(SAS 82): A New AICPA Auditing Standard
Here is a PowerPoint presentation that deals with the consideration of fraud in a financial statement audit. It is from 1997 but still contains some useful background information. It is also fairly easy to understand. The presentation clearly outlines the problem, a strategy for addressing this problem, the new SAS on fraud, some related issues, and a look ahead.


Arthur Andersen’s Perspective
This site is basically a timeline of articles relating to Enron set up by Arthur Andersen. Obviously the articles are about how Andersen is dealing with the mess they are in as Enron’s auditor. It starts on November 30, 2001 and goes to April 8, 2002.


Two SEC Views of Industry: Ex-Head Levitt Attacked; New Chief Pitt Vows Respect
This article is about the differences between the former SEC chairman, Arthur Levitt Jr., and the new SEC chairman, Harvey L. Pitt. Levitt made accounting manipulations a prime target of SEC enforcement, and his staff issued strict guidance to accountants. Pitt promised "a new era of respect and cooperation.” Where Levitt fought against the role of auditors as IT consultants to their audit clients, Pitt holds the opposite position. His stance is that "the performance of nonaudit services can improve the audit function." To find this article online you can go to http://www.washingtonpost.com/ and click on “Archives” (located on the left) where you will be able to search for the title. I suggest pasting the title in the blank and selecting “match this exact phrase.” You will need to be a subscriber or pay a fee to get the article online.


After Enron, New Doubts About Auditors
An Anderson study found that the number of corporations retracting and correcting their earnings reports has doubled in the last three years. This increase has caused people to question whether the public can depend on the auditors or not. This article includes several reasons that auditing firms offer to explain this rise in corrections. It also covers a wide range of topics including: the ‘Public Watchdog’ Function of auditors, trust and discretion, the many interpretations of standards and practices, and potential conflicts (e.g.-auditing and consulting). One interesting thing to note is the proposal of AICPA leaders to create a new credential for “strategic business professionals”, which AICPA members will have until Dec. 28 to vote on. To get the article online, you can go to http://www.washingtonpost.com/ and click on “Archives” (located on the left) where you will be able to search for the title. I suggest pasting the title in the
Andersen Honcho Admits “Honest Errors”
Arthur Andersen has not admitted to any purposeful wrongdoing in regards to Enron. This article quotes C.E. Andrews, head of global auditing at Arthur Andersen, as saying that any errors the firm made in the audit of Enron Corp. were “honest errors.” In other words, they exercised professional judgement and it just turned out to be wrong. It also brings up the possibility that Enron illegally withheld critical information from the auditors.

Early Warnings of Trouble at Enron: Accounting firm found $51 Million in Problems, but Still Signed Off on Books.”
This article brings up a disturbing issue. It seems that auditors may quietly ask clients to fix accounting problems but then back down and use materiality as an excuse to avoid conflict. Materiality seems to depend on the auditor’s judgment and competence. The SEC was so troubled by auditors' judgments about what is and isn't material that it issued a bulletin in 1999 warning that "misstatements are not immaterial simply because they fall below a numerical threshold." Even small misstatements can be significant if they mask a company’s failure to meet Wall Street expectations, involve an effort to "manage" reported earnings, or enable management to collect incentive compensation pegged to the financial results, the SEC bulletin said.

Who’s Counting? Enron Mess Raises Questions About Andersen, Accounting Practices
The big question is: How could hundreds of millions of dollars get past Enron’s auditors. This article focuses on the conflict of interest associated with the dual consultant-auditor role. Arthur Anderson performed both audit and consulting services for Enron. The article also mentions other failings of Anderson as Enron’s auditor, such as dismissing a $172 million misstatement because it was “very small relative to total assets and equity.” This highlights how subjective concepts such as materiality can be.

Suit Says Policing Audits Is Conflict for SEC
This article is about a possible new tactic against the SEC’s increased enforcement effort to curb financial-reporting fraud in the wake of Enron. Mr. Buntrock, the former top
executive of Waste Management Inc., argued that the SEC should not be able to file civil charges against him because its new officials have ties to the accounting industry, which leads to conflicts. The SEC has been picking up more officials with ties to the accounting industry because they bring more financial-reporting expertise, but government ethics rules don’t allow them to participate in policy making and enforcement acts that involve former clients and employers.


