

The Ethics Standards Board

Independent Regulation of the Accountancy Profession

For Immediate Release

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ETHICS STANDARDS BOARD PROPOSES A NEW APPROACH TO REGULATING THE PROVISION OF NON-AUDIT SERVICES

The Ethics Standards Board (ESB) of the Accountancy Foundation is considering a proposed new approach to the regulation of non-audit services provided by auditors to their audit clients. The proposals are aimed at tackling the perception that auditor independence is eroded by the provision of such services.

One possibility is to specify certain non-audit services that auditors should not provide to audit clients. This approach has recently been adopted in the EC Recommendation on auditor independence and in the Sarbanes-Oxley Act in the US.

However, ESB believes that focussing on a list of prohibited services is contrary to the principle-based philosophy that underpins current auditor independence requirements. Whether a particular non-audit service may properly be provided can be reduced to a question of whether it falls within the boundary of one of the list of prohibitions.

ESB proposes that a more robust stance is to distinguish between services that are primarily designed to provide assurance to shareholders and services that are, in the main, aimed at helping management move the business forward. This may require a re-definition of the range of services that may be offered to shareholders.

ESB doubts whether an accounting firm should be able to provide both types of service to the same company at the same time. However, this would not preclude firms from offering both services to the market.

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Christopher Jonas, chairman of the Ethics Standards Board, commented: “the ESB does not set accountants’ ethical standards. It sets the agenda and timetable for the profession to develop its own standards. We have engaged with the profession to do just this. As a first step we shall ask them to devise the scope of the work to be done for shareholders. We envisage that this will be wider – maybe significantly wider – than the present definition of audit services. This approach aligns well with the first conclusions of the ministerial group on audit and accounting issues, whose July report rejected a blanket ban on the provision of traditional non-audit services.”

He continued: “Our approach offers three advantages. Accountants can define the range of services which shareholders need under this model; the public is assured of a start being made on re-emphasising the principle-based approach to accountants’ ethics; and thereby the profession should regain much of the public respect that the great majority of its members deserve.”

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Notes to editors

1. ESB was formed in 2001 to secure the development of ethical standards for all professionally qualified accountants who are members of the six accountancy bodies that together make up the Consultative Committee of Accountancy Bodies (CCAB). It is part of the new system of non-statutory independent regulation of the accountancy profession under the Accountancy Foundation. The aim of the new system is to ensure that the public interest in the way the accountancy profession operates is fully met and to secure public confidence in the impartiality and effectiveness of its regulatory and disciplinary processes. Although the system is funded by the members of CCAB, it is independent from the accountancy profession: a key feature of the arrangements is the involvement of a majority of lay members. Six of ESB’s ten members, including its Chairman, are non-accountants.

ESB will set the agenda for the ethical standard setting processes of the six members of CCAB by specifying the standards that are needed and the issues that need to be covered. It will be for the members of CCAB to prepare the necessary standards: if they fail to do so to ESB’s satisfaction, ESB has the power to develop and issue such standards itself.

The six members of CCAB are:

- The Association of Chartered Certified Accountants
- The Chartered Institute of Management Accountants
- The Chartered Institute of Public Finance and Accountancy
- The Institute of Chartered Accountants in England and Wales
- The Institute of Chartered Accountants in Ireland
- The Institute of Chartered Accountants of Scotland

2. The European Commission issued its Recommendation 'Statutory Auditors' Independence in the EU: A Set of Fundamental Principles' in May 2002. It establishes fundamental principles on statutory auditors' independence for adoption in all member states of the European Union.
3. The Sarbanes-Oxley Act of 2002 became law in the United States on 30 July 2002. It specifies that auditors of publicly traded corporations are prohibited from providing the following nine categories of non-audit services:
 - bookkeeping or other services related to the client's accounting records or financial statements;
 - financial information systems design and implementation;
 - appraisal or valuation services, fairness opinions or contribution-in-kind reports;
 - actuarial services;
 - internal audit outsourcing services;
 - management functions or human resources;
 - broker or dealer, investment adviser, or investment banking services;
 - legal services and expert services unrelated to the audit; and
 - any other service that the Public Company Accounting Oversight Board determines is impermissible.