

Introduction

In April and May the business newspapers' writings about auditing dealt mainly with reforms or suggestions to improve audit independence. This edition of *Current Affairs in Auditing* will report on these matters.

The issue of audit independence has dominated the history of auditing and many proposals have been advocated to deal with independence problems. In suggesting change, one problem is apparent. By its nature an audit is a confidential review of a company's financial statements. Outsiders cannot, therefore, view the conduct of an audit and make an immediate judgement about whether auditors acted independently. Very often details of an auditor's conduct only become public when a company crashes. If outsiders could observe auditor's conduct we may obtain harder evidence on whether auditors are or are not independent.

In the past the main recommendations to audit independence have centred upon audit committees, rotation of audit firms or staff, quality control procedures and a ban, control or disclosure of auditors' provision of other services. These proposals have advantages and disadvantages, emphasising that no complete solution to the independence problem exists. Also, as auditors are human and an audit involves a close relationship over time between audit and client's staff, complete independence is said not to be possible. Finally, there are two aspects to independence – independence in fact and independence in appearance. Independence in fact refers to actual independence and the need for this form of independence is obvious. Independence in appearance is necessary to ensure public confidence exists.

This brief discussion of independence provides some setting for our discussion of the following reforms to improve auditor independence. Before we discuss April and May's developments on auditor independence, it would be appropriate to outline the Ramsay Report's recommendations about audit independence.

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