



FINANCIAL EXECUTIVES INSTITUTE

June 12, 2000

Independence Standards Board
6th Floor
1211 Avenue of the Americas
New York, New York 10036-8775
Attn: DM 00-1

Gentlemen:

The Committee on Corporate Reporting (CCR) of the Financial Executives Institute appreciates the opportunity to respond to the Discussion Memorandum, A Conceptual Framework for Auditor Independence. The CCR agrees that the auditor independence rules are outdated and need to be updated by developing a conceptual framework for independence.

The ISB should solicit the views and perceptions of various stakeholders and then use its knowledge and expertise to develop a conceptual framework which will provide guidance to help minimize the risk of impaired audit independence. This framework will provide auditors and auditees with more specific guidelines to enhance auditor independence and will improve the stakeholders' perception of the reliability and credibility of financial information.

Auditor independence is an important issue to CCR because it bears on the integrity and credibility of our financial statements. Independence is also important to us as users of financial statements. We believe the principal issue is to simplify the rules and we believe that the DM is making a step in the right direction.

Our comments on the specific questions raised in the DM are discussed below.

Question I-1: Do you believe that a conceptual framework for auditor independence that contains goals, definitions, concepts, and basic principles will be useful to the ISB? Are there components that should be included in a conceptual framework? Please explain your views.

Yes, CCR believes a conceptual framework for auditor independence will be useful to the ISB. This framework will help by providing a basis by which more specific guidelines may be articulated to help ensure auditor independence.

Question I-2: Do you believe that the conceptual framework components discussed in this DM will be useful to stakeholders other than the ISB? Please explain your views.

CCR believes the majority of stakeholders should benefit from the conceptual framework discussed in this DM. Stockholders, creditors, financial analysts, and board members will benefit because they should perceive the financial information as more reliable and credible. The conceptual framework will permit development of more detailed guidelines for use by the independent audit firm and their staff to help ensure auditor independence.

Question I-3: Should the ISB consider the interests of all stakeholders when it sets independence standards? If stakeholders or stakeholder groups have competing interests, whose interests should prevail?

CCR agrees with Basic Principle 9C which states “ The ISB should solicit the views of all stakeholders and be informed by stakeholders’ perceptions, but develop independence standards based on the ISB’s judgment about how best to meet the goal or goals of auditor independence.” It will be impossible to reflect all of the stakeholders’ collective perceptions in one auditor independence standard and CCR believes that specialized regulation is usually best carried out by the relevant special interest groups rather than by the general public that the regulation serves to protect. As such, the ISB should use its knowledge and expertise to develop the most appropriate standards.

Question II-1: Are there factors related to the audit environment, other than those discussed in Section II, that are relevant to, and should be considered in, a conceptual framework for auditor independence? If so, please describe those factors and their relevance to auditor independence.

CCR is not aware of any other factors, other than those discussed in Section II, that should be considered in a conceptual framework for auditor independence.

Question III-1: Which of the goals described in Section III should form the basis for the goal or goals of auditor independence to be included in a conceptual framework? Please explain your views and discuss other goals that should be considered.

“Goal 4 - A goal of auditor independence is to help ensure that auditors do not engage in activities or have relationships that may be perceived by users and other stakeholders as making it less likely that audits will enhance the reliability of financial statements”, is CCR’s preference since it measures independence in terms of activities or relationships to be avoided and takes into consideration the perception of stakeholders. CCR believes it is both the auditor’s intent, as well as activities and relationships observable to the general public which may hinder, or be perceived to hinder, his/her independence. It is the perception of the stakeholders which has an impact on the securities market.

Question IV-1: Which of the alternatives described in Section IV should form the basis for a definition of auditor independence to be included in a conceptual framework? Please explain your views and discuss other definitions or approaches to defining auditor independence that should be considered.

CCR believes a combination of Definition 9 & 12 is appropriate and should read as follows: “Independence is freedom from pressures and other factors, as well as the absence of certain activities and relationships, that may impair, or may be perceived by stakeholders to impair, an auditor’s willingness to exercise objectivity and integrity when performing an audit.” CCR agrees with replacing “personal attributes” with “objectivity and integrity”, as these traits are the

key personal attributes which drive an auditor's independence in relation to the financial statements.

