

Your Audit

It won't be Business as Usual Next Year



In the summer of 2002, the Sarbanes-Oxley Act was signed into law in an attempt to address mounting corporate scandals. In October, 2002, SAS No. 99, *Considerations of Fraud in a Financial Statement Audit*, was issued by the American Institute of Certified Public Accountants (AICPA) and is the first major audit standard to be released since the passage of Sarbanes-Oxley. Unbelievably, no one intended these events to converge as they have—a new fraud standard delivered in the midst of seemingly endless revelations of corporate malfeasance.

Clark Nuber's Response to the Changes

SAS No. 99 is a comprehensive, far-reaching standard that will significantly change the way auditors plan and perform their audits, even for private companies and not-for-profit organizations. Auditors must comply with the new standard for years ending December 31, 2003. We are working proactively to understand and help our clients prepare for, and navigate through, the significant impacts of this new standard. Whether you are a private business owner, a controller, or a board member of a not-for-profit organization, this new audit standard will affect your organization's interaction with your audit team.

Benefits of the New Standard

Implementing new audit procedures can be challenging and uncomfortable at times. However, the new standard has some significant benefits for many of our clients. Some examples include:

- Increased comfort for boards and owners that fraud risk factors with material misstatement potential have been brought to their attention. In the current environment of financial scrutiny, this standard provides some guidance for oversight boards executing their fiduciary responsibility.
- An opportunity for entities to evaluate and implement antifraud programs and controls and prevent future financial losses from misappropriated assets, theft, and defalcation.
- Electronic data mining techniques can effectively review *all* transactions in a data base for selected criteria rather than traditional testing of a sample of transactions or balances. This electronic approach may identify a variety of opportunities for an organization such as unusual payroll results, unexpected vendor and employee address commonalities, vendor discount opportunities, volume purchases and negotiating opportunities, double payments, and uncollected receivables, for example.

What We Need to do before Your Audit Begins

The new standard mandates certain procedures during the information gathering phase of an audit that are in addition to the work we have traditionally performed. Additional requirements are focused on identifying risks of material misstatement due to fraud and include:

- A required internal "brainstorming" discussion about the potential risks of fraud.
- An increased emphasis on interviews of personnel *outside* the accounting department to possibly include sales managers, production managers, development directors and others.
- Expanded use of analytical procedures to gather data used to identify fraud risks.

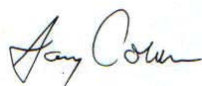
- A presumption that improper revenue recognition is a fraud risk at every organization and must be addressed through additional procedures.
- A requirement to evaluate an entity’s programs and controls that address any of the fraud risks identified during the audit team’s work.
- A requirement to address risk of management override of an entity’s internal controls.

How the New Standard Affects Our Audit Procedures

Here are some of the effects you may notice during the fieldwork phase of your audit as our audit team applies the requirements of the new standard and assesses risks that could result in a material misstatement due to fraud:

- Examination of all journal entries and other adjustments.
- Performance of a “retrospective review” of accounting estimates made by management for biases in methodology. For example, estimates of percentage complete contracts, contingencies accruals, accruals for returns, allowances for inventory obsolescence, and receivable reserves will require additional scrutiny.
- Use of electronic testing approaches using computer-assisted audit techniques (CAATs) designed to “mine” your source data for unusual relationships and trends.
- Developing an understanding of the business rationale for certain types of transactions including related party transactions for property sales and exchanges, lending activity, purchases of services, and multiple entity transactions.
- Additional communication by our audit team. Should evidence be found that a fraud may exist, that matter will be brought to the attention of an appropriate level of management in your organization, even if the matter might be considered inconsequential, such as a minor defalcation by a lower level employee.
- Increasing documentation in the working papers prepared by our audit team supporting compliance with all of the major requirements of the standard.
- Our audit team will be required to introduce an element of “surprise” in scope, timing and extent of procedures performed.

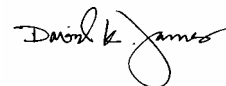
Clark Nuber stands ready to help you assess the impact of this new standard on your audit, both in procedures and costs. We continue to invest in training and technology solutions to re-engineer our approaches and mitigate the impact on audit costs while increasing value. Your engagement team executive will be contacting you in the upcoming months to address your concerns and design procedures that will provide the highest value to you. If you have questions or concerns about the impact of SAS No. 99 we encourage you to contact us at any time.



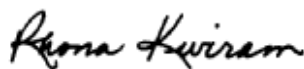
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