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Independence

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# Auditor independence education materials: The importance of being independent

## Case Study 4: Communications with the audit committee and independence exceptions

Developed in conjunction with the University of Illinois Center for Professional Responsibility in Business and Society.

Audit • Tax • Consulting • Financial Advisory •

# Instructions and Table of Contents

## Instructions

In this case study, you are an audit partner, Barbara Cortez, of the public accounting firm Meridien, LLP (“Meridien”). You are serving your public client, Bond Financial Services, Inc. (“Bond”). Your task is to address potential independence matters with the audit committee.

Below is a table of contents for Case Study 4. Please read the Briefing Documents, Case Facts and Background, and Appendix A prior to answering any questions.

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## Independence literature relating to this case study:

1. Securities and Exchange Commission’s (SEC) Independence Rules
  - » Rule 2-01 of Regulation S-X (Article 2 — Qualifications and Reports of Accountant) (<http://www.law.uc.edu/CCL/regS-X/SX2-01.html>).
  - » Office of the Chief Accountant: Application of the Commission’s Rules on Auditor Independence Frequently Asked Questions (<http://www.sec.gov/info/accountants/ocafaqaudind080607.htm>)
2. Public Company Accounting Oversight Board (PCAOB) Independence Rules
  - » Rule 3502 — Responsibility Not to Knowingly or Recklessly Contribute to Violations ([http://www.pcaobus.com/Rules/Docket\\_017/2005-11-22\\_Release\\_2005-020.pdf](http://www.pcaobus.com/Rules/Docket_017/2005-11-22_Release_2005-020.pdf))
  - » Rule 3522 — Tax Transactions ([http://www.pcaobus.com/Rules/Docket\\_017/2005-07-26\\_Release\\_2005-014.pdf](http://www.pcaobus.com/Rules/Docket_017/2005-07-26_Release_2005-014.pdf))
  - » Rule 3524 — Audit Committee Preapproval of Certain Tax Services ([http://www.pcaobus.com/Rules/Docket\\_017/2005-07-26\\_Release\\_2005-014.pdf](http://www.pcaobus.com/Rules/Docket_017/2005-07-26_Release_2005-014.pdf))
  - » Rule 3526 — Communication with Audit Committees Concerning Independence ([http://www.pcaobus.com/Rules/Docket\\_017/2008-04-22\\_Release\\_2008-003.pdf](http://www.pcaobus.com/Rules/Docket_017/2008-04-22_Release_2008-003.pdf))
  - » Rule 3523 — Tax Services for Persons in Financial Reporting Oversight Roles ([http://www.pcaobus.com/Rules/Docket\\_017/2005-07-26\\_Release\\_2005-014.pdf](http://www.pcaobus.com/Rules/Docket_017/2005-07-26_Release_2005-014.pdf)).
  - » The Sarbanes-Oxley Act of 2002 (the “Act”) (Section 202) ([http://www.pcaob.org/about\\_the\\_pcaob/sarbanes\\_oxley\\_act\\_of\\_2002.pdf](http://www.pcaob.org/about_the_pcaob/sarbanes_oxley_act_of_2002.pdf))
3. American Institute of Certified Public Accountants (AICPA) *Code of Professional Conduct*
  - » Section 101-3, *Performance of Nonattest Services (Revised)* ([http://www.aicpa.org/about/code/et\\_101.html#et\\_101.05](http://www.aicpa.org/about/code/et_101.html#et_101.05))

# Briefing Documents

## The company/client

**Name:** Bond Financial Services, Inc. (“Bond”)

**Location of headquarters:** Boston, Massachusetts

**Type of business:** Bond is a financial services firm which provides capital market services, brokerage, investment banking and advisory services, wealth management, asset management, insurance, and other related financial services.

**Ownership structure:** Publicly owned corporation (since 1998); registered with the Securities and Exchange Commission (SEC); issuer of securities.

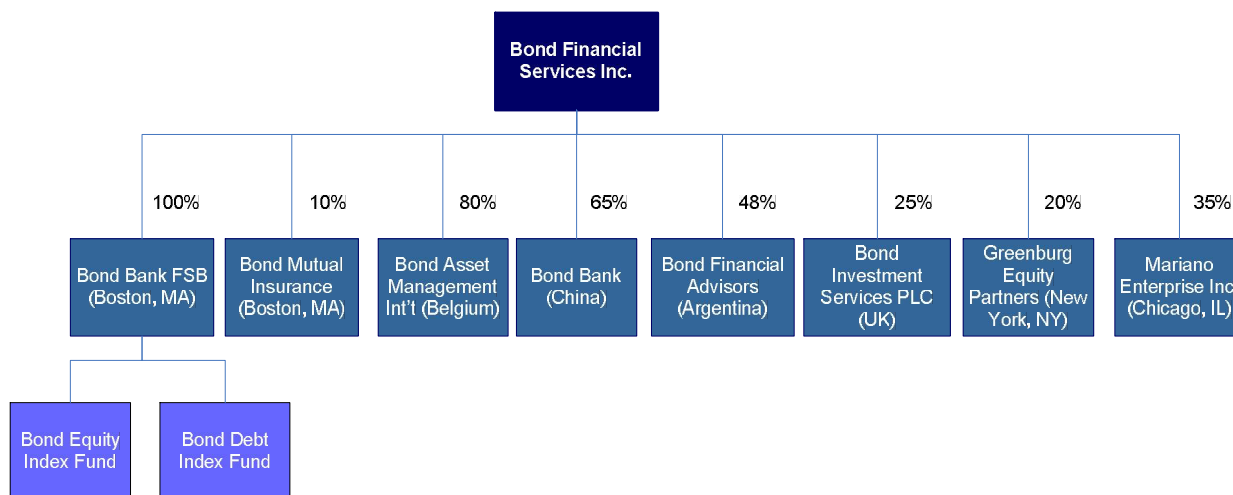
**Number of employees (worldwide):** 4,275

**Bond employees:** Charles Adams, Chief Financial Officer  
Dennis Moscati, Chief Operations Officer  
Bruce Weaver, Internal Audit Director

**Bond Audit Committee members:** Salvatore Marconi, Chair  
Mary Armstrong, Member  
Laverne Santiago, Member

**Other:** Net revenues for the fiscal year ended December 31, 20X3, were \$2.6 billion, which represent an increase of 3% over the prior year. Compared to its peers, Bond has a very strong balance sheet and most financial analysts expect solid growth into 20X4. All of the Bond companies are financially sound; the debt securities of Bond and its **affiliates** are A rated or above.

