

Teaching Independence

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Like other professional standards, the complexity and volume of auditor independence rules have grown over the years. To effectively perform attest services, public accounting firms – the only entities state and federal law permit to provide attest services – must interpret and apply these rules properly. Firms need to educate their personnel on independence to achieve these important goals. Success bolsters public confidence in the audit function. Failure exposes a firm to possible violation of rules issued by regulatory bodies such as the Securities and Exchange Commission (SEC) or professional organizations like the American Institute of Certified Public Accountants (AICPA). Independence violations can cause myriad problems – from litigation and regulatory inquiries to loss of clients and reputation.

Quality Control Standards

Under the AICPA [*Statement on Quality Control Standards No. 8 \(SQCS No. 8\)*](#), one of the six (6) elements a firm's quality control system firms must address is *relevant ethical requirements*. The six (6) elements are shown below:

Elements of a System of Quality Control

.17 The firm must establish and maintain a system of quality control. The system of quality control should include policies and procedures addressing each of the following elements:

- a. Leadership responsibilities for quality within the firm (the tone at the top)
- b. Relevant ethical requirements
- c. Acceptance and continuance of client relationships and specific engagements
- d. Human resources
- e. Engagement performance
- f. Monitoring

As a relevant ethics standard and prerequisite for performing attest services, independence

figures prominently in this element. Broadly, the firm's quality control system must provide reasonable assurance that the firm maintains independence per the relevant requirements. Specifically, the firm should communicate those requirements to its personnel, who should be able to identify and evaluate circumstances that create threats to independence and take appropriate action. The following paragraph in SQCS No. 8 pertains broadly to training on relevant ethical requirements:

.A9 The fundamental principles are reinforced, in particular, by the following:

- The leadership of the firm
- Education and training
- Monitoring
- A process for dealing with noncompliance

[Quality control standards](#) that apply when a firm provides attest services to companies under SEC and/or Public Company Accounting Oversight Board (PCAOB) regulations provide a bit more detail on the timing and content of a firm's independence training program. According to the PCAOB's interim quality control standards:

3. The member firm shall establish a training program to provide reasonable assurance that professionals understand the member firm's independence policies. Each professional performing professional services for clients shall complete near the time of initial employment and periodically thereafter, independence training as required by the member firm's policies. The specific content and extent and timing of the independence training requirements shall be determined by the member firm's policies, but shall include the relevant rules regarding investments, loans, brokerage accounts, business relationships, employment relationships, proscribed services and fee arrangements.

Source: SECPS 1000.08 Appendix L—Independence Quality Controls

Not only do professional standards and regulatory requirements expect firms to deliver effective training on independence, but it is key to an audit firm's success. What follows are suggestions for optimizing your firm's independence training efforts, which may be summarized as follows:

- ✓ Start with fundamentals
- ✓ Be as concise as possible
- ✓ Consider your audience
- ✓ Vary training methods

The remainder of this article discusses each suggestion in more detail.

Start with Fundamentals

Teaching independence is *not* about teaching a bunch of rules, which is ineffective and leads to poor retention. It is far better to teach professionals to think critically about this important topic by starting at a conceptual level and promoting a general awareness of the types of relationships and circumstances that trigger independence concerns. This first layer in a professional's education should address fundamental principles underlying the rules and questions such as:

- ✓ What is independence and why is it important?
- ✓ When is independence required?
- ✓ Who must be independent and of which entities?
- ✓ Which types of circumstances threaten independence?

In any learning pursuit, understanding basic concepts facilitates later learning and enhances retention. Teaching the rules without laying this foundation is a recipe for confusion leading to an inability to “connect the dots.”

As fundamentals are mastered, the professional becomes aware or “sensitized” to independence issues – all before any mention of the myriad rules that make up the independence literature. At this stage, it is important to stay out of the weeds. Include guidance on where to go for help when an issue is encountered (for example, by providing contact information, a portal address, or referring to a policy manual).

When possible, employ case studies to illustrate the content, especially issues your firm has encountered and resolved.¹ If relevant, use settlement agreements and other enforcement actions in the public domain, such as those the SEC and PCAOB publish on their websites. Stories that illustrate rules are more memorable than rules alone.

Keep it Concise

Teaching fundamentals and awareness of independence need not take a lot of time. While it may be tempting to provide a heavy dose of independence by training less frequently, small doses at more frequent intervals will likely be far more effective and result in better retention – and better retention should translate to better compliance.

Acceptable training techniques have evolved over time, due in part to generational differences in learning, but also to shorter attention spans, technological advances, and other influences. Younger, tech-savvy professionals have different expectations in training situations; they grew up with technology and e-learning and are less likely to seek out traditional, live classroom sessions. We have all grown used to being entertained and obtaining things quickly on demand.

In recognition of the changing landscape, in 2016, the *Statement on Standards for Continuing Professional Education (CPE) Programs* included for the first-time nano learning programs as

¹ Remove client names and other confidential information, as needed.

an appropriate methodology for continuing professional education (CPE), described in the standards as follows:

Nano learning program. A tutorial program designed to permit a participant to learn a given subject in a 10-minute time frame through the use of electronic media (including technology applications and processes and computer-based or web-based technology) and without interaction with a real-time instructor. A nano learning program differs from a self study program in that it is typically focused on a single learning objective and is not paper-based. A nano learning program is not a group program. Nano learning is not a substitute for comprehensive programs addressing complex issues.

