

8. SELF-REGULATION OF THE ACCOUNTING PROFESSION

8.1 INTRODUCTION

The case study on self-regulation of the accountancy profession has been included in the study for a number of reasons. It provides an opportunity to examine a scheme of self-regulation in a profession. The accountancy profession has a long history self-regulation and the first Code for the profession was developed over one hundred years ago. As a long-operating scheme, the accountancy codes have adapted to changes in the regulatory framework (notably trade practices law and competition policy) and been responsive to market developments.

There are a number professional associations for accountants in Australia including the:

- Institute of Chartered Accountants in Australia (the ICAA);
- CPA Australia (formerly the Australian Society of Certified Practicing Accountants (ASCPA));
- National Institute of Accountants; and
- National Tax and Accountants Association Ltd.

This case study focuses on the CPA Australia and the ICAA Codes of Conduct. These two bodies are the largest professional accounting bodies in Australia and represent the bulk of accountants working in public practice. Together they have a total membership of over 130,000 accountants — the ICAA has 30,000 members and the CPA Australia’s membership is over 90,000. CPA Australia’s membership makes it the third largest accountancy body in the world, after the United States and United Kingdom.

There have been a number of moves to merge the CPA Australia and the ICAA into one professional body. While these moves have been unsuccessful, the bodies work closely together in a number of areas affecting the profession as a whole.

8.2 THE MARKET FOR ACCOUNTING SERVICES

8.2.1 Supply of accounting services

Until the late 1960's accounting could be defined as 'the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof' (Wixon 1965). In recent times accountants in public practice have expanded the range of information and advice they provide business and now carry out a large part of management and consulting assignments in Australia and overseas. The range of services provided by accountants include the preparation and lodgement of taxation returns, financial and management accounting, business planning, investment advice, insolvency proceedings, auditing, human resource management and general consulting services. Provision of all of these services requires an extensive knowledge and understanding of complex issues, rules and regulations, which are often the subject of change.

In contrast to many markets in Australia, the accountancy profession includes a significant proportion of small businesses operating alongside major firms. Unlike many industries the costs associated with entering the industry as a sole trader are relatively small and exit is also relatively costless.

The market for public practice accountancy services comprises three clearly delineated segments. The "Big 5" (Arthur Andersen, Deloitte Touche Tomatsu, KPMG, Ernst & Young, PricewaterhouseCoopers) are large partnerships which provide the full gamut of accounting and consultancy services. Together, the "Big 5" have over 40 per cent of public practice turnover (ACCC 1992). The "Big 5" have strong international links through a worldwide partnership. They employ a large number of professional staff with expertise across a broad range of areas outside of accounting, including law engineering, economics, actuarial services and human resources. The '2nd Tier' is often used to describe the next 14 largest accountancy practices. They also tend to have international affiliations and operate as medium to large partnerships. The third tier covers more than 6,000 accountancy practices operating as small partnerships and sole practitioners. The clientele of this third tier of accountants in public practice tend to be smaller businesses and individuals. Their major activities are taxation, financial reports and accounting business and investment advice.

Virtually all of the accountants in public practice are members of one or more professional bodies or associations. In some instances, these associations reflect a particular expertise of an accountant (for example, the Institute of Internal Auditors of Australia). However, other associations cover practitioners with a wide range of expertise, the CPA Australia, the ICAA, and the National Institute of Accountants fall into this category. All three bodies require members to observe a professional Code of Conduct.

The CPA Australia and ICAA go to considerable lengths to differentiate their members from each other and from accountants which do not belong to either body. This differentiation is seen as an important marketing tool. For example, in its latest annual report the ICAA (1999) reported on a recent survey of members which:

..confirmed that the Institute must maintain high entry standards, differentiate the CA brand and provide cost effective CPE (continuing professional education).

Similarly CPA Australia (then the ASCPA) in 1998 launched a new round of national television and print advertisements aimed at 'positioning members as strategic advisers to business' (ASCPA 1999). The ASCPA (1999) reported that independent research indicated that awareness of CPA was high with 96 per cent of business and 70 per cent of the public being aware of the CPA Designation.