**Entities associated with Bond:**



## The public accounting firm

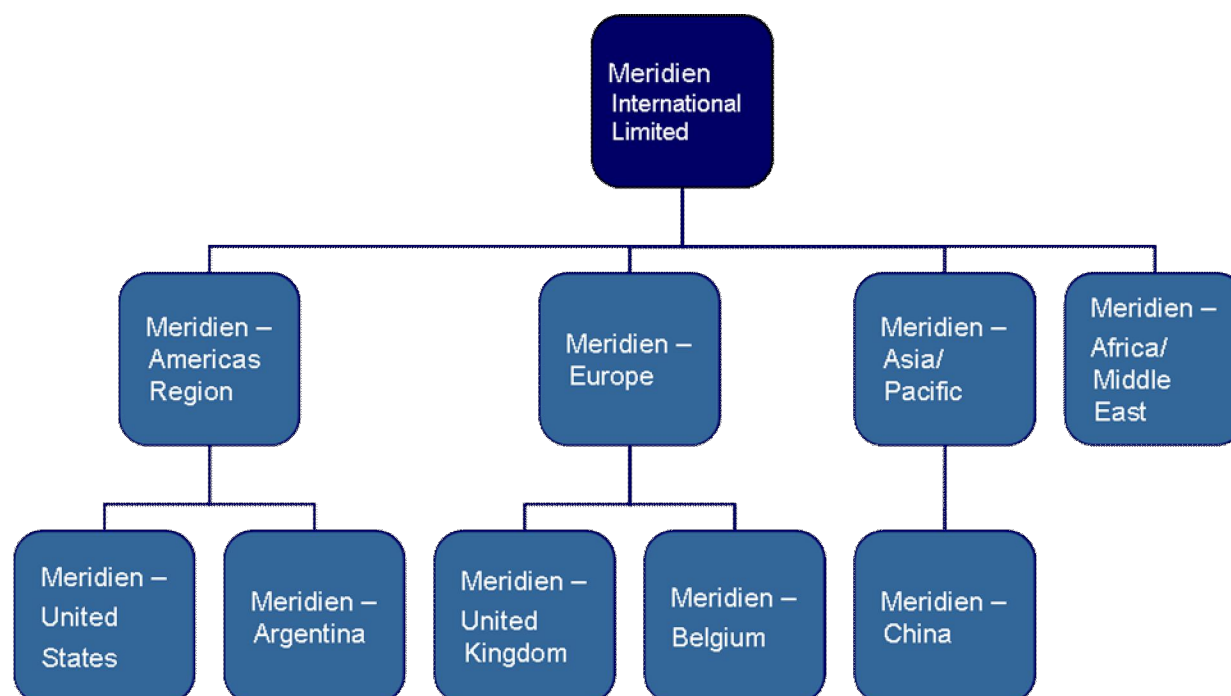
**Name:** Meridien, LLP (“Meridien”) is a public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB).

**Location of headquarters:** New York, New York

**Meridien professionals:** Barbara Cortez, Audit Partner  
 Tanisha Williams, Audit Senior Manager  
 Jeff Smith, Audit Manager  
 Frank Shepard, Tax Partner  
 John LaPelle, Tax Associate  
 Rod Mitchell, Independence Office Consultant

**Independence Policy:** [Link to Meridien Independence Policy](#)

**Ownership structure:** Meridien is a Delaware limited liability partnership that belongs to a network of member firms of Meridien International Limited, each of which is a separate and independent legal entity. The member firms of Meridien International Limited is made up of member firms located in over 50 countries. Meridien International Limited does not provide any professional services to clients; rather, it helps coordinate the activities of the member firms. The member firms provide professional services (such as audit, tax, and consulting services) to clients. Unless stated otherwise, “Meridien” or “the Firm” means the Meridien member firm located in the United States. The Meridien member firms involved in the Case Studies appear in the bottom row of the organizational chart below.



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# Case Facts and Background

In July 20X4, Meridien was appointed as the independent registered public accountants for Bond. Meridien has just completed its first year audit of Bond for the fiscal year ended December 31, 20X4, and is in the process of summarizing their audit results to present to Bond's audit committee.

## **Tuesday, February 5, 20X5 — 10:20 AM**

Barbara and Tanisha are busy preparing for an upcoming meeting with Bond's audit committee. At the meeting, they will provide the annual "independence letter" for the 20X4 audit and seek preapproval for two new nonaudit services that Bond has requested, which Barbara believes are permissible under the SEC's independence rules.

### [Link to 4.1 Proposed Nonaudit Services](#)

Tanisha is preparing the independence letter and other agenda items for their meeting when the phone rings.

"Hi, it is Barbara. I just got a call from Frank Shepard, a tax partner in the Boston office. He just learned that John LaPelle, an associate on his team, who has provided more than 10 hours of service to the engagement, is the beneficiary of a trust that holds Bond stock. The stock is material to John's net worth."

"Really? Why did not he tell anyone before?" Tanisha asked incredulously.

"Well," replied Barbara. "He claimed he was independent because he only provided tax services and the manager and partner would make all the decisions."

"Interesting," said Tanisha. "How do you want to handle this?"

"I already called our Independence Office and it appears that his holdings are an exception to the independence rules. Let us talk more later today when I am back in the office. We need to decide how to include this matter in our independence letter to the audit committee and our next steps... Oh, and we need to talk about another matter as well, it seems the sister of a partner in our New York office just accepted a position as the Chief Financial Officer of Greenburg Equity Partners," said Barbara.

"Are we doing any audit work out of the New York office?" Tanisha asked.

"No, and we have no plans to...so Independence Office said the employment matter would not be an independence concern." Barbara said.

"So do we need to report this to the audit committee?" Tanisha asked.

"Unfortunately, I am already late to a meeting...we can talk more about that later, okay? Bye for now," Barbara said, as she hung up the phone.

**Monday, February 18, 20X5 — 9:37 AM**

In her presentation to the audit committee, Barbara describes the two new nonaudit services and why she believes they would be permitted under the rules. She invites the members to comment and ask questions about the services. A few of the comments appear below.

Audit Committee Member, Mary Armstrong: “I am a little uncomfortable with the merger and acquisition assistance services. I know auditors perform this type of service for their clients but this would be a major acquisition for Bond. I am just not sure how the shareholders would view this...”

Audit Committee Chair, Salvatore Marconi: “This year’s **proxy statement** already shows a significant dollar amount for tax services. Should we really be approving more tax services for your firm?”

[Link to 4.3 Bond’s Proxy Statement](#)

Audit Committee Member, Laverne Santiago: “I think both services are acceptable and move that the committee approves them.”

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# Suggested Questions

## Simple — Rules based (SR)

SR4.1) Under PCAOB rule 3526, what communications should Meridien make to the audit committee?

SR4.2) What procedures should your team follow to obtain preapproval of the proposed tax services from Bond's audit committee?

SR4.3) What procedures should your team follow to obtain preapproval of the proposed merger and acquisition assistance services from Bond's audit committee?

SR4.4) What rules would you research to determine whether the scope of the nonaudit services being proposed are permissible under the independence rules?

SR4.5) If the tax and merger and acquisition assistance services were approved and provided to Bond, where should their related fees be classified in Bond's proxy statement?

[See 4.2 SEC Proxy Instructions](#)

SR4.6) Was John LaPelle obligated to disclose his interests and relationships with Bond to Meridien before providing services to Bond?

## Complex — Rules based (CR)

CR4.1) How would you address Mary Armstrong's concern about the proposed merger and acquisition assistance services?

CR4.2) How would you respond to Salvatore Marconi's question about allowing Meridien to perform additional tax services for Bond?

CR4.3) What are the possible ramifications of violating independence? Using the John LaPelle matter as an illustration, consider the effect of the independence violation on (a) John (b) Meridien, (c) Bond, and (d) Bond's shareholders.

