AUDITOR INDEPENDENCE AND
SCOPE OF SERVICES

by

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Auditor independence has been a recurring issue for the accounting profession in the United States, particularly the impact of auditors supplying nonaudit services on their independence (the scope of services debate). The conclusions of deliberations on the issue vary. Congressional committees and their Staff Reports (the Metcalf and Moss Committees) conclude that auditors impair their independence by supplying nonaudit services. On the other hand, the American Institute of Certified Public Accountants (AICPA) committees and boards conclude that while these services may appear to impair independence, they generally in fact do not. This paper seeks to reconcile these conflicting conclusions.

Whether nonaudit services impair independence depends on the role one assumes auditors should fulfill. Prior to the U.S. securities acts, the auditor's role was generally seen as monitoring corporate contracts to enhance management's stewardship of corporate resources and reduce the conflicts of interest between parties to the corporation (e.g., stockholders and bondholders). After the acts, the auditor's role expanded to include monitoring of information not included in corporate contracts (e.g., information useful to contracting parties in investment decisions). Recently some have argued that the auditor's role should include monitoring for parties other than the contracting parties, in particular to society and government officials.

It is the expansion of the auditor's role to parties other than those contracting with the firm (shareholders, bondholders, employees, customers and suppliers) which explains the different conclusions about the impact of nonaudit services on independence. Those concluding that those services impair independence implicitly or explicitly assume the auditor should monitor management for other parties; those reaching the opposite conclusion assume the auditor's duty is restricted to contracting parties. The normative question of what role auditors should fulfill is a normative question not addressed in this paper. However, the effects of various proposals to limit auditors from supplying nonaudit services and who stood to gain from such limitations are analyzed.
The next section describes the development of auditing and the concept of independence prior to the securities acts. In that period the auditor's responsibility was only to parties with a contractual relationship to the firm. Section II investigates the impact of the securities acts on the auditor's role and the concept of independence. The third section analyzes the economic impact of expanding the auditor's role to include reporting to non-contracting parties. It also provides the evidence that much of the support for restrictions on nonaudit services came from parties who stood to gain from the restrictions. The last section presents a summary and conclusion.

I. THE AUDITOR'S ROLE AND INDEPENDENCE PRIOR TO THE SECURITIES ACTS

The voluntary audit of the business corporation is not a recent phenomenon. Its history is almost as old as the business corporation, beginning with the English merchant guilds and descending through the companies of merchant adventurers, the English joint stock companies to the U.S. business corporations (see Watts and Zimmerman, 1983). By the time of the first English Companies Act (1844) the voluntary corporate audit was over 600 years old. That act merely wrote into law the prevailing practice of the time. The professional audit firm evolved in England in the second half of the nineteenth century when audits were not required by law. By 1900, when the Companies Act required audits, the vast majority of traded companies were already audited by Chartered Accountants (Hunt, 1925, p. 454).

English and Scottish Chartered Accountants were sent to the U.S. to audit U.S. corporations with securities traded on the London Stock Exchange and they influenced the development of the audit firm in the U.S. The New York Stock Exchange did not require
independent audits until 1933, but by 1926, 82 percent of NYSE listed firms were audited by professional audit firms (Benston, 1969, p. 519).

An analysis of the auditor's role in the period prior to the securities acts provides a benchmark to compare the later auditor's role and concept of independence which are used to justify limitations on nonaudit services.

Auditing originally arose as a means to monitor management's stewardship of the corporate resources. As the corporate form developed and the number of parties to the firm expanded, conflicts of interests among the parties limited the efficiency of the firm. Conflicts of interest were mitigated by formal contracts that defined the rights and responsibilities of the parties under various contingencies. Accounting statements were an integral part of most of the contracts and periodic audits of these statements became an integral part of the corporate control system (Watts, 1977 and Watts and Zimmerman, 1983).

