MANAGEMENT ADVISORY SERVICES AND AUDIT INDEPENDENCE : IS THERE A CONFLICT OF INTEREST ?

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PREFACE

Some public accounting firms now offer management advisory services to both audit and non-audit clients. By offering such services the auditor could become involved in executive decisions in which the auditing approach to the information for audit may be impaired.

As independence represents the cornerstone of auditing profession, it is necessary to ensure that the auditors are independent in fact and in appearance. With the help of many wonderful people, this research paper tries to answer the question of whether there is a conflict of interest when the public accountants or auditors provide management advisory services to their audit clients.

TABLE OF CONTENTS

1.1 An overview on auditor independence

Most organization presents financial reports to external users such as banks, other creditors and prospective investors. These external users of accounting information need assurance that the financial reports are prepared without bias and adhere to generally accepted accounting principles (GAAP).

The external users frequently require the accounting information to be reviewed by an independent auditor called public accountant eventhough the internal auditors have given their assurance about the fairness of the financial reports.

The reason is that, although the internal auditors are independent of other employees within the organization whose work they review, they too are employees of the organization. On the other hand, a public accountant is not an employee of the company whose accounting statements are presented and he is an independent auditor whose services can be engaged by a business organization much as an individual might engaged lawyer, doctor or other professionals.

Public accountants fulfilling the role of independent auditors realize that many external