Self-regulation co-exists with black letter law

Accountants like other businesses are required to comply with an extensive body of law including competition policy and industrial relations. However, in addition to this generic body of law accountants undertaking certain activities or that supply certain services are required to hold the appropriate authorisations from external regulators. For example:

- a person, partnership or company must be registered as a tax agent or have been granted an exemption from registration by the Tax Agents' Board, to be entitled to charge a fee for preparing an income tax return or transacting business on behalf of a taxpayer in income tax matters. Tax Agents are required to comply with the Australian Income Tax Legislation. Complaints regarding the standard of tax advice are heard by both the Board and the professional associations, depending on the nature of the complaint.
- to undertake an audit and sign a company audit report, an accountant must be a Registered Company Auditor (RCA). Currently registration is regulated by the Australian Securities and Investments Commission (ASIC). RCA's must comply with the Corporations Law and conduct audits in accordance with Australian Auditing Standards. Complaints regarding RCA's are referred by ASIC to the Companies and Liquidators Disciplinary Board and may also be heard by the professional association.

- ASIC also regulates individuals operating as licensed investment advisers and giving advice in relation to superannuation.
- individuals and businesses must also be registered with ASIC as insolvency practitioners to deal with various procedures that will allow a business to be wound up.

While these services can only be undertaken by an authorised person, partnership or company there is no regulation or requirement in law that specifies that a person, partnership or company must have a minimum level of qualifications or experience to call them self an accountant or public accountant. In addition some of the services provided by accountants are also supplied by businesses which do not purport to be accountants including investment advisers, management consultants, merchant banks and tax return businesses. Given these supply characteristics the market for services provided by accountants is very competitive.

8.2.2 Demand for accounting services

All Australian businesses and many households require accounting services. As outlined below, the nature of the service required varies by market segment:

- large corporations employ their own accountants to undertake day to day tasks including preparation of financial accounts, foreign exchange, treasury, tax management and internal audit. There has been a growing trend to use external accountants for services once provided in house. In addition, there is a requirement under the corporations law that financial accounts be audited by a Registered Company Auditor;
- medium to small corporations and other businesses may also employ a small number of accountants. Their call on external accounting services will vary from firm to firm. In many instances external accounting services will be restricted to taxation and, if required, an audit by a Registered Company Auditor. However, some medium and small businesses will demand more specialist advice including financial advice;
- some private individuals and households require accountants or other registered individuals and businesses to prepare and lodge tax returns and supply financial advice; and
- Australian governments and the business enterprises also employ accountants but often call on the resources of external accountants and consultants to undertake a diverse range of services including the statutory audit function, asset valuation and time management and economic analysis.

Reflecting the demand for accounting services, accountants work in public practice, as employees and proprietors, as well as in other private sector firms, in academia and in the public sector. CPA Australia's and the ICAA's membership reflect all aspects of accounting services. However, the majority of the ICAA's members are the public practice.

8.2.3 Nature of market failure(s)

The market for accounting services is very competitive. However, two market failures, information failure and externalities can lead to inefficient outcomes. These market failures have created a need for professionals to associate and operate under Codes of Conduct, which set down standards of professional practice and ethical rules.

While there are specific statutory provisions which require certain activities that are generally undertaken by accountants to be registered, there is no legal constraint to prevent an unqualified or even a dishonest person from setting themselves up as an accountant in public practice. It can be costly in terms of information requirements and time, for potential clients to identify if the accountant of their choice has the necessary qualifications, skills and competencies to undertake the services required. A lack of information about the business attributes of particular accountants can lead to inappropriate choices of service provider. As many of the services provided by accountants can be crucial for their clients financial viability an inappropriate choice can lead to a loss of income and at worst insolvency.

The provision of inadequate accountancy services can have spillover (externality) effects that go beyond the accountant's client. For example, adverse effects of inadequate accountancy services can impact on company shareholders, creditors and investors. Further, because it is difficult to identify which accountants have, and which do not have, the necessary skills and competencies to undertake accounting services, the negative feedback associated with poor service can have a deleterious on the whole profession.

Reserving the title accountant for individuals that satisfy a number of professional criteria could help overcome the information failure and potentially lessen the negative externality. This licensing option would require legislation and could be difficult and costly for a regulator to enforce overtime. A further down side to licensing is that restricting entry to the market can lead to a reduction in competitive pressures which can have adverse impacts on the productive efficiency of the profession as well as leading to excessive charging practices.

The licensing option has been tried by some state governments. Until the 1980s the New South Wales and Queensland Governments registered those people or businesses offering 'public accountancy' services. This legislation was repealed as it was considered more

appropriate and more effective to regulate specific functions in combination with the self-regulatory activities of the accountants professional associations.

