

Audit Committees: Recent Developments and Recent SEC Rules Affecting Audit Committees and Auditors

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For most public companies, Audit Committees oversee their company's financial reporting process, its internal accounting controls, and the company's financial statements for the Board of Directors.¹ The audit committee acts as the liaison and facilitates communications between the Board, Management and the company's internal and independent auditors on significant accounting issues and policies.²

Audit committees are uniquely positioned to ensure that the company employs sound accounting and financial reporting systems through the use of "proactive oversight of the financial reporting and disclosure process."³ The SEC recommends that the audit committee document the processes used by the committee to ensure accurate financial reporting and disclosure, the conclusions reached and the basis for the committee's conclusions, referred to by the SEC as the "three D's," Due Diligence and Documentation.⁴

Recent SEC rules affect the expectations and required conduct of Audit Committees. The new rules: 1) require Audit Committees to make proxy statement disclosures concerning the committee's review of written disclosures by the outside auditors and require certain disclosures regarding the company's outside auditor's independence; 2) change the rules regarding Audit Committee membership to require all audit committee members to be independent directors who are financially literate and require that at least one member have accounting or financial management expertise; 3) revise the rules regarding the company's outside auditor's independence; 4) revise

¹ Securities Act Release No. 33-7919 (November 21, 2001)("Revision of the Commission's Auditor Independence Requirements").

² Id.

³ Lynn E. Turner, Chief Accountant of the SEC, "Audit Committees: A Call to Action," Address at the program "Accounting Irregularities II: What's an Audit Committee to Do?" (February 21, 2001)(www.sec.gov/news/speeches).

⁴ Id.

the rules regarding the propriety of outside auditors providing non-audit services to the company; and 5) require proxy statement disclosures concerning non-audit services provided to the company by the outside auditor and the fees paid for those services.

I. 1999 AMENDMENTS BY THE SECURITIES AND EXCHANGE COMMISSION:



In December 1999, the Securities and Exchange Commission (the "SEC") adopted audit committee rules, noting that "[a]udit committees play a critical role in the financial reporting system by overseeing and monitoring management's and the independent auditors' participation in the financial reporting process."⁵ The 1999 rules impose requirements regarding the composition of Audit Committees. Audit Committees must now have at least three members, the committee must be comprised solely of "independent" directors who are financially literate and at least one member of the audit committee must have accounting or financial management expertise.⁶ The 1999 Rules define "independence" more rigorously for audit committee members, require companies to adopt written charters for their audit committees, and give the audit committee the right to hire and terminate the auditors.

The 1999 Rules also require companies to include reports in their proxy statements from the audit committee stating whether the committee reviewed the written disclosures from the independent auditors, disclosing all relationships between the auditor and the company that bear on independence, and whether the committee discussed with the auditors the auditors' independence.⁷

⁵ Exchange Act Rel. No. 42266 (Dec. 22, 1999)("Audit Committee Disclosure").

⁶ Phyllis Diamond, Securities Regulation and Law Report, Volume 31, Number 48 (December 20, 1999).

⁷ Id.

The 1999 Amendments, amended Rule 10-01 of Regulation S-X,⁸ Item 310 of Regulation S-B,⁹ Item 7 of Schedule 14A¹⁰ under the Securities Exchange Act of 1934¹¹ and Item 302 of Regulation S-K.¹² Additionally, the Commission adopted new Item 306 of Regulation S-K¹³ and Item 306 of Regulation S-B.¹⁴ The 1999 rules and amendments:¹⁵

1. Require that companies' independent auditors review the financial information included in the companies' Quarterly Reports on Form 10-Q or 10-QSB prior to the companies filing such reports with the Commission;
2. Extend the requirements of Item 302(a) of Regulation S-K (requiring at fiscal year end appropriate reconciliations and descriptions of any adjustments to the quarterly information previously reported in a Form 10-Q for any quarter) to a wider range of companies;
3. Require that companies include reports of their audit committees in their proxy statements, stating whether the audit committee has:
 - (i) reviewed and discussed the audited financial statements with management;
 - (ii) discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as may be modified or supplemented; and

⁸ 17 CFR 210.10-01.

⁹ 17 CFR 228.310.

¹⁰ 17 CFR 240.14a-101.

¹¹ 15 U.S.C. § 78a *et seq.*

¹² 17 CFR 229.302.