Early audits monitored the corporation's receipts and expenditures to determine if there were breaches of the corporate by-laws, charter provisions and other contracts (i.e., the auditors attested to the managers stewardship of the firm). The auditors were members of the company, either directors or shareholders. Corporate treasurers posted bonds at the beginning of their tenure and upon retirement the amount returned was based on an audit. Auditors could be fined or expelled from membership in the corporation if the audit was late (see Watts and Zimmerman, 1983).

As a result of competition, several safeguards developed to provide assurance that auditors monitored the contracts as expected. One important safeguard was the auditor's reputation. Auditors were individuals who built a reputation for fulfilling contracts. That reputation was based on prior performance in auditing and other areas of business. Failure by the auditor to report a breach would, if it eventually became known, cause the market to revise its assessments of the auditor's expected performance and the value of
his audit on other contracts. Other, later, developments which increased investors' expectations that contract breaches would be discovered and reported included professional societies and the formation of partnerships of auditors.

It is generally accepted that professional societies of accountants were formed in the second half of the nineteenth century in the U.K. to provide information regarding the performance of accountants involved in bankruptcies (Littleton, 1933). Once established, these professional societies also provided information on the expected performance of auditors. The information was based on prior education, examinations and any discovered improprieties. The society did not monitor individual audits. The formation of partnerships provided monitoring of individual audits (Watts and Zimmerman, 1983). The expected performance of an individual auditor is a joint product of supervision and on-the-job training within the audit firm. By standardizing the level of supervision and training, partnerships were able to develop and use their brand-names. Their concern with their brand-name is exemplified by Price-Waterhouse refusing their first representatives in the U.S. (Jones and Caesar) the right to use the name Price-Waterhouse for fear it would damage Price Waterhouse's reputation (DeMond, 1951, p. 16).

Once the audit firm has established a brand-name to assure the quality of its audits, that name can also assure the quality of nonaudit services. We hypothesize that their brand-names give public accounting firms a comparative advantage over many non-public accounting consultants.

The information on auditor performance supplied by individual firms' reputations and professional societies was information on the probability auditors would discover and, if discovered report, contract breaches. Professional societies use such terms as "competence" and "independence" to describe their members when providing such information. A "competent" auditor is described by the U.S. accounting profession as one
who "shall not undertake any engagement which he or his firm cannot reasonably expect
to complete with professional competence" (AICPA, 1976, p. 4561).

"Independence" is described as "the ability to act with integrity and objectivity" (emphasis added) (AICPA, 1976, p. 4291). The last two terms, integrity and objectivity, are described as implying in aggregate: "A member shall not knowingly misrepresent facts" (AICPA, 1976, p. 4421). Integrity is "equivalent to honesty or to trustworthiness and incorruptibility even in the face of strong pressure" (AICPA, 1979, p. 26). Objectivity is the "lack of bias and resistance to any conscious or subconscious influence toward action, inaction, conclusions or statements that are based on anything other than an impartial evaluation of the best available evidence" (AICPA, 1979, p. 26).

Ex post, the auditor has or has not been independent if he has not or has knowingly misrepresented facts. The auditor's past audit performance affects the future demand for his audits. The important factors in the demand for audits are the likelihoods the auditor will i) discover contract breaches (i.e., competence) and ii) misrepresent facts, on future engagements (i.e., the expectation of auditor independence). The auditor's observed competence and independence are important to the extent they alter the market's expectations of the auditor's performance on future audits.

Auditors possess incentives to be both competent and independent. If the auditor is not expected to discover existing breaches (not to be competent) or to report any discovered breaches (not to be independent), there is no reason to engage the auditor. The performance of the contracts the auditor is hired to monitor will be unaffected and the market will not reward management for the contract for the audit by increasing the price at which new securities can be sold. Since audits are costly, they will only be purchased if there is a non-zero probability the auditor (1) will discover an existing breach (competence) and (2) report the breaches he discovers (independence). In essence, the
auditor must have some competence and not be completely under the control of the manager.\(^2\)

There is no reason to expect the auditor to be perfectly independent and completely competent. It can be prohibitively costly to design an audit program which discovers all breaches and ensures all discovered breaches are reported, just as it is prohibitively costly to build an automobile that has zero defects. Given competition from other ways to monitor contracts (e.g., bonding), survival of auditors suggests that they have not systematically departed from the optimal level of independence and competence. Managers would hire more efficient auditors or employ more efficient monitoring devices.

