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Independence Issues Committee - Minutes of Meetings Meeting of March 17, 1998 Public Session

Independence Standards Board. Independence Issues Committee

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March 17, 1998

Independence Issues Committee - Minutes of Meetings

Meeting of March 17, 1998 Public Session

The Independence Issues Committee (IIC, or the Committee) held a meeting in the offices of the AICPA in New York on Tuesday, March 17, 1998.

The public meeting began at 9 AM and was attended by:

Committee Members

Barry Barber
Jerry W. Claiborne
Edward Coulson
Kenneth E. Dakdduk
Charles A. Horstmann
Robert J. Kueppers
Edward W. O'Connell
Frank J. Pearlman

Jay D. Brodish attended in place of Gerald W. Ward

Arthur Siegel, Executive Director of the ISB, served as Chairman

Others present by invitation were:

W. Scott Bayless — SEC Staff
Susan McGrath — ISB Staff
Richard H. Towers — ISB Staff

Minutes

The minutes of the IIC's last meeting held on November 20, 1997 were approved by the Committee members.

Staff Report

Ms. McGrath, who recently joined the Independence Standards Board (ISB, or the Board) staff from KPMG Peat Marwick LLP, was introduced to the Committee members.

After discussion, the meeting scheduled for September 16, 1998 was re-scheduled for September 8, 1998, at 10 AM in the AICPA's offices in New York. The meeting change will be posted to the ISB website.

Mr. Towers summarized the discussions that took place at the February 23, 1998

meeting of the ISB.

Mr. Siegel asked the Committee for suggestions in response to mention at the ISB meeting that the Board might want to encourage communication between audit firms and the chairmen of their clients' audit committees. The Committee members agreed that such encouragement was a good idea, but thought that the ISB was not the best venue for the recommendation, as the proposal dealt with the effectiveness of corporate governance rather than with independence issues. The consensus was that such a project might best be left to the AICPA's SEC Practice Section, the Auditing Standards Board, or to the Public Oversight Board, possibly as guidance on "best practices" rather than a mandated requirement. Or the project could be a joint effort between one of these groups and the National Association of Corporate Directors, or an undertaking by the stock exchanges. The Committee's suggestions regarding this matter will be forwarded to the Board.

ISB's Consideration of Selecting Specific Projects for Potential Standard-Setting

Mr. Siegel discussed a proposal that the Board consider selecting a specific issue or issues to explore to determine if standard-setting was needed, concurrent with the Board's development of a conceptual framework for independence. The staff has prepared a list of seven possible issues, the last four of which came from a 1997 SEC staff list:

- Partners and staff joining audit clients.
- Outsourcing.
- Alternative firm structures.
- Non-audit services.
- Family relationships.
- Client advocacy.
- Issues facing smaller firms and foreign auditors.

Mr. Siegel offered that the Board may, in tackling one or more of these issues, learn about the public's views via input received, obtain a different perspective into the broad issues of independence by looking at a specific issue, and have an opportunity to explore the use and effectiveness of compensating controls. The Committee members agreed that consideration of one or more of these issues would be helpful to the Board, and that providing guidance on a specific issue(s) would illuminate broader issues and questions. The Committee members agreed that a "parallel track" (consideration of specific issues while working on the conceptual framework) is acceptable, but that the Board should continue to focus on developing principles-based independence standards.

The IIC encourages the Board to proceed on one or more of these issues, in the following priority: partners and staff joining audit clients, outsourcing, and family relationships. Mr. Siegel will form IIC task forces to assist the Board, in the event it elects to take on one or more projects.

Possible ISB Recommendation to SECPS to Require Firms to Confirm their Independence to Clients

Mr. Siegel asked the Committee's advice regarding the Board's February 23rd

decision, to recommend to the AICPA's SEC Practice Section, that it require a report from the auditor to the client board or audit committee confirming the auditor's independence, and offering to meet with the board or audit committee to discuss independence. In particular, advice was sought as to whether exposure of a document, such as an invitation to comment, would be helpful. The Committee agreed that exposure for public comment would be a good idea, and an IIC task force will be formed to assist in drafting an invitation to comment.

Role of the IIC

Related to the above discussion, there was a brief dialogue on the role of the IIC. Mr. Siegel stated that, under the Board's Operating Policies, the IIC has a role similar to the FASB's Emerging Issues Task Force (to develop consensus via interpretation of existing authoritative literature), except that the IIC consensus have to be ratified by the Board prior to becoming authoritative. For broader issues which will lead to standard-setting, rather than interpretation of existing rules, the Committee may be asked to assist in the preparation of a neutral document to begin the Board's consideration.

Report of the Materiality Task Force

Mr. Horstmann, Chairman of the Materiality Task Force, provided an update on Task Force activities. Mr. Siegel reminded the Committee members that the objective of the Task Force was to examine how materiality considerations might impact independence issues, how materiality might be assessed in different situations, and to obtain preliminary thinking in these areas for possible future use.

Formation of the Outsourcing Task Force

Mr. Siegel announced the formation of a new Outsourcing Task Force. Mr. Dakdduk of Coopers & Lybrand will serve as its Chairman, and the other members are Mr. Paul Jones of KPMG Peat Marwick, Mr. Bruce Webb of McGladrey & Pullen, and Mr. Aram Kostoglian of BDO Seidman.

Mr. Dakdduk reported on the objectives of the Task Force, whose first meeting will be held later this month in New York. The Task Force plans to identify the types of services provided in practice and to take a broad approach in examining independence concerns and potential safeguards (as opposed to looking at specific services individually). The objective of the Task Force, after eventual clearance with the IIC, will be to provide guidance to the Board in developing standards. While a neutral paper will be drafted that examines all sides of the issues and possible alternatives, a recommendation to the Board may also be proposed.

Minority Views

Mr. Siegel said that he has an understanding with Chairman Allen that if there are strong minority views expressed at IIC meetings involving issues that will go to the Board, both views would be presented. This would be the case whether the differences were within the IIC or between the IIC and the ISB staff.

Definition of Auditor Independence

Mr. Siegel discussed the staff's draft paper on the definition and objective of auditor independence, which may serve as a helpful frame of reference as discussion of issues continues by the Committee and the Board.

Discussion ensued on whether the definition, with its "customer-focus" (focus on the beliefs of the investor rather than on the facts themselves) is more of an end-result, objective, or goal, rather than a definition of independence. The staff will consider the input received from the Committee on the proposed wording, its possible uses, and related considerations.

Request for Future Topics and Other Matters

Mr. Siegel asked Committee members to forward current independence issues/future topic recommendations to the staff for consideration by the Agenda Subcommittee.

In addition, following up on a request made at the February 23rd Board meeting, Mr. Siegel asked members to submit their firms' independence policies to the staff (Mr. Siegel stated that he had been advised by counsel that the submission of these documents to the staff for internal research and educational purposes should not be construed as converting them to public documents).

Next Meeting

The Committee's next meeting will be held on April 14, 1998 in the AICPA's New York offices.

* * * *

The public meeting was adjourned at approximately 10:20 AM.

Respectfully submitted,

Susan McGrath

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