¹³ 17 CFR 229.306.

¹⁴ 17 CFR 228.306.

¹⁵ Exchange Act Rel. No. 42266, *supra* Note 5.

- (iii) received from the auditors disclosures regarding the auditors' independence required by Independence Standards Board Standard No. 1, as may be modified or supplemented, and discussed with the auditors the auditors' independence;
- 4. Require that the report of the audit committee also include a statement by the audit committee whether, based on the review and discussions noted above, the audit committee recommended to the Board of Directors that the audited financial statements be included in the company's Annual Report on Form 10-K or 10-KSB (as applicable) for the last fiscal year for filing with the Commission;
- 5. Require that companies disclose in their proxy statements whether their Board of Directors has adopted a written charter for the audit committee, and if so, include a copy of the charter as an appendix to the company's proxy statements at least once every three years;
- 6. Require that certain companies, including small business issuers, disclose in their proxy statements whether the audit committee members are "independent" as defined in the applicable listing standards, and disclose certain information regarding any director on the audit committee who is not "independent"; and
- 7. Provide "safe harbors" for the new proxy statement disclosures to protect companies and their directors from certain liabilities under the federal securities laws.

Many commenters were concerned that a report by the audit committee that indicates whether various discussions have occurred would expose the audit committee

members to increased scrutiny and liability.¹⁶ However, the SEC stated “we do not believe that improved disclosure about the audit committee and increased involvement by the audit committee should result in increased exposure to liability. Consequently, we believe that this modification, together with the safe harbors, should further alleviate concerns about increased liability exposure, while promoting our goal of improving the financial reporting process.”¹⁷ The SEC explained that because under state corporation law, the more informed the audit committee becomes through its discussions with management and the auditors, the more likely that the "business judgment rule" will apply and provide broad protection.¹⁸ The SEC believes that these discussions should serve to strengthen the "information and reporting system" that should be in place in a public company and adherence to a sound process should result in less, not more, exposure to liability by the audit committee.¹⁹

II. CHANGES IN LISTING RULES OF THE NEW YORK STOCK EXCHANGE, THE AMERICAN STOCK EXCHANGE AND THE NATIONAL ASSOCIATION OF SECURITIES DEALERS

The New York Stock Exchange ("NYSE"), National Association of Securities Dealers, Inc. ("NASD"), and the American Stock Exchange ("AMEX") now require listed companies to have independent audit committees and require audit committees to play a significant role in overseeing the company's auditors.²⁰ The NYSE, the NASD and the AMEX also changed their company listing standards to make it clear that the auditor is ultimately accountable to the board of directors and the audit committee, as opposed to

¹⁶ Id.

¹⁷ Id.

¹⁸ Id.

¹⁹ Id.

²⁰ See Order Approving Proposed Rule Change by the NASD, Exchange Act Rel. No. 42231, File No. SR-NASD-99-48 (Dec. 14, 1999); Order Approving Proposed Rule Change by the NYSE, Exchange Act

management, and that the audit committee and the board of directors have the ultimate authority and responsibility to select, evaluate and, when appropriate, replace the auditor.²¹

III. 2000 AMENDMENTS BY THE SECURITIES AND EXCHANGE COMMISSION:

Most recently, in November 2000, the SEC adopted rule amendments regarding auditor independence.²² The 2000 Amendments, amended Rule 2-01 of Regulation S-X²³ relating to the Qualification of Accountants and Item 9 of Schedule 14A²⁴ under the Securities Exchange Act of 1934 (the "Exchange Act").²⁵ The Amendments became effective February 5, 2001 and certain transition dates are set forth in the Release.²⁶

The SEC states that the Amendments were adopted to protect investors who rely on the financial statements of public companies that are audited by independent auditors.²⁷ Because it is the auditor's opinion that furnishes investors with critical assurance that the financial statements have been subjected to a rigorous examination by an objective, impartial, and skilled professional, it is vital that the auditor is truly independent.²⁸ The accounting industry has undergone significant changes: the audit companies have an increasingly complex web of business and financial relationships with their audit clients, the nature of the non-audit services that accounting firms provide to their audit clients has changed, and the revenues from these services have

Rel. No. 42233, File No. SR-NYSE-99-39 (Dec. 14, 1999); and Order Approving Proposed Rule Change by the AMEX, Exchange Act Rel. No. 42232, File No. SR-Amex-99-38 (Dec. 14, 1999).