Under the preceding definition of independence an auditor could supply management services or take such actions as testifying before Congress in favor of higher natural gas prices or lobbying for a given accounting procedure on behalf of a client and still be independent. Such services should increase the value of the corporation and as a consequence increase the wealth of the shareholders and bondholders as well as the manager's wealth. Since these actions increase the wealth of all parties, shareholders or bondholders are not expected to revise their expectations as to the likelihoods the auditor will discover existing breaches (competence) and will report discovered breaches (independence).\(^3\)

The next sections explore how changes in the auditor's role and the attendant changes in the concepts of independence have created the scope of services debate and the likely consequences of the debate.
II. THE EFFECTS OF GOVERNMENT REGULATION ON
THE AUDITOR'S ROLE AND INDEPENDENCE

Recent critics of the profession, including two Congressional committees advocate restricting auditors' scope of services. This position is justified by using a concept of independence that results from assuming an expanded role for the auditor. This section first examines how the securities acts, by assuming an expanded role for auditors, altered the profession's definition of independence. The acts popularized the term "independence" and expanded the concept of independence but they did not induce the debate over scope of service. Subsection 2 examines the recent trend to further broaden the auditor's role from that which originally gave birth to the profession and the relationship between the broadened role and the scope of services debate.

1. The Effect of the Securities Acts on Auditor's Role and Independence

The U.S. securities acts increased the popularity of the term "independence." Prior to that time it was not commonly used to describe the auditor's reliability in reporting observed breaches. The 1933 U.S. Securities Act requires that firms have examinations by "independent or certified public accountants." But, the act did not define independence. The Federal Trade Commission (FTC) which administered the Act, specifically required "independent auditors" not have any direct or indirect interest in the client (Carey, 1969, p. 198) and in the following year the American Institute adopted a similar ethics rule (Carey, 1969, p. 243).

Some idea of the increasing popularity of the term independence following the securities acts can be seen by surveying the number of articles dealing with "independence," listed in each issue of the Accountant's Index from prior to 1921 to 1978. In the four indexes issued prior to the 1932-35 Index, only six articles dealing with
independence were cited and most of these used "independence" to describe an auditor who will not yield to managerial pressure or as an outside contractor. Following the Securities Acts, the 1932-35 Index contains 41 entries on independence, most of them after 1933, and every index (annual or bi-annual) contained between 11 and 79 citations.

The influence of the U.S. securities acts on the popularity of the term "independence" is also seen by examining countries that did not use "independence" in statutes or regulations requiring audits. Neither the United Kingdom nor Australia required audits by "independent" accountants. And debates on independence are of recent origin and caused by "little more than a reaction to government pressure" (Plaistowe, 1978, p. 76) and to events occurring in America (see "Editorial," Accountancy, January 1978, p. 1).

Besides using the term "independent" to describe auditors in the 1933 Act, the Act also changed the concept of auditor independence by expanding the rationale for audits. The stated rationale for the securities acts was that corporate disclosure is necessary for investors to be able to make rational investment decisions (Mundheim, 1964, p. 648). Congress intended private auditors to monitor management disclosure (Wiesen, 1978, Chapter 1, pp. 5-19) which was to be used by investors for their investment decision-making.

The role of auditing implied in the securities acts represents a change from the contract monitoring role that existed for over 600 years. In monitoring contracts the auditor is concerned with determining whether dividends have been paid out of profits, whether the manager has overpaid himself, etc. Questions as to the correct definition of terms such as "profits" depend on what was written and what was intended in writing the contract (Pixley, 1881, pp. 93-96).

