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Independence Issues Committee - Minutes of Meetings
Independence Issues Committee Minutes of October 13, 1998
Meeting Public Session

Independence Standards Board. Independence Issues Committee

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October 13, 1998

Independence Issues Committee - Minutes of Meetings

Independence Issues Committee Minutes of October 13, 1998 Meeting Public Session

The Independence Issues Committee (IIC, or the Committee) held a public meeting on Tuesday, October 13, 1998.

The meeting began at approximately 10:00 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
Frank J. Pearlman

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
Michael W. Gleespen - Century Business Services, Inc.*
Gerald L. Golub - American Express Tax and Business Services, Inc.*
Susan McGrath - ISB Staff
Robert L. Royall II - Ernst & Young LLP*
Richard H. Towers - ISB Staff
Jeffrey W. Yabuki - American Express Tax and Business Services, Inc.*

* Present for part of the meeting

Minutes

The minutes of the IIC's last Public Session meeting, held on September 8, 1998, were approved unanimously.

Alternative Practice Structures - IIC Issue Summary 98-2

At Mr. Siegel's request, Ms. McGrath reviewed several "alternative practice

structures" and the potential threats to auditor independence that these may pose to refresh everyone's memory of the discussion held at the last meeting. These concerns were more fully discussed in the issue summary that was distributed to Committee members prior to the last meeting and posted to the ISB website for the benefit of other interested parties.

Following Ms. McGrath's presentation, Mr. Gleespen was invited to discuss the policies, procedures, and safeguards in place at Century Business Services, Inc. (Century) to protect the independence of auditors at affiliated attest [firms](#)¹. Mr. Gleespen's presentation was informational in nature, and was helpful in understanding the relationships between Century business services companies and their affiliated attest firms. At the conclusion of his presentation, Mr. Gleespen fielded questions from Committee members.

Mr. Yabuki was then invited to make a similar presentation to the Committee on the relationships between American Express Tax and Business Services, Inc. (AMEX) and affiliated attest firms, and the safeguards in place to protect auditor independence. Mr. Yabuki stated that AMEX had implemented the ten restrictions, imposed by the New York State Education Department (board of accountancy) on relationships between AMEX and its subsidiaries and the clients of affiliated attest firms operating in New York, across the board - for all attest clients, both public and private. Mr. Yabuki and Mr. Golub answered questions from Committee members following the discussion.

Ms. McGrath then summarized three proposals outlined in an addendum to IIC issue summary 98-2 distributed to Committee members prior to the meeting and posted to the website for the benefit of other interested parties. The proposals suggest various restrictions on the activities and investments of business services companies, attest firms, and their owners, managers, and employees to maintain auditor independence and comply with the existing independence rules. Several example situations were discussed to illustrate the wide range and complexity of possible arrangements between business services companies and affiliated attest firms, and aid in determining which might cause impairments of auditor independence.

The Staff and the Committee task force (consisting of Mr. Kueppers, Mr. Dakdduk, and Mr. Barber) will meet prior to the next meeting to develop a recommendation, for Committee approval, on how the existing independence requirements would be applied to alternative practice structures. Mr. Siegel requested the other Committee members to forward their views to the Staff or the task force for consideration. Mr. Siegel said the Committee's objective should be to reach a consensus on the subject prior to year end, for submission to the Board for ratification at its January 8, 1999 meeting.

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

At Mr. Siegel's request, Mr. Horstmann discussed the issue summary 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*. The paper had been distributed to the Committee members prior to the meeting, and posted to the website for the benefit of interested parties.

The paper describes the nature and level of services that might be requested, the threats to auditor independence that these might pose, and an analysis of several views as to how the existing rules might be applied. Members provided preliminary reactions to some of the services described, and to their effect on auditor independence. The Staff will prepare a draft consensus for review by the Committee at its next meeting, while further Committee discussion is expected on materiality issues, effective safeguards when auditors provide certain types of assistance, and the careful distinction needed between "assisting" management in implementing the standard, and "performing" the work itself.

Mr. Royall, an expert in derivatives from Ernst & Young, responded to questions from the Committee, particularly about valuing derivative instruments, so that the Committee members could better understand the services that might be requested and their independence implications.

The Committee is expected to reach a consensus before year end that could be presented to the Board for ratification at its January 8, 1999 meeting.

Invitation to Comment (ITC 98-1)- Proposed Recommendation to SECPS - Annual Auditor Independence Confirmation

Mr. Siegel distributed draft changes to the proposed Board recommendation to the SEC Practice Section that it require member firms to confirm their independence annually to the audit committees (or Boards) of their public company clients, and to offer to meet with the audit committee to discuss auditor independence. At its last meeting, the Board concluded that the confirmation should be enriched to include a more detailed discussion of independence matters, based on comments received in the public exposure process. Mr. Siegel sought input from the Committee on the draft changes before submitting them to the Board.

Mr. Guinan asked whether the intent still was that this report could be included as part of the board communications otherwise required by Statement on Auditing Standards No. 61, *Communication with Audit Committees*. Mr. Siegel responded that that flexibility was still intended, but that this particular communication had to be in writing.

Several members expressed concern that the proposed disclosure of the nature and fees related to non-audit services, and the discussion describing why the provision of such services did not impair the auditor's independence, might imply to the audit committee that there were independence concerns where none existed. Mr. Siegel replied that the disclosure of such services was added to the proposed confirmation in response to comments received from the SEC and the Public Oversight Board, and that subsequent discussion between the auditor and the audit committee should be helpful in resolving any concerns regarding audit independence.

The proposal is intended to improve corporate governance and communication about auditor independence.

Next Meeting

The Committee's next meeting will be held on Tuesday, November 17, 1998 at 10

AM, in the New York offices of the AICPA.

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The meeting was adjourned at approximately 4 PM. Due to a lack of time, delivery of the Staff and Task Force reports was postponed until the next meeting.

Respectfully submitted,

Susan McGrath

¹Firms owned, at least in part, by employees of Century Business Services, Inc. (or another non-CPA firm entity), and which may lease employees and space, and purchase other services from Century Business Services, Inc. (or the non-CPA firm entity). These firms are not "affiliated" by common ownership, however.

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