CR4.4) As a result of John LaPelle's exception would Meridien's independence be impaired?

CR4.5) Help Tanisha draft the independence letter that will be given to Bond's audit committee. Decide which issues addressed in Barbara and Tanisha's conversation need to be included in the letter. Use the template below, obtained from Meridien's internal resource Web site, to complete this task.

[Link to Independence Letter Template](#)

CR4.6) Who is responsible for ensuring that Meridien is independent of Bond — Meridien, Bond's audit committee, or both?



## Conceptual (C)

C4.1) PCAOB rule 3526, *Communication with Audit Committees Concerning Independence*, requires auditors to disclose to the audit committee those relationships that may reasonably be thought to bear on their independence. In its Release (2007-008), the PCAOB stated that Rule 3526 is consistent with the SEC's general standard on independence, which focuses on the perceptions of "reasonable third parties." In other words, auditors should use their professional judgment to determine which matters might cause third parties to question their objectivity. Do you think this is a reasonable approach to identifying potential independence matters? Why or why not? How would you propose potential independence matters be identified?

C4.2) The SEC preapproval requirement, which applies to all services provided by a company's auditor, was adopted as a result of the Sarbanes-Oxley Act. Why do you think the audit committee is responsible for preapproving services provided by a company's auditor?

C4.3) As an audit committee member assessing Meridien's independence, what questions about the proposed nonaudit services would you ask? Why?

C4.4) The proxy statement breaks the public accounting firm's fees into four (4) categories: Audit, Audit-Related, Tax, and Other. Do you believe this information is helpful to the investor? Why? Does one category of services provide better information to investors than the other categories? If so, which ones? See [Bond's 20X4 proxy statement at exhibit 4.3](#).

C4.5) When reviewing Bond's proxy statement, an investor may compare the company's nonaudit fees to its audit and audit-related fees. How do you believe this analysis would help an investor assess whether the auditor is independent?

C4.6) Based on [Bond's proxy statement at exhibit 4.3](#), as an audit committee member, would you be inclined to approve the proposed tax and merger and acquisition assistance services? Which factors would you consider to be most critical?

C4.7) Do you believe the consequences of violating independence are commensurate with the offense? Why or why not?

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## Proposed tax services: Bond Financial Services, Inc. Trusts

Meridien will provide Bond with compliance services regarding federal and state tax reporting requirements related to Bond Financial Services, Inc. Trusts (the “Trusts”) by:

- Preparing all U.S. federal and state tax returns required of the Trusts.
- Providing timely Schedule K-1, quarterly tax estimates, and other related information (e.g., information for domestic or foreign-related tax filings).
- Providing insightful advice and industry best practice information.
- Estimated cost of services — \$1,500,000–\$2,500,000.

## Proposed merger and acquisition assistance services: Possible acquisition of target company

Meridien will provide financial merger and acquisition assistance services in connection with a potential acquisition of a company by Bond including:

- Coordinating with the target company’s executives to obtain information necessary to evaluate and support the historical and projected financial position of the business.
- Performing an operational review identifying key risk factors and performance metrics of the target company.
- Analyzing forecasts, financial statements, and working capital of the target company.
- Reporting initial findings to Bond Management through daily status meetings.
- Issuing a draft report to provide our findings and advice and recommendations to Bond.
- Issuing a final report to complete the engagement.
- Estimated cost of services—\$2,000,000–3,000,000.

## For both services

Bond management agrees to perform the following functions in connection with these engagements: (i) make all management decisions and perform all management functions, (ii) designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services, (iii) evaluate the adequacy and results of the services performed, and (iv) accept responsibility for the results of the services.

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## Schedule 14a: Information required in proxy statements

### Source: Part 240 — General rules and regulations, Securities Exchange Act of 1934

**Item 9. Independent public accountants.** If the solicitation is made on behalf of the registrant and relates to: (1) The annual (or special meeting in lieu of annual) meeting of security holders at which directors are to be elected, or a solicitation of consents or authorizations in lieu of such meeting or (2) the election, approval, or ratification of the registrant's accountant, furnish the following information describing the registrant's relationship with its independent public accountant:

(a) The name of the principal accountant selected or being recommended to security holders for election, approval, or ratification for the current year. If no accountant has been selected or recommended, so state and briefly describe the reasons therefore.

(b) The name of the principal accountant for the fiscal year most recently completed if different from the accountant selected or recommended for the current year or if no accountant has yet been selected or recommended for the current year.

(c) The proxy statement shall indicate: (1) Whether or not representatives of the principal accountant for the current year and for the most recently completed fiscal year are expected to be present at the security holders' meeting, (2) whether or not they will have the opportunity to make a statement if they desire to do so, and (3) whether or not such representatives are expected to be available to respond to appropriate questions.

(d) If during the registrant's two most recent fiscal years or any subsequent interim period (1) an independent accountant who was previously engaged as the principal accountant to audit the registrant's financial statements, or an independent accountant on whom the principal accountant expressed reliance in its report regarding a significant subsidiary, has resigned (or indicated it has declined to stand for re-election after the completion of the current audit) or was dismissed, or (2) a new independent accountant has been engaged as either the principal accountant to audit the registrant's financial statements or as an independent accountant on whom the principal accountant has expressed or is expected to express reliance in its report regarding a significant subsidiary, then, notwithstanding any previous disclosure, provide the information required by Item 304(a) of Regulation S-K (§229.304 of this chapter).

(e)(1) Disclose, under the caption Audit Fees , the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements and review of financial statements included in the registrant's Form 10-Q (17 CFR 249.308a) or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

(2) Disclose, under the caption Audit-Related Fees, the aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the registrant's financial statements and are not reported under paragraph (e)(1) of this section. Registrants shall describe the nature of the services comprising the fees disclosed under this category.

(3) Disclose, under the caption Tax Fees, the aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. Registrants shall describe the nature of the services comprising the fees disclosed under this category.

(4) Disclose, under the caption All Other Fees, the aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in paragraphs (e)(1) through (e)(3) of this section. Registrants shall describe the nature of the services comprising the fees disclosed under this category.

(5)(i) Disclose the audit committee's pre-approval policies and procedures described in 17 CFR 210.2-01(c)(7)(i).

(ii) Disclose the percentage of services described in each of paragraphs (e)(2) through (e)(4) of this section that were approved by the audit committee pursuant to 17 CFR 210.2-01(c)(7)(i)(C).

(6) If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

(7) If the registrant is an investment company, disclose the aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and to the registrant's investment adviser (not including any subadviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for each of the last two fiscal years of the registrant.

(8) If the registrant is an investment company, disclose whether the audit committee of the board of directors has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any subadviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to 17 CFR 210.2-01(c)(7)(ii) is compatible with maintaining the principal accountant's independence.

#### **Instruction to Item 9(e).**

For purposes of Item 9(e)(2), (3), and (4), registrants that are investment companies must disclose fees billed for services rendered to the registrant and separately, disclose fees required to be approved by the investment company registrant's audit committee pursuant to 17 CFR 210.2-01(c)(7)(ii). Registered investment companies must also disclose the fee percentages as required by item 9(e)(5)(ii) for the registrant and separately, disclose the fee percentages as required by item 9(e)(5)(ii) for the fees required to be approved by the investment company registrant's audit committee pursuant to 17 CFR 210.2-01(c)(7)(ii).

