

A
RESEARCH
REPORT

Prepared for

PUBLIC OVERSIGHT BOARD

SEC Practice Section—Division for CPA Firms—AICPA

Public Perceptions of Management Advisory Services Performed by CPA Firms for Audit Clients

Prepared by Survey Division, AUDITS & SURVEYS, INC.

Public Oversight Board

A. A. SOMMER, JR., *Chairman*

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ROBERT W. EGNER, *Assistant Technical Director*

ALAN H. FELDMAN, *Assistant Technical Director*

Office

540 Madison Avenue

New York, NY 10022

(212) 486-2448

PUBLIC OVERSIGHT BOARD

SEC Practice Section • AICPA

540 Madison Avenue • New York 10022 • (212) 486-2445

A. A. Sommer, Jr., Chairman • Mevin R. Laird • Robert K. Mautz • Paul W. McCracken • Arthur M. Wood • Richard A. Stark, Legal Counsel

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As the accounting profession continues its seemingly relentless growth in providing consulting services, concerns continue to be expressed about the effect such activity has or may have on auditors' independence in performing the attest function. These concerns were expressed during the Metcalf and Moss Congressional hearings in the mid-1970s and in the report of The Commission on Auditors' Responsibilities, and have been echoed again during the hearings held by the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce in the last Congress.

The Public Oversight Board, at the request of the SEC Practice Section of the AICPA's Division for CPA Firms, studied this question carefully in 1978 and 1979, held extensive hearings, and issued its report, *Scope of Services by CPA Firms*. This report concluded that there was no evidence that the rendition of consulting services had in any instance adversely affected the independence of any auditing firm, but, recognizing the widespread concern, urged disclosure concerning the extent of such services and "self-restraint and judgment before venturing into new areas of MAS."

These counsels have been unavailing. Auditing firms have continued to proliferate in the areas in which they render consulting services with no apparent effort at self-restraint or moderation. Furthermore, at the urging of the profession, the Securities and Exchange Commission rescinded ASR 250 which required disclosure by SEC registrants of the extent of MAS fees.

The profession has taken some positive steps to ensure auditor independence when performing MAS. It has proscribed executive search and certain actuarial services for SEC registrants that are audit clients. The SEC Practice Section has a long-standing requirement regarding reporting of MAS fees and activities. The Section has also incorporated in its peer review program various procedures to better assure that a firm's MAS services do not impair independence.

As in 1979, the Board still knows of no instance in which it can be demonstrated that the provision of MAS to an audit client interfered with independence in performing the audit function. However, there has continued a perception that in some fashion the expansion of MAS poses problems.

In an effort to define the nature and extent of these perceptions, the POB undertook a survey of various groups which either use audited financial statements or have a high professional interest and concern with them. To assist in this effort, it employed the well-known and highly esteemed firm, Audits & Surveys, Inc. The summary of the results of this survey follows.

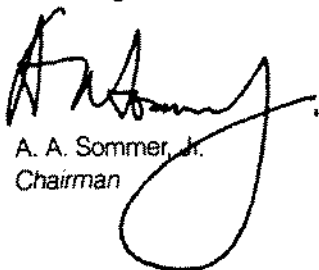
The methodology used, the nature of the groups surveyed, the questions asked, and the answers received are set forth plainly in the summary and need no reiteration or explanation.

Not surprisingly, like any such survey, this one will lend itself to varying interpretation. Advocates of unfettered MAS expansion will find in some of the data confirmation of their conviction. Proponents of greater restraint will find comfort in other parts of the report.

The Public Oversight Board is publishing this report without comment. It will, along with others interested in these matters, study this report carefully and may at a later date, respond to it and state the implications it sees in the assembled data, and perhaps recommend measures responsive to the report.

To the best of our knowledge this is the first comprehensive survey of the perceptions that exist among interested and involved groups with respect to the relationships that exist between MAS and audit services. We believe that this information will be of use to firms in developing policies in this important area, to regulators and legislators in considering the desirability of measures affecting these matters, and to companies in determining the course they should pursue.

In conclusion, we would like to thank most warmly all those who responded to requests for information and provided us with their thoughtful and extremely illuminating responses.



A. A. Sommer, Jr.
Chairman

TABLE OF CONTENTS

	<u>PAGE</u>
I. EXECUTIVE SUMMARY	1
II. READING NOTES	9
III. DETAILED FINDINGS	11
IV. METHODOLOGICAL APPENDIX	41
V. VERBATIMS.....	47

EXECUTIVE SUMMARY

INTRODUCTION

The Public Oversight Board commissioned ABNITS & JARRETT, INC. to conduct a half survey to measure the key public's perceptions of the management advisory services (MAS) issue. This report presents the results of this survey.

The main purpose of this study was to determine whether members of these groups perceived that management consulting performed by certified public accountants in public practice impairs their auditing function. To measure these perceptions, the questionnaire covered the following topic areas:

- Familiarity with the public accounting profession and with the management advisory services issue;
- Perceived impairment of objectivity for its specific management advisory services performed by CPAs;
- Attitudes toward specific issues associated with MAS and toward MAS overall;
- How MAS is funded by companies.

I. EXECUTIVE SUMMARY

A. INTRODUCTION

The PUBLIC OVERSIGHT BOARD commissioned AUDITS & SURVEYS, INC. to conduct a mail survey to measure nine key publics' perceptions of the management advisory services (MAS) issue. This report presents the results of that survey.

The main purpose of the study was to determine whether members of these groups perceive that management consulting performed by certified public accountants in public practice impairs their auditing functions if performed for the same client. To measure these perceptions, the questionnaire covered the following topic areas:

- o Familiarity with the public accounting profession and with the management advisory services issue;
- o Perceived impairment of objectivity for 16 specific management advisory services performed by CPA's;
- o Attitudes toward specific issues associated with MAS and toward MAS overall;
- o How MAS is handled by companies.

During September and October 1986, Audits & Surveys conducted the study among samples of each of the groups listed below. There were 2,694 questionnaires mailed out. The response rate was 41 percent at the cut-off date.

The key publics surveyed included:

- o Chief Executive Officers of the 1,000 largest American industrial and service corporations
- o Audit Committee Chairmen of these same companies
- o Commercial Bank Loan Officers
- o Financial Analysts
- o Investment Bankers
- o Attorneys
- o Financial Writers
- o Accounting Faculty Members
- o Deans of Business Schools

A full description of how the study was conducted appears in the Methodological Appendix along with copies of the questionnaire and all mailing pieces.