A Code of practice is another option for redressing market failure. Under this option like minded accountancy professionals club together to set ethical and professional standards and sanctions for non-compliance.

A third option to address the market failures is to endeavour to differentiate the accounting services provided by particular accountants as individuals, partnerships or corporations. Product differentiation occurs at the level of the professional association but also occurs at the level of the firm. For example, all of the Big 5 have internal Codes of Conduct which govern their international partnership.

In Australia's case the second and third options are both used to "advertise" the quality of segments of the accountancy profession.

8.3 THE PRESENT SYSTEM OF SELF-REGULATION

8.3.1 Background

A distinction needs to be made at the outset between *technical* accounting standards and *professional* accounting standards.

Technical accounting standards are the responsibility of the Australian Accounting Standards Board (AASB) which was established under the *Australian Securities and Investments Commission Act 1989*.

Ethical and Professional accounting standards are the subject of industry self-regulation.

8.3.2 Objectives of the Code

The joint Code of Professional Conduct is based on a recognition that CPA Australia and the ICAA as professional accountancy bodies have objectives to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement. These objective require that four basic needs must be met:

- Credibility — society as a whole requires credibility in information and information systems;
- Professionalism — individuals who can be clearly identified by clients, employers and other interested parties should be viewed as professional persons in the accountancy field;

- Quality of services — there is a need for assurance that all services obtained from a professional accountant are carried out to the highest standards of performance; and
- Confidence — users of professional accountants should be able to feel confident that there exists a framework of professional ethics which governs the provision of those services.

The CPA Australia and the ICAA require that members be guided not merely by the terms but also by the spirit of the Code.

8.3.3 Development of the Code

Self-regulation of the accounting profession in Australia has been in place since the end of the 19th Century and was modelled on rules originally established for the profession in the United Kingdom. As with many other professional schemes, the original intent of self-regulation was to maintain high standards of service, including by the establishment of high barriers to entry to the profession, and the inhibition of unseemly conduct such as advertising and discounting of fees. However, the introduction of trade practices legislation in Australia in the mid-1970s — and the early decisions of the then Trade Practices Commission to refuse to authorise professional fee schedules and other restrictions on competition — as well as a review of the accounting profession in 1992 have changed the face of professional self-regulation.

8.3.4 Code coverage

CPA Australia's and the ICAA's membership reflect all aspects of accounting services, although, the majority of the ICAA's members are in public practice. The bulk of accountants in public practice would be members of one or both of these two professional bodies. As noted earlier, all members of these bodies are bound by the Code.

There are minimum tertiary educational requirements for entry to CPA Australia and ICAA. Thus, the Code does not cover accountants with non tertiary qualifications — for example accountants with TAFE qualifications would not qualify as members, even though they undertake accounting activities and some work in public practice. Thus, while the Code has a high rate coverage of the accounting services industry it does not have a universal coverage.

8.3.5 Funding of the Code

The operation and administration of the Code is funded by membership subscriptions as well as from any surpluses arising from fees paid by members to undertake continuing education.

Fines and costs paid by members as a consequence of disciplinary or appeal committees decisions also provide a small amount of funding for the operation of the Code.

8.3.6 Administration and operation of Self-regulation and the Code

The main elements of CPA Australia and the ICAA self-regulation are:

- Prescribed graduate entry requirements for eligibility of membership (see below);
- Prospective members must complete professional accreditation programs prior to being admitted as a member. Members wishing to operate a business as a public accountant must also complete a public practice program;
- All members must undertake continuing professional development and education;
- Members are offered assistance and support;
- Members must abide by a professional code of conduct (see below); and
- Members in public practice must undergo periodic quality reviews (see below).

Entry requirements

CPA Australia and the ICAA limit membership to accountants which as a minimum have completed an approved course at an accredited tertiary institution. The course must include a number of key subjects which relate to accounting, taxation and a number of related areas. The ICAA requires that a prospective member must also complete a program of study after completing their tertiary qualifications. This study is known as the Professional Year Program. CPA Australia also requires that prospective members undertake a program of study, the CPA program, before entry.

The ICAA also requires that prospective members should work under the supervision of a Chartered Accountant for at least three years in public practice or an approved organisation. CPA Australia also requires that members work be supervised for at least three years with a member of an approved professional body or, if unsupervised, have five years experience working in the profession.