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## Excerpt from Bond's 20X4 Proxy Statement

### The Company's Independent Registered Public Accounting Firm

The audit committee is responsible for engaging Bond's independent registered public accounting firm, and has evaluated the qualifications, performance, and independence of Meridien LLP, Meridien International Limited, and their respective member firms and affiliates. Based on this evaluation, the audit committee has approved and selected, and the Board has ratified, Meridien LLP as the company's independent registered public accounting firm for 20X4.

Meridien's reports on the consolidated financial statements for each of the period ended December 31, 20X4, did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

### Independent auditor fees

The audit committee engaged Meridien to perform an annual integrated audit of the Company's financial statements, which includes an audit of the Company's internal controls over financial reporting, for the year ended December 31, 20X4. The total fees and expenses paid to Meridien are as follows (in thousands):

|                    | 20X4     |
|--------------------|----------|
| Audit fees         | \$14,000 |
| Audit-related fees | 3,000    |
| Tax fees           | 6,000    |
| All other fee      | 0        |
| Total fees         | \$23,000 |

### Services provided by the Independent Auditors

All services rendered by Meridien are permissible under applicable laws and regulations, and are pre-approved by the Audit Committee. Pursuant to rules adopted by the Securities and Exchange Commission, the fees paid to Meridien for services provided are presented in the table above under the following categories:

1. **Audit Fees** — These are fees for professional services performed by Meridien for the audit and review of our annual financial statements that are normally provided in connection with statutory and regulatory filings or engagements, comfort letters, consents and other services related to Securities and Exchange Commission matters. Audit fees include amounts related to the audit of the effectiveness of internal controls over financial reporting.
2. **Audit-Related Fees** — These are fees for assurance and related services performed by Meridien that are reasonably related to the performance of the audit or review of our financial statements. This includes employee benefit and compensation plan audit, accounting consultations on divestitures and acquisitions, attestations by Meridien that are not required by statute or regulation, consulting on

financial accounting and reporting standards, and consultations on internal controls and quality assurance audit procedures related to new or changed systems or work processes.

3. Tax Fees — These are fees for professional services performed by Meridien with respect to tax compliance, tax advice, and tax planning. This includes consultations on preparation of original and amended tax returns, refund claims, payment planning, and tax audit assistance. Meridien has not provided any services related to tax shelter transactions, nor has Meridien provided any services under contingent fee arrangements.
4. All Other Fees — These are fees for other permissible work performed by Meridien that do not meet the above category descriptions. The services relate to various engagements that are permissible under applicable laws and regulations, which are primarily related to assistance with, and development of, training materials.

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# Meridien, LLP

## *Audit-Tax-Advisory Services*

February 15, 20X5

The Audit Committee  
of the Board of Directors  
Bond Financial Services, Inc.  
3450 Summer Street  
Boston, MA 02210

Dear Audit Committee Members:

We have been engaged to perform an integrated audit of the consolidated financial statements of Bond Financial Services, Inc. and subsidiaries (“Bond”) for the year ended December 31, 20X4, and its internal control over financial reporting as of December 31, 20X4, in accordance with standards established by the Public Company Accounting Oversight Board (United States) (“PCAOB”).

Our professional standards require that we communicate at least annually with you regarding all relationships between Meridien LLP (including affiliates and member firms) and Bond that, in our professional judgment, may reasonably be thought to bear on our independence. We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are aware of the following relationships between Meridien LLP, its affiliates and member firms, and Bond that, in our professional judgment, may reasonably be thought to bear on our independence:

***[Enter here a description of any independence matters you wish to bring to the attention of the audit committee.]***

We hereby confirm that as of February 15, 20X5, we are independent accountants with respect to Bond, within the meaning of the Securities Acts administered by the Securities and Exchange Commission and the requirements of the PCAOB.

This report is intended solely for the information and use of the Audit Committee of the Board of Directors, management, and others within Bond and is not intended to be, and should not be, used by anyone other than these specified parties.

We look forward to discussing with you the matters addressed in this letter, as well as other matters that may be of interest to you at our upcoming meeting on February 18, 20X5. We will be prepared to answer any questions you may have regarding our independence, as well as other matters.

Yours truly,

Meridien, LLP

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# Meridien Independence Policy

The following are excerpts from Meridien's Independence Policy:

## Importance of independence

It is fundamental to the professional practice of Meridien, LLP (Meridien) that all personnel adhere to the highest standards of independence, integrity, and objectivity and be free from conflicts of interest. These standards guide Meridien and its professionals as they consider their interests in and relationships with entities to help avoid situations that could erode the public trust in the services Meridien provides. Disregard of these standards or inadvertent failure to comply with them puts the Meridien and our clients at considerable risk and exposes Meridien to serious consequences, including:

- Damaged reputation in the marketplace
- Rejection of our report(s) by the SEC
- Threatened or actual litigation against Meridien by clients and other parties
- Sanctions against Meridien by the SEC, the PCAOB, the AICPA, and state licensing boards
- Loss of investor and public confidence in Meridien's reports
- Sanctions by regulatory bodies against Meridien professionals
- Sanctions by Meridien against its professionals
- Loss of clients

## Affiliates

An affiliate of an audit client is:

- a. A company that controls<sup>1</sup> the audit client, e.g., a parent company.
- b. A company that the audit client controls, e.g., a subsidiary.
- c. A company that is under common control with the audit client, i.e., company is controlled by the same parent as the audit client.
- d. A company that has significant influence<sup>2</sup> over the audit client (i.e., the company uses the equity method to account for its investment in the audit client and the investment in the audit client is considered material<sup>3</sup> to the entity).
- e. The audit client has significant influence over a company (i.e., the audit client uses the equity method to account for its investment in the company and the investment in the company is considered material to the audit client).

<sup>1</sup> Control generally is attained via a majority interest (over 50%) of the outstanding equity of a company. However, there are situations where a company (Company A) does not have over 50% of the outstanding equity of an entity, yet still has control over the entity. This can be due to Company A having a significant ownership of the entity's stock (between 20% and 50%) and a significant presence on the entity's board of directors (i.e., of the 10 voting Board Members, 8 of the members are associated with Company A.)

<sup>2</sup> Significant influence is generally deemed to exist when ownership interest is between 20% and 50%.

<sup>3</sup> Material is defined as the parent company's aggregate carrying amount of investment in a subsidiary that exceeds 5% of the parent's consolidated total assets or the parent's equity in the subsidiary's income from continuing operations before income taxes exceeds 5% of the parent's consolidated income from continuing operations before income taxes.



- f. Companies that are in an “investment company complex” with the audit client, i.e., if Meridien audits a mutual fund’s sponsor (an SEC registrant), an investment company complex (ICC) exists. When an ICC exists, other funds, advisors, and similar entities that are in the ICC are considered affiliates.

### Retired partners

Consistent with SEC independence Rule 2-01(c)(2)(iii), a former partner who seeks to accept an accounting role or a financial reporting oversight role with a restricted entity may accept the role if the former partner:

1. Does not influence Meridien’s operations or financial policies,
2. Has no capital balance in Meridien, and
3. Has no financial arrangement with Meridien other than one providing for regular payment of a fixed dollar amount.

