

MEMO# 10657

January 19, 1999

ISB ISSUES STANDARD ON AUDITOR INDEPENDENCE

1 See SEC Release No. IC-23029, February 18, 1998. [10657] January 19, 1999 TO: ACCOUNTING/TREASURERS MEMBERS No. 4-99 DIRECTOR SERVICES COMMITTEE No. 3-99 SEC RULES MEMBERS No. 8-99 RE: ISB ISSUES STANDARD ON AUDITOR INDEPENDENCE

The Independence Standards Board recently issued Independence Standard No. 1, Independence Discussions with Audit Committees. The ISB is a standard setting body designated by the accounting profession to establish and maintain a body of independence standards applicable to auditors of all SEC registrants. In February, 1998 the SEC issued a release recognizing the formation of the ISB.¹ The release indicates that the Commission expects the ISB to develop independence standards and interpretations, much like the Financial Accounting Standards Board develops accounting standards. Independence Standard No. 1 applies to any auditor intending to be considered an independent accountant with respect to a specific entity within the meaning of the Securities Acts administered by the SEC. The Standard requires an auditor to annually: 1. disclose to the audit committee of the company (or the board of directors if there is no audit committee), in writing, all relationships between the auditor and its related entities and the company and its related entities that in the auditor's professional judgment may reasonably be thought to bear on independence; 2. confirm in the letter that, in its professional judgment, it is independent of the company within the meaning of the Securities Acts; and 3. discuss the auditor's independence with the audit committee. The standard applies to audits of companies with fiscal years ending after July 15, 1999. Auditors and audit committees of first-time registrants are required to have these communications prior to the company's initial public offering of securities. ISB Statement No. 1 may be obtained by visiting the ISB's web site (www.cpaindependence.org) or calling the ISB at 212/596-6133. Gregory M. Smith Director + Operations/ Compliance & Fund Accounting