B. SUMMARY OF FINDINGS

THE RESULTS SUGGEST THAT MEMBERS OF THE KEY PUBLICS THINK THAT PERFORMING CERTAIN MANAGEMENT ADVISORY SERVICES CAN IMPAIR OBJECTIVITY AND INDEPENDENCE AND THAT CAUTION NEEDS TO BE EXERCISED WHEN CPA'S PERFORM ANY MANAGEMENT ADVISORY SERVICE FOR THEIR AUDIT CLIENTS. FOR THE MOST PART THEY BELIEVE OTHERS HOLD THE SAME VIEW.

For example, some three-quarters (75%) of the key public groups personally agree with the following statement:

"CPA's should be allowed to perform only those management advisory services where it is clear that audit independence and objectivity cannot be impaired."

And more than half (54%) believe that others agree with this statement. (About a quarter could not say what others believe.)

SOME TWO-IN-TEN HOLD MORE EXTREME VIEWS.

Some 12 percent agree that CPA's should be allowed to perform a full range of MAS because impairment is not a problem.

Another 9 percent take a harder line and agree that CPA's should not be allowed to perform any MAS because there is always a possibility of impairment.

But even those with these more extreme views are likely to feel that others hold a more moderate position.

While all groups hold to the moderate position, CEOs and Business School Deans are somewhat more liberal than others, while Financial Analysts, Attorneys and Financial Writers somewhat more conservative.

MEMBERS OF KEY PUBLIC GROUPS PERCEIVE THAT SOME SERVICES ARE MORE LIKELY TO IMPAIR OBJECTIVITY AND INDEPENDENCE THAN OTHERS. THESE ARE RELATED TO CORPORATE STRATEGY, THE BALANCE SHEET AND FINDING AND COMPENSATING MANAGEMENT.

About half or more of key public members think the following management advisory services could cause a "great deal of" or "some" impairment:

- Negotiating mergers, acquisitions and divestitures (75%)
- Performing actuarial services which directly affect amounts involved on the balance sheet (64%)
- Identifying merger and acquisition candidates (62%)
- Implementing a strategic plan (63%)
- Valuing assets acquired in a business combination (61%)
- Executive search for senior management personnel (56%)
- Renegotiations or redetermining price under a procurement contract (50%)
- Developing a strategic plan (49%)
- Developing an executive compensation plan (47%)

OTHER SERVICES ARE PERCEIVED AS LESS LIKELY TO IMPAIR OBJECTIVITY AND INDEPENDENCE. THEY ARE SERVICES DIRECTED TOWARD INTERNAL COMPANY OPERATIONS OR LIMITED PLANNING.

In order of perception that they pose "little" or "no" chance for impairment, these are:

- o Performing a plant site location study (75%)
- o Designing a computer system (73%)
- o Designing a control system for managing long-term contracts (65%)
- o Designing and installing a computer system (66%)
- o Developing a market feasibility study (66%)
- o Performing actuarial services for the company's pension plan (64%)
- o Designing and/or implementing a cash management system (63%)

REACTION TO LEVEL OF POTENTIAL IMPAIRMENT FOR SPECIFIC SERVICES DOES VARY SOMEWHAT BY KEY PUBLIC. CEOS AND BANK LOAN OFFICERS APPEAR LESS CONCERNED THAN OTHERS, WHILE ATTORNEYS AND FINANCIAL WRITERS ARE MORE CONCERNED.

ON OTHER ATTITUDE COMPONENTS OF THE MAS ISSUE, KEY PUBLIC OPINIONS AGAIN ARGUE FOR CAUTION AND A REASONED APPROACH.

MOST AGREE WITH THE FOLLOWING FOUR POSITIONS.

In order of decreasing agreement they are:

The auditing firm should be required to represent to the audit committee or board of directors that in its opinion the performance of management advisory services did not impair audit independence and objectivity. (80% agree.)

Even though performing a single management advisory service may not impair auditor independence and objectivity, performing a series of management advisory services in the aggregate may. (73% agree)

The larger the management advisory fees in relation to the auditing fees received from the same client, the greater the likelihood that independence and objectivity will be impaired. (72% agree)

All management advisory services performed by the auditing firm should be reported in the client's annual report. (68% agree)

MOST DISAGREE WITH THE FOLLOWING TWO STATEMENTS.

If the personnel performing the management advisory services are not personally involved in the audit, then impairment of independence and objectivity is not an issue. (57% disagree)

CPA's who perform management advisory services are better able to conduct more informed audits than those who do not perform these additional services. (52% disagree)

AS WITH PREVIOUS QUESTIONS, ATTITUDES VARY SOMEWHAT BY KEY PUBLIC. GENERALLY, IT IS THE CEOs AND AUDIT COMMITTEE CHAIRMEN WHO EXPRESS MORE LIBERAL ATTITUDES; WHILE ATTORNEYS, AND IN SOME CASES, FINANCIAL ANALYSTS AND WRITERS ARE MORE LIKELY TO BE HARDLINERS.

A VERY LARGE PROPORTION (86%) OF THE AUDIT COMMITTEE CHAIRMEN SAY THAT THEIR COMMITTEES REVIEW MAS FOR IMPAIRMENT AND THAT THE REVIEW MORE OFTEN THAN NOT OCCURS BEFORE (76%) MAS TAKES PLACE.

VERY FEW HAVE EVER TAKEN THE POSITION THAT AN AUDITING FIRM SHOULD NOT BE USED BECAUSE AN MAS ASSIGNMENT COULD IMPAIR OBJECTIVITY (13%) OR BE PERCEIVED TO IMPAIR OBJECTIVITY (7%).

AUDIT COMMITTEE CHAIRMEN WOULD NOT OBJECT (91%) IF MAS SERVICES PERFORMED HAD TO BE REPORTED IN PUBLIC.

READING NOTES

- Percentages read down when 2 signs are at top of column.
- Percentages read across when 2 signs are in left hand column.
- Percentages are all to have their sign due to outside answers.
- Sometimes when figures do not add to totals shown, differences are due to rounding the percentages.

II. READING NOTES

- An asterisk (*) in a table means the percentage figure is less than one-half of one percent.
- A dash (-) in a table means there were no responses in the cell.

II. READING NOTES

- Percentages read down when % signs are at top of columns.
- Percentages read across when % signs are in left hand columns.
- Percentages may add to more than 100% due to multiple answers.
- Sometimes when figures do not add to totals shown, differences are due to rounding the percentages.
- An asterisk (*) in a table means the percentage figure is less than one-half of one percent.
- A dash (-) in a table means there were no responses in the cell.