All amounts owed to the former partner should be fully funded and not dependent on Meridien’s current revenues, profits, or earnings.

Further, given the operation of the SEC’s requirement for a “cooling-off period” in different circumstances, a former partner should not accept a financial reporting oversight role with a restricted entity without the approval of the Independence Office if the former partner provided, or was in a position to influence, attest services for the restricted entity during the one-year period preceding the expected date of his or her initial employment by the restricted entity.

### Broker-dealer accounts

Accounts at a restricted entity broker-dealer in which cash or securities are left on deposit or the broker-dealer extends credit or has discretionary authority to execute transactions, including margin, cash management, active asset, and other similar accounts, are prohibited for covered persons. Any such accounts owned by a professional should, upon he or she becoming a covered person, be closed at his or her expense.

### Trusts or estates — beneficiary

If a covered person is the beneficiary of a trust that has a financial interest in a restricted entity, the independence of a member firm ordinarily would be impaired if (1) the indirect financial interest in the restricted entity is material to the covered person, or (2) the trust was created by the covered person who is named as beneficiary, or (3) the beneficiary had direct or indirect control over the investment decisions or assets of the trust. Generally, this also applies to a beneficial interest in an estate that has a financial interest in a restricted entity. Any financial interest in a restricted entity distributed to a covered person beneficiary from such a trust or estate should be divested upon receipt.

### Spousal equivalent

A spousal equivalent:

- Resides continuously in the same residence as the professional
- Shares a committed and mutually dependent relationship with the professional that is similar to that of a married couple, but the cohabitant and professional have either chosen not to marry or cannot legally marry.

### Remote relatives

The appearance of independence is normally not impaired as a result of the financial interests and business relationships of a remote relative. However, if other factors indicate a particular closeness with the remote relative (e.g., having financial ties or jointly participating in a business enterprise), an

impairment of independence could result. Similarly, if there is a possibility of a substantial inheritance from the remote relative, independence could be impaired. In these cases, the relationship with the remote relative more clearly resembles that of a Close Family Member and, for independence purposes, should be treated as such. An example would be an uncle of a Partner who is a majority owner of a restricted entity; the uncle has no other living Close Family Members and the Partner is aware that the uncle will provide that the Partner will be the chief beneficiary of his estate.

In limited circumstances, financial interests and position of the remote relative are so significant that the appearance of independence is impaired (e.g., in the case of a remote relative who is a majority shareholder and president of a restricted entity). Any unusual circumstances should be discussed with the Independence Office.

## Disciplinary process

The Chief Independence Officer is primarily responsible for administering the process to address violations of independence policies of Meridien. Generally, this process is designed to be remedial rather than disciplinary. However, if after considering all relevant facts and circumstances, it is concluded that a violation of the independence policies is serious or repetitive, the response will be to impose an appropriate disciplinary action, which could be severe or punitive, including termination of employment or removal from the partnership.

All professional personnel and administrative and clerical personnel are subject to possible disciplinary action for violation of the independence policies of Meridien. It is the duty of each individual to comply with these policies, including, without limitation, the policies regarding investments, loans, insurance products, and other financial interests, and to fully cooperate with any compliance audit and verification activities conducted by the Independence Office.

Any proposed disciplinary actions will be determined by the Chief Independence Officer in consultation with national, regional, or office leadership, including the board of directors of Meridien, as appropriate. In determining the appropriate level of consultation, the Chief Independence Officer will consider, among other matters, (1) the level of individual with the independence violation, (2) the severity of the independence violation, (3) the severity of the proposed disciplinary action, and (4) whether the violation of the policies affects the relationship of Meridien with a restricted entity. Individuals will be given an opportunity to provide information regarding any alleged independence violation prior to disciplinary action being taken against the individual. Notwithstanding the foregoing, if the individual does not cooperate with any request for information, Meridien may prescribe whatever disciplinary action it believes is warranted.

The need for and severity of any disciplinary action will be based on the facts and circumstances surrounding each violation of the policies and procedures of Meridien. Some of the items that may be considered include:

- The manner and timeliness in which the individual resolved the independence matter. An individual's failure to promptly resolve an independence matter or lack of cooperation in responding to requests for information or in resolving the matter will generally involve a more serious sanction.
- Whether the professional knew or should have known of the circumstances causing the violation of the policies and procedures of Meridien.
- Whether the professional was a part of the audit engagement team, in the chain of command, or provided 10 or more hours of nonaudit services to a restricted entity. An independence violation by an individual providing any professional services to an audit client will generally involve a more serious sanction.
- The number, frequency, and materiality of the independence violations. A large number or high frequency of violations during a short period of time or violations that are material to the professional or the restricted entity will generally involve a more serious sanction.

- The impact of the independence violation on Meridien from a regulatory, legal, or public relations perspective. A violation that affects Meridien from a regulatory, legal, or public relations perspective will generally involve a more serious sanction.
- The impact of the independence violation on the restricted entity and its relationship with Meridien. A violation that has a detrimental effect on the restricted entity, its filings with a regulatory agency, or the client's relationship with Meridien will generally involve a more serious sanction.

Disciplinary actions could include one or more of the following actions, as deemed necessary:

- A written reprimand to be included in the individual's personnel file. The existence of such a reprimand should be taken into consideration by the individual's immediate supervisor when annual performance ratings and compensation determinations are made.
- Communication to Leadership.
- Requiring the individual to complete continuing professional education in the area of independence.
- Mandatory cap on an individual's annual performance rating.
- Reduction of annual compensation.
- Restricting the individual from providing services to a restricted entity, a class of clients, or from all restricted entities or changing the individual's job responsibilities.
- Termination of employment or removal from the Partnership.

Individuals will have the right to appeal disciplinary actions to the Managing Partner of Meridien. A description of the appeal process will be communicated to the individual at the time the individual is notified of the disciplinary action.

When disciplinary action has been taken against an individual, a memorandum describing the nature of the violation and the sanctions imposed will be included in the individual's personnel file.

### Attest vs. nonaudit services

There are some distinct differences between attest and nonaudit services. Attest services generally provide some form of assurance about the information which is being reported. The public often has a keen interest in the outcome of such services. Thus to provide attest services accounting firms must follow various independence requirements. For example, an audit opinion that is filed in a public company's annual report (Form 10-K) is posted to the SEC's Web site and may be used by an unknown number of interested parties.

In a nonaudit service engagement, the accounting firm and the company's management determine the nature and scope of the work. The services may result in findings, conclusions, and recommendations but generally would not provide assurance about the information being reported. Typically, nonaudit work is performed for the sole use and benefit of the client, and distribution of the results of the work is often restricted to specified client parties.

### Nonaudit services

Meridien also may provide services *other than* attest services ("nonaudit" services) to their clients. If Meridien **only** provides nonaudit services (i.e., tax or consulting services) to a client, the independence rules do not apply. However, if the firm performs both audit and nonaudit services to the same client, the firm will be subject to the independence rules, which prohibit certain nonaudit services.