By making the auditor responsible for accounting information for rational investment decisions, the auditor's role is expanded. Now the role depends on the
investor's decision-making process. As a consequence, the auditor's role is not as clear-cut as in determining whether a contract has been breached. Further, much more information can be considered relevant to the investor's decision, while the data relevant to a breach of contract are much narrower and more specific.6

The role for auditors implicit in the rationale for the securities acts is broader only in terms of the material which the auditor certifies; the parties involved in the process are the same (i.e., managers, shareholders and bondholders). The only parties entitled to sue under the original securities acts are purchasers or sellers of securities (see Stettler, 1977, pp. 36-39).

The expansion of the auditor's role has an impact on the concept of independence. Before the acts, an independent auditor had to resist pressures to deviate from the amount of independence expected by the contracting parties. After the acts, the auditor had additional incentives because of the additional legal liability imposed by the acts to resist pressures in monitoring not only the reported numbers used in the contracts but also the reported numbers used by investors in their investment decisions. Before the acts, independence was the likelihood the auditor would report a discovered contract breach. After the acts, independence was viewed as the likelihood the auditor would attest that the reported numbers were false or "misleading" for investment decisions given they were false or "misleading" (Rappaport, 1972, pp. 27.2-8). But, this appears to be only the first of two changes in the concept of independence that have occurred with government regulation.

2. The Recent Reinterpretation of the Auditor's Role and Concept of Independence

In the mid-1970's auditors' responsibilities under the securities acts were reinterpreted to include parties other than the contracting parties.7 Again, the auditor's
role and the concept of independence were expanded. For example, the Metcalf Staff Report (U.S. Congress, 1976b, p. 1) states:

"The primary purpose of the Federal securities laws is to instill public confidence in the reliability and accuracy of information reported by publicly-owned corporations. Doubts as to the reliability and accuracy of such information impair its usefulness to the public for making efficient economic and social decisions, and defeat the purpose of the securities laws. Independent auditors perform a key function in achieving the goal of the Federal securities laws because they provide the means for independently checking and confirming the information reported by corporations."

The Moss Committee (U.S. Congress, 1976a, p. 30) goes further and explicitly includes parties other than investors and the government:

"Disclosure starts from the basic operating unit of the economy, the corporation; provides the body of knowledge describing the operation of that and other units, hence the economy; and yields the factual basis for decisions by a number of economic actors: investors, financial analysts, government policymakers, public administrators, and regulators." (emphasis added)

In effect the Moss Committee would give the auditor a responsibility to all users of corporate financial statements and Moss (1978, p. 50) himself, claims that "The public is the 'client' to whom an auditor owes his first loyalty."

Based on an expanded concept of the auditor's responsibilities, auditors who supply advisory services to managers or take an advocacy position on controversial issues are seen as impairing their independence.

"The 'Big Eight' firms have seriously impaired their independence by becoming involved in the business affairs of their corporate clients, and by advocating their clients' interests on controversial issues." (U.S. Congress, 1976b, p. 8)

Supplying management services does not necessarily impair the auditor's independence even when the auditor's role is expanded as in the securities acts. Managers, shareholders and bondholders are still the principal parties to the contracts being audited. If the auditor's services increase the wealth of all parties, there is no reason for the contracting parties to change their expectations about the auditor's independence. If the
actions benefit one party at the expense of another, the effect of such actions on independence depends on whether those actions were expected by the parties and by Congress (i.e., were not intended to be proscribed as a result of the securities acts).

If the supplying of nonaudit services does not necessarily impair auditor independence in terms of his market role under the securities acts, the conclusion that such actions, *ipso facto*, impair independence must be due to the role assumed for the auditor by the Congressional Committees. In particular, it must be due to the extension of the auditor's responsibility beyond the contracting parties and to the claimed expectations of the additional parties.