III. DETAILED FINDINGS

A. FAMILIARITY WITH THE ACCOUNTING PROFESSION AND WITH THE ISSUE

FAMILIARITY WITH THE ACCOUNTING PROFESSION AND THE ISSUE IS HIGH. LET, MEMBERS OF THE KEY PUBLIC SURVEYED ARE MORE FAMILIAR WITH THE ACCOUNTING PROFESSION GENERALLY THAN THEY ARE WITH THE ISSUE.

Over half of those who responded say they are "very familiar" with the profession. Another four-in-ten say they are "somewhat familiar."

III. DETAILED FINDINGS

Less than half are as familiar with the issue. About one-quarter also they are "very familiar" and about 48 percent "somewhat familiar."

THE RESULTS SUGGEST THAT SOME KEY PUBLIC GROUPS KNOW MORE THAN OTHERS. CEOs, AUDIT COMMITTEE CHAIRMAN, ACCOUNTING PROFESSORS AND BUSINESS SCHOOL DEANS REPORT MORE KNOWLEDGEABLE OF BOTH COURTS.

III. DETAILED FINDINGS

A. FAMILIARITY WITH THE ACCOUNTING PROFESSION AND WITH THE MAS ISSUE

FAMILIARITY WITH THE ACCOUNTING PROFESSION AND THE MAS ISSUE IS HIGH. YET, MEMBERS OF THE KEY PUBLICS SURVEYED ARE MORE FAMILIAR WITH THE ACCOUNTING PROFESSION GENERALLY THAN THEY ARE WITH THE MAS ISSUE ITSELF.

Over half of those who responded say they are "very familiar" with the profession. Another four-in-ten say they are "somewhat familiar."

Less say they are as familiar with the MAS issue. About one-quarter claim they are "very familiar" and about 45 percent "somewhat familiar."

THE RESULTS SUGGEST THAT SOME KEY PUBLIC GROUPS KNOW MORE THAN OTHERS. CEOs, AUDIT COMMITTEE CHAIRMEN, ACCOUNTING PROFESSORS AND BUSINESS SCHOOL DEANS APPEAR MORE KNOWLEDGEABLE ON BOTH COUNTS.

TABLE 1

Q.2 How familiar would you say you are with...

	TOTAL (1059)	KEY PUBLICS								
		CEO (125)	AUDIT COMM. CHR. (136)	BANK LOAN OFF. (170)	FIN. ANAL. (125)	IN- VEST. BANK. (94)	ATTY. (143)	FIN. WRITER (33)	ACCT. PROF. (122)	UNIV. SCH. DEAN (111)
a. The public accounting profession										
Very	54%	66%	69%	47%	41%	46%	53%	39%	67%	59%
Somewhat	39	31	29	46	49	37	43	55	27	36
A little	6	2	2	5	9	17	4	6	6	5
Not at all	*	-	-	1	2	-	1	-	-	-
No opinion/don't know	*	-	-	2	-	-	-	-	-	-
b. The management advisory services issue										
Very	25%	32%	48%	8%	22%	13%	19%	15%	36%	32%
Somewhat	45	52	41	39	31	48	45	55	47	43
A little	20	13	8	27	31	23	24	21	14	18
Not at all	9	2	2	21	14	14	11	6	3	5
No opinion/don't know	2	2	1	5	1	2	2	3	1	3

B. KEY PUBLICS' OVERALL VIEW ON THE MAS ISSUE

MEMBERS OF EACH OF THE KEY PUBLIC GROUPS EXPRESS A MODERATE OVERALL VIEW OF THE MAS IMPAIRMENT ISSUE.

SOME THREE-QUARTERS AGREED WITH THE FOLLOWING STATEMENT:

"CPAs should be allowed to perform only those management advisory services where it is clear that audit independence and objectivity cannot be impaired."

GENERALLY, MORE EXTREME POSITIONS ARE NOT HELD BY MANY.

About one-in-ten say that:

"CPAs should not be allowed to perform any management advisory services since there is always a possibility that audit independence and objectivity may be impaired."

As many take the opposite position and say that the following statement comes closest to expressing their views about MAS:

"CPAs should be allowed to perform a full range of management advisory services because impairment of audit independence and objectivity is not a problem."

WHILE ALL GROUPS HOLD A MODERATE POSITION GENERALLY, CEOs AND BUSINESS SCHOOL DEANS ARE MORE LIKELY TO SAY THAT "AUDIT INDEPENDENCE AND OBJECTIVITY IS NOT A PROBLEM."

ON THE OTHER END OF THE SPECTRUM, FINANCIAL ANALYSTS, ATTORNEYS AND FINANCIAL WRITERS ARE SLIGHTLY MORE LIKELY TO BELIEVE THAT "THERE IS ALWAYS A POSSIBILITY THAT AUDIT INDEPENDENCE AND OBJECTIVITY MAY BE IMPAIRED."

TABLE 2

Q. 6 Which of the following statements comes closest to expressing your views about management advisory services?

	TOTAL (1059)	KEY PUBLICS								
		CEO (125)	AUDIT COMM. CHR. (136)	BANK LOAN OFF. (170)	FIN. ANAL. (125)	IN- VEST. BANK. (94)	ATTY. (143)	FIN. WRITER (33)	ACCT. PROF. (122)	BUS. SCH. DEAN (111)
CPAs should be allowed to perform a full range of management advisory services because impairment of audit independence and objectivity is not a problem	12%	22%	15%	11%	4%	11%	6%	6%	10%	22%
CPAs should be allowed to perform only those management advisory services where it is clear that audit independence and objectivity cannot be impaired	75	67	82	81	74	72	76	76	78	64
CPAs should not be allowed to perform any management advisory services since there is always the possibility that audit independence and objectivity may be impaired	9	6	3	3	17	9	13	12	8	14
No opinion/don't know	4	4	1	5	5	9	4	6	4	1

OVERALL, LEVEL OF FAMILIARITY WITH THE ACCOUNTING PROFESSION OR WITH THE MAS ISSUE APPEARS TO BE UNRELATED TO KEY PUBLICS' PERCEPTIONS. EVEN AMONG THOSE WHO SAY THEY ARE "A LITTLE" OR "NOT AT ALL FAMILIAR" WITH THE PROFESSION OR MAS, THREE-QUARTERS AGREE WITH THE MODERATE VIEW.

