

PART 1

INTRODUCTION

There are approximately 7,000 registered company auditors in Australia according to the Australian Securities and Investments Commission. This report examines Australia's existing legislative and professional requirements on independence of company auditors and compares them with equivalent overseas requirements. Where appropriate, the report proposes measures for strengthening the Australian requirements.

The review has been prompted by two developments. Firstly, recent overseas work in the area of audit independence, especially in the United States of America and Europe, has moved independence requirements in those regions ahead of the equivalent requirements in Australia. For example, those parts of the Australian Corporations Act which have as their objective ensuring the independence of auditors by prohibiting certain employment and financial relationships between auditors and their clients, have not been updated for over 40 years. Meanwhile, major developments, including the growth of the largest accounting firms and an increase in non-audit services provided by these firms, highlight the need for Australian requirements to be updated.

The stakeholders consulted as part of this review, including the professional accounting bodies and individual accounting firms, generally acknowledged that Australian requirements dealing with the independence of auditors have fallen behind what is regarded as best practice.

Secondly, following the failure of a number of listed Australian companies during the first half of 2001, the resultant publicity has included audit independence issues and has raised concerns about the adequacy of the Australian rules that ensure the independence of Australian accounting firms from the companies they audit.

The actions of the auditors involved in the recent corporate collapses, and the question whether any failings in the area of audit independence contributed to those collapses, are outside the scope of this report. Such issues will undoubtedly be considered by the Australian Securities and Investments Commission (ASIC) as part of its inquiries into the corporate failures and by the Royal Commission examining the circumstances surrounding the collapse of HIH Insurance Ltd.