²¹ Id.

²² Securities Act Release No. 33-7919, *supra* Note 1.

²³ 17 CFR 210.2-01.

²⁴ 17 CFR 240.14a-101.

²⁵ 15 U.S.C. § 78a *et seq.*

²⁶ Securities Act Release No. 33-7919, *supra* Note 1.

²⁷ Id.

²⁸ Id.

dramatically increased, which has the possibility of affecting auditor independence and has in fact affected investor perception of independence.²⁹ As the Panel on Audit Effectiveness (the "O'Malley Panel") recently recognized, "the potential effect of non-audit services on auditor objectivity has long been an area of concern. That concern has been compounded in recent years by significant increases in the amounts of non-audit services provided by audit firms."³⁰

The SEC states that the Auditor independence requirement serves two goals:³¹

1. Objective audits; and
2. Investor Confidence that the audits are objective.

The amendments revise the Commission's rules for determining whether an auditor is independent in light of:³²

1. Investments by auditors or their family members in audit clients;
2. Employment relationships between auditors or their family members and audit clients; and
3. The scope of services provided by audit firms to their audit clients.

The amendments provide a standard for ascertaining whether the auditor has the requisite independence. The SEC has included four principles in the Preliminary Note to Rule 2-01 to serve as general guidance. Their application may depend on particular facts and circumstances. In applying the standard in Rule 2-01(b), the Commission looks in the first instance to whether a relationship or the provision of a service:³³

²⁹ Id.

³⁰ Id. (citing The Panel on Audit Effectiveness: Report and Recommendations (the "O'Malley Panel Report"), at ¶ 5.6 (Aug. 31, 2000)).

³¹ Securities Act Release No. 33-7919, *supra* Note 1.

³² Id.

³³ Id.

1. Creates a mutual or conflicting interest between the accountant and the audit client;
2. Places the accountant in the position of auditing his or her own work;
3. Results in the accountant acting as management or an employee of the audit client; or
4. Places the accountant in a position of being an advocate for the audit client.

A. Financial and Employment Relationships.

The amendments identify certain relationships that render an accountant not independent of an audit client under the standard in Rule 2-01(b). The relationships addressed include, financial, employment, and business relationships between auditors and audit clients. To minimize the risks of bias, the independence rules prohibit certain relationships or circumstances, whether or not one can show that the conflict causes biased behavior.³⁴

Previously, the SEC looked at the ownership of shares held by every partner in the auditor's firm, certain managerial employees, and their families. The amendment significantly shrinks the circle of firm personnel whose investments are imputed to the auditor. The rule also shrinks the circle of family members of auditors and former firm personnel whose employment with an audit client impairs the auditor's independence.³⁵

1. Employment Relationships:

³⁴ Id.

³⁵ Id.

The following are examples provided by the SEC of employment relationships that impair an auditor's independence under the final rule:³⁶

1. A current partner of an accounting firm serves as a member of the board of directors of the audit client;
2. A sibling of a covered person is employed by an audit client as the director of internal audit;
3. A former professional employee of an accounting firm who resigned from the accounting firm two years ago is employed by an audit client in an accounting role and the former employee receives a pension from the firm tied to the firm's revenues or profits;
4. A former partner of an accounting firm accepts the position of chief accounting officer at an audit client, and the former partner continues to maintain a capital balance with the accounting firm; or,
5. A former director of an audit client becomes a partner of the accounting firm, and that individual participates in the audit of the financial statements of the audit client for a period during which he or she was a director of the audit client.

2. Business Relationships

The rule continues the Codification's current standard that an auditor's independence with respect to an audit client is impaired when the accounting firm, or a covered person in the firm, has a direct or material indirect business relationship with an

³⁶ Id.

audit client, or any person associated with the audit client in a decision-making capacity, such as an audit client's officers, directors, or substantial stockholders.³⁷

B. Non-Audit Services.

There has been growing concern about the effects on independence when auditors provide both audit and non-audit services to their audit clients.³⁸ While the greatest assurance of auditor independence would come from prohibiting auditors from providing any non-audit services to audit clients, the SEC adopted a two-pronged approach: (1) requiring disclosure of the fees billed by the auditor for the audit, financial information systems design and implementation services, and other non-audit services, and (2) identifying particular services that are incompatible with independence.³⁹ The SEC decided not to adopt a total ban on non-audit services and accountants will continue to be able to provide a wide variety of non-audit services to their audit clients.⁴⁰

