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New Australian standard for audit independence

23 May 2002

Australia's peak accounting bodies, CPA Australia and The Institute of Chartered Accountants in Australia (ICAA), have agreed to a new internationally harmonised standard for professional independence. The new standard, tailored to reflect Australian community expectations, is based on the standard agreed in November 2001 by representatives of the 120 nations who make up the International Federation of Accountants (IFAC).

These measures not only strengthen existing guidelines and reflect international best practice, they also take the lead on the implementation of a number of key recommendations outlined in the Ramsay Report on 'Independence of Australian Company Auditors' including:

- Mandatory rotation of audit partners for listed entities every 7 years
- Mandatory two-year waiting period before a retired auditor involved in the audit of a client can become a director of that client.
- Ban on providing non-audit services (eg material asset valuations) where, in also conducting the audit, a firm could be required to check their own work.

ICAA Chief Executive, Stephen Harrison said, "The new standard provides CPAs and CAs with clear guidelines on how to identify, assess and manage risks to professional independence, specifically in the provision of assurance services. Where appropriate safeguards cannot be implemented the member is obliged to reject or cease the engagement."

According to CPA Australia President, Mr Brian Blood, Australia's accounting, auditing and professional standards are highly regarded internationally, and the challenge is for the profession to ensure they remain consistent with international practice, as well as Australian community expectations.

"Our current status reflects the ongoing vigilance of Australia's standard setters who ensure standards achieve the appropriate balance between operational effectiveness, international harmonisation and community expectations. This new standard is an important step towards achieving this balance," said Mr Blood.

Mr Harrison said, "Recent events in Australia and overseas will continue to provide some important lessons for the auditing and accounting profession. As such this new Standard will be under constant review so as to ensure those lessons are appropriately reflected in our standards."

Adoption of the new standard is not mandatory until 31 December 2003 as due notice has to be given for some of the changes, however members are strongly encouraged to immediately align ongoing and future engagements with the new standard.

Mr Blood also urged industry to recognise the need for more active management of the audit relationship, and commended the initiatives taken by the Group of 100 and the ANZ Banking Group.

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