Fair Work Commission

Fact Sheet FS 040 | 14 September 2023

Auditor independence

The *Fair Work (Registered Organisations) Act 2009* (the RO Act) requires organisations and their branches that are reporting units to prepare a financial report after the end of each financial year. This must be audited by an auditor who is registered under the RO Act (a registered auditor).

Who is responsible?

An audit is carried out to enhance the degree of confidence that members of registered organisations can have in their financial report. This is done by the auditor expressing an opinion about whether the financial report was prepared in accordance with the relevant financial frameworks. For registered organisations, the auditor's opinion is on whether the financial report is presented fairly in accordance with the Australian Accounting Standards and the RO Act.

The auditor must be reasonably assured that the financial report as a whole is sufficiently correct and free from material misstatement - whether due to fraud or error.

Committees of management in registered organisations are responsible for preparing and presenting financial statements to members in accordance with the Australian Accounting Standards and the RO Act. Officers with financial decision-making responsibilities should ensure they have enough information and knowledge of the organisation's financial reports and the operations of the organisation or branch. The auditor will conduct the audit under the assumption that this has been the case.

Activities generally considered to be management responsibilities include:

- setting policies and strategic direction
- authorising transactions
- deciding which recommendations of a third party to implement

- taking responsibility for the preparation and fair presentation of the financial statements
- taking responsibility for designing, implementing and maintaining internal controls.

The audit of the financial report does not relieve those with management or governance roles of their responsibilities. It is still the primary responsibility of those responsible for governance in the registered organisation to prevent and detect fraud.

While auditors are required to report any suspicion they have, on reasonable grounds, that there has been a breach of the RO Act or the General Manager's reporting guidelines (including fraud or suspected fraud) this is not the only reason for the audit.

Common misconceptions

- Auditors check every figure in the financial report
- Auditors look at every transaction in the financial report
- Auditors are able to process journal entries, authorise transactions or make changes to source documents
- Auditors select the accounting policies used in the financial report
- Auditors are responsible for detecting and quantifying fraud
- Auditors are responsible for the content and composition of the financial statements.

Australian requirements for auditor independence

The Accounting and Ethical Standards Board (APESB) is an independent national body that sets the code of ethics and professional standards that accounting professionals in Australia must follow. The *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) is issued by the APESB and sets out fundamental principles of ethics for its members reflecting the responsibilities of the profession. These principles set out the standards of behaviour expected of members. These are:

- Integrity
- Objectivity

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- Professional competence and due care
- Confidentiality
- Professional behaviour.

The Code is a framework accounting professionals apply to identify, evaluate and address threats to compliance with these principles. For audits, reviews and other assurance activities, there are independence standards that must be met.

Auditors are required to:

- identify any threats to independence
- evaluate the significance of the threats identified
- when necessary, put safeguards in place to eliminate the threat or reduce them to an acceptable level.

The concept of independence is fundamental to compliance with the principles of integrity and objectivity. This includes:

- Independence of mind
    - Expression of a conclusion without being affected by influences that compromise professional judgment.
- Independence in appearance
    - Avoidance of facts and circumstances a reasonable and informed third party would be likely to conclude that the integrity, objectivity or professional scepticism of the auditor has been compromised.

Self-review threats for auditors

A “self-review threat” is a term used to describe the risk that auditors face when reviewing their own work. Often, audit firms provide other services aside from just auditing of financial reports. This can include internal audits, accounting service, taxation advice, valuations and other accounting activities. In these instances, the audit firm preparing accounting records or financial statements can create a self-review threat when the audit firm subsequently audits the financial statements.

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The risk posed by a self-review threat is that the firm may not appropriately evaluate the results of work that was carried out by their firm that will be provided to the audit team as part of an audit.

Activities considered a normal part of the audit process include:

- Advising on the application of accounting standards or policies and financial statement disclosure requirements
- Evaluating the appropriateness of financial and accounting controls
- Proposing adjusting journal entries from audit findings

When auditors detect any threats or challenges to their independence and objectivity, they should take appropriate steps to avoid the conflict. This can include:

- Ensuring that non-assurance work is performed by an individual who is not a member of the audit team
- Providing written alternatives to clients in answer to their questions.

Remember management is responsible for the preparation and fair presentation of the financial statements. These include:

- Determining accounting policies and the accounting treatment in accordance with those policies
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction
- Originating or changing journal entries
- Determining or approving the account classification of transactions

The auditor should not be processing journals or running reports out of the client's financial system.

Further information

If you require further assistance regarding the information in this fact sheet, please contact the Fair Work Commission at regorgs@fwc.gov.au or call us on 1300 341 665.