



## MEMO

To: Board of Directors  
From: Company Secretary  
Subject: **AUDITOR INDEPENDENCE**

---

A fundamental tenet of company auditing is that the auditor must be independent to the company's directors and management.

Both the Corporations Act and codes of professional conduct require the auditor to be independent, both in fact and in appearance, when providing non-audit services to their audit clients. Australian Professional and Ethical Standard 110 Section 290 'Professional Independence' requires the application of safeguards to reduce any threats created by the provision of non-audit services at an acceptable level.

To this end, under s.307C of the Act, the auditor must give the company's directors, in relation to the half-yearly and the annual audits, a written declaration that:

"to the best of the individual auditor's knowledge and belief:

(a) there have been:

- (i) no contraventions of the auditor independence requirements of this Act in relation to the audit or review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit or review; or

(b) the only contraventions of:

- (i) the auditor independence requirements of this Act in relation to the audit or review; or
- (ii) any applicable code of professional conduct in relation to the audit or review;

are those contraventions details of which are set out in the declaration."

and the Directors' Report must note that the auditor's declaration has been received and a copy is included in the financial report [on page X].

In addition, for stock exchange listed companies, the Directors' Report (incorporated in the annual financial report) must, under s.300(11B), include under the sub-heading "Non-audit Services":

- (i) a statement whether the directors are satisfied that the provision of non-audit services by the auditor – or another person in the audit firm – is compatible with the general standard of independence imposed by the Act;



- (ii) a statement of the directors' reasons for being satisfied that the provision of non-audit services by the auditor – or another person in the audit firm – did not compromise the auditor's independence requirements of the Act;
- (iii) details of the amounts paid for non-audit services.

---

**DISCLAIMER**

*The comments in this memo reflect some commercial aspects and observations on the matter experienced or observed by the writer in practice as he understands them. The information is given as a guide only and does not represent a definitive or legal view of any of the issues raised, covered or referred to and the reader is urged to seek his own professional advice on all aspects of, or pertaining to, this and any related matter.*