

What practices can the auditor adopt and remain independent?

Despite the HIHRC's claim that the inclusion of the word *might* results in an objective standard for independence, the inclusion of this word initially adds uncertainty to whether a conflict of interest occurs. Seeing or the appearance of independence is subjective. For example, some people argue that no non-audit services can be provided for the auditor to appear to be independent. Others take a more liberal view and suggest some non-audit services do not compromise the appearance of independence.

Para.136 (Department of Treasury, 2003b) gives guidance when an auditor may have a conflict of interest and thus is not independent. As noted previously, this paragraph states an auditor should be aware of the existence of the conflict of interest where they had in place a quality control system that is reasonably capable of making the auditor aware of the conflict of interest. Para.139 (Department of Treasury, 2003b) adds that a conflict of interest could occur if circumstances exist that

would give a person, with full knowledge of the facts and circumstances, reasonable grounds for concern that the ability of the auditor...to exercise objective and impartial judgment in relation to the conduct of an audit...

This statement should be compared to para.14 of *FI* that defines independence in appearance as

the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all reasonable information, including any safeguards applied, would reasonably conclude a firm's or a member of the firm's integrity, objectivity or professional scepticism had been compromised.

The major difference between the guidance given in the draft Bill and *FI* is that *FI* acknowledges safeguards can minimise independence threats. Paragraph 1.36 of *Appendix 1 of Professional Statement F: Audit Independence*, states safeguards are included in 'the firm's own systems and procedures'. This indicates safeguards are part of the auditor's quality control systems, suggesting that the independence guidelines included in the draft Bill are similar to those given in *FI*.

In quoting paragraph 132 of the discussion, an editorial appearing in *The Australian Financial Review* (18 October 2003, p.62) states the benefit of the new independence rules contained in the Bill arises through

sheeting home liability to each of the partners of an audit firm and the directors of an audit company, the Bill will ensure that each director has an interest in adequate internal control systems being established

The editorial adds this will cultivate a culture of compliance. The editorial also notes auditors cannot complain about the thrust of these regulations (p.62).

References

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

_____, 2003, 'Cop new rules or face tougher', *The Australian Financial Review*, 16 October, p.62.