In summary, auditors expanding into the nonaudit/nonaccounting services markets and the use of the term "independence" in the securities acts generated the debate over independence. By expanding the auditor's responsibility for information used in investment decisions, the securities acts broadened the concept of auditor independence. But, the parties to whom the auditor was to be independent remained the contracting parties. In the 1970's, critics of the profession expanded the parties to whom the auditor was responsible to include government officials and the general public, again enlarging the concept of independence. Auditor actions that before would not impair independence because those actions improved the welfare of the contracting parties, now are claimed to impair independence because the auditor also has responsibilities to non-contracting parties. Those actions include the supply of nonaudit services.

While changes in the concepts of independence and the expansion of nonaudit services have created the debate over scope of services, the desirability of these changes has not been addressed. A necessary condition to assessing desirability from anyone's viewpoint is understanding the likely consequences of the changing concepts. The next section addresses the consequences of restricting the auditor's scope of services for individuals in general and for those supporting the restrictions.
III. THE EFFECTS OF RESTRINGING AUDITORS' SCOPE OF SERVICE

The previously offered explanation suggests that it was the combined effects of the growth in nonaudit services, the use of the term "independence" in the securities acts, and the recent claim that the auditors' clients include non-contracting parties that provided individuals with the opportunity to change auditors with a lack of "independence." Such charges prove a useful tool to justify limiting auditors' nonaudit services. For example, non-auditors (e.g., management consultants, personnel agencies, etc.) competing with auditors in supplying nonaudit services can reduce their competition by charging auditors with impairing their independence when they supply nonaudit services.

Auditors must have some comparative advantage in providing nonaudit services if they can successfully compete with non-auditors, especially since they are forced to bear additional costs of defending these actions. In addition, auditors incur a cost of supplying nonaudit services to the extent the value of their audit opinions is reduced by the decline in their independence. The costs of defending their supplying of nonaudit services and any decline in the value of their audit opinion due to reduced independence are termed "the indirect costs of nonaudit services." The direct costs of the nonaudit services are the personnel and materials consumed in providing the nonaudit services.

Auditors have at least two advantages that can offset these costs. First, to the extent that nonaudit services are joint with the audit, economies exist. Second, given that auditors have brand-name capital (i.e., reputation for a given quality), it can be used to assure the quality of the nonaudit services. Since quality information is costly, a brand-name auditor offering nonaudit services has a comparative advantage over a less well-known auditor or consultant (i.e., one who does not have the brand-name capital to assure quality).
The lower the indirect costs of the nonaudit services, the more nonaudit services supplied by these auditors. Non-auditor suppliers of management advisory services and auditors not supplying these services but who fear losing clients to full-service auditors have an incentive to use the political process to increase the indirect costs of auditors supplying those services. This reduces the supply of the nonaudit services and allows existing non-auditor suppliers to earn higher profits until entry by other consultants adjusts. Also, infra-marginal non-auditor supplies continue to earn rents even after entry. Consequently, non-auditors are expected to lobby to prohibit auditors from providing nonaudit services and independence is a useful argument.

The SEC issued and later rescinded two Accounting Series Releases (ASR 250, June 1978 and ASR 264, June 1979) which had the stated purpose of enhancing auditor independence. ASR 250 required clients to disclose the amount of nonaudit services performed by their auditors if they amount to more than 3% of the aggregate audit fees. The SEC’s reasoning was that investors could "better evaluate registrants' relationships with independent accountants" (SEC, 1981, p. 569). This disclosure requirement also reduced the costs to those parties wishing to charge the auditor with impairing his independence by providing these parties with information on the extent of nonaudit services. A reduced cost of these outsiders makes more charges of impaired independence likely; thus less nonaudit services will be supplied.

ASR 264 also raised the indirect costs to auditors and their clients by warning auditors that their independence may be impaired and thus they will be in violation of SEC regulations if they provide actuarial consulting, public opinion surveys, and psychological testing. This release, like ASR 250, is expected to reduce nonaudit services further.

Statements by the SEC in rescinding ASRs 250 and 264 are consistent with the predictions that these ASRs restricted nonaudit services. The SEC gives one reason for
their withdrawal as they "are claimed to have resulted in unwarranted curtailment of nonaudit services" (SEC, 1981, p. 570).

Evidence that the auditor's competitors in the supply of nonaudit services are important proponents of limitations on the auditor's scope of services is provided in Table 1. The comment letters submitted to the SEC on ASR 250, ASR 264, and ASR 296 (the proposal to rescind 250) were classified according to the type of submitter and position (favor/oppose).9 The submissions on ASR 250 and the proposal to rescind 250 were submitted prior to the final rulings. However, the SEC did not ask for comments prior to issuing ASR 264. The comments received by the SEC and classified in Table 1 were submitted after ASR 264 was issued.

Large public accounting firms, attorneys, corporations, and their trade associations were virtually unanimous in their opposition to restricting auditor scope of services and disclosure of fees on nonaudit services. These groups then strongly supported the proposal to rescind the disclosure requirements (ASR 250). We suspect corporation managers and attorneys supported the restrictions on nonaudit services because they would force the managers to use higher cost substitutes. Auditor's competitors in the supply of nonaudit services (personnel agencies and data processing, management, actuarial, and compensation consultants) were the major proponents of ASR 250 and 264. These groups then became the major opponents to rescinding ASR 250. Small audit firms and sole CPA practitioners were the only group split on ASR 250.

The evidence on lobbying is consistent with the view that use of the Congressional concept of independence raises the indirect costs of the auditor of supplying nonaudit services. If auditors are prohibited from supplying certain nonaudit services, consumers of these services either reduce the quantity they purchase or switch to non-auditor suppliers (that can be higher cost), or both. The result is a social loss from such a prohibition to the extent auditors have a comparative advantage at supplying the eliminated services.
If the auditor's independence (under the profession's definition) is affected by supplying nonaudit services, the auditor bears a private cost in terms of the value of (and thus, the price he can charge for) his audit. The auditor already has incentives to offer nonaudit activities if the net nonaudit fees are greater than the reduction in the present value of the audit to his clients. There may, in fact, be additional social costs associated with the nonaudit services that the auditor does not bear and hence are not reflected in his decision to supply the non-audit services. However, the existence of these benefits has not been documented.
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**TOTALS**

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*ASR 264 was rescinded without public comment.*
IV. SUMMARY AND CONCLUSIONS

This paper has explored the current debate over auditor independence and scope of services. Before the U.S. securities acts, an independent auditor was one who was likely to report discovered contract breaches in spite of pressures to do otherwise. After the securities acts, the auditor's role changed in two ways. First, auditors were made responsible for disclosing not only contract breaches but also other information for investors decisions. Second, Congressional Committees expanded the auditor's clients to include government officials and the general public. Both expansions of the auditor's role make it more difficult for the auditor to be independent. Actions that were considered not to impair his independence when he was responsible to the contracting parties for reporting discovered contract breaches now impaired his independence.

One consequence of the redefinition of the auditor's role and independence is that the political process can be used to restrict the auditors' menu of nonaudit services by charging that such services impair auditor independence. This tactic is often a useful ploy for reducing competition from auditors. In effect, the SEC creates a cartel and prevents entry by auditors wishing to supply nonaudit services. Social welfare is reduced to the extent the auditor has a comparative advantage in offering nonaudit services.

