

Non-audit services

CLERP 9 has recommended that fees paid for identified categories of non-audit services should be disclosed in a company's annual report and a statement from the audit committee that the provision of non-audit services is compatible with auditor independence. However, the Bill accepts a recommendation of the HIHRC that all non-audit services and the related fees must be disclosed in the annual report (Department of Treasury, 2003b, para. 206). In addition, a statement must be made by the directors that they are satisfied that the non-audit services provided is compatible with the general standard of independence and an explanation why these non-audit services do not compromise independence (Department of Treasury, 2003b, para. 206). The HIHRC justified that details relating to all non-audit services be disclosed using an example relating to the provision of tax services. The HIHRC noted that disclosing the total of fees for tax services would not allow a reader to note that some services may arise from strategic tax advice and other tax services provided arose from compliance work (Department of Treasury, 2003b, para. 210). Compliance work would relate to merely preparing the tax return for the company and may not impose a significant independence threat. However, the objective for strategic tax advice may be to structure transactions or business operations to minimise tax payable. This advice may have significant implications for the Financial Reports and be a factor the auditor considers in deciding whether the financial statements are true and fair. In essence, the auditors are auditing the outcome of their own firm's work, a practice that is deemed to lead to the auditor not being independent.

The impact of these provisions is two-fold. They are

1. providing market with information that allows the market to assess the impact on the provision of non-audit services on audit independence;
2. the lengthy disclosure could act as a disincentive for companies to use their auditors in purchasing non-audit services.

Reference

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