EU Proposes Rules Governing Auditor-Client Relationships

As a result of the Enron debacle, the European Union (EU) is preparing a code of conduct that would force auditors to keep their distance from clients. The code would be voluntary, but binding rules would be issued if, by 2005, auditors are not adhering to the standards. Under the code, auditors should not work on the same account for more than seven years. If leaving their accounting firm, auditors should not take senior posts at companies whose books they have audited. The draft code also urges auditors to take other steps to retain their financial independence from clients.


Democrats to introduce Enron-related bills

Proposed legislation would try to: put limits on the percentage of 401(k) account that can be held in any one stock; tighten rules to prevent corporations from “hiding fiscal strengths and weaknesses”; strengthen oversight of the accounting industry; and compensate Enron employees who lost money in retirement accounts because they had invested in the company’s stock.


Financial Accounting Foundation Considers Changes to Streamline FASB Process; Emphasizes Need for Independent Accounting Standard Setter

The Financial Accounting Foundation (FAF) announced that it would strengthen its commitment to improve financial accounting standards for America’s capital markets. The FAF will issue for public comment a set of proposed changes to achieve the objective of a strong transparent and rigorous system. FAF Trustees recognized the need to make changes to streamline the Financial Accounting Standards Board (FASB) process. There is a need for the FASB to be more flexible in responding to change and to increase the efficiency of its standard-setting process. The Trustees emphasize the necessity of having an independent, private-sector accounting standard setter in maintaining efficient capital markets.

Exposure Draft: Proposed Statement on Auditing Standards Consideration of Fraud in a Financial Statement Audit

The proposed Statement on Auditing Standards (SAS) would help auditors fulfill their responsibility as it relates to frauds in an audit of financial statements conducted in accordance with generally accepted auditing standards (GAAS). The proposed SAS would not change an auditor’s responsibility, but does help guide them in carrying out their duties. The executive summary of the article contains an overview of the content of the proposed Statement.

Retrieved from aicpa.org on April 16, 2002.

SEC Announces Final Plans for Completing Reviews of Auditor Independence Systems and Controls

On March 19, 2002, the Securities and Exchange Commission announced final plans for completing reviews of each of the five largest independent auditing firms’ systems for assurance compliance with the independence rules. They will review the design, implementation and operating effectiveness of each system. The staff will be known as the Transition Oversight Staff (TOS) and be led by Jerry D. Sullivan. The TOS will be responsible for the review of the firms’ independence systems.


For Competence, Accounting Gets a ‘D’ in Poll of Businesses

A poll conducted by NFO WorldGroup, a New York financial-services-marketing firm, showed that only 55% of those polled would recommend their auditor to business colleagues. This compared with the usual 75% to 80% for the professional-services group. The concern is a lack of competence, which is eroding customer satisfaction. The survey also hinted that accountants should get back to the basics.

Retailers may Face Greater Scrutiny Over Use of ‘Special-Purpose Entities’

As a result of the Enron scandal, accounting practices of retailers may face tighter regulation. The Financial Accounting Standards Advisory Council (FASAC) talked about the retailer’s use of special-purpose entities, private firms that can hold debt for companies, and as a result the retailers can keep the debt off their balance sheets. Retailers like to use these special purpose entities to securitize accounts-receivable for inventory purchases. Currently, there is a proposal that would require disclosure of a special-purpose entity on a company’s balance sheet if it has less than 10% in outside equity investment.

http://online.wsj.com/article_print/0,4287,SB101735882259080,00.html

Senate Panel Votes to Bolster Fraud, Record-Keeping Laws

The Senate Judiciary Committee agreed to create several felony charges for corporate misconduct. This is the Senate’s first legislative response since committees began investigating Enron. They are taking aim at both corporations and accounting firms. Felony provisions directed at document shredding direct the Securities and Exchange Commission to detail what audit papers must be held and sets a five-year requirement for retaining key documents.

http://online.wsj.com/article_print/0,4287,SB1019772618733665720,00.html

Congress Seeks Harsher Penalties For Violations of Accounting Laws

Congress is eager to impose new penalties for future securities and accounting-law violations. The new bill, sponsored by Senator Patrick Leahy, is trying to curb accounting violations such as the ones that contributed to Enron’s failure. It would also offer new protections to corporate whistleblowers. This bill has support from members of both parties and may reach President Bush’s desk this year.

http://online.wsj.com/article_print/0,4287,SB1019517521783918920,00.html
Audit-Cleanup Measures Have Support of Finance Executives

A number of influential financial executives are putting some force behind some strong measures for cleaning up auditing practices. Financial Executives International plans to unveil recommendations before the congressional financial-services committee. Recommendations include: a new oversight body to be created, sponsored by the SEC for the accounting profession; certain non-audit services supplied by the independent auditor should be restricted; and a minimum standard for experience and knowledge should be established for the principal financial officer and principal accounting officer.


Bush Cracks Down on CEOs

Pressure from the President is pushing for companies to be more straightforward with investors, and for auditors to be fair in their assessments. Enron’s collapse has brought a sense of distrust regarding the accuracy of the financial reports of big companies. Bush provides a ten-point plan to help rebuild the lost trust.


Accounting

Investor confidence has dropped in recent months, mainly in response to the Enron scandal. The recent events have uncovered weak spots in corporate accounting. It has been easy for people involved to pass the blame on to one another. There is a need for more specific rules and a faster and more effective rule-making process. The article lists steps to help restore investor confidence. These include limits on consulting work, rotating the auditors, and more forensic auditing.

Special Report retrieved from www.businessweek.com on April 26, 2002. http://www.businessweek.com/print/magazine/content/02_18/b3781705.htm