

Non-audit services

Non-audit services have been the biggest issue in the debate about the quality of auditing. You should remember that the Sarbanes-Oxley Act adopted in United States took the radical step of banning a comprehensive list of non-audit services (see the July edition of *Current Affairs in Auditing* for details). Given the importance of this issue, the discussion's proposals are quoted in full.

6. The Government supports the immediate application of Professional Statement F1 on Professional Independence, which forms part of the Joint Code of Professional Conduct of the ICAA and CPAA.
 - Statement F1 is based on the independence standard adopted by the International Federation of Accountants. It requires auditors to identify and evaluate threats to independence and apply safeguards to reduce any threats to an acceptable level.
 - Where the provision of non-audit services to an audit client poses a threat that cannot be reduced to an acceptable level, statement F1 prohibits the provision of that service.
7. The Government will implement a series of measures to deal with non-audit services. It will:
 - Amend the law to require mandatory disclosure in the annual report of fees paid for the categories of non-audit services provided.
 - Amend the law to require a statement in the annual report of whether the audit committee is satisfied the provision of non-audit services is compatible with auditor independence. This disclosure would include an explanation as to why the following non-audit services referred to in Professional Statement F1, if contracted, do not compromise auditor independence:
 - : preparing accounting records and financial statements of the audit client;
 - : valuation services;
 - : internal audit services;

- : IT systems services;
- : temporary staff assignments;
- : litigation support services;
- : legal services;
- : recruitment of senior management for the audit client; and
- : corporate finance and similar activities.

Commentary

The government has sought to rely on (1) the profession's standard in dealing with independence problems and (2) the principle that independence problems can be dealt with by disclosing full details in annual reports, allowing users to make appropriate decisions based on their evaluation of the independence of the auditor. *Professional Statement F1: Professional Independence* suffers from the weakness that much is left to the discretion of the auditor in deciding whether the provision of non-audit services poses independence problems. In making this recommendation, the government seems to accept the notion that principle-based rules are superior to rules such as that used in the Sarbanes-Oxley Act in the US. This Act banned a significant number of non-audit services that could be provided by the auditor. Last month's *Current Affairs in Auditing* suggested that neither principle-based nor rule-based standards are superior and that a combination of the two might be the best approach.