It should be pointed out however, that CEOs and Business School Deans are among the groups that claim they know more about the profession and MAS. At the same time, they are slightly more likely to say independence and objectivity are not problems.

Looking at the data by key public group suggests that there might be a small association between knowledge and perception, but it is not very strong nor definitive.

TABLE 3

Q.6 Which of the following statements comes closest to expressing your views about management advisory services?

	TOTAL (1059)	FAMILIARITY WITH			
		PROFESSION*		MAS*	
		VERY/ SOMEWHAT (991)	LITTLE/ NONE (65)	VERY SOMEWHAT (728)	LITTLE/ NONE (309)
CPAs should be allowed to perform a full range of management advisory services because impairment of audit independence and objectivity is not a problem	12%	13%	3%	14%	6%
CPAs should be allowed to perform only those management advisory services where it is clear that audit independence and objectivity cannot be impaired	75	74	76	74	78
CPAs should not be allowed to perform any management advisory services since there is always a possibility that audit independence and objectivity may be impaired	10	10	9	10	8
No opinion/don't know	4	4	12	2	9

* Excludes those who say they "don't know" how familiar they are with either the accounting profession or the MAS issue and those who did not answer either familiarity question.

TABLE 4

LEVEL OF FAMILIARITY AND PERCEPTIONS OF MAS ISSUE

	<u>"VERY FAMILIAR WITH"</u>		<u>OVERALL PERCEPTION OF</u> <u>MAS ISSUE</u>		
	<u>ACCOUNTING</u> <u>PROFESSION</u>	<u>MAS</u>	<u>FULL</u> <u>RANGE</u>	<u>DEPENDS</u>	<u>NONE</u>
Audit Committee Chairmen	69%	48%	15%	82	3
Accounting Professors	67	36	10%	78	8
CEOS	66	32	22%	67	6
Business School Deans	59	32	22%	64	14
Attorneys	53	19	6%	76	13
Bank Loan Officers	47	8	11%	81	3
Investment Bankers	46	13	11%	72	9
Financial Analysts	41	22	4%	72	17
Financial Writers	39	15	6%	76	12

C. KEY PUBLICS' PERCEPTIONS OF OTHER'S VIEWS ON THE MAS ISSUE

MEMBERS OF EACH OF THE KEY PUBLIC GROUPS PERCEIVE OTHERS' VIEWS OF THE MAS ISSUE AS BEING MODERATE LIKE THEIR OWN. EVEN THOSE WITH MORE EXTREME VIEWS, THINK OTHERS ARE MORE MODERATE IN THEIR VIEWS THAN THEY ARE. MANY, OF COURSE, ALSO SAY THEY DO NOT KNOW HOW OTHERS FEEL ABOUT THE ISSUE.

For example, a little more than half say that others would take the position that CPA's should perform only those services where it is clear objectivity cannot be impaired. About one-in-ten each would argue that others are more extreme one way or the other. A full quarter say they cannot give an answer as to how others feel about the issue because they just don't know.

Even among those who are more liberal in their own views and believe that CPA's need not worry, more than half feel others' views are more moderate. Likewise, among those who take a hard line and say there is always a possibility of impairment, they perceive others to hold the more moderate middle position.

TABLE 5

Q.6 Which of the following statements comes closest to expressing your views about management advisory services?

Q.7 Which of the following statements do you think comes closest to expressing the views of other people interested in the role of CPA's?

Q.7
PERCEPTION OF
OTHER'S VIEWS
ON MAS

Q.6 OWN VIEWS ON CPA'S PERFORMING MANAGEMENT ADVISORY SERVICES

	TOTAL (1059)	FULL RANGE (129)	DEPENDS (794)	NONE (94)	DON'T KNOW (45)
FULL RANGE (96)	9%	16%	8%	8%	2%
DEPENDS (571)	54	57	56	51	20
NONE (139)	13	10	13	20	2
DON'T KNOW (258)	24	18	23	21	76
TOTAL		12	74	9	4

TABLE 6

Q.3 Here is a list of management advisory services (MAS) that some certified public accountants (CPA's) perform. For each one, please indicate how much or little you think it impairs audit independence and objectivity if such advisory service is performed for an audit client.

	<u>GREAT DEAL/ SOMEWHAT</u>	<u>VERY LITTLE/ NOT AT ALL</u>	<u>DON'T KNOW/ NO OPINION</u>
Negotiating mergers, acquisitions and divestitures.....	76%	20	3
Performing actuarial services which directly affect amounts included on the balance sheet.....	64%	32	4
Implementing a strategic plan.....	63%	32	5
Identifying merger and acquisition candidates.....	62%	34	4
Valuing assets acquired in a business combination.....	61%	36	3
Executive search for senior management personnel.....	56%	41	3
Renegotiating or redetermining price under a procurement contract.....	50%	40	11
Developing a strategic plan.....	49%	47	4
Developing an executive compensation plan.....	47%	48	4
<hr/>			
Designing and/or implementing a cash management system.....	33	63	4
Performing actuarial services for the company's pension plan...	31	64	5
Developing a market feasibility study.....	31	66	4
Designing and installing a computer system.....	29	66	5
Designing a control system for managing long-term construction contracts.....	28	65	7

D. EVALUATION OF SPECIFIC MAS SERVICES ON POSSIBILITY OF IMPAIRMENT

Since most say that their views and those of others on the impairment issue depend on which service is performed, evaluation of specific services can provide some insight into perceptions. Key public members were asked to consider a list of 16 MAS services that CPA's perform and rate each one on how much or little it impairs audit independence and objectivity when performed. Some services are clearly perceived as more of a problem than others.

HALF OR MORE OF THE KEY PUBLIC MEMBERS SAY THEY THINK THAT NINE SERVICES MAY POSE IMPAIRMENT PROBLEMS WHEN PERFORMED ALONG WITH AUDITING. ALL SERVICES APPEAR TO BE RELATED TO CORPORATE STRATEGY, BALANCE SHEET, OR FINDING AND COMPENSATING MANAGEMENT.

SERVICES NOT PERCEIVED TO BE A PROBLEM INCLUDE THOSE CONCERNED WITH INTERNAL COMPANY MATTERS OR LIMITED PLANNING.

One stood out head and shoulders above the rest as most troublesome -- "Negotiating Mergers, Acquisitions and Divestitures." Some three-quarters say that performing this service may impair independence either "a great deal" or "somewhat." At the other end of the scale about three-quarters say that "Designing A Computer System," or "Performing A Plant Site Location Study" would "very little" or "not at all" impair independence and objectivity.