These entry requirements help to ensure that the quality of services provided by members meets a minimum standard but also serve to reduce the potential for ‘adverse selection’. Whereby individuals or partnerships seek membership in order to have their disreputable practices certified as being acceptable.

The Code

Initially CPA Australia and the ICAA operated under separate Codes of Conduct. However, in recent years there has been a growing awareness of the need work closely together in areas affecting the profession as a whole. This awareness has led to the development of a joint Code of Professional Conduct (the Code). The Code came into operation in 1997 and sets down:

Fundamental principles of professional conduct applicable to all members and covering:

- The public interest — member must safeguard the interests of their clients and employers provided that they do not conflict with duties owed the community and its laws;
- Integrity — members must be straight forward, honest and sincere in their approach to professional work;
- Objectivity — members must be fair and must not allow prejudice, conflict of interest or bias to over ride their objectivity;
- Independence;
- Confidentiality;
- Technical and professional standards — members must carry out their professional work in accordance with relevant technical and professional standards;
- Competence and due care; and
- Ethical behaviour.

Matters applicable to all members covering:

- Guidelines for members practising or employed overseas;
- Guidelines for members in outside employment;
- Preparation of legal documents;
- Professional competence; and
- Confidentiality.

Matters applicable mainly to members in public practice:

- Professional fees — must reflect fairly and equitably the value of work performed;
- Advisory services — fees and commissions;
- Administration and safe keeping of funds held in trust and clients' monies;
- Practice names and descriptions — a practice name must not be false, misleading or deceptive or reflect adversely on the profession;
- Advertising publicity and solicitation — advertisements and other publicity must be informative, objective and consistent with the dignity of the profession;
- Changes in profession appointments;
- Referrals;
- Incompatible business — members should not engage in any business or occupation which could create a conflict of interest detrimental to the public good or the dignity of the profession;
- Stationery and signboards — members should only use stationery and signboards which are professional and appropriate to their public practice; and
- Attention to correspondence and inquiries should be professional and carried out expeditiously.

Periodic quality reviews

Both accounting bodies are pro-active in reviewing their members' in public practice compliance with professional standards. CPA Australia and ICAA have jointly developed and implemented quality review programs for Public Practice Certificate holders. As a consequence, there is a high degree of similarity in both programs.

The CPA Australia Quality Review Program aims to ensure that Certified Practising Accountants in public practice maintain the highest professional standards, to underpin the credibility of the CPA accreditation. The CPA Australia Quality Review Program reviews individual Public Practice Certificate holders to check compliance with professional standards — looking at, for example, the training, consultation, supervision, review and documentation provided, particularly on complex issues. Total refusal to comply with the Quality Review Program results in the withdrawal of a member's Public Practice Certificate and membership.

Where the CPA Australia quality review process identifies any problems in a member's practice the member is given an opportunity to improve their practices. After a period of time

a second review is undertaken and if improvements are not identified the member, as an ultimate sanction will lose their Public Practice Certificate and their membership.

CPA Australia is coming to the end of the first five year review cycle. Tasman has been advised that the standards expected in the next review cycle will be higher than in the first.

The ICAA's Quality Review Program has conducted random reviews of approximately 85 per cent of all chartered accounting practices since the program was instituted in 1994. The ICAA reviewers focus on internal operating procedures adopted by accountancy practices to ensure compliance with professional standards. The reviewer will look to ensure adequate documentation and research for decisions, up to date statutory records kept by the practitioner, that letters of engagement are in place for professional work, and so on. The costs of conducting reviews (in the order of \$1,200 for the review of a sole practitioner) are recovered from the individual member subject to a review.

8.3.7 Complaints, discipline and enforcement

Non-compliance with the Code exposes members to disciplinary proceedings, which can include the removal of the certificate of public practice and exclusion from membership. The professional bodies may also discipline members for a breach of a technical accounting, auditing or ethical standard or a breach of the law. The ICAA and CPA Australia undertake separate disciplinary and enforcement functions. In both cases the disciplinary process excludes any compensation or recompense to the client. Clients seeking a remedy are free to pursue a remedy through their accountant's Professional Indemnity insurance (which must be held by members) or through the court. The primary aim of the disciplinary procedures is to ensure that the Code and any other rules and requirements of the association are not breached.

In 1998-99 the ICAA's disciplinary committees dealt with 31 complaints or allegations against members or practices entities. Most common complaints and allegations were member's insolvency, Breach of Charter, By-laws or regulations (including ethical and professional standards). Seven members lodged appeals. In total members were ordered to pay \$19,350 toward the ICAA's costs. Other sanctions included exclusion, suspension and reprimands (see Table 8).

The disciplinary committees do not hear complaints regarding fee disputes. The ICAA offers an arbitration service for fee disputes, but both parties must agree to the arbitration and would be expected to share the costs. CPA Australia offers a similar scheme.

Table 8: ICAA Disciplinary Committee hearings, allegations and sanctions

	<i>1998–1999</i>	<i>1997–1996</i>
Total cases heard	31	37
Nature of allegations		
Failure to observe proper standard of professional care, skill & competence	6	6
Criminal conviction	2	1
Found in civil proceedings to have acted dishonestly	-	-
Guilty of statutory offence bringing discredit on member, institute or profession	2	-
Adverse finding in relation to professional or business conduct by Court, statutory, regulatory or professional body	5	5
Breach of Charter, By-laws or Regulations (including ethical & professional standards)	8	16
Failure to comply with direction by institute (including failure to respond to correspondence)	4	15
Member's insolvency	8	9
Insolvency of practice entity	-	1
Conduct bringing discredit on member, institute or profession	5	7
Sanctions imposed		
Exclusion	2	4
Suspension	4	6
Cancellation of Certificate of Public Practice &/or declared ineligible to hold a Certificate of Public Practice	1	1
Fine ^a	5	7
Severe reprimand	10	6
Reprimand	9	14
Practice review	4	4
Reporting CPE compliance	-	1
Attending specified CPE activities	4	-
Audit of trust account	-	-
Seek advice as to conduct of practice	1	2
No sanctions imposed	2	5

^a Totalling \$11,500 (\$22,000 in 1997-1998).

Source: ICAA 1999.

CPA Australia considers complaints from the general public and from members. Complaints and allegations first undergo peer review by the Investigation Committee. Complaints and allegations with substance are passed on to the Divisional Disciplinary Committees, which are made up of senior members of CPA Australia and a lay person. (The lay person on CPA Australia's Victorian Divisional Disciplinary Committee is a representative from the Law Institute.) Currently, the committee does not have a consumer advocate but Tasman has been advised by CPA Australia that this has not been ruled out as an option. CPA Australia is currently investigating options for introducing a dispute resolution scheme to satisfy public demand. However, any scheme would need to be linked to current remedies.

Disciplinary sanctions cover a broad spectrum and range from the ultimate sanction of loss of membership to a reprimand, whereby a notation is made on the member's file. Fines are also levied in some circumstances; the maximum fine is set at \$100,000.

The CPA Australia's Annual Report indicates that in 1998 sixteen members were subject to disciplinary action. Penalties included admonishment, additional remedial professional development, suspension, and in four cases, forfeiture of membership. Offences included making false declarations, trust account violations, obtaining loans from clients, criminal conviction and being in public practice without a Public Practice Certificate. Table 9 reports the nature of complaints received over the six months to December 1999.

Table 9: CPA Australia Cases Received and nature of complaint

	<i>6 months to 31-12-1999</i>	<i>1999 total</i>
Cases received (new cases)	213	387
Type of complaint	<i>No. of complaints</i>	
Fraud	4	
Lack of care, skill or competence	64	
No Public Practice Certificate	37	
Breach of confidentiality	0	
Adverse finding not set aside	2	
Breach of Trust Account	5	
Unauthorised use of intellectual capital	1	
Failure to transfer records	38	
In practice with a non-member	6	
Conflict of interests	7	
False misleading and deceptive advertising	14	
Other	35	
Total	213	

8.4 FEATURES OF THE MARKET THAT MAKE SELF-REGULATION MORE OR LESS EFFECTIVE

8.4.1 Overall effectiveness in addressing market failure(s)

CPA Australia and the ICAA's approach to self-regulation has a long history. Over the years the two bodies regulations and professional code have been adapted to reflect changes in the regulatory framework (notably trade practices law and competition policy). The Code has also been responsive to changes in the market circumstances faced by accountants.

CPA Australia and the Institute have also responded to concerns raised in Trade Practices Commission's (TPC) 1992 review of the accountancy profession. The TPC found that, overall; the industry's self-regulation was in the public benefit and does not impede competition. However, some areas of concern were raised. For example, the Code as it then stood restricted solicitation of clients, which could reduce competition in the industry. In response to concerns the Code was changed to permit solicitation.

