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Independence Issues Committee Minutes of December 15, 1998 Meeting Public Session

Independence Standards Board. Independence Issues Committee

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**Independence Issues Committee
Minutes of December 15, 1998 Meeting
Public Session**

The Independence Issues Committee (IIC, or the Committee) held a public meeting on Tuesday, December 15, 1998.

The meeting began at approximately 10 AM and was attended by:

Committee Members

Barry Barber
Edmund Coulson
Kenneth E. Dakdduk
John M. Guinan
Charles A. Horstmann
Robert J. Kueppers
Edward W. O'Connell

Arthur Siegel, Executive Director of the Independence Standards Board (ISB, or the Board), served as Chairman.

Others present by invitation were:

W. Scott Bayless – SEC Staff
Gary Illiano*
Aram Kostoglian**
Susan McGrath – ISB Staff
Richard H. Towers – ISB Staff

* Mr. Illiano sat in for Mr. Barber for most of the afternoon portion of the meeting.

** Mr. Kostoglian was sitting in for Mr. Pearlman.

Minutes

The minutes of the October 13, 1998 and November 17, 1998 meetings were approved unanimously.

Alternative Practice Structures – IIC Issue Summary 98-2

The Committee continued discussion on “alternative practice structures (APSs),” the potential threats to auditor independence that these may pose, and how the existing independence rules should be applied in these situations. An Issue Summary and Addendum had been distributed to Committee members in prior meetings and posted to the ISB website for the benefit of other interested parties.

Mr. Kueppers reported that the AICPA’s Professional Ethics Executive Committee (PEEC) had approved a revised proposal on the application of independence rules to alternative practice structures, which had not yet been issued. The Staff had summarized the key differences between this proposal and “View C,” as outlined in the Addendum to the Issue Summary. The Committee tentatively agreed on several restrictions needed in addition to those proposed in the PEEC proposal, for auditors of public companies in APS situations. The Staff agreed to summarize these tentative conclusions for discussion at the next meeting.

At the last meeting, lists of “indicators” and “example situations” were distributed to aid in analyzing how independence restrictions should be applied to different fact patterns. The Committee members agreed to forward their views to the ISB Staff, before the next meeting, on how the tentative consensus would be applied in these situations.

Assisting Clients in the Implementation of FAS 133 – IIC Issue Summary 98-1

The Committee continued its discussion on the assistance that auditors could provide their audit clients in the implementation of the Financial Accounting Standards Board’s Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*. An Issue Summary had been distributed to the Committee members several meetings ago, and posted to the website for the benefit of interested parties.

The Staff and Mr. Horstmann had prepared a draft consensus for review by the Committee that describes the nature and level of services that the auditor could provide without impairing independence. Mr. Siegel also distributed a comment letter on the draft consensus from Lynn Turner, the Chief Accountant at the SEC, which had been faxed to the ISB Staff the previous evening. The letter included specific comments on the content and wording of the consensus, as well as a comment that the ISB should address the broader issue of the auditor’s association with valuations and fairness opinions, before the IIC concludes on FAS 133 assistance.

As Mr. Turner could not be reached by phone to clarify his position, the Committee decided to forego further consideration of this issue until Mr. Turner’s objections could be resolved.

IIC Task Forces

Mr. Siegel asked Mr. Dakdduk if his outsourcing task force had further activity to report. Mr. Dakdduk stated that his task force was waiting for comments from the SEC Staff on its outsourcing paper. Mr. Horstmann added that his task force was still waiting for SEC Staff comments on its materiality paper, while Mr. Towers stated that the ISB Staff was waiting for comments from the SEC Staff on its “transition” paper – a paper proposing a framework for determining how new independence guidance should be implemented (i.e., retroactively vs. prospectively, and when and where grandfathering of existing practice might be appropriate). Mr. Bayless agreed to mention these matters to Mr. Turner.

ISB Staff Report

ISB Staff Consultation Activity

At Mr. Siegel’s request, Mr. Towers summarized Staff consultation activity. Since the Committee’s November 17th meeting, twelve informal consultations have been completed, for a cumulative total of seventy-four. These informal consultations are classified by subject as follows:

Family relationships	3
Outsourcing	1
Bookkeeping	1
Former partners	1
Broker-dealers	1
Unpaid fees	1
Other	<u>4</u>
Total	12

Mr. Towers stated he was still investigating the feasibility of summarizing for the IIC members, on a generic, “no-name” basis, selected information about independence inquiries received, and the related Staff responses.

The two formal consultation interpretations issued to date are now available on the website.

Other Matters

Mr. Siegel stated that the Staff was attempting to identify a new vendor to host and maintain the ISB website. The new site will have the “document express” feature that will alert registered users to new postings on the website.

Mr. Siegel reminded the Committee that the Board will consider, for public exposure, a discussion memo on employment by audit clients, and a new standard on family relationships, at its January 8th meeting. In addition, comments on ED 98-1, "Independence Discussions with Audit Committees" were due the following day, and the Staff would be summarizing comments received for presentation to the Board at the January meeting.

Mr. Siegel and the other Committee members thanked Mr. O'Connell for his contributions to the IIC, as his term of membership was ending. Mr. O'Connell stated that he enjoyed his participation on the Committee, and would be willing to participate in Committee task forces and projects in the future.

The Board will consider approval of Mr. O'Connell's replacement (the AICPA's SEC Practice Section will provide a candidate) at its January 8th meeting, according to Mr. Siegel.

Next Meeting

The Committee's next meeting will be held on Tuesday, January 12, 1999 at 10 AM, in the New York offices of the AICPA.

* * * * *

The meeting was adjourned at approximately 2 PM.

Respectfully submitted,



Susan McGrath