REACTION TO LEVEL OF POTENTIAL IMPAIRMENT FOR EACH SERVICE DOES VARY SOMEWHAT BY KEY PUBLIC. CEO'S AND BANK LOAN OFFICERS APPEAR LESS CONCERNED THAN OTHERS, WHILE ATTORNEYS AND FINANCIAL WRITERS ARE MORE CONCERNED.

On almost every service listed where half or more of the respondents felt that audit objectivity and/or independence might be impaired, a smaller proportion of CEO's, compared to everyone else, see objectivity and independence at risk. CEO's are least concerned with developing executive compensation plans, searching for senior management or identifying merger and acquisition candidates. Except for one service, Bank Loan Officers also are slightly less concerned than others.

Attorneys and Financial Writers, however, appear to be more concerned on every issue than the key public as a whole. In each of these groups the primary concern appears to be identifying or negotiating mergers and acquisitions and valuing assets acquired in a business combination.

TABLE 7

Q. 3 Here is a list of management advisory services (MAS) that some certified public accountants (CPA's) perform. For each one, please indicate how much or little you think it impairs audit independence and objectivity if such advisory service is performed for an adult client.

	TOTAL (1059)	KEY PUBLIC								
		CEO (125)	AUDIT COMM. CHR. (136)	LOAN OFF. (170)	FIN. ANAL. (125)	INVEST. BANK. (94)	ATTY. (143)	FIN. WRITER (33)	ACCT. PROF. (122)	BUS. SCH. DEAN (111)
Negotiating mergers, acquisitions and divestitures.....	76%	64%	75%	72%	81%	76%	88%	76%	74%	81%
Performing actuarial services which directly affect amounts included on the balance sheet.....	64	57	59	49	78	67	64	64	73	68
Implementing a strategic plan.....	63	60	63	57	63	64	67	73	63	59
Identifying merger and acquisition candidates.....	62	38	63	51	75	66	68	79	55	66
Valuing assets acquired in a business combination.....	61	51	46	48	72	61	71	67	66	67
Executive search for senior management personnel.....	56	38	57	57	52	48	62	67	63	58
Renegotiating or redetermining price under a procurement contract.....	50	43	38	42	55	42	56	58	49	64
Developing a strategic plan.....	49	41	51	45	52	40	56	64	48	44
Developing an executive compensation plan..	47	35	51	41	43	43	57	61	48	47

E. ATTITUDES TOWARD COMPONENTS OF THE MAS ISSUE

The issue of whether providing MAS services impairs audit independence and objectivity is associated with a number of related attitudes and opinions. Study participants were asked to indicate how strongly they agreed or disagreed with six of these attitudes and opinions often heard in discussions or seen in articles about the MAS issue. The responses suggest that key public opinion is cautious and reasoned.

MOST KEY PUBLIC MEMBERS AGREE THAT AN "AUDITING FIRM SHOULD BE REQUIRED TO REPRESENT TO THE AUDIT COMMITTEE OR BOARD OF DIRECTORS THAT PERFORMANCE OF MAS DID NOT IMPAIR AUDIT INDEPENDENCE AND OBJECTIVITY."

Some 80 percent either "strongly agree" or "agree" with this view, and this opinion is shared by members of each key public group, especially among Audit Committee Chairmen (91%).

TABLE 8

Q.5 The following is a series of statements people have made about the issues surrounding CPA's performing management advisory services. For each one, please indicate whether you agree or disagree by checking the appropriate box.

	Strongly Agree	Agree	Disagree	Strongly Disagree	No Opinion/ Don't Know
Even though performing a single management advisory service may not impair auditor independence and objectivity, performing a series of management advisory services in the aggregate may.....	14%	59	19	3	6
If the personnel performing the management advisory services are not personally involved in the audit, then impairment of independence and objectivity is not an issue.....	3%	26	54	13	5
The larger the management advisory fees in relation to the auditing fees received from the same client, the greater the likelihood that independence and objectivity will be impaired.....	21%	51	20	3	5
The auditing firm should be required to represent to the audit committee or board of directors that in its opinion the performance of management advisory services did not impair audit independence and objectivity.....	36%	44	9	3	9
All management advisory services performed by the auditing firm should be reported in the client's annual report.....	26%	42	21	5	5
CPA's who perform management advisory services are better able to conduct more informed audits than those who do not perform these additional services..	4%	34	40	12	9

NAME	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
BOB L. KIMM																	
ZLAWNYA BIZKOWEE	3	3	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
CLEVEREE	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
YONKA	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14
ZLAWNYA YONKIZ	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20

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TABLE 9

Q.5 cont.

The auditing firm should be required to represent to the audit committee or board or directors that in its opinion the performance of management advisory services did not impair audit independence and objectivity...

	KEY PUBLICS									
	TOTAL (1059)	CEO (125)	AUDIT COMM. CHRMN. (136)	LOAN OFFICER (170)	FINANCIAL ANALYST (125)	INVEST- MENT BANKER (94)	ATTORNEY (143)	FINANCIAL WRITER (33)	ACCOUNT- ING PROFESSOR (122)	BUS. SCH. DEAN (111)
STRONGLY AGREE	36%	32%	43%	37%	40%	37%	38%	33%	28%	33%
AGREE	44	46	48	50	41	40	42	46	41	40
DISAGREE	9	13	6	6	8	10	9	9	15	6
STRONGLY DISAGREE	3	2	3	2	2	*	1	3	4	8
DON'T KNOW	9	6	1	5	10	13	10	9	12	12

THERE IS ALSO WIDESPREAD AGREEMENT WITH THE STATEMENT THAT "THE LARGER THE FEE IN RELATION TO AUDITING FEES RECEIVED FROM THE SAME CLIENT, THE GREATER THE LIKELIHOOD THAT INDEPENDENCE AND OBJECTIVITY WILL BE IMPAIRED."

About seven-in-ten say this. But there is some variability among the groups. For example, CEO's are somewhat less likely to agree (59%), while the financial analysts (83%) and attorneys (81%) are more likely.

TABLE 10

Q.5 cont.

The larger the management advisory fees in relation to the auditing fees received from the same client, the greater the likelihood that independence and objectivity will be impaired...

