Point of view
Independence

Key messages

- Independence – the objectivity, scepticism and integrity of auditors – is at the heart of who we are and what we do.
- Detailed and complex rules are already in place to safeguard auditor independence – public perception, however, lags reality.
- To address that perception, we believe that further reforms would help build public trust including stronger, independent national regulators, increased transparency and enhanced governance by auditors and the audit committee.
**Point of view**

**Independence: At the heart of who we are**

**What's the challenge?**
Auditors know how important independence is to their work and there are extensive safeguards and systems in place to protect and enhance it. Yet there are those who say that auditors cannot be independent and objective – because they’re paid by the company they audit, have been their auditors for a long time, or because they also do non-audit work for them. We believe these concerns are more perception than reality.

But we also believe there is room to improve the existing safeguards and framework. Improvements would give the people who use the financial statements more information about what auditors do and more confidence that they’re independent – both in mindset, and the way they comply with the rules.

**Why is it important?**
Independence is about objectivity, scepticism and integrity. It is the hallmark of the audit profession, at the heart of our culture and fundamental to everything we do. Our mandate to audit public companies is founded on our independence and professional competence.

Independence is so essential to public company audits that there are comprehensive and strict laws, regulations and professional standards to govern it. It is essential that we comply – both as firms and as individuals. These rules apply to all audit relationships with public companies.

**Where are we now?**
Many stakeholders do not realise how many detailed and complex rules are in place to safeguard auditor independence or how compliance is monitored. The rules say, amongst other things, that:

- the lead partner and other key people on a public-company audit team must change every five or seven years. So the people who make important decisions about audit matters, scope, materiality and accounting judgements may change often
- another partner must review the work and judgements of the audit team. This quality-review partner is independent from the main audit team and casts an impartial eye over the team's work and decisions. This partner also must change regularly
- independence is important to our personal lives too. Not even the most junior staff can hold any shares in the companies they audit. Beyond that, the rules have an impact on all firm people, though in different ways – from the banking relationships they have to the jobs family members may hold at audit clients
- auditors cannot do work that does, or appears to, create a threat to their independence. For example, services involving the design and implementation of financial reporting systems are generally seen to conflict with an independent and objective audit. On the other hand, tax compliance and advice (which help companies comply with local laws and regulations) are not generally seen as a problem. A number of non-audit services that are generally prohibited.

Above and beyond these rules, to further safeguard our independence:

- we have extensive internal processes and standards in place. For example the lead audit partner must authorise any non-audit services provided to the audit client
- partners and senior staff members have to record, in a database, any stocks or other financial interests they or their immediate family members own – even if it’s only one share in a company that we don’t currently audit. And every professional who works at PwC has to confirm they are personally independent every year
- regular internal and external inspections include reviewing our independence we invest substantial time, effort and money in hiring the right people with the right values. And we continuously train them to be independent and sceptical in their audit work. This training also covers the rules around their personal behaviour, and the services they and PwC can and cannot provide to audit clients.
Point of view

What does PwC propose?
We believe the current safeguards are necessary, appropriate and effective, but we also agree that continuous improvement helps to maintain public trust. We believe that:

Audit committees (or others charged with governance) have a critical role to play
- Audit committees, not regulators, are in the best position to work out who should be allowed to do what. They represent shareholders’ interests and have deep knowledge of the company, its business strategy, its operations and its needs.
- The audit committee should make its charter public. The charter should give investors information about how the audit committee chooses its auditors and how it decides what type of services they can provide.
- The audit committee should have full oversight of the auditor’s independence, including the nature and extent of the work they do and their fees.
- Auditors should be allowed to provide services like tax compliance and advice (and other routine services that help clients understand and comply with their fiscal and regulatory obligations) or transaction due diligence to a company they audit – as long as the audit committee agrees that it is in the shareholders’ best interests.

Transparency should be improved
Audit firms should publish an annual transparency report that describes the quality-control systems they have in place, the steps they take to safeguard their independence, how they consider quality in determining partner compensation, and their governance and legal structures.

Auditors should disclose the overall results of their internal and external quality reviews to the audit committee – and any other communications that could help audit committees do their job. Audit committees are in the best position to use, understand and respond to these reviews.

In summary
We’ve seen many changes around the world designed to enhance independence and objectivity over the last decade. We believe these reforms have been, and increasingly are, effective.

But we also think there is potential to build on what is already in place – with stronger national regulation, consistent high standards of independence, transparency and enhanced governance. We believe the audit committee are the best people to oversee how auditors are appointed, what kind of work they’re allowed to do, and their fees. And many audit committee members agree.