

107TH CONGRESS
2D SESSION

S. 1896

To prohibit accounting firms from providing management consulting services for the companies they audit and any other non-audit related services that could result in a potential conflict of interest or otherwise impair the independence of the auditor, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 24, 2002

Mrs. BOXER introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To prohibit accounting firms from providing management consulting services for the companies they audit and any other non-audit related services that could result in a potential conflict of interest or otherwise impair the independence of the auditor, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Auditor Independence
5 Act of 2002”.

6 **SEC. 2. FINDINGS.**

7 Congress finds that—

1 (1) public confidence in the integrity of an
 2 audit by an accounting firm depends on whether
 3 auditors are in fact independent from the companies
 4 that they audit; and

5 (2) an accountant is not independent whenever,
 6 during the calendar year in which the audit is per-
 7 formed, the accountant—

8 (A) has a mutual or conflicting interest
 9 with the audit client;

10 (B) audits the accountant’s own work;

11 (C) functions as management, an em-
 12 ployee, or a consultant of the audit client; or

13 (D) acts as an advocate for the audit cli-
 14 ent.

15 **SEC. 3. PROHIBITION ON PERFORMANCE OF AUDIT AND**
 16 **NON-AUDIT SERVICES.**

17 (a) IN GENERAL.—Section 10A of the Securities Ex-
 18 change Act of 1934 (15 U.S.C. 78j–1) is amended by add-
 19 ing at the end the following:

20 “(g) PROHIBITED ACTIVITIES.—An independent pub-
 21 lic accountant that performs for any entity any auditing
 22 or related service required by this title, and any affiliated
 23 person of that accountant, may not provide to that entity,
 24 during the calendar year in which the auditing or related
 25 service is performed—

1 “(1) any management consulting service;

2 “(2) any other service that is not related to the
3 audit; or

4 “(3) any other service that could result in a po-
5 tential conflict of interest or otherwise impair the
6 independence of the auditor, as determined by the
7 Commission.”.

8 (b) COMMISSION REGULATIONS.—Not later than 90
9 days after the date of enactment of this Act, the Securities
10 and Exchange Commission shall issue final regulations to
11 carry out subsection (g) of section 10A of the Securities
12 Exchange Act of 1934, as added by this section, including,
13 consistent with that subsection—

14 (1) a definition of the term “management con-
15 sulting service” that includes consulting relating
16 to—

17 (A) information technology infrastructure
18 design and implementation;

19 (B) organizational behavior;

20 (C) marketing; and

21 (D) business strategy; and

22 (2) the identification by the Commission of
23 other non-audit services prohibited by that sub-
24 section.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this Act shall become effective on the date of final issuance
3 of regulations under subsection (b)

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