	TOTAL (1059)	KEY PUBLICS								
		CEO (125)	AUDIT COMM. CHRMN. (136)	LOAN OFFICER (170)	FINANCIAL ANALYST (125)	INVEST- MENT BANKER (94)	ATTORNEY (143)	FINANCIAL WRITER (33)	ACCOUNT- ING PROFESSOR (122)	BUS. SCH. DEAN (111)
STRONGLY AGREE	21%	9%	16%	16%	25%	24%	26%	24%	25%	22%
AGREE	51	50	58	52	58	50	55	46	41	48
DISAGREE	20	29	21	22	12	18	13	24	25	20
STRONGLY DISAGREE	3	8	4	3	1	1	1	3	2	5
DON'T KNOW	5	4	1	7	5	6	4	3	7	5

ABOUT TWO-THIRDS AGREE THAT "ALL MANAGEMENT ADVISORY SERVICES PERFORMED BY THE AUDITING FIRM SHOULD BE REPORTED IN THE CLIENTS ANNUAL REPORT."

But again veiw s differ by key public groups. A larger proportion of CEOs actually disagree with this position, while Audit Committee Chairmen are almost evenly split. On the other hand Bank Loan Officers and Financial Writers, perhaps concerned with disclosure and access to information argue more strongly for this point-of-view.

THERE IS ALSO CONSIDERABLE AGREEMENT WITH THE STATEMENT "EVEN THOUGH "PERFORMING A SINGLE MANAGEMENT ADVISORY SERVICE MAY NOT IMPAIR AUDITOR INDEPENDENCE AND OBJECTIVITY, PERFORMING A SERIES OF MANAGEMENT ADVISORY SERVICES IN THE AGGREGATE MAY."

Some 59 percent "agree" while 14 percent "strongly agree". While CEO's and Audit Co-mittee Chairmen in the main concur with the overall view, about a third of each group register some disagreement.

TABLE 11

Q.5 cont.

All management advisory services performed by the auditing firm should be reported in the client's annual report...

	TOTAL (1059)	KEY PUBLICS								
		CEO (125)	AUDIT COMM. CHRMN. (136)	LOAN OFFICER (170)	FINANCIAL ANALYST (125)	INVEST- MENT BANKER (94)	ATTORNEY (143)	FINANCIAL WRITER (33)	ACCOUNT- ING PROFESSOR (122)	BUS. SCH. DEAN (111)
STRONGLY AGREE	26%	6%	15%	32%	37%	23%	25%	42%	24%	32%
AGREE	42	30	35	56	39	45	41	42	44	43
DISAGREE	21	42	38	9	13	20	23	9	25	13
STRONGLY DISAGREE	5	17	9	2	4	3	5	3	1	4
DON'T KNOW	5	4	2	1	7	8	6	3	7	8

TABLE 12

Q.5 cont.

Even though performing a single management advisory service may not impair auditor independence and objectivity, performing a series of management advisory services in the aggregate may...

	TOTAL (1059)	KEY PUBLICS								
		CEO (125)	AUDIT COMM. CHRMN. (136)	LOAN OFFICER (170)	FINANCIAL ANALYST (125)	INVEST- MENT BANKER (94)	ATTORNEY (143)	FINANCIAL WRITER (33)	ACCOUNT- ING PROFESSOR (122)	BUS. SCH. DEAN (111)
STRONGLY AGREE	14%	9%	7%	8%	18%	10%	16%	24%	16%	18%
AGREE	59	52	60	70	58	62	64	54	55	58
DISAGREE	19	30	28	17	10	19	14	15	20	15
STRONGLY DISAGREE	3	5	2	*	3	1	1	3	2	7
DON'T KNOW	6	5	4	5	10	8	6	3	7	2

TABLE 13

Q.5 cont.

If the personnel performing the management advisory services are not personally involved in the audit, then impairment of independence and objectivity is not an issue...

	TOTAL (1059)	KEY PUBLICS								
		CEO (125)	AUDIT COMM. CHRMN. (136)	LOAN OFFICER (170)	FINANCIAL ANALYST (125)	INVEST- MENT BANKER (94)	ATTORNEY (143)	FINANCIAL WRITER (33)	ACCOUNT- ING PROFESSOR (122)	BUS. SCH. DEAN (111)
STRONGLY AGREE	3%	7%	4%	2%	2%	2%	1%	*%	1%	5%
AGREE	26	37	33	29	22	30	10	15	23	32
DISAGREE	54	43	52	58	58	45	66	61	57	45
STRONGLY DISAGREE	13	9	10	7	12	13	20	15	15	14
DON'T KNOW	5	4	2	4	5	11	4	9	4	3

THERE WAS DISAGREEMENT EXPRESSED WITH TWO STATEMENTS. TWO-THIRDS OF THE KEY PUBLIC MEMBERS DISAGREED WITH "IF THE PERSONNEL PERFORMING THE MAS ARE NOT PERSONALLY INVOLVED IN THE AUDIT, THEN IMPAIRMENT OF INDEPENDENCE AND OBJECTIVITY IS NOT AN ISSUE."

Again, CEC's buck the trend and are less likely to disagree with this statement, as are Audit Committee Chairmen and Deans. On the other hand, Attorneys seem least of all convinced that if the personnel are different then impairment is not an issue.

THERE IS ALSO CONSIDERABLE DISAGREEMENT WITH THE NOTION THAT CPA'S MAKE BETTER AUDITORS IF THEY CONDUCT MAS. SIX-IN-TEN DISAGREED WITH THIS STATEMENT "CPA'S WHO PERFORM MAS ARE BETTER ABLE TO CONDUCT MORE INFORMED AUDITS THAN THOSE WHO DO NOT PERFORM THESE ADDITIONAL SERVICES."

Perhaps not surprisingly, Accounting Professors and Business School Deans are more likely to express the opposite view than the others.

TABLE 14

Q.5 cont.

CPA's who perform management advisory services are better able to conduct more informed audits than those who do not perform these additional services...

	TOTAL (1059)	KEY PUBLICS								
		CEO (125)	AUDIT COMM. CHRMN. (136)	LOAN OFFICER (170)	FINANCIAL ANALYST (125)	INVEST- MENT BANKER (94)	ATTORNEY (143)	FINANCIAL WRITER (33)	ACCOUNT- ING PROFESSOR (122)	BUS. SCH. DEAN (111)
STRONGLY AGREE	4%	2%	3%	4%	4%	4%	3%	*%	9%	8%
AGREE	34	33	41	46	25	33	17	33	45	38
DISAGREE	40	48	38	35	50	40	52	39	28	32
STRONGLY DISAGREE	12	10	14	7	17	12	13	12	10	17
DON'T KNOW	9	7	4	9	5	11	15	15	8	4

F. AUDIT COMMITTEE CHAIRMEN'S EXPERIENCES WITH MAS

To obtain a measure of if, when and to what end audit committees review MAS services, a series of questions were included specifically for Audit Committee Chairmen.

