



“The Internal Audit Professionals”™

## INDEPENDENT, INDEPENDENT, INDEPENDENT

### Is there any profession with a greater need for Independence than the Internal Auditing Profession?

Without independence, by definition, there can be no guarantee of integrity. Without independence, there is no guarantee of impartiality. Without impartiality, there is no guarantee of objectivity. Without objectivity, there is no guarantee of integrity. The reason for this is that something or somebody exerts control over the dependent party. The dependent party has its primary allegiance to the controlling entity, not to the client. For this reason, external auditors should have absolutely no influence over the internal audit function or the internal auditors themselves. The opposite of independence is dependence. The synonyms for dependence include words such as beholden, reliant, restricted, conditional, subordinate, vulnerable, inferior, and controlled by. In order to be truly independent, one can have no interest, financial or otherwise, in the possible outcomes of an event. If this relationship does not exist, there is no possibility of long-term integrity. An auditor’s independence and integrity is compromised if there is even the potential for conflict of interest.

**The European Commission got it right** when it recommended, in response to the Enron collapse, that, “auditors be prohibited from carrying out a statutory audit (one required by law) if the auditors have any relationship with their client that might compromise the auditor’s independence. This may include any financial, business, employment or other link, or any situations where the auditors provide to the same client services additional to the audit.” It is such a simple, straight-forward concept that one has to wonder why the same logic and intelligence isn’t applied to audits in the United States. The European Union (“EU”) recognizes that, “Trust in the

independence and objectivity of the external auditor is vital for the efficient functioning of the EU’s capital markets. It is essential for business integrity, shareholder confidence and consumer and employee protection. Audits must be seen as adding credibility to the financial statements.”<sup>1</sup> The commission further recommends that auditor independence be protected systematically. “Threats to independence vary, and auditors need to have safeguards in place to protect their independence. The ultimate safeguard is to not enter into certain relationships and to not provide any additional services to the audit client.”<sup>1</sup> As internal auditors, you need to protect your integrity and independence by providing the mirror image to this directive. In some cases, this may include adopting a corporate policy to not contract with your external auditor for any services, other than the certification audit.

**PRI AUDIT & CONTROL** is an independent, full-service professional internal auditing firm, owned and operated by Certified Internal Auditors, who are also CPA’s. We are committed to providing you with the assurance of independence for all of our audit work. Although we work closely with many public accounting firms, we have no financial ties to any of them or to any external investors, financial institutions, pension funds, investment bankers or any other individual. This assures our clients that we bring complete objectivity to all the internal audit work we do. Our reputation and integrity are above reproach. It is something we take seriously and we work diligently to uphold. Our work is guided by the IIA’s professional standards and its Code of Ethics. We believe adherence to them furthers the profession and increases the stature of professional internal auditors worldwide.

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<sup>1</sup>European Commission press release on recommendation on independence of statutory auditors; Brussels, Belgium, May 16, 2002

PRI AUDIT & CONTROL has experience and expertise in all areas of internal audit. We are committed to restoring public confidence in the financial and operational auditing process, and believe this is only possible through independence and objectivity.

For more information on PRI’s approach to **Independent** Internal Auditing, or any of our other Risk Management or Consulting services, please contact:

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