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Accounting firms barred from some consulting work

Those auditing federal payments to contractors cannot double as consultants for the clients as well

WASHINGTON – Accounting firms auditing federal payments to Lockheed Martin, General Dynamics & other contractors will be barred from many kinds of consulting work for those clients.

United States Comptroller-General David Walker, who oversees government auditing standards, announced the restrictions as Congress considers similar limits on accounting firms working in the private sector, following Enron's collapse.

The new consulting restrictions, which seek to bolster auditors' independence from client influence, would apply to all

federal agencies, nearly all state & local agencies, and companies and non-profit organizations that receive federal money.

These include defence contractors, hospitals, and health maintenance organizations.

“This standard represents an important step to enhance the independence of external auditors & better protect the public,” said Mr. Walker, who heads the US General Accounting Office.

The consulting limits will take effect on Oct 1.

Congressional investigations are examining the issue of auditor independence as part of the investigation into Arthur Andersen, which made US\$27 million (S\$49.8 million) from non-audit work for Enron in 2000, more than the US\$25 million it was paid as auditor.

The Comptroller-General's standards, which apply to hundreds of billions of dollars of federal funds, would prohibit auditors from reviewing their firm's own consulting work or

performing management functions or decisions. Accounting firm employees who work as consultants will not be permitted to assist with audits. For companies that perform a mix of public & private sector work, the curbs apply to their businesses funded by the US government.

Accounting firms opposed the new rule on the grounds that it would be inconsistent with the standards in the private sector, the Comptroller-General said. The firms also contended that the new standards “could cause hardship” for clients who pay the same firm for audit & consulting services, the announcement said.

The rules “introduces several concepts which need to be assessed to fully understand the impact on accountants & their clients, and on smaller entities in particular” the American Institute of Certified Public Accountants (AICPA), the accounting trade group, said in a statement.

Mr. Walker urged the AICPA & the large accounting firms to tighten their own conflict-of-interest standards for the private sector.

The Securities & Exchange Commission (SEC), Congress & accountants have debated over years whether consulting fees may make auditors reluctant to challenge questionable accounting by clients. In 2000, accounting firms blocked a proposed SEC ban similar to the new federal rule.

Among the most common consulting services provided by accounting firms are: setting up & managing computer networks for clients & establishing financial management systems that provide data used in their financial reports.

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BIG BUCKS

Hundreds of billions of dollars of federal funds are at stake under the new restrictions, which:

- ❑ Seek to bolster auditors' independence from client influence; and
- ❑ Apply to all federal agencies, nearly all state & local agencies, and firms & non-profit organizations that get federal money.