A VERY LARGE PROPORTION OF THE AUDIT COMMITTEE CHAIRMEN SAY THAT THEIR COMMITTEES REVIEW MAS FOR IMPAIRMENT AND THAT THE REVIEW MORE OFTEN THAN NOT OCCURS BEFORE MAS TAKES PLACE. VERY FEW HAVE EVER TAKEN THE POSITION THAT AN AUDITING FIRM COULD NOT BE USED BECAUSE AN MAS ASSIGNMENT COULD IMPAIR OBJECTIVITY.

ALSO, AUDIT COMMITTEE CHAIRMEN WOULD NOT BE BOTHERED IF MAS SERVICES PERFORMED HAD TO BE PUBLICLY REPORTED.

THE DATA SUGGEST AUDIT COMMITTEE CHAIRMEN USE CPA FIRMS TO DO BOTH MAS AND AUDITING MORE OFTEN THAN SELECTING A NEW CPA FIRM TO DO MAS. BUT AUDIT CHAIRMEN SAY THEY ALSO USE NON-CPA MANAGEMENT CONSULTING FIRMS TO DO MAS TYPE WORK.

TABLE 15

Q.9a	Does your audit committee review management advisory services engagements performed by your auditing firm to determine if audit independence and objectivity could be impaired?	YES	86%		
		NO	12		
		DON'T KNOW/ NO ANSWER	3		
Q.9b	Is such a review conducted before or after the auditing firm performs management advisory services for your company?	BEFORE	76%		
		AFTER	42		
		DON'T KNOW/ NO ANSWER	2		
Q.9c	Has your committee ever taken the position that your auditing firm should not be used for a specific MAS assignment because it could impair the firm's independence or could be perceived as impairing independence?	YES, COULD IMPAIR	13%		
		YES, PERCEIVED TO IMPAIR	7		
		NO	80		
Q.9d	If all management advisory services performed by your company's auditing firm would have to be publicly reported, would you recommend that management not use the firm for management advisory services?	YES	6%		
		NO	91		
		DON'T KNOW/ NO ANSWER	3		
Q.10	During the past three years, how many times has your company used the management advisory services of the following kinds of providers?				
		<u>NONE</u>	<u>LESS THAN 5 TIMES</u>	<u>5 TIMES OR MORE</u>	<u>DON'T KNOW</u>
	a. CPA firm that performs the annual audit.....	1%	57	38	4
	b. Other CPA firm.....	28%	36	7	29
	c. Non-CPA management consulting firm.....	4%	38	32	26

NOTE: THESE QUESTIONS WERE ANSWERED BY BETWEEN 69 AND 45 AUDIT COMMITTEE CHAIRMEN.

* ADDS TO MORE THAN 100% BECAUSE SOME SAID REVIEW CONDUCTED BEFORE AND AFTER.

11. METEOROLOGICAL APPENDIX

IV. METEOROLOGICAL APPENDIX

IV. METHODOLOGICAL APPENDIX

o Population and Sample

The population for the study was defined by the Public Oversight Board as member of nine key publics. These are listed below along with the sources used to define the sampling frame.

<u>Key Public Group</u>	<u>Source List</u>
o CEO's	Fortune 1000 Industrial and Service Companies -- Research Project Corp.
o Audit Committee Chairmen	Fortune 1000 Industrial and Service Companies -- Directorship Magazine
o Bank Loan Officers	Robert Morris Associates
o Financial Analysts	Financial Analysts Federation, 1986 Membership Directory
o Investment Bankers	Securities Industry Association, 1986 Directory and Guide
o Attorneys	American Bar Association, 1984-1985 Committee Directory
o Financial Writers	Public Oversight Board, American Institute of Certified Public Accountants
o Accounting Faculty	Accounting Faculty Directory, 1986 -- James R. Hasselback
o Business School Deans	American Assembly of Collegiate Schools of Business, Membership Directory, 1985-1986

A random skip interval sample was taken from each of these listings. In the case of CEOs and Audit Committee Chairmen, the Fortune 1000 list was randomly divided in half, and then CEOs drawn from one half and Chairmen from the other so that these two groups would not overlap.

A total of 2,694 names were drawn as shown below. By the cut-off date we received back 1,059 responses for a response rate of 41 percent.

<u>KEY PUBLIC GROUP</u>	<u>NUMBER MAILED</u>	<u>UNDELIVERABLES</u>	<u>NUMBER RETURNED</u>	<u>RESPONSE RATE</u>
CEO	375	13	125	35%
AUDIT COMMITTEE CHAIRMAN	359	31	136	42
BANK LOAN OFFICER	339	2	170	50
FINANCIAL ANALYST	375	10	125	34
INVESTMENT BANKER	365	35	94	29
ATTORNEY	372	21	143	41
FINANCIAL WRITER	146	9	33	24
ACCOUNTING PROFESSOR	182	3	122	63
BUSINESS SCHOOL DEAN	181	2	111	62
TOTAL	2,694	126	1,059	41

After the cut-off date another 12 questionnaires were returned, and 6 more undeliverables, raising the final return rate to 42 percent. The additional returns were not used in the analysis.

o Questionnaire and Mailings

The questionnaire was designed by Audits & Surveys based on a draft supplied by the Public Oversight Board. An advance letter alerting sample members was sent out on Public Oversight Board stationery. Two mailings of the questionnaire each carried a covering letter on Audits & Surveys stationery. Several versions of the letters were prepared to accommodate various endorsements.

All questionnaire mailings included a self-addressed stamped return envelope. Additionally, a postcard was included for completion if a respondent wished a copy of the results.

Copies of all mailing materials appear following this Appendix.

