Contravening independence requirements – an offence

The discussion relating to independence notes reasons given in the Ramsay Report explaining why an independent audit is important for capital market efficiency (see Department of Treasury, 2003b p.37 for details). The importance of independence is underlined by the requirement that 'when an individual auditor contravenes an independence requirement (of the Bill), the auditor commits an offence' (Department of Treasury, 2003b, p.37). This requirement to maintain audit independence is imposed upon all partners of the audit firm, or for an audit company, all directors and the company itself (Department of Treasury, 2003b, p.38). The reference to audit company occurs as the Bill allows audit firms to incorporate. The discussion document notes that extending the obligation to all partners of an audit firm and all directors in an audit company ensures that each member of an audit body has an interest in ensuring that adequate internal control systems relating to audit independence are established (Department of Treasury, 2003b, para. 132).

The proposed Bill allows various defences establishing instances where members of an audit firm/company have not contravened the Bill. They are where

- the member or director either:

- does not know at that time of the circumstances that constitute the contravention; or

- knows of the circumstances at that time but takes all reasonable steps to correct the contravention as soon as possible after the member or director becomes aware of these circumstances; and

- the member or the director has reasonable grounds to believe that the audit firm or company has in place a quality control system that provides reasonable assurance that the firm or company and their employees comply with the independence requirements (Department of Treasury, 2003b, para. 133).

References

Department of Treasury, 2003b, *CLERP (Audit Reform and Corporate Disclosure) Bill: Chapter 1, Audit Reform*, www.treasury.gov.au