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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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May 18, 1972

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DIVISION OF  
PROFESSIONAL ETHICS  
DONALD J. SCHNEEMAN  
DIRECTOR

A. Clarence Sampson, CPA  
Associate Chief Accountant  
Securities and Exchange Commission  
Washington, D.C. 20549

Dear Clarence:

Attached is an edited version of your proposed Release on the "Independence of Certifying Accountants....." which you suggested we prepare at the conclusion of our recent meeting. Our suggested modifications are made directly on your manuscript so that they can be readily read against the original, although we must apologize for the quality of reproduction. We have attempted to edit the draft to incorporate language which we believe reflects the SEC's thinking but at the same time reduces somewhat the apparent differences between the positions of the SEC and the AICPA in the areas covered.

You will note that the changes we have proposed in the draft have been essentially limited to wording and placement. We have suggested the deletion of only two of the examples, and such deletion should not be critical to the document.

We are, of course, disappointed that we were not able to reach agreement in principle on what we consider to be some of the Ethics Division's major concerns regarding the proposed Release. We are restating those concerns in this letter because we believe that further consideration of the points on your part is warranted.

1. We recommend that you reconsider your decision not to incorporate in the proposed release the relevant material from previous Accounting Series Releases 47 and 81 to develop an all-inclusive statement on the subject of independence. We believe that such reorganization

of the material would be of substantial benefit to those under your regulation since it would (a) eliminate any possible confusion which might arise regarding inconsistencies between the current and prior Releases (and you have recognized in your opening paragraph of the present draft the possibility of such confusion), (b) avoid the necessity of having the accountant refer to all three Releases in order to ascertain the SEC's position, and (c) provide a more comprehensive series of illustrative cases to demonstrate the points to be made.

2. We believe the draft places entirely too much emphasis on the mechanical aspects of book-keeping and data processing as a factor in determining independence. The accountant does not audit the books and records per se; he audits the financial statements. While the books and records are a significant factor in preparing financial statements, they are not the only one. The books serve as a conduit through which the auditor is able to identify the supporting documentation which he needs to audit to establish the fairness of the statements. The over-emphasis on checking the "accuracy" of the books and records per se can be demonstrated in that in the typical audit of a larger company relatively few mechanical checks of "accuracy" are actually performed, and in the audit of a smaller company the auditor must frequently originate numerous adjustments to "correct" the records -- or perhaps must even reconstruct some of them -- but he still can render a clean opinion.

With regard to data processing, we believe the draft has not adequately recognized the significance of the changes which have taken place in this area. The result of these changes is to make distinctions between basic records and statistical records relatively meaningless. Following this approach results in needless hair-splitting, the significance of which the public would not appreciate in any event. We believe the principles set forth in Ethics Division Opinion No. 22 clearly provide a rationale whereby both the SEC and the AICPA can reach meaningful conclusions regarding independence which will adequately serve the interests of both the profession and the public and which will, in fact, result in less arbitrary administration than the approach set forth in the draft Release.

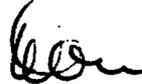
3. It would appear that the SEC leans in the direction of considering any significant business transaction with a client to be a "direct financial interest" and one which should be avoided lest the auditor lose his independence. We submit that even if such an approach were practicable (which we would not agree to be the case), it works an unnecessary hardship on both the client and the accountant. While we recognize that at some point, business relationships with a client can become so pervasive as to, indeed, raise questions concerning independence, clearly the situation does not warrant a general proscription of such dealings, explicit or implied. Perhaps the concept of the accountant as "consumer" suggested at the end of our meeting could be developed as a standard.

Obviously considerable thought has been given this draft by both the SEC and the AICPA in reaching their respective positions. We would hope that further joint exploration of these matters would have the possibility of bringing the two positions closer together and if you agree, we would want to continue our dialogue. If you have any questions regarding the specific changes we have made in editing we would hope that you will feel free to contact us.

We would like to emphasize that the suggested editorial changes we have made in the attached draft does not constitute endorsement of the resulting document, nor should any approval of the draft by the AICPA be implied. On the contrary, the Ethics Division is not in favor of its release in its present form for the reasons set forth above.

We appreciate very much the opportunity you have given us to review your proposed Release. We sincerely hope that you will give the matter further consideration, but in any event, that our specific comments and suggestions will be helpful to you.

Yours very truly,



Donald J. Schneeman

DJS:gc  
Attachment