Top Accounting-Industry Group Sets Conflict-of-Interest Compliance Rules

By Elizabeth Macdonald
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The accounting profession's biggest trade group introduced sweeping new compliance rules intended to stop the conflicts of interest plaguing the profession.

The rules from the American Institute of Public Accountants are intended to buttress existing audit-or-independence rules, which stipulate that auditors can't own investments in audit clients. The rules, drafted by the Securities and Exchange Commission, increasingly have come under attack by some in the accounting profession.

Among the changes, the guidelines say auditing firms must have in place by year-end new computer systems to track employee investments in order to stop workers from stashing their nest eggs in corporate-audit clients. The firms also must establish formal training programs to instruct workers on what the SEC auditor-independence rules require, and the firms must disseminate by March 31 "plain English" guidelines spelling out the auditor-independence rules to all of their domestic and foreign offices.

"These are the most-extensive independence-compliance rules ever imposed on member firms in the history of accounting," says Barry Melancon, president and chief executive of AICPA. The guidelines cover 1,300 firms, including the Big Five, who audit public companies. The Big Five audits more than 90% of these concerns. "This is a first step in ensuring that the firms comply with elementary independence rules," SEC spokesman Chris Ullman says. "But while system changes are important, the culture needs to change as well."

The rules come within weeks of a report released by the Securities and Exchange Commission showing partners and employees at PricewaterhouseCoopers had committed 8,064 violations of the independence rules; the infractions largely involved employee relatives who owned investments in audit clients. Those nabbed included 31 top partners as well as six executives responsible for enforcing independence rules. PricewaterhouseCoopers has fired 10 people over the infractions.

Although such problems haven't surfaced at the other Big Five firms, the Public Oversight Board, an industry oversight panel, is investigating them for possible past violations. Some profession officials say problems exist at these firms.

PricewaterhouseCoopers has spent more than $10 million on a new computer-tracking system that monitors employee investments, including mutual funds, derivatives, even stocks held short-term via day trading. The system, regarded as the gold standard in the profession, relies on an S&P database of 40,000 companies and subsidiaries. To entice workers to log investments into the system, PricewaterhouseCoopers shelled out $20,000
in prize money to 20 employees who logged in their holdings before a certain deadline.

The SEC rules that have led to these changes have come under fire by many Big Five officials as being unreasonable and unfair. They say the rules have forced spouses, children, even grandparents to divest investments, including those held in estates, and they have forced spouses to quit their jobs. At the same time, the accountants can't set up blind trusts. Many say the rules also have hurt the recruiting process. "The complexity and the overreaching issues of our rules do make the hiring process more complex," Mr. Melancon says. The SEC says the rules are necessary to protect investors.

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