The rapid rise in the growth of non-audit services has increased the economic incentives for the auditor to preserve a relationship with the audit client, thereby increasing the risk that the auditor will be less inclined to be objective. The rule lists services that, regardless of the size of the fees they generate, place the auditor in a position inconsistent with the necessary objectivity.⁴¹ The amendments also identify certain non-audit services that, if provided by an auditor to public company audit clients, impair the auditor's independence.⁴² The amendments identify nine non-audit services

³⁷ Id.
³⁸ Id.
³⁹ Id.
⁴⁰ Id.
⁴¹ Id.
⁴² Id.

that, when provided by the auditor to an audit client, impair the auditor's independence:⁴³

- (i) Bookkeeping or Other Services Related to the Audit Client's Accounting Records or Financial Statements (Rule 2-01 (c)(4)(i));
- (ii) Financial Information Systems Design and Implementation (Rule 2-01 (c)(4)(ii));
- (iii) Appraisal or Valuation Services and Fairness Opinions (Rule 2-01(c)(4)(iii));
- (iv) Actuarial Services (Rule 2-01(c)(4)(iv));
- (v) Internal Audit Services (Rule 2-01(c)(4)(v));
- (vi) Management Functions (Rule 2-01(c)(4)(vi));
- (vii) Human Resources (Rule 2-01(c)(4)(vii));
- (viii) Broker-Dealer Services (Rule 2-01(c)(4)(viii)); and
- (ix) Legal Services (Rule 2-01(c)(4)(ix));

The SEC decided not adopt the proposal to restrict the provision of expert services. The SEC also proposed to restrict the receipt of contingent fees from audit clients but instead modified the rules to parallel more closely the existing restrictions, but the SEC stated in its release that the “staff will look closely to determine whether a fee labeled a “value added” fee is in fact a contingent fee.”⁴⁴

C. Proxy Disclosure Requirements:

The SEC is requiring companies to provide certain disclosures in the proxy materials: (1) disclosure regarding fees billed for services rendered by the principal

⁴³ Id.

⁴⁴ Id.

accountant; (2) disclosure regarding whether the audit committee considered the compatibility of the non-audit services the company received from its auditor and the independence of the auditor; and (3) disclosure regarding the employment of leased personnel in connection with the audit.⁴⁵

1. Disclosures regarding Non-Audit Services

The amendments require most public companies to disclose in their annual proxy statements certain information related to the non-audit services provided by their auditor and the fees paid.⁴⁶ Companies will have to disclose the aggregate fees billed for the audit in the most recent fiscal year, the aggregate fees billed for financial information systems design and implementation, and the aggregate fees billed for non-audit services performed by the auditor in the most recent fiscal year.

2. Disclosures by the Audit Committee

The amendments require an additional disclosure as to whether the issuer's audit committee "has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence."⁴⁷

D. Quality Controls.

The quality controls of accounting firms play a significant role in helping to detect and prevent auditor independence problems. The final rule recognizes this role by providing accounting firms a limited exception from being deemed not independent for certain independence impairments that are cured promptly after discovery, provided that the firm has certain quality controls in place.⁴⁸

⁴⁵ Id.

⁴⁶ Id.

⁴⁷ Id.

⁴⁸ Id.

The SEC has noted that independence may become impaired inadvertently, such as where a family member makes an investment of which the covered person is not aware. Therefore, inadvertent violations of these rules by covered persons will not make the accounting firm not independent if the accounting firm maintains certain quality controls and satisfies other conditions.⁴⁹ The SEC noted that “strong quality controls deter, detect, and provide a means to address impairments of an auditor's independence.” The SEC “has urged certain firms to review and modernize existing procedures,” including adopting:⁵⁰

1. Written Independence Policies and Procedures
2. Automated Systems
3. Timely Information
4. Training
5. Internal Inspection and Testing
6. Notice of Names of Senior Management Responsible for Independence
7. Prompt Reporting of Employment Negotiations
8. Disciplinary Mechanism

E. Effect on Audit Committees

The SEC notes that the final rule does not impose any new requirements on audit committees, but codifies the key legal requirements that may bear on audit committees' exercise of their business judgment.⁵¹ The SEC hopes that the new rules will encourage audit committees, as well as management, to engage in active discussions of independence-related issues with the outside auditors.

