

Auditors independence essay

[Business](#), [Accounting](#)



Auditing is the efficient critical examination done by one person or group of people's independent from the system audited. To do an audit, confirmed information must be present and some standards by which the auditor can evaluate the information. Another is gathering and evaluating any information to determine whether the information being audited is identified in accordance with establish criteria to satisfy the purpose of the audit and also auditors must be competent to identify the types and amount of evidence to accumulate to reach the correct conclusion after the evidence has been examined and finally the preparation of the audit report, which is the communication of the auditor's findings to user. Auditor independence is the main aspect affecting audit quality. Public accountants or accounting firms that perform audits of commercial and non-commercial financial entities are called independent auditors and has duties to use a reasonable care and skill, be independent of the company, statutory duties to report to members and to ASIC and lastly to comply with auditing standards and other professional standards. A contractual relationship happens when an auditor accepts an offer with the company and an engagement letter is signed by the auditor and client.

The auditor maintains professional relationship with Management, board of directors and audit committee, internal auditors and stockholders in financial statement audit. Independence is one of the auditor's most vital characteristics and it is often said that it is important to the reliability of auditors' reports. It is also the basic requirement for an audit although absolute independence is impossible, auditors strive to maintain a high level of independence to keep the confidence of users relying on their reports.

Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent with the two types of auditing independence namely independence in fact and independence in appearance. According to John L. Carey, ' independence, both historically and philosophically, is the foundation of the public accounting profession and upon its maintenance depends the profession's strength and its stature.' It has been said that audits add value to financial statements by improving their reliability; add value to the capital markets by enhancing the credibility of financial statements; enhance the effectiveness of the capital markets in allocating valuable resources by improving the decisions of users of financial statements; and assist to lower the cost of capital to those using audited financial statements by reducing information risk.

[Independence Standards Board, A Conceptual Framework for Auditor Independence, Discussion Memorandum (February 2000)] " The reason why the audit was done is basically to learn more about what is going on and to correct mistakes. " (Modzeleski 2006) DISCUSS THE INTERACTION OF AUDIT INDEPENDENCE WITH FINANCIAL REPORTING IN AUSTRALIA. Professional accountants and auditors should have ethical responsibilities.

They must maintain a high ethical standard in order to maintain public confidence in the accountancy profession. One of the code of ethics which is the Part A (General Applications of the code) forms the important ethical principles that apply to all members as well as guidance on the threats and safeguards concerning those fundamental principles. These five fundamental principles that auditors are required to abide are (1) Integrity, being

straightforward and honest in all professional relationships. (2) Objectivity, not allowing bias, conflict of interest or undue influence of others to override professional or business judgments. 3) Professional competence and due care, maintaining professional knowledge and skill at the level required to make sure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques.

(4) Confidentiality, respecting confidentiality of information learnt as a result of professional work or relationship and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose.

5) Professional behavior, avoiding any action that discredits profession and should comply with relevant laws and regulations. Following the corporate collapses in 2001 of Enron and HIH, auditor independence has been the subject of lively debate and a number of major inquiries and reports.

According to Graeme Wines, ' there are three particular issues examined that allows an appreciation of some of the major reform proposals and to consider their likely effects.

First issue is the lengthy periods of audit tenure and auditor rotation, second is the provision of non-audit services to audit clients and lastly is the hiring of former audit partners and staff by auditees'. In Australia, the response has been a number of legislative and non-legislative reforms which have included the development of CLERP 9 leading to significant amendments to the Corporations Act 2001 in the areas of remuneration of directors, financial reporting, shareholder participation, audit reform and continuous disclosure,

and the establishment of the ASX Corporate Governance Council. Given the various corporate collapses, with most related to accounting misstatements, internal control problems and the apparent failure of the Auditors that caused a major credibility crisis in the accounting and auditing profession that results to thorough improvements being accepted by the profession and regulators. There are steps in determining independence. The first steps is to identify the threats, an auditor has an obligation to value any threats to compliance with the fundamental principles when the auditor knows or might reasonably be likely to know of situations that could compromise compliance with the fundamental principles. These threats are: (1) self-interest threat, when an auditor or an immediate or close family member has financial interests. (2) Self-review threat, when an auditor re-evaluates his own judgment.

(3) Advocacy threat, when an auditor promotes an opinion that compromises his own objectivity. (4) Familiarity threat, when an auditor becomes too sympathetic to the interests of others because of a close relationship. (5) Intimidation threat, when an auditor is threatened from acting objectively. Second step is to determine safeguards. Safeguards should be applied to remove or lessen the threat to an acceptable level. The two categories of safeguard, first is the safeguards that created by the profession, legislation and regulation such as professional standard, education, training and continuing professional development and second is the safeguards in the work environment which depend on significantly on the culture and processes developed in an audit firm.

The purpose of safeguards is to increase the chance of finding or preventing wrong problems. The third step is to look at the threats and safeguards objectively. However, if an auditor has violated the Code without knowing that he or she has done so, the auditor must make immediate corrective action once he or she discovered it. The violation may or may not compromise compliance dependent on the nature and significance of the matter. With the help of this step public confidence could be won back.

This may foster the whole economy and more people would be willing to invest their money into firms which leads to more jobs. The failure of few professions in the past should not be reflected as pertaining to the whole accountancy profession.