As of October 22, 2020, thirty-six [\(36\) state boards of accountancy have agreed to accept nano learning programs as CPE](#) according to the National Association of State Boards of Accountancy's (NASBA's) National Registry of CPE Sponsors. Hopefully, the remaining 19 states and jurisdictions (most notably, California and New York, which have more licensees than most states) will follow suit, allowing licensees in those states to fulfill their CPE requirements using these programs.

Benefits of Learning in Small Doses

Independence taught in nano-sized courses breaks independence concepts, rules, and relevant considerations into bite-sized, easily digestible pieces. Small doses allow “just in time” learning. A professional encountering a situation (e.g., a spouse's employment offer) could reference a brief nano course that allows her to focus on the relevant issues. Brevity also allows professionals to fit independence training into a busy schedule more easily.

Consider your Audience

Initial Training

All professionals should receive initial or “baseline” training on the fundamentals of independence and to establish general awareness. They also need to understand personal independence requirements, including restrictions on financial interests, loans, family employment, and other personal compliance obligations under firm policy (for example, entering information in a database to determine permissibility before purchasing a security).

One category of professionals who may need a bit more attention is the “experienced hires” coming from other disciplines like engineering or law. Unlike recent college graduates or other professionals studying to obtain their certification as a CPA, these professionals are building on a different base of experience. The auditing professional is unique and training should consider the fact that the concepts will be foreign to them. Insufficient training on the fundamentals can leave these professionals frustrated, especially if they encounter independence restrictions on investments, spousal employment, or the services they provide to clients. These professionals need to be aware of the boundaries or violations can easily occur.

Ongoing Training

Once your professionals understand the fundamentals and are aware of independence issues and their personal obligations for independence, you should tailor your independence training according to their needs, making ongoing training more meaningful. Tailoring will vary greatly depending on firm size and complexity but for many larger firms, you might consider the following categories by level, role, and practice areas in the firm:

Level in Firm

Managers and Partners. Professionals at these levels, particularly in the firm's assurance practice, will make decisions about independence. Evaluations of independence can be quite subjective, requiring higher level skills and the ability to apply professional judgment.

Professional staff and interns (below manager level). Professionals who are not yet at the manager level typically will not make decisions or judgments about independence, though this will vary by firm. As engagement team members, it is quite likely they may be responsible for certain compliance activities, so their training also should focus on those tasks.

Practice Area in Firm

Assurance professionals. Assurance practice professionals typically play quite a different role than their tax or advisory counterparts since it is the assurance partner's responsibility to determine that the firm is independent of the client. When a tax or advisory team wants to perform services for an assurance client, many firms require the assurance partner to review those services and if they are permissible, provide consent for the engagement to proceed. Accordingly, assurance professionals, mainly at the manager, director, and partner levels, need a good working knowledge of the independence rules related to engagement performance, which may include rules pertaining to:

- Nonaudit services
- Fee arrangements
- Business relationships
- Employment relationships
- Audit committee communications
- Services pre-approval

Tax and Advisory professionals. Professionals in the firm's tax and advisory practices need a somewhat different skill set than the assurance group. Still responsible for independence compliance, they should understand the rules for performing nonaudit services and many of the same areas as assurance professionals, such as limits on fee arrangements and business relationships. However, their role under firm policy is often to bring the information to the assurance team for its consideration, not to make the final decision.

Industry Groups

Professionals working in certain industry groups should receive instruction on independence rules imposed under federal law or regulation, which include (among others) groups that provide services to:

- Investment and related companies (e.g., mutual funds, investments advisors, or private equity groups)
- Government funded entities (e.g., not-for-profits)
- Governmental bodies (e.g., states, cities)
- Insured depository institutions
- Employee benefit plans

Other groups in the firm

Independence Office Personnel. Professionals charged with assisting others in the firm with independence compliance should have opportunities to dig deep into the literature to enhance their knowledge of the rules. Many firms use a mentoring approach in which less experienced professionals shadow experienced personnel; for example, they may confer with them before responding to inquiries from the field or sit in on conference calls with engagement teams or regulators to discuss independence matters. Such mentors often provide training to their less experienced colleagues on a formal or informal basis. These professionals also seek out training opportunities outside the firm (e.g., webinars or industry conferences where AICPA, SEC, PCAOB, GAO, or other independence rules may be discussed). Firms may also check in with practitioners from other firms to discuss pending issues on a confidential basis.

Varied Training Methods

Professionals learn in different ways, so it is best to employ different methods to provide training, including live in-person sessions, live and pre-recorded webinars, and self-study, either traditional or “nano” length programs. Live training – either technical training events or firm meetings - are opportunities for sharing good practices, war stories, and inspection or peer review results. A focus on how to improve going forward promotes a culture of excellence and good morale. Providing tax and consulting services to attest clients requires cooperation between the practices, so occasional joint training sessions among the assurance, tax and advisory practices serve a dual purpose of strengthening those relationships and enhancing compliance.

And speaking of culture, the first element of quality control in SQCS No. 8 is leadership responsibility for quality, also known as “tone at the top”, whose influence on professional conduct cannot be overstated. A poor tone in the firm’s executive and management branches will undermine the best independence training programs. Consistent messaging is key. Firm communications, meetings, and daily interactions should reinforce that independence is important and valued, independence training is to be taken seriously, and that all professionals are expected to know the rules and comply with them.

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