Comprehensive audit case

1. There were several parties responsible for the " crisis of confidence" created by the Enron debacle. Enron's executives were responsible for their behavior in trying to adjust their financial statements. Andersen's auditors were responsible for not doing their jobs with integrity and not keeping their independence in from Enron. Regulatory groups were responsible for making sure that companies and auditors are following rules for the sake of users of financial statements.

2. Three types of consulting services that audit firms are now prohibited from providing to clients that are public companies include information technology work, appraisals and valuation services, and internal audit outsourcing services. Auditors are no longer allowed to offer such services while auditing a company because they would be auditing their own work or be put in a situation where they would want to alter an audit based on their other work with the company.

3. Andersen's involvement in the decisions concerning Enron's accounting and financial reporting did violate professional auditing standards. Andersen violated the auditing standard of independence. Andersen was involved in other areas of Enron's company that made them audit work that they were a part of so they were no longer independent of the audit information. Andersen violated the auditing standard of planning and supervision by not appropriately planning the audit and supervising the audit to find that they were too involved in the accounting of Enron to complete the audit. Andersen also violated the auditing standard of adequacy of disclosures by allowing Enron to use intentionally vague disclosures about their Special Purpose Entities.

4. Professional auditing standