

FRC avoids blanket ban on auditors

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An accounting regulator has resisted a call from MPs to ban auditors from selling other services to their clients.

However, the Financial Reporting Council (FRC) raised the prospect of prohibiting auditors from taking on restructuring work at listed corporate clients that hit financial trouble.

Regulatory scrutiny of auditors and the role they played in the financial crisis has intensified recently. One controversial issue is the extra work that auditors often take on from clients in areas such as tax advice.

The House of Commons Treasury Committee last year called for them to be banned from picking up this additional non-audit business.

The MPs said that such diversification jeopardised the independence of the auditor's core task – assessing whether a company's financial statements have been properly prepared.

“We strongly believe that investor confidence and trust in audit would be enhanced by a prohibition,” the MPs said, arguing that auditors might temper critical opinions of a company's accounts if they feared the loss of other fees.

Having been asked by the MPs to consult on a ban, the FRC's Auditing Practices Board on Friday said that the overwhelming view of parties canvassed was that it should steer clear of such a move.

“A blanket prohibition of non-audit services would not be proportionate,” it said, adding that some of this extra work would not be viewed as controversial by most shareholders.

The FRC said auditors were also much less dependent on extra work than they used to be. In the FTSE 100, their non-audit work was, on average, worth about half of their audit fee in 2009. In 2002, it had been twice as remunerative.

Some big companies had also argued that auditors were a cheap and fast source of additional advice.

However, the Local Authority Pension Fund Forum, an investor body, had pushed for a ban, saying it had difficulty accepting that audit firms could retain their independence while at the same time providing consultancy services to companies.

The FRC said it would consult on whether to prohibit auditors from providing restructuring services to listed companies in distress, among other minor reforms.

It said some investors were worried that an auditor might not give an impartial view of a struggling company's ability to continue as a going concern if it had been involved in drawing up a rescue plan.