CPA Australia and the ICAA are both large, well resourced and respected professional bodies. Both have the necessary infrastructure to deal with change. Both bodies have been able to use self-regulation and product differentiation effectively to overcome information problems. Clients and prospective clients are well aware that accountants which are members of one or both of these associations will have at least the minimum level of qualifications, competencies and professional ethics necessary to undertake a broad range of accounting related services. Self-regulation achieves this goal without impeding competition in the industry, as non-members are free to compete in the market.

However, the freedom to enter and operate in the market without the disciplines imposed by self-regulation can reduce the effectiveness of sanctions which result in the suspension or expulsion of a member. On the other hand, the ICAA and CPA Australia have responded to this problem through the use of "branding". As outlined in section 8.2.1 both accounting bodies go to considerable lengths to differentiate their members from each other and from practitioners, which do not belong to either body. In addition, the extensive level of black letter law associated with a number of services provided by accountants also helps to create the necessary teeth to support the ultimate self-regulation sanction.

In essence self-regulation through the Code helps to create an environment of trust. Clients are more likely to trust in members of associations that require their members to be credible, professional accountants, which provide quality services in an ethical manner.

CPA Australia's and the ICAA's approach to self-regulation also operates to reduce the chance of malpractice among their members, by setting ethical standards and reviewing public practice etc. This approach to self-regulation thus minimises the opportunity for negative externalities to flow from one member to another.

8.4.2 Product related factors influencing effectiveness

Product differentiation is an important factor in the development of effective self-regulation. Product differentiation assists in developing clients understanding of the quality of service and trust that can be expected an accountant who is a member of CPA Australia or the ICAA.

Similarly, product differentiation also minimises any negative externalities associated with non-professional conduct by members of the accounting profession, which are not members of CPA Australia or the Institute. Black letter law, such as a legislative requirement that all practicing accountants should be licensed, could not necessarily achieve this outcome.

The information intensive characteristic of accounting services also makes membership of professional bodies such as CPA Australia and the ICAA an attractive option for accountants. These industries bodies not only require that their members undertake continuing professional development and education but also provide information and advice. This information significantly reduces the search costs associated with keeping up to date.

8.4.3 Impact of nature and extent of competition between firms on effectiveness

The market for accounting services is highly competitive. Barriers to entry and exit are relatively low, especially for small practices. While the industry is very competitive the majority of accountants have similar strategic goals. These goals include the alleviation of the market failures discussed above, but also include lobbying of Government and development of uniform accounting standards. This has lead to the formation of strong professional associations like CPA Australia and the ICAA.

These two professional bodies represent a substantial proportion of the accountants in public practice. In essence accountants that choose to operate in public practice and provide a full gamut of services (taxation, audit etc.) must be registered by a number of statutory bodies. Registration in most instances requires that accountants have similar or the same qualifications and experience as required by the ICAA and CPA Australia. As a consequence most accountants in public practice are members of one or both of these bodies and are therefore subject to self-regulation. This extensive coverage of the accountancy profession improves the effectiveness of self-regulation.

8.4.4 Commonality of producer and consumer interests and effectiveness

In many respects there is a commonality of interest between accountants and their clients. Clients seek out the services of an accountant because they generally do not have the expertise or information necessary to undertake a particular accounting related task themselves. In most instances the services provided by accountants will impact on their financial wellbeing and can often involve private or confidential information. Thus, it is in the best interests of the client that the accountant they choose has the competencies and ethics necessary to provide a quality service in a confidential manner. Self-regulation of the accounting profession helps consumers and business, as potential clients, to select an accountant which they can trust.

Accountants on the other hand have an interest in ensuring that their reputation and the reputation of their businesses are not adversely effected by the poor business practices of others in the profession. Being members of an association with a strong and enforceable body of self-regulation provides a means of minimising the risk of negative spillovers.

While there is some commonality of interest between accountants and their clients there is also some divergence in interest. Self-regulation in the accounting profession does not provide a remedy or compensation for any clients which are subjected to some form of malpractice. However, as noted above, both Codes require their members in public practice to hold professional indemnity insurance. Clients must seek out their own remedy through such insurance and/or the law. This can be a costly process and for many small businesses and consumers the costs may be prohibitive and thus they may receive no compensation or remedy.