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**The Real Need for Auditor Independence in Practical Terms**

by

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# The Real Need for Auditor Independence in Practical Terms

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# What do markets want?

- High quality financial reporting
  - Prepared under common principles
  - Full disclosure
  - Represent economic reality
- **Independently audited to high standard**

# Role of the Auditor

“The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework”

International Standards on Auditing

# What Does the Auditor Need?

- High level technical standards (ISAs)
- Standards on independence and ethics (IFAC)
- Education and training
- Quality review of work performed
  - These elements are reflected in the Forum of Firms 'Quality Standard'
- **And in addition...**

# What Does the Auditor Need?

**A common understanding of the importance of the environment within which the audit is conducted**

- Stable regulatory environment
- Respective responsibilities of management and auditors
- Good corporate governance practices
- Audit committees

# Barriers...

- Perceived historical role of economic activity
- State's continuing role in corporate affairs

## **Result in...**

- Lack of management culture as guardian of investor assets
- Different interests of management and shareholders

## **And...**

- Shortage of qualified accountants
- Difficulties in relationship between auditors and management

# The Benefits of Independent Audit

**“If investors are not confident with the level of disclosure, capital will flow elsewhere”**

Chairman, US Securities and Exchange Commission,

December 2000

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