

# Financial statements and ethics

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The use of internal or external auditors to evaluate an organization is a dilemma that must be analyzed by managers. The use of internal sources to perform audits is a technique that many analysts do not support in its entirety because such practices may be subject to corruption and collusion among the employees. The executive management team might pay off the internal auditor to hide fraudulent activities. Internal controls, management oversight, and management self-assessment are some of the techniques that can be used to prevent frauds (Globalriskguard, 2011). The Securities and Exchange Commission (SEC) in alliance with the United States Congress in 2002 created the Sarbanes Oxley Act (SOX).

Starbucks Café hired an external auditing firm to perform an independent audit of its 2010 financial statements. The Sarbanes Oxley Act mandates that all public firms hire an accounting firm to audit its annual financial statements. There are many bylaws of the Sarbanes-Oxley Act that ensure auditor independence is followed. Section 201 of the Act prohibits auditors to perform other non-audit services on clients the company audited (Findlaw). The Sarbanes-Oxley Act also created the Public Company Accounting Oversight Board (PCAOB). All public accounting firms performing auditing work must be registered with the PCAOB. On November 2, 2010 the accounting firm Deloitte & Touche performed the Independent Auditor Report of the financial statements of Starbucks for fiscal year 2010. The findings from the audit were that the consolidated financial statements present fairly, in all material aspects, the financial position of Starbucks Corporation and its subsidiaries as of October 3, 2010 and September 27, 2009 (Annual Report: Starbucks, 2010).

My opinion is that contracting the services of outside firms for auditing and <https://assignbuster.com/financial-statements-ethics/>

fraud detection services is a sound managerial practice. Based on SOX it is mandatory for public firms to hire external accounting firms to perform annual independent audits. The use of external consultants to prevent fraud can increase the efficiency of a system. The external consultants will look at the company from a fresh perspective. An employee might be closed minded and biased and may miss things due to overconfidence and carelessness. One of the cons of the use of external auditors and consultants is that they can very expensive. Consultants can not monitor the daily activities of a firm otherwise they would become full-time employees. There is a need to create internal controls to prevent fraud. These internal controls should target all assets with an emphasis on the cash account of the firm.

A de-facto problem that can inhibit the effectiveness of any auditing, internal control, or fraud prevention initiative is the human element. Back in the early part of the century Enron was able to deceit the general public and bypass all auditing and internal control mechanism due to a massive corruption and collusion among the executive management team and other stakeholders. The Enron case is a great example of the need for auditor independence and the use of external accountants to evaluate the credibility of the financial information reported in financial statements.

#### References

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