Examples of nonaudit services include:

- Tax compliance services (e.g., tax return preparation) and consultations on tax matters
- Business advisory services, including consultations involving technology or risk management
- Litigation support

- Information technology system design and implementation

**Note: If an accounting firm provides both attest and nonaudit work to the same client, the firm must comply with the independence rules to ensure that the scope of the nonaudit work will not affect the firm's independence.**

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# Appendix A: Fundamentals of independence

## Definitions

1. **Accounting role:** A role in which a person is in a position to or does exercise more than minimal influence over the contents of the accounting records or anyone who prepares them.
2. **Affiliate:** Affiliate of the audit client means:
  - An entity that has control over the audit client, or over which the audit client has control, or which is under common control with the audit client, including the audit client’s parents and subsidiaries;
  - An entity over which the audit client has significant influence, unless the entity is not material to the audit client;
  - An entity that has significant influence over the audit client, unless the audit client is not material to the entity; and
  - Each entity in the investment company complex when the audit client is an entity that is part of an investment company complex.

3. **Attest client:** An entity whose financial statements (or other information) the accounting firm audits, reviews, or is attested to.

Attest engagements include:

- Financial statement audits
  - Financial statement reviews
  - Audits of internal control over financial reporting performed under PCAOB Auditing Standard No. 5, *An Audit Of Internal Control Over Financial Reporting That Is Integrated with an Audit Of Financial Statements*
  - Engagements performed under the AICPA Statements on Auditing Standards (SASs) or Statements on Attestation Standards (SSAEs)
4. **Audit and professional engagement period** includes both:
    - The period covered by any financial statements being audited or reviewed (the “audit period”); and
    - The period of the engagement to audit or review the audit client’s financial statements or to prepare a report filed with the SEC (the “professional engagement period”):
      - » The professional engagement period begins when the accountant either signs an initial engagement letter (or other agreement to review or audit a client’s financial statements) or begins audit, review, or attest procedures, whichever is earlier; and
      - » The professional engagement period ends when the audit client or the accountant notifies the SEC that the client is no longer that accountant’s audit client.
    - For audits of the financial statements of foreign private issuers, the “audit and professional engagement period” does not include periods ended prior to the first day of the last fiscal year before the foreign private issuer first filed, or was required to file, a registration statement or report with the SEC, provided there has been full compliance with home country independence standards in all prior periods covered by any registration statement or report filed with the SEC.

Note: If an accounting firm audits a company over multiple years, the professional engagement period is an ongoing period, i.e., does not end once the current-year audit is completed and recommence when next year’s audit begins.

5. **Close family members:** A person's spouse, spousal equivalent, parent, dependent, nondependent child, and sibling.

Note: Under AICPA guidance, a close family member is equivalent to a close relative.

7. **Contingent fee:** Except as stated in the next sentence, any fee established for the sale of a product or the performance of any service pursuant to an arrangement in which no fee will be charged, unless a specified finding or result is attained or in which the amount of the fee is otherwise dependent upon the finding or result of such product or service. A fee is not a "contingent fee" if it is fixed by courts or other public authorities or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies. Fees may vary depending, for example, on the complexity of services rendered.
8. **Covered persons:** The following partners, principals, shareholders, and employees of an accounting firm:

- The "audit engagement team";
- The "chain of command"; i.e., persons who (1) supervise or have direct management responsibility for the audit and at all successively senior levels through the Chief Executive Officer, (2) evaluate the performance or recommend the compensation of the audit partner, and (3) provide quality control or other oversight of the audit;
- Any other partner, principal, shareholder, or managerial employee of the accounting firm who has provided 10 or more hours of nonaudit services to the audit client for the period beginning on the date such services are provided and ending on the date the accounting firm signs the report on the financial statements for the fiscal year during which those services are provided, or who expects to provide 10 or more hours of nonaudit services to the audit client on a recurring basis; and
- Any other partner, principal, or shareholder from an "office" of the accounting firm in which the lead audit engagement partner primarily practices in connection with the audit.

Note: "Covered member" (AICPA *Code of Professional Conduct*) is synonymous with the SEC term "covered person."

9. **Direct financial interest:** A financial interest (ownership or guarantee of debt or equity securities, options, warrants, long or short security positions, and rights or other commitments to acquire such securities) which is owned directly by an individual, together with other persons, or through an intermediary if:
- The individual supervises or participates in the intermediary's investment decisions, or controls the intermediary, or
  - The intermediary is not a diversified management investment company as defined by the SEC, and the financial interest is 20% or more of the total value of the intermediary.
10. **Federal Deposit Insurance Corporation (FDIC):** An independent agency of the federal government, created in 1933 that preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least \$100,000.
11. **Financial reporting oversight role:** A role in which a person is in a position to or does exercise influence over the contents of the financial statements or anyone who prepares them, such as when the person is a member of the board of directors or similar management or governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.
12. **Immediate family members:** A person's spouse, spousal equivalent, and dependents.

13. **Independence** (free of conflicts of interest that would cause the firm to be biased either for or against the attest client):

The AICPA has defined independence as:

*Independence of mind* — The state of mind that permits the performance of an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

*Independence in appearance* — The avoidance of circumstances that would cause a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or a member of the attest engagement team had been compromised.

14. **Independence check:** An independence check is typically completed before a public accounting firm proposes to provide any services to a new potential client. Independence may be impaired if another member firm is already providing audit or nonaudit services to the potential client. If the nonaudit services being performed are considered prohibited by the independence rules, then the proposing audit engagement team would need to factor these services into the firm's ability to perform the audit.

To make the independence check process consistent, typically a standardized form is completed by the proposing engagement team and sent to the Independence Office for review. The Independence Office will check its databases and send communications to another member firm or affiliate to make sure no services are being provided to the potential client that would impair the firm's independence. Any information received from the international or U.S. office is then forwarded to the proposing engagement team to assess the independence implications.

Generally, professionals at the manager/senior manager levels will be involved in assessing independence compliance and making recommendations to the engagement partner. Entry level (e.g., staff/associate) or senior staff (i.e., below manager level) could be involved in a support role. For example, a staff person might assist an audit manager by gathering relevant information, performing research, and checking firm databases. Ultimately, the lead engagement partner is responsible for determining that all relevant independence requirements have been met since he or she has overall responsibility for the client relationship.

15. **Indirect financial interest:** This term includes a financial interest in an entity through an intermediary that does not meet the definition of a direct financial interest. For example, an individual may have a direct financial interest in A, which in turn has a direct financial interest in B. Provided the individual does not control A, and cannot supervise or participate in A's investment decisions, and A's financial interest in B is less than 20% of the value of A's total investments, the individual's financial interest in B is considered to be an indirect financial interest to the individual.

16. **Investment company complex:** An investment company complex includes:

- (A) An investment company and its investment adviser or sponsor;
- (B) Any entity controlled by or controlling an investment adviser or sponsor, or any entity under common control with an investment adviser or sponsor if the entity:
  - » Is an investment adviser or sponsor; or
  - » Is engaged in the business of providing administrative, custodian, underwriting, or transfer agent services to any investment company, investment adviser, or sponsor; and
- (C) Any investment company or entity that would be an investment company but for the exclusions provided by Section 3(c) of the Investment Company Act of 1940 (15 U.S.C. 80a-3(c)) that has an investment adviser or sponsor included in this definition by either (A) or (B).