There is another implication of this paper's analysis. The Congressional committees that have expanded the concept of auditor independence have ignored the market induced mechanisms that discipline auditors who deviate from their expected level of independence. In particular, these committees implicitly assume that the expected value of the audit and the future audit fees the auditor can charge are not affected by prior auditor performance. They see the auditor's role as instilling public confidence in the information reported by publicly owned corporations. Further they argue that in the absence of government regulation, auditors lack independence (U.S. Congress, 1976b, p.
22). These Congressional committees ignore the role of the voluntary audit in the capital markets and the pricing mechanism that disciplines the auditor if he lacks independence. Ignoring extant market incentives in making policy decisions results in a mis-estimate of the costs and benefits of the regulation of auditor independence.
FOOTNOTES


2. Assuming rational expectations (i.e., the market's expectations are not systematically wrong, see Hill, 1982), implies there exists some mechanisms by which the market can become informed if the auditor deviates from the market's expectations of his independence and competence. One possible mechanism is the revelation of previously unreported breaches. This need not require that all (or nearly all) unreported breaches are eventually revealed, only that some of them are. The market can learn of auditor shirking or cheating in other ways including disclosures (or security trading) by disgruntled employees, observing the auditor increasing his investments or consumption, etc. As long as the market's expectations are unbiased, the auditor bears the cost of any divergence from the market's expected level of independence and competence.

3. Even if an auditor took an advocacy position (e.g., lobbying for an accounting procedure) which increases the wealth of some parties to the contract he monitors (e.g., shareholders) at the expense of another party (e.g., bondholders), he would not necessarily affect his independence under the profession's concept. At issue is whether such actions cause the market (e.g., bond market) to revise its expectations of the auditor's independence.

4. The 1933 Act was not the first time that some group recommended "independent auditors." For example, the New York Stock Exchange required that effective, July 31, 1933, all listing applications agree to provide financial statements audited by independent public accountants. See Watson (1933, p. 254).

5. The Accountants' Index, a publication of the AICPA, indexes not only the U.S. literature but also the accounting literature of most of the English speaking world. To our knowledge, the subject headings "Accountants-Independence of," "Auditing-Independent Audits," "Conflicts of Interests," "Independence," and "Independent Audits," are an exhaustive set of categories that have been used to index articles on independence. However, we cannot rule out the possibility that numerous articles were written on independence prior to the 1930's, but were not categorized under one of these four subject headings.

6. This does not imply that financial statements were not used for investment purposes prior to 1933. Clearly investors are interested in learning of contract breaches and their estimates of future cashflows depends on the firm's existing contracts and monitoring devices. But we hypothesize that the value of the financial statements and audits were derived primarily as a monitoring device on the firm's extant contracts. The securities acts shifted the role of financial reporting and auditing from a monitoring/stewardship role to the more general information objective. (See Hendricksen, 1977, p. 54 and Watts and Zimmerman, 1979, pp. 295-296.)
7. We have no explanation as to why this reinterpretation occurred when it did. However, it coincides with the expansion of other government regulations.

8. Auditor responsibilities have also been expanded by the 1977 Foreign Corrupt Practices Act which can require auditors to search for and disclose "illegal payments." The auditor must do more than report those illegal payments he finds as a by-product of monitoring contracts, he must design the audit to discover those payments (see U.S. Congress, 1976a, p. 35; U.S. Congress, 1976b, p. 7 and Moss, 1978, p. 49). Also, section 4024 of the Internal Revenue Manual gives the IRS permission to gain access to the auditor's working papers. Kaplan (1980) predicts that this trend is likely to continue; that auditors will become society's policeman. Also, see Seidler and Carmichael (Wiesen, 1978, p. iii).

9. We requested the SEC to send us copies of the submissions. Some of these submissions were discarded: (i) Eight copies were unreadable and could not be classified. (ii) Duplicate copies of the same letter were discarded as were multiple submissions from the same organization. (iii) About twenty letters were misfiled (did not pertain to these issues).

The misfiling suggests the possibility that some letters on these issues were misfiled elsewhere. It is difficult to assess the effect of this bias. But if the filing error rates are symmetric and the misfiled letters were random, the results in Table 1 are representative of the population.
REFERENCES


American Institute of Certified Public Accountants (AICPA, 1979) Scope of Services by CPA Firms, Public Oversight Board.