Question V-1: Do you believe that the concepts discussed in Section V – independence risk, threats to auditor independence and their significance, safeguards to auditor independence and their effectiveness, stakeholders' perceptions in independence considerations, and benefits and costs of auditor independence – are useful and should be included in a conceptual framework? What other concepts, if any, would be useful? Please explain your views.

CCR agrees that the concepts discussed in Section V are useful and should be included in a conceptual framework.

Question VI-1: Do you believe that the principles described in Section VI will be useful to the ISB in developing future standards? Please explain your views and discuss other types of guidance that you believe would make the conceptual framework more useful to the ISB or to other stakeholders.

CCR agrees that the principles described in Section VI will be useful to the ISB in developing future standards.

Question VI-2: Do you believe that it is useful to analyze threats based on their nature and significance? Please explain your views and discuss types of threats other than those identified in Section VI that should be considered in a conceptual framework for auditor independence.

CCR agrees that it is useful to analyze threats based on their nature and significance. Different threats may be more material than others depending on the nature of the threat. Also, if more than one threat applies to a specific circumstance, the combined threats may be more significant than each threat individually.

Question VI-3: Do you believe that it is useful to analyze safeguards based on their type and effectiveness? Please explain your views and discuss types of safeguards other than those identified in Section VI that should be considered in a conceptual framework for auditor independence.

CCR agrees it is useful to analyze safeguards based on their type and effectiveness. Certain safeguards may be more effective than others. However, the ISB should acknowledge the fact that the effectiveness of any particular safeguard may not be the same in all circumstances.

Question VI-4: Do you believe that the ISB should consider which individuals in an auditing firm (as well as the firm itself) are affected by one or more threats to auditor independence in the specific circumstances under consideration and by one or more safeguards that effectively mitigate or eliminate those threats? Please explain your views.

The ISB should discuss which individuals are generally affected, however, those affected may differ depending on the size and make-up of a specific firm. The conceptual framework should address the significant threats to independence facing the individuals and the local or regional offices responsible for serving a large client and how they could be influenced by the potential consequences of losing the account on behalf of their firm, and safeguards to minimize this risk. In addition, CCR feels that with the size of the Big 5 Firms, there is no/minimal collegiality

among the vast majority of the staff, and hence collegiality should not be a basis for independence impairment.

Question VI-5: Do you believe that the ISB should weigh the costs of alternative safeguards against the benefits of reduced independence risk resulting from those safeguards when it develops new independence standards? Why or why not? Please discuss your views about how the ISB should measure the costs and benefits of alternative safeguards.

Yes, the ISB should weigh the costs vs. the benefits. In the real world, CCR feels the possibility of having no risk of impaired independence is unattainable. Therefore, the ISB should not work towards developing a conceptual framework to obtain “absolute assurance”, but rather provide guidance to help minimize the risk of impaired independence.

Question VII-1: Are there aspects of stakeholders’ perceptions other than those discussed in this DM that are relevant to, and should be considered in, a conceptual framework for auditor independence? If so, please describe them and their relevance to auditor independence.

CCR is not aware of any aspects, other than those discussed in this DM, that should be considered in a conceptual framework for auditor independence.

Question VII-2: Which of the alternatives described in Section VII, if any, should form the basis for a basic principle related to consideration of stakeholders’ perceptions to be included in a conceptual framework? Please explain your views.

CCR agrees with Basic Principle 9C which states “ The ISB should solicit the views of all stakeholders and be informed by stakeholders’ perceptions, but develop independence standards based on the ISB’s judgment about how best to meet the goal or goals of auditor independence.” Since the ISB is more knowledgeable than many stakeholders in this area, the ISB should use its expertise with consideration of stakeholders’ perceptions, to develop the standards it believes will help enhance auditor independence.

Question VII-3: Are there ways other than those noted in the alternative basic principles described in Section VII by which the ISB could consider stakeholders’ perceptions in its standard-setting process? If so, please describe them.

CCR agrees with the alternative basic principles discussed in Section VII.

We will be pleased to answer any questions that the ISB may have regarding our response. This response was developed by Peter Bible, General Motors Corporation. He can be reached at (313) 667-3485.

Sincerely,

Philip D. Ameen

Philip D. Ameen
Chairman
FEI Committee on Corporate Reporting