An investment adviser, for purposes of this definition, does not include a subadviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser. Sponsor, for purposes of this definition, is an entity that establishes a unit investment trust.

17. **Objectivity:** Objectivity is a state of mind, a quality that lends value to a public accounting firm's services. It is a distinguishing feature of the public accounting profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may appear to impair a public accounting firm's objectivity in rendering attestation services.
18. **Professional skepticism:** An attitude and state of mind that includes a questioning mind and a critical assessment of audit evidence.
19. **Proposal:** A promotional and informative packet that is put together by the proposal engagement team. The proposal is made up of multiple sections and normally includes (1) the accounting firm's background, including locations, revenues, and market share, (2) the client service team chosen to service the potential client, including the team's background and biographies, (3) the services the accounting firm is proposing to perform, (4) the approach the firm will take to provide quality service, (5) independence confirmation (if applicable), (6) the accounting firm's commitment and dedication to the potential client, and (7) references and other resources, including accounting software and technology that will be used to serve the client. The proposal is normally bound with a glossy cover and has pictures and graphic art throughout the document.
20. **Proxy statement:** Statement required of a U.S. publicly traded company when soliciting shareholder votes. The company files the proxy statement (schedule 14a) with the SEC. The statement is useful in assessing how management is paid and potential conflict-of-interest issues with auditors. The statement includes: (1) voting procedure and information, (2) background information about the company's nominated board of directors, (3) director compensation, (4) executive compensation, and (5) A breakdown of audit and nonaudit fees paid to the auditor.
21. **Registrant:** A company publicly traded on a U.S. stock exchange for which they are required to be registered with the U.S. Securities and Exchange Commission.
22. **Restricted entities:** Accounting firm and their professionals should be independent of all "restricted entities" of the firm in accordance with the relevant independence standards. Restricted entities include:
  - (1) All attest clients of a firm, and
  - (2) Certain attest clients' affiliates.
23. **Securities Investor Protection Corporation (SIPC):** A federally mandated nonprofit corporation in the United States that protects securities investors from harm if a broker-dealer defaults. Investors are not insured for any potential loss while invested in the market. SIPC was created by the 1970 Securities Investor Protection Act, but it is not a government agency; rather, it is a membership corporation funded by its members. SIPC serves two primary roles in the event that a broker-dealer fails. First, SIPC acts to organize the distribution of customer cash and securities to investors. Second, to the extent a customer's cash and/or securities are unavailable, SIPC provides insurance coverage up to \$500,000 of the customer's net equity balance, including up to \$100,000 in cash.



## Regulatory bodies that govern independence

The accounting profession has generally described ‘independence’ in various professional standards and regulations as a lack of certain interests and relationships that are presumed to impact auditor **objectivity**. The primary independence standard-setters are:<sup>4</sup>

- The Securities and Exchange Commission (SEC)
- The Public Company Accounting Oversight Board (PCAOB)
- American Institute of Certified Public Accountants (AICPA)

### *The U.S. Securities and Exchange Commission (SEC)*

The SEC is a U.S. federal agency whose mission is to protect investors, maintain fair, orderly, and efficient markets and facilitate capital formation. It is the primary overseer and regulator of the U.S. securities markets. Among its many responsibilities, the SEC interprets federal securities laws and oversees the conduct of professionals who audit public companies.

Federal securities laws require public companies to disclose certain financial and other information to the public in periodic filings with the SEC. For example, a company’s annual report (e.g., Form 10-K) should include an audit report (i.e., opinion letter(s)) signed by an *independent auditor*, which addresses the company’s financial statements and internal control over financial reporting. Such information (in part) helps to maintain confidence in the financial and capital markets.

#### Qualifications of accountants

[Rule 2-01, Qualifications of Accountants](#), interprets [Regulation S-X of the Securities Exchange Act of 1934](#). Under Rule 2-01, the SEC will not recognize an accountant as independent of a company (i.e., the audit client) if the accountant is not capable of exercising objective and impartial judgment on all issues encompassed within the engagement. The SEC rules provide several examples of relationships and interests that are considered to impair a firm’s independence. However, the rule does *not* purport to describe all of the circumstances that raise independence concerns. Therefore, Rule 2-01 also provides a general standard, which requires the accountant to consider whether a reasonable investor with knowledge of all relevant facts and circumstances would conclude that he or she is independent. This is referred to in the profession as the “appearance” of independence and requires the accountant to apply professional judgment in considering the perceptions of reasonable and informed third parties.

The SEC revised rule 2-01 in 2000 and again in 2003. The amendments are explained in [Release No. 33-7919, Revision of the Commission’s Auditor Independence Requirements](#) and [Release No. 33-8183A — Strengthening the Commission’s Requirements Regarding Auditor Independence](#), respectively.

### *The Public Company Accounting Oversight Board (PCAOB)*

The Public Company Accounting Oversight Board (PCAOB) is a private, nonprofit corporation created by the [Sarbanes-Oxley Act of 2002](#) to oversee the auditors of public companies. The PCAOB was created to protect investors and the public interest by promoting informative, fair, and independent audit reports.

The PCAOB adopted the following rules as [interim independence standards](#):

- Rule 101 (Independence) of the AICPA *Code of Professional Conduct* (“[AICPA Code](#)”) and its interpretations and rulings

<sup>4</sup> Other entities, such as state accountancy boards, federal and state regulators (e.g., Department of Labor), and regulators in other countries may impose additional independence requirements, depending on the type and location of the company.

- The independence standards and interpretations of the Independence Standards Board (ISB)<sup>5</sup>

The interim standards do not supersede the SEC's auditor independence rules. To the extent a provision of the SEC's rules is more (or less) strict than the interim standards, an accounting firm should comply with the more restrictive aspects of the rules.

The Board has also adopted several [independence and ethics standards](#) of its own.

### *American Institute of Certified Public Accountants (AICPA)*

The AICPA is a nonprofit, membership organization of approximately 340,000 professional accountants, mainly Certified Public Accountants (CPAs). For over 100 years, the AICPA has developed independence and other ethics rules for the accounting profession. The rules are published in the AICPA Code. The Professional Ethics Executive Committee is the senior technical committee of the AICPA authorized to interpret and enforce the AICPA Code.

AICPA Professional Standards require professionals to be independent when they perform attest services, such as financial statement audits. For example, AICPA Statement on Auditing Standards (SAS) No. 1,<sup>6</sup> states in part that:

“In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.”

The standard goes on to say that:

“It is of utmost importance to the profession that the general public maintain confidence in the independence of independent auditors. Public confidence would be impaired by evidence that independence was actually lacking, and it might also be impaired by the existence of circumstances which reasonable people might believe likely to influence independence. To be independent, the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners.

The profession has established, through the AICPA *Code of Professional Conduct*, precepts to guard against the presumption of loss of independence. “Presumption” is stressed because the possession of intrinsic independence is a matter of personal quality rather than of rules that formulate certain objective tests. Insofar as these precepts have been incorporated in the profession's code, they have the force of professional law for the independent auditor.”