The mailing schedule appears below:

Advance Letter	September 5 - September 11
First Wave Questionnaire	September 15 - September 19
Second Wave Questionnaire	October 3 - October 7
Cut-Off Date	October 29

o Data Processing

All questionnaires were edited by Audits & Surveys' Coding Department. Questionnaires were keypunched and 20 percent key verified. The tabulation consisted of a banner which included the following:

Total (weighted)

Key Publics (from mailing list)

CEOs

Audit Committee Chairmen

Bank Loan Officers

Financial Analysts

Investment Bankers

Attorneys

Financial Writers

Accounting Faculty Professors

Deans of Business Schools

Familiarity with:

Accounting Profession (Q.2a)

Very/Somewhat

Little/Not at All

MAS Issue (Q.2b)

Very/Somewhat

Little/Not at All

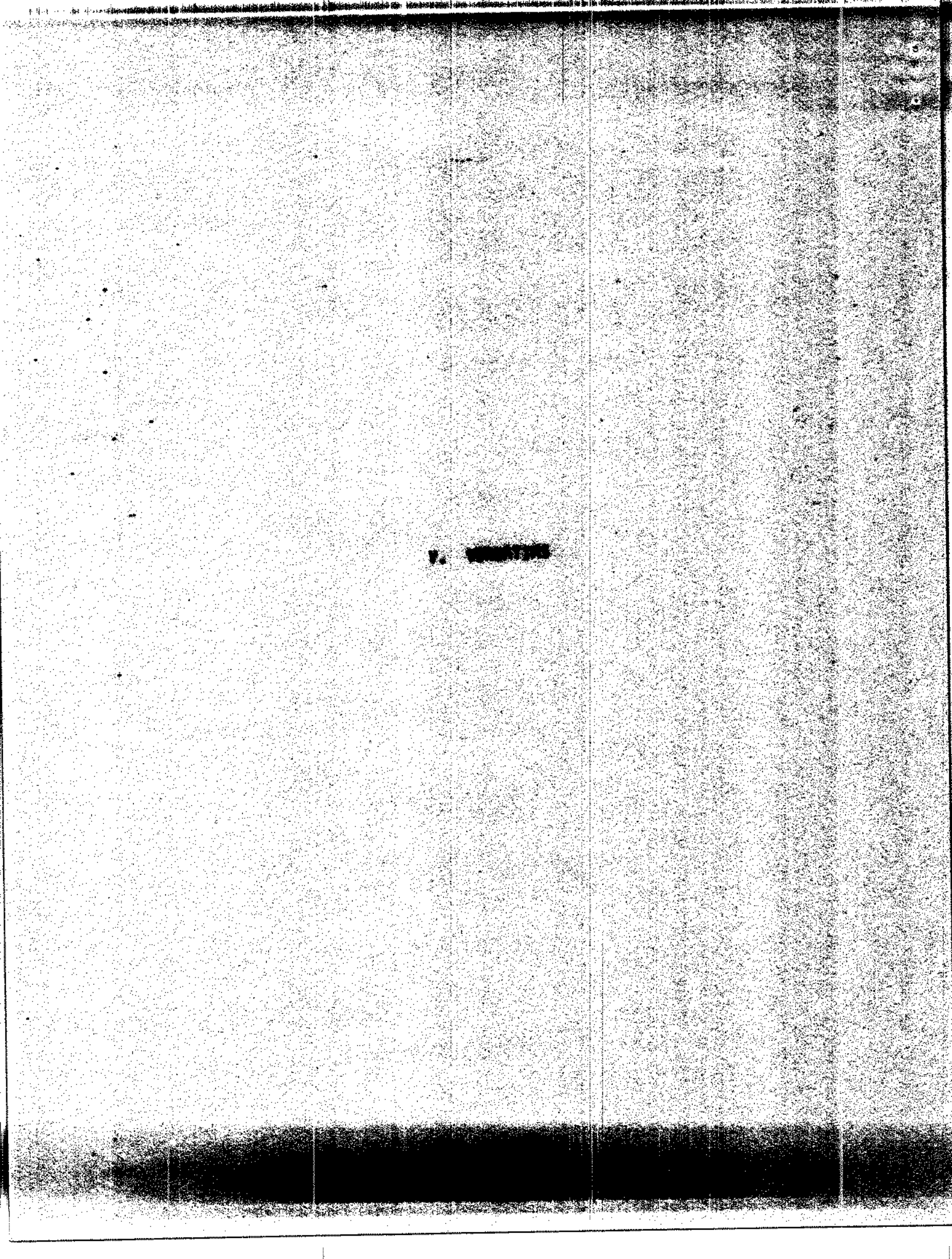
Overall Attitude Toward MAS Issue (Q.6)

Full Range

Depends

Not at All

The "total" column represents weighted percentages. These were arrived at by weighting each one of the key publics equally when calculating total column percentages, rather than having the total column reflect the uneven sample sizes for each group.



A sample of some of the comments written on the questionnaire by the respondents.

- Q.8 Do you have any other comments about the management advisory services issues?
- o The AICPA should indicate areas from which CPA firms should be excluded in MAS consultation.
 - o The validity of an audit may be impaired when the results are an indicator of the success of a plan developed by the auditor.
 - o I believe that CPA firms do offer very competent management advisory services; but at the same time, I also believe that they should not provide those services to firms whom they audit.
 - o It should be advisory only. Not operational.
 - o People's perception of independence important issue whether or not true impairment exists.
 - o Such services if performed by the company's auditor should be reported in the Proxy Statement.
 - o I don't think payments to an auditing firm are intrinsically more "corrupting" for MAS than for the audit itself.
 - o I think it's a non-issue.
 - o I do not believe that a client's occasional use of their CPA's MAS impairs audit independence and objectivity even if in a given year the MAS fees paid by the client constitute a high proportion of the clients total fees paid the CPA. To me the important relationship is that of the client's total fees paid the CPA to the CPA's total fees from all clients for all services, i.e. the importance of the account to the financial well-being of the CPA.
 - o While I do not believe the area is a serious problem, I think safeguards can be implemented both within CPA firms and within public companies which employ them to assure that independence is not compromised by MAS services.
 - o I feel strongly that the total amount of MAS should not be allowed to become important relative to the audit assignment.
 - o While this questionnaire is valuable, one cannot always generalize in assessing the impairment of audit judgment resulting from management advisory services since much depends on specific circumstances.

- o Potential for conflict of interest is very large; should separate as the investment community has separated stock/broad recommendations and investment banking.
- o Public perception of independence can be maintained only by applying stringent rules. CPA's should be allowed to provide any management services, but not for their audit clients. Two or more CPA firms will be needed to service one client.
- o The U.S. CPA enjoys a special position due to S.E.C. Rules and Regulations. Leave most of the management consulting to professionals in that field.
- o Independence is more directly related to the magnitude of fees paid relative to the size of the audit firm as opposed to the type of management advisory services performed.