⁴⁹ Id.

⁵⁰ Id.

Furthermore, as noted by the SEC and the "Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees", there are 5 principles that should guide Audit Committees:⁵²

1. Monitoring the audit in a timely, robust, diligent and probing manner including overseeing management, the external auditors, and internal auditors;
2. Independent communications with the internal auditor;
3. Independent communications with the outside auditors;
4. Candid discussions with management, the internal auditor, and the outside auditor; and
5. Diligent and knowledgeable Committee Membership.

The SEC's Chief Accountant also recommends certain practices by the audit committee, including:⁵³

1. Regularly scheduled meetings, no fewer than four to six times per year with additional or extended meetings if necessary;
2. Requesting that the external auditor provide the committee with a copy of the "Management Letter" and all management letter comments at the completion of each audit, interim audit procedures or following review of the quarterly financial statements;
3. In-depth discussions with the internal and external auditors regarding recommended changes to internal controls, policies or financial reporting

⁵¹ Id.

⁵² Id. (referencing the Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (www.nasd.com/docs/textapp.pdf)).

⁵³ Lynn E. Turner, *supra* Note 3.

and meeting with management to discuss the implementation of such policies;

4. Ensuring that the auditors are compensated fairly for performing an effective and quality audit and inquiring regarding:
 - a. The adequacy of the staffing of the audit;
 - b. The experience levels of the auditors;
 - c. The percentage of total audit hours actually spent by the more experienced partner and manager;
 - d. The total number of hours spend on the engagement by the partner and manager;
 - e. The adequacy of the total hours spent on areas that require significant judgment and have the greatest risk; and
 - f. The number of hours spent by the partner and manager on the more judgmental and risky business financial reporting issues.

The SEC also recommends that audit committees follow the recommendations issued by the Panel on Audit Effectiveness (“O’Malley Panel”).⁵⁴ In January 2001, Chairman Levitt sent a letter to the Audit Committees of the top 5,000 public companies urging them to follow the Panel on Audit Effectiveness, commonly referred to as the “O’Malley Panel”, guidance.⁵⁵ The “O’Malley Panel”, consisted of representatives from the business, accounting and legal professions, several of which had served as members of boards of directors and audit committees. The “O’Malley Panel”

⁵⁴ Id.; Securities Act Release No. 33-7919, *supra* Note 1(citing The Panel on Audit Effectiveness: Report and Recommendations (the “O’Malley Panel Report”), at ¶ 5.6 (Aug. 31, 2000)).

⁵⁵ Letter from SEC Chairman Arthur Levitt to Audit Committee Chairman of the top 5,000 public companies (January 5, 2001)(www.sec.gov/nes/press/2001-4).

recommended certain guiding factors for audit committees to consider in making business judgments about particular non-audit services. According to the O'Malley Panel, one guiding principle should be whether the "service facilitates the performance of the audit, improves the client's financial reporting process, or is otherwise in the public interest."⁵⁶ Other matters to be considered are:⁵⁷

1. The audit committees should obtain a yearly written report from Management addressing the effectiveness of the company's internal controls.⁵⁸
2. The audit committee should annually review the performance of external and internal auditors.
3. The audit committee should be advised of plans to hire personnel of the audit firm into high level positions;
4. The audit committee should be proactive in ensuring factors, such as time pressures on auditors, are addressed so as not to negatively impact the credibility of audits; and,
5. The audit committee should pre-approve non-audit services above an established threshold and consider certain guidelines with respect to their discussions of the auditor's independence.

⁵⁶ Securities Act Release No. 33-7919, *supra* Note 1 (citing The Panel on Audit Effectiveness: Report and Recommendations (Aug. 31, 2000)).

⁵⁷ Lynn E. Turner, *supra* Note 3.

⁵⁸ *Id.* (The SEC's Chief Accountant noted that this recommendation is "consistent with the 'D' for documentation." The Chief Accountant also noted that is a good practice to include a management report on internal controls and the effectiveness of internal accounting practices in the annual report and encourages audit committees to adopt such a policy. The Chief Accountant notes that such a policy will provide reporting to the company's stockholders by the chief financial officer, the independent auditor, and the audit committee.).