Court Documents Show Andersen’s Ties With Enron Were Growing in Early ‘90s

Auditor independence is at the center of the controversy over Andersen’s role in Enron’s collapse. According to this article, there were discussions in Enron’s audit committee in the early 1990’s about outsourcing Enron’s internal-audit function. But from the very start, it seems that Andersen encouraged the internal and external auditors to come together instead of keeping them separate to avoid conflicts of interest.


AICPA CHIEF, IN HOUSE TESTIMONY, SUPPORTS MEANINGFUL CHANGE TO FINANCIAL REPORTING SYSTEM

Barry Melancon, the President and CEO of the AICPA, showed the accounting profession’s support for change to the accounting and financial reporting system. This article mentions the idea of a new public regulatory organization for auditors of the financial statements of public companies. Other issues brought up in the article include: audit quality, the risk of creating audit-only accounting firms, corporate governance, mandatory auditor rotation, corporate honesty toward auditors, and employment restrictions.


Enron-guidance on governance

This site is interesting because it gives a little international perspective to auditing issues and Enron. The article is about the lessons that can be learned from the Enron collapse. It focuses on the risks associated with financial reporting, such as aggressive accounting. Also, the article mentions surveys being conducted by The Institute of Internal Auditors. The purpose of the surveys is to gain information on how audit committees and other governance entities monitor complex financial transactions. A link to participate in the surveys is provided as well as a recommended list of issues to consider before participation.


Exposure Draft: Proposed Statement on Auditing Standards Consideration of Fraud in a Financial Statement Audit
This proposed SAS is intended to establish standards and provide guidance to auditors in their effort to fulfill their responsibility of obtaining reasonable assurance about whether the financial statements are free of material misstatement. The general issues dealt with in this statement include: a description of and characteristics of fraud, discussion among audit team members regarding the risks of material misstatement due to fraud (reinforcement of “professional skepticism”), requirements for obtaining information needed to identify the risks of material misstatement due to fraud, the identification of risks that may result in material misstatement from fraud, assessing risks (evaluation), responding to assessment results, evaluation of audit test results, communications about fraud (eg-to management, the audit committee, etc..), and documentation of fraud consideration. The entire document is available for download on the site listed below.


If the above link does not work, this article is available under “News for CPAs” on the AICPA home page at http://www.aicpa.org/index.htm.


In Enron’s Wake, Profit-Report Delays Multiply, Often on Accounting Issues
The fall of Enron has increased sensitivity to accounting issues. This article is about how this increased sensitivity has caused some auditors to be a little tougher in their inspections, which in turn has caused many companies to delay their most recent earnings reports. Nestor, a spokesman for PricewaterhouseCoopers said, “management and audit committees are certainly paying more attention to accounting issues…We think auditors are making more suggestions around transparency and disclosure issues.” Delays are not uncommon, but the increase in delays makes it seem that auditors, in general, are being a bit more careful.


Big Accounting Firms Break Ties With Andersen to Resist Changes
An accounting-industry coalition decided to separate from Andersen because the firms damaged reputation could limit their ability to lobby against reforms. These reforms include proposals to change financial reporting and increase auditor oversight. Also, Andersen has decided to discontinue its information technology consulting or internal audit services to audit clients, and some of the other Big Five firms have moved in that direction but are a little reluctant to make more extreme changes.


“The Road to Reform”
The Public Oversight Board (POB) terminated its existence in March. This paper was prepared by the POB to outline its proposals to create a new regulatory structure for the accounting profession. In short, this paper presents the case for legislative action to create an independent regulatory organization in the private sector. The paper is 36 pages long but is also fairly readable and easy to understand.


Last Big Four auditing firms may not survive much longer
This article gives a rather pessimistic view of the auditing industry and its future. It addresses the “fragile nature of a partnership,” how much longer the audit function can exist in its present form, and the value of the audit report. I think it is just interesting to see the different views that are out there.

Accounting: “When the SEC and the Justice Dept. get their act together and start sending some CFOs and CEOs to jail, you’ll see a real wake-up call”
This article is about the many accounting weaknesses brought to light by the Enron bankruptcy, including the lack of sufficient skepticism of auditors and the need to impose harsher penalties. Several issues are addressed. First, board audit committees seem to be a little lax in their role. Rules need to be made faster and be a lot more effective—auditors often blame the rules. The author suggests that consulting work by auditors should be limited (not an uncommon opinion). Also the audit panel should review all nonaudit engagements to make sure they do not threaten the audit. The author also supports auditor rotation, more required forensic auditing, an outline of auditor and board responsibilities in the proxy statement, and an expanded auditor statement in the annual report.