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**Governmental & Accounting Profession Changes
Implemented in an Attempt
to Prevent Another Major
“Enron Type” Corporate Collapse**

Emily Dennie

One thing that remains constant through the Enron collapse and subsequent investigation is the resolve of the Securities and Exchange Commission (SEC) and the accounting profession to assure the public that they are taking the appropriate measures to avoid a situation like this in the future. Since the SEC released its intent to investigate Enron, in October 2001, both the SEC and the American Institute of Certified Public Accountants (AICPA) have made and implemented many changes including four new Statements on Auditing Standards (SASs) and at least two new programs. Of the four new standards, only SAS No. 99 is not an update to a previously published statement. In response to the SEC's action, the accounting profession has begun to implement the new standards as well as create new programs in an attempt to regain public support.

SAS No. 96 could be viewed as a response to Arthur Andersen's situation with Enron because Andersen destroyed audit documentation. The subject of the SAS is audit documentation. It supersedes and reaffirms the objectives that were presented in SAS No 41. One such objective is that audit documentation serves mainly to provide the “principal support for the auditor's report,” and to help the auditor conduct and supervise the audit. The new standard requires auditors to retain documentation long enough to meet the needs of their practices and to satisfy any applicable legal or regulatory requirements. It also is the first standard that places a requirement on electronic documentation and its retention. SAS No. 96 also implemented the requirement for auditors to site or include documentation that influenced their judgement and the actions taken to address them. These new inclusions would be relevant in instances of accounting principle inconsistency, complex or unusual transactions, material misstatements, difficulty implementing proper audit procedures, and when dealing with estimates or uncertainties. The new standard is the first significant change in the

requirements auditors must observe when documenting their audit work. It provides general guidance on the nature and extent of documentation necessary to support the auditor's report, and it reaffirms documentation's role as the principal support for that report and as a tool that helps the auditor conduct and supervise the audit. SAS No. 96 also contains amendments adding specific documentation requirements to the following SASs: SAS No. 47, Audit Risk and Materiality; SAS No. 56, Analytical Procedures; and SAS No. 59, The Auditor's Consideration of an Entity's Ability to Continue as a going concern. A CPA firm may want to use audit documentation for purposes other than those stated in SAS No. 96. For example, it understandably may choose to examine audit documentation to determine whether an engagement complied with the firm's quality control policies and procedures. Also, other third parties may need to use the documentation for other purposes. Hopefully, the new standard will support the overall objective of a Generally Accepted Auditing Standards (GAAS) audit to express an opinion on the fairness with which the financial statements present, in all material respects, the financial position, results of operations and cash flows in conformity with Generally Accepted Accounting Principles (GAAP). The Auditing Standards Board (ASB) has developed guidance that will satisfy the needs of all parties involved in the performance, supervision and review of an audit.

Another standard that was implemented since the Enron collapse is SAS No. 99. It is titled, "Consideration of Fraud in a Financial Statement Audit Summary." This is the only statement issued after the Enron situation that does not update a former SAS. This new standard requires the auditor to gather and consider much more information to assess fraud risks than on past audits. The auditors understanding must now be broader and deeper. Under this standard, traditional audit planning and internal control procedures are not sufficient to identify all information needed to assess fraud risk. Auditors must have a new perspective when it comes to understanding the entity's business and its internal control. In addition to the traditional ways of understanding internal controls, auditors must now view them in the context of fraud prevention and detection. The new SAS introduces an entirely new audit procedure that must be performed on every engagement. As part of planning, engagement team members are required to discuss the

potential for material misstatement of the entity's financial statements due to fraud. Team members are required to exchange ideas or brainstorm about the possibility of material misstatement. Also, audit team members are required to maintain professional skepticism throughout the engagement. Information must be gathered to identify risks of material misstatement due to fraud by: questioning management and others within the entity about the risk of fraud, considering the results of the analytical procedures performed in planning the audit, considering fraud risk factors, and considering certain other information. SAS No. 99 also states that an auditor must document their suspicions of fraud, communicate with management regarding possible fraud, and evaluate the evidence regarding their suspicions of fraud.

In addition to the new SASs, the AICPA has implemented at least two new programs since Enron's fraud was discovered. Programs that support the public interest and strengthen the profession continue to be the focus of the AICPA's efforts. Some of the key initiatives currently under development are a new member poll. The AICPA and state CPA societies worked together to learn more about the needs and aspirations of new members and what should be done to improve the value of association membership. New members under the age of forty and with less than seven years of experience in the profession were asked to complete a survey.

The second program is the AICPA Federal Key Person Program. The program participants talked with legislators at both the federal and state levels regarding important issues that are facing the profession.

Both of these programs and the SASs that were issued following the collapse of Enron were, according to then AICPA Chairman James Castellano, designed to study and/or improve the public's perception of the accounting profession. Mr. Castellano testified before the House Energy and Commerce Committee regarding the profession's support for reform and improving the public's trust in the profession.

As taught by the professors at Georgia College & State University, it is necessary to document evidence and organize audit working papers. They are the key record of evidence that the auditor has gathered and evaluated in support of the audit opinion. As technology advances, it is important for the standard of audit working

papers to advance with it. It can no longer be acceptable for working papers to be entirely manually prepared if the audit client's financial information is computerized. The working papers should document all advances in technology made by the audit client, and the working papers should be updated and maintained under the new format.

One of the purposes of an audit is to detect errors that can materially misstate financial statements and possibly mislead financial statement users. The latest SAS provides the auditor with guidelines for researching and documenting possible fraud. Auditors should always enter into an audit engagement with skepticism. The auditor should expect the worst until facts can be gathered to prove otherwise. This is evident when an auditor is planning an audit. Risk is set at a maximum until studies of the business, its environment, and tests of internal controls are complete. It is only when the auditor is satisfied with the results and proper documentation that risk can be lowered.

The SEC and the AICPA continue to work very hard to regain the trust of the public. Both entities are listening and acting on advice from people inside as well as outside the profession for suggestions to make the financial reporting and auditing processes more closely adhere to GAAP and GAAS respectively.

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