

## **Ramsay Report recommendations into audit independence**

The Federal Government commissioned a report into audit independence that was delivered in October 2001. For a summary of the contents of the report refer to the following article:  
Parker, C., 2002. 'Auditing at arm's length', *CACCharter*, February, pp. 38-40.

The major recommendations of the report are

- including a statement in the *Corporations Act* that auditors are to be independent
- that the auditor should make an annual declaration to the Board of Directors that the auditor maintained their independence in accordance with the Act and rules of accounting bodies
- outlining prohibited relationships between the auditor and client. The emphasis of these relationships is employment relationships between the client and the auditor and auditing staff. Interestingly, one relationship that would be prohibited is a retired auditor partner joining the Board of Directors. This situation existed with HIH Insurance.
- the establishment of an auditor independence supervisory board, with the majority of the members of such a board to be independent of the accounting profession. The functions of the board would include advising and monitoring of independence issues.
- enhancing audit committees by requiring the audit committee to make various judgements about non-audit services, audit fees, scope disagreements and auditor/client relationships and independence.

The accounting professional bodies support the recommendations made in the Ramsay Report.

April's edition of the *Current Affairs in Auditing* noted that revelations of the collapse of HIH Insurance and Enron led to many observers of auditing to think that the Ramsay Report recommendations did not go far enough. In particular, many felt that Ramsay's recommendation about independence and consulting services was too weak. They favoured a complete ban on auditors offering consulting services to audit clients.