandatory CPD. However, due to a very busy audit season you have been unable to approve their time requests to attend the CPD training. You have told them that you will certify that they have attended the required training and provide this information to the PAO. You have also agreed with them that they will catch up with the training hours next year when the audit season will be less demanding. Which statement is true:

- A. The managing partner is in breach of both the Code of Ethics and IES 7 requirements
- B. Both the managing partner and the certified auditors are in breach of the Code of Ethics and IES 7 requirements**
- C. The managing partner is in breach of the Code of Ethics and the certified auditors are in breach of IES 7 requirements

**Question 17**

You left the audit firm where you used to work almost one year ago. You have since joined a competitor's firm. Your current employer is now preparing a proposal for a client who was audited by your previous employer. You have been asked by the partner to provide the audit fee in order to produce a competitive quote. You feel uncomfortable providing this information as there is duty under the code to preserve confidential relationships following your employment. You therefore decide the following to be the best action:

- A. Provide wrong information to your current employer
- B. Provide a range within which the fee falls
- C. Talk to the prospective client and ask if the previous audit fee can be disclosed to which he agrees**

**Question 18**

Your audit firm is subject to quality assurance by the PAO. This is a voluntary process and the laws and regulations do not prescribe this activity. Your appropriate response in line with the Code is:

- A. You immediately provide the PAO with access to the client's engagement files so that the review can be performed;
- B. You inform the client of your professional duty at the outset of the engagement and provide access to the PAO's quality assurance team**
- C. You seek a letter of approval from your clients and for the ones that have provided permission in writing to allow the PAO's quality assurance team to perform a review
- D. You do not provide access since the quality review is not prescribed by law and therefore your action may be considered as a breach of confidentiality

**Question 19**

You are at a party and engage in conversation with a fellow colleague about the country's financial reporting situation. After a few drinks the conversation moves to a company that is both your audit client and one that you have information about regarding its earnings, which have fallen since the previous year. However, this information has not yet been made public. Your conversation is overheard by many other people at the party. Which of the following statements is true:

- A. You are in breach of the code since you have not taken due care to protect confidential client information in social circumstances**

**Question 19**

- B. You are not in breach of the code because you are discussing this information with a colleague who also works for the client
- C. You are in breach of the code because attending parties is not professional behavior for the auditor and accountant

**Question 20**

You are a junior auditor working in an audit firm and have been asked by the client to issue another original copy of the signed audit report on last year's accounts. The information is demanded urgently. The signing partner has since left the firm and therefore you are wondering about the appropriate course of action:

- A. **Contact the former partner and ask him/her to sign the additional opinion on the financial statements**
- B. Ask the current partner on engagement to sign the audit opinion of last year
- C. Sign the opinion yourself as there is no harm in helping the client and forging the signature as well as you can

**Question 21**

You are the partner in charge of an audit of a listed client and have been asked by the client to reduce the audit fees in the current year because of unfavorable market conditions. However, next year a turnaround is expected so the difference will be compensated. The client is a longstanding, ethical company which you would like to retain. The appropriate action is:

- A. Entering into a contingency fee arrangement subject to the revenue achieved by the client in a particular year
- B. **Explain to the client that the audit fee is dependent on audit hours incurred so you cannot perform the work for less hours and therefore another solution is required**
- C. Refer the client to another audit firm that can do the work for less audit fees

**Question 22**

Your husband is a valuator. His company performed fixed asset valuation of your audit client which was recorded in the books and is material. You are required to issue and sign an audit opinion on the financial statements. Because you are aware of the conflict, the appropriate action is to:

- A. Inform the professional body of the situation and seek its approval to continue the engagement since you had not been aware of this and the client did not disclose this information to you
- B. Do nothing, so what? Fixed assets are just one caption of the balance sheet. There are many other items to audit and therefore the audit opinion will not be biased
- C. Inform the client of the conflict, and ask for another auditor to be subcontracted to audit the fixed assets valuation**

**Question 23**

A former senior manager of a big 4 firm recently left the practice to join a large pharmaceutical company that is your client as its CFO. At the introductory meeting the new CFO demands that you reduce the audit fee because “he knows from experience that the fee is too high as the audit hours have been blown up”. He also demands that you provide him with the materiality calculation as “he would like to check if it is properly determined”. Your response should be:

- A. Immediately withdraw from the engagement as this is highly unethical behavior from a CFO and former auditor
- B. Provide a copy of the Code of Ethics to the CFO as a gift
- C. Remind the CFO of your obligations as a professional accountant and if the intimidation continues, escalate the discussion with the Company Board and those charged with governance**

**Question 24**

You are a partner in a small audit firm specializing in the retail industry. You have many clients but would like to take on a larger construction company this year. This is part of your audit firm’s strategy to diversify the portfolio and grow. The appropriate considerations at the client/engagement stage include:

- A. Nothing. You plan to hire a new senior auditor next year with some construction experience
- B. Inform the client immediately that you do not know his industry but will learn fast
- C. Consider engaging an industry expert to assist the audit team with industry issues**



**Question 25**

You win a first time client via tender and later on, you remember that you forgot to initiate the communication with the previous auditor. Luckily for you, it is stated in the tender that the engagement is subject to receiving such correspondence and a satisfactory evaluation of this communication by the incoming auditor. You receive the correspondence with your predecessor and find that the audit fees have not been paid and the audit opinion has not been issued because of serious disagreements with management on the application of accounting policies. Your best option is to:

- A. Ignore the correspondence as the audit fee is very significant
- B. Assume that the differences will be overcome as you are very skillful in negotiating with management and are therefore confident that the accounting policies will be rectified
- C. Initiate further discussions with your predecessor and the client in order to understand the dispute; if the circumstances are not clarified, withdraw from the appointment**

**Question 26**

In your country there are no rotation rules prescribed in legislation. You are currently an audit partner who has been serving a PIE client for more than seven years. Which statement is true:

- A. The Code suggests that partners of an audit of PIEs rotate after 7 years**
- B. Does not matter what the Code recommends because rotation of audit partner is not prescribed by legislation

**Question 27**

All of the above are circumstances that create a self-interest threat, except:

- A. A member of the assurance team has financial holdings with the client
- B. A firm which depends on the total fees from the client
- C. An audit partner who has a bank account with an audit client at normal commercial terms**
- D. A firm entering into a contingency fee arrangement with a client

**Question 28**

You are a partner of a small audit firm and have two large clients operating in the same industry who are major competitors. The clients are aware of the situation but have asked you to separate the teams and protect their information as much as possible. However, you are a very small practice and therefore cannot always comply with this request to separate teams. You do not want to upset the clients either, so you are trying to think of the best course of action:

- A. Do nothing, there is nothing wrong in mixing team members as they are subject to confidentiality in any case
- B. Discuss the situation with the clients and ask them to separate confidential from routine information so that access to confidential information can be limited to few audit team members only**
- C. Perform significant parts of the audit work during the quietest period in order to shift the workload

**Question 29**

Which of the following services are prohibited for an audit client which is a non-listed entity:

- A. Providing payroll calculation services
- B. Preparing financial statements based on information available in the trial balance
- C. Preparing material valuations for the client and then auditing them**

**Question 30**

The best audit fee arrangements include:

- A. Deferred payment options for the client
- B. Ones based on audit hours required to perform the work**
- C. Contingent compensations (e.g. linked with realized profits, revenues)

**Question 31**

You meet with your fellow colleagues from Big 4 companies and you share some funny stories about your audit work. Is this behavior ethical:

- A. Sure it is. I do not see any ethical dilemma, as long as I do not mention any names.
- B. It is ethical, as long I do not disclose any accounting/auditing details
- C. The best action is not to discuss such stories with your colleagues**



