

## IRBA Ethics Workshop- The Reasonable and Informed Third Party - A Case Study

During the course of an audit, the audit manager – not yet a registered auditor – began a personal relationship with the financial director of the audit client. The audit continued for another three weeks. One of the trainees on the audit team reported this to the engagement partner, as he was somewhat concerned.

The partner listened to the trainee and asked some questions, then, having spoken to the audit manager, decided that the matter was not serious enough to receive further attention. The audit was already a bit late and budget overruns were likely.

The audit was then completed and the audit report issued. About three months later an instance of fraud was discovered by the client that had resulted in revenue being significantly overstated. Further investigation revealed that the working papers underlying the audit of revenue did not indicate a problem with revenue recognition.

The client was then informed about the relationship between the audit manager and the financial director. The engagement partner denied any responsibility as he had not been aware of any independence issue relating to this audit.

The RITP is called in. **What would she do?**