

MEMO# 10878

April 8, 1999

ISB REQUEST FOR COMMENT ON AUDITOR EMPLOYMENT WITH CLIENTS

1 Independence Standards Board Discussion Memorandum 99-1, Employment with Audit Clients, (March 12, 1999). [10878] April 8, 1999 TO: ACCOUNTING/TREASURERS COMMITTEE No. 10-99 INDEPENDENT ACCOUNTANTS ADVISORY COMMITTEE No. 3-99 RE: ISB REQUEST FOR COMMENT ON AUDITOR EMPLOYMENT WITH CLIENTS

The Independence Standards Board recently issued the attached discussion memorandum, Employment with Audit Clients.¹ The discussion memorandum addresses independence concerns related to audit firm personnel going to work for audit clients and requests comment on alternative means to ensure auditor independence in these situations. The discussion memorandum describes three situations which may give rise to independence concerns in connection with an independent accountant accepting employment with a former audit client: Members of the audit team, who may have been friendly with a former partner or professional when he or she was with the firm, would be reluctant to challenge the decisions of the former partner or professional and, as a result, might accept the client's accounting without exercising appropriate skepticism or objectivity. In situations where partners or other audit members resign to accept positions with audit clients, questions may be raised regarding whether the individuals exercised an appropriate level of skepticism during the audit process prior to their departure. That the departing partner or professional may be familiar enough with the audit approach and testing strategy so as to be able to circumvent its design. The memorandum discusses two alternative means to ensure auditor independence in these situations. First, the memorandum proposes a "cooling off" period in which partners and other professionals would be prohibited from accepting employment with audit clients. The cooling off period may last one or more years and may vary based on the professional's audit responsibilities and his or her role at the new employer. Alternatively, the memorandum indicates that mitigating controls already exist, or can be put in place to prevent and detect threats to independence when a partner or other professional joins an audit client. For example, where a professional accepts employment with an audit client, his work on the most recently completed audit should be reviewed by a senior person to assess the impartiality and objectivity of the professional. The memorandum discusses several other similar controls that may help ensure independence is maintained. The discussion memorandum requests comment on these and other methods that may be used to protect auditor independence when a partner or other professional accepts employment with an audit client. Comments on the discussion memorandum are due to the ISB no later than June 18, 1999. The Institute is considering whether to comment on the discussion memorandum. If there are comments that you would like the Institute to make, please contact me by phone (202/326-5851), fax (202/326-5853) or e-mail (smith@ici.org) no later than June 4. Gregory M. Smith Director -

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.