The O'Malley Panel went on to recommend that in determining the appropriateness of a service, an audit committee should consider ten factors, as follows:⁵⁹

1. Whether the service is being performed principally for the audit committee;
2. The effects of the service, if any, on audit effectiveness or on the quality and timeliness of the entity's financial reporting process;
3. Whether the service would be performed by specialists (e.g., technology specialists) who ordinarily also provide recurring audit support;
4. Whether the service would be performed by audit personnel, and if so, whether it will enhance their knowledge of the entity's business and operations;
5. Whether the role of those performing the service would be inconsistent with the auditors' role (e.g., a role where neutrality, impartiality and auditor skepticism are likely to be subverted);
6. Whether the audit firm personnel would be assuming a management role or creating a mutual or conflicting interest with management;
7. Whether the auditors, in effect, would be "auditing their own numbers;"
8. Whether the project must be started and completed very quickly;
9. Whether the audit firm has unique expertise in the service; and
10. The size of the fee(s) for the non-audit service(s).

IV. STANDARDS ISSUED BY THE AICPA

⁵⁹ Lynn E. Turner, *supra* Note 3.

The AICPA has also issued two important standards affecting audit committees and auditors.⁶⁰ The two new standards are Statement on Auditing Standards ("SAS") No. 89 on Audit Adjustments and SAS No. 90 on Audit Committee Communications.⁶¹ In addition, in February 2000, the AICPA issued Practice Alert 2000-2, "Quality of Accounting Principles – Guidance for Discussions With Audit Committees."⁶² The AICPA's standards and guidance requires the auditor to discuss with the audit committee the quality, not just the acceptability, of the accounting principles used by an entity and encompass:⁶³

1. Consistency of the entity's accounting policies and their application;
2. Judgments and estimates that effect the financial statements;
3. The consistency, clarity and completeness of the financial statements and related disclosures;
4. Items having a significant impact on the representational faithfulness, verifiability, and neutrality of the accounting information;
5. Consideration of factors affecting asset and liability carrying values;
6. Use of special structures and timing of events that affect financial statements. The audit committee should inquire as to the auditor's involvement in designing such structures and whether the accounting for such structured transactions is transparent and reflects economic reality;
7. The frequency and significance of all transactions with related parties;

⁶⁰ Id.

⁶¹ Id.

⁶² Id.

⁶³ Id.

8. Unusual arrangements such as bill and hold or side letter sales agreements, self insurance, or non-standard adjustments made at the end of a reporting period – especially those that "just make" the consensus estimate. The staff believes an auditor has not gathered sufficient evidence and performed a GAAS audit if the auditor has not examined the non-standard adjustments that are individually or in the aggregate material;
9. Materiality thresholds and whether such thresholds have been consistently applied; and
10. Audit adjustments identified by the auditor including the nature of any adjustments the auditor identified but did not include on the summary adjustments.

V. RECENT SEC ENFORCEMENT ACTIONS REGARDING OUTSIDER AUDITORS.

The SEC filed a fraud suit against a Big Five accounting firm alleging that the firm issued false audit reports for a client overstating the client's pretax income by over \$1 billion.⁶⁴ The SEC stated that the accounting firm failed to stand up to the company's management to prevent the issuance of materially misstated financial statements. The SEC stated in its Order: "[u]nless the auditor stands up to management as soon as it knows that management is unwilling to correct material misstatements, the auditor ultimately will find itself in an untenable position" The SEC also raised concern about the accounting firm's independence. The SEC noted that the accounting firm had

⁶⁴ In the Matter of Arthur Andersen LLP, Exchange Act Release No. 44444; Accounting and Auditing Enforcement Release No. 1405, 2001 SEC LEXIS 1174 (June 19, 2001); Securities Regulation and Law Report, Volume 33, Number 25 (June 25, 2001).

been the company's auditor since 1971, had charged \$7.5 million in audit fees and \$11.8 million in other fees between 1991 and 1997, and during the 1990's approximately fourteen former employees of the accounting firm worked for the company, The accounting firm agreed to an antifraud injunction and to pay a fine of \$7 million. Three of the accounting firm's former and current partners also consented to the permanent injunction, agreed to pay fines, and agreed to orders denying them the privilege of appearing or practicing before the SEC for a range of one to five years.

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