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Accounting giants to curb consulting work

They will no longer offer such services to clients whose books they audit, bowing to pressure after the collapse of Enron

NEW YORK — Bowing to pressure after the Enron debacle, four of the five biggest accounting firms say they are willing to give up at least some of their lucrative but controversial consulting work in an effort to restore confidence in their industry.

PricewaterhouseCoopers (PwC) and Arthur Andersen said on Thursday that they will no longer provide consulting services to clients whose books they audit and will stop providing internal and external audit functions at these same companies.

Ernst & Young and KPMG, which have divested of their consulting units, said they will support the same measures.

Only Deloitte & Touche has maintained its stance that it will not separate its consulting arm because it believes that it provides much better service to clients by keeping the auditing and consulting units together within the firm.

PwC went the furthest of the large accounting firms.

Apart from ending the practice of providing internal audit services and technology or management consulting services to companies that it audits, PwC will also disclose more information about its business, compensation and audits to investors and clients even though it does not have listed securities.

One PwC client, Walt Disney, said on Thursday that it will no longer use consulting services from the same firm that audits its book, one of the first major companies to make such an announcement.

Andersen chief executive officer (CEO) Joseph Berardino has said the firm is engaged in a comprehensive review of its policies and its services, and Thursday's announcement may be only one result.

"We will shortly be announcing a package of measures that will change substantially the way Andersen does business," said Andersen spokesman Patrick Dorton.

The latest moves are intended to address perceived conflicts of interest at accounting firms, said PwC CEO Samuel DiPiazza Jr.

The scramble by most of the big firms to bolster their image shows just how worried accountants are about the prospect of new regulation or legislation. By acting now, they hope to pre-empt such moves and preserve as much business as possible.

A similar limited ban, which had been considered by the Securities and Exchange Commission (SEC) two years ago, failed to win support following lobbying by the accounting industry.

"They're under the gun," said former SEC chairman Arthur Levitt, adding that the proposals were constructive.

Accounting firms often earn more from consulting than from auditing and provide a wide range of financial services and tax advice.

Enron, for example, paid Andersen US$25 million (S$46.1 million) for its audit and US$27 million for consulting services.

Andersen is fighting lawyers, politicians and investors who have slammed it for failing to alert shareholders to Enron's accounting irregularities.

It faces staff defections, loss of major client accounts and hundreds of millions of dollars in potential settlements, experts say.

Enron's management, with the approval of its board, set up a number of partnerships, all of them off the books.

Twice, Enron waived its own code of ethics to allow its chief financial officer to head many of those partnerships.

Andersen knew about the partnerships, but kept the losses they accumulated off the accounts it certified.

This "error in judgment", as Andersen now calls it, led to profits being overstated by US$600 million between 1997 and 2000. When this was acknowledged finally late last year, Enron's stock sank.

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