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<sup>5</sup> The ISB was created in 1997 through an agreement between the SEC and the AICPA to initiate research, develop standards, and engage in a public analysis and debate of auditor independence issues. The ISB discontinued its operations on July 31, 2001. Much of the ISB's work was incorporated into the SEC's auditor independence rules adopted in November 2000. (Source: SEC News Release 2001-72)

<sup>6</sup> AU§220 of the AICPA Professional Standards, vol. I.

## Appendix B: Additional resources

| Reference in independence education tool kit | Title  | Source/URL (if available)   |
|--|--|---|
| <b>Video:</b>                                |  |   |
| Act I, "Independence 101"                    | <p><i>"Top 10 Audit Deficiencies"</i></p> <p>Mark S. Beasley, Joseph V. Carcello, and Dana R. Hermanson</p>  | <p>Journal of Accountancy, April 2001</p> <p><a href="http://www.aicpa.org/pubs/jofa/apr2001/beasley.htm">http://www.aicpa.org/pubs/jofa/apr2001/beasley.htm</a></p>  |
| Act II, "The Public Accounting Profession"   | <i>"The Public Accounting Profession"</i>  | <a href="http://www.deloitte.com/dtt/cda/doc/content/accounting_profession4.pdf">http://www.deloitte.com/dtt/cda/doc/content/accounting_profession4.pdf</a>   |
| Act III, "Independence at Work"              | <i>"AICPA Plain English Guide to Independence"</i>   | <a href="http://www.aicpa.org/download/ethics/plainenglish.doc">http://www.aicpa.org/download/ethics/plainenglish.doc</a>   |
| <b>Case Study:</b>                           |  |   |
| Case Study 1                                 | <p>PCAOB Standing Advisory Group</p> <p><i>"Emerging Issue — The Effects on Independence of Indemnification, Limitation of Liability, and Other Litigation-Related Clauses in Audit Engagement Letters."</i></p> | <a href="http://www.pcaobus.com/Standards/Standing_Advisory_Group/Meetings/2006/02-09/Indemnification.pdf">http://www.pcaobus.com/Standards/Standing_Advisory_Group/Meetings/2006/02-09/Indemnification.pdf</a> |
|  | <p><i>"PCAOB Rules on Independence and Personal Tax Services Current Guidance for Public Company Auditors"</i></p> <p>Catherine Allen</p>  | <p>The CPA Journal, February 2007</p> <p><a href="http://www.nysscpa.org/cpajournal/2007/207/essentials/p28.htm">http://www.nysscpa.org/cpajournal/2007/207/essentials/p28.htm</a></p>                          |
|  | <p><i>"AICPA Plain English Guide to Independence"</i></p> <ul style="list-style-type: none"> <li>➤ <i>Nonattest Services</i></li> <li>➤ <i>Fee Issues</i></li> </ul>   | <a href="http://www.aicpa.org/download/ethics/plainenglish.doc">http://www.aicpa.org/download/ethics/plainenglish.doc</a>   |
| Case Studies 1 and 2                         | <p>Sarbanes-Oxley Act of 2002</p> <p>Title II, <i>Auditor Independence</i></p> <p>Title III, <i>Corporate Responsibility</i></p>   | <a href="http://www.pcaobus.com/About_the_PCAOB/Sarbanes_Oxley_Act_of_2002.pdf">http://www.pcaobus.com/About_the_PCAOB/Sarbanes_Oxley_Act_of_2002.pdf</a>   |
|  | <i>"Ethics Rules Get Tighter: New PCAOB independence rules focus on tax services and contingent fees"</i>  | <p>Journal of Accountancy, December 2006</p> <p><a href="http://www.aicpa.org/pubs/jofa/dec2006/allen.htm">http://www.aicpa.org/pubs/jofa/dec2006/allen.htm</a></p>   |

| Reference in independence education tool kit | Title  | Source/URL (if available)  |
|--|--|--|
| <b>Case Study:</b>                           |  |  |
| Case Study 2                                 | <p>Office of the Chief Accountant — Securities and Exchange Commission (SEC)</p> <p><i>“Audit Committees and Auditor Independence”</i></p> <p><i>“How Audit Committees Can Assess Auditor Independence”</i></p> <p>Catherine Allen</p> <p><i>“An Update for Audit Committees: New Rules on Auditor Provided Tax Services”</i></p> <p>Catherine Allen</p>       | <p><a href="http://www.sec.gov/info/accountants/audit042707.htm">http://www.sec.gov/info/accountants/audit042707.htm</a></p> <p>Directors Monthly, December 2006</p> <p><a href="http://www.auditconduct.com/articles/Allen%20DM%20ec06_final.pdf">http://www.auditconduct.com/articles/Allen%20DM%20ec06_final.pdf</a></p> <p>Directors Monthly, May 2007</p> <p><a href="http://www.auditconduct.com/articles/Allen-DM-May07-final.pdf">http://www.auditconduct.com/articles/Allen-DM-May07-final.pdf</a></p>  |
| Case Studies 3 and 4                         | <p><i>“AICPA Plain English Guide to Independence”</i></p> <ul style="list-style-type: none"> <li>➤ <i>Introduction</i></li> <li>➤ <i>Applying the Rules — Covered Members and Other Firm Professionals</i></li> <li>➤ <i>Applying the Rules — Family Members</i></li> <li>➤ <i>Financial Relationships</i></li> <li>➤ <i>Business Relationships</i></li> </ul> | <p><a href="http://www.aicpa.org/download/ethics/plainenglish.doc">http://www.aicpa.org/download/ethics/plainenglish.doc</a></p>   |
| Case Study 5                                 | <p>PCAOB Disciplinary Proceedings Involving Independence</p>   | <p><a href="http://www.pcaobus.com/Enforcement/Disciplinary_Proceedings/2005/11-22_Kenny_Lee_and_Kwang_Ho_Lee.pdf">http://www.pcaobus.com/Enforcement/Disciplinary_Proceedings/2005/11-22_Kenny_Lee_and_Kwang_Ho_Lee.pdf</a></p> <p><a href="http://www.pcaobus.com/Enforcement/Disciplinary_Proceedings/2007/11-14_Birkert.pdf">http://www.pcaobus.com/Enforcement/Disciplinary_Proceedings/2007/11-14_Birkert.pdf</a></p> <p><a href="http://www.pcaobus.com/Enforcement/Disciplinary_Proceedings/2007/12-14_Kantor.pdf">http://www.pcaobus.com/Enforcement/Disciplinary_Proceedings/2007/12-14_Kantor.pdf</a></p> |
| General Independence/Corporate Governance    | <p>Sarbanes-Oxley Act of 2002</p> <p><i>Report on the Survey of Audit Committee Members Conducted by: The Center for Audit Quality</i></p>   | <p><a href="http://www.pcaobus.com/About_the_PCAOB/Sarbanes_Oxley_Act_of_2002.pdf">http://www.pcaobus.com/About_the_PCAOB/Sarbanes_Oxley_Act_of_2002.pdf</a></p> <p><a href="http://thecaq.org/newsroom/pdfs/auditsurvey.pdf">http://thecaq.org/newsroom/pdfs/auditsurvey.pdf</a></p>  |

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