

Non-Audit Services Comparison of Proposals to Existing Requirements

The Commission's proposal would codify the four basic and long-standing principles that guide our decisions on auditor independence issues. These are that the auditor should not: (1) have a mutual or conflicting interest with an audit client, (2) audit his or her firm's work, (3) function as a member of management or as an employee of an audit client, or (4) act as an advocate for the audit client.

The Commission's proposal identifies 10 services that are incompatible with these basic principles. Eight of these services, if provided to an audit client, already are deemed to impair an auditor's independence under existing Commission or AICPA-SECPS rules. For these eight, the proposal codifies existing practice. Limitations on the other two services also currently exist.

Those services that currently impair an auditor's independence include:

Bookkeeping, or keeping the client's financial records (Codification § 602.02.c.i.).

Appraisal or valuation services, fairness opinions and similar reports, where it is reasonably likely that the results will be audited by the accountant (Codification § 602.02.c.; see also ISB, Discussion Memorandum 99-3, "Appraisal and Valuation Services" (September 1999)).

Actuarial services, where the accountant determines the amount of policy reserves and related accounts, unless the audit client uses someone else (its own actuaries or other third parties) as the primary actuaries (SECPS, "Organizational Structure and Functions of the SECPS of the AICPA Division for CPA Firms," at § 1000.35.).

Management functions, such as being a member of the board or an officer or employee of the audit client (Rule 2-01(b) of Regulation S-X).

Human resource functions, such as recruiting, hiring, designing compensation packages, psychological testing (SECPS § 1000.35).

Broker-dealer or investment banking services (Rule 2-01(b) of Regulation S-X; Codification § 602.02.e.iii.).

Legal services (Codification § 602.02.e.ii.).

Expert services where the accountant would render or support expert opinions for an audit client in legal, administrative, or regulatory filings or proceedings (Codification §§ 601.01 and 602.02.e.).

The two services that are not restricted entirely, but are currently limited include:

Financial information systems design and implementation, but only if the system is used to generate information that is significant to the audit client's financial statements taken as a whole. Suggestions for improvements in internal accounting controls and risk management controls, however, would not affect an auditor's independence (limited by Codification § 602.02.c.i and ii and ISB, Interpretation 99-1, § 13.c. (March 12, 1999)).

Internal audit outsourcing, except that the auditor may perform nonrecurring evaluations of programs or events (limited by AICPA Ethics Rulings 103, 104, 105, ET § 191.206-11, and Interpretation 101-13, ET § 101.15).

PLEASE REFER TO THE RELEASE FOR A COMPLETE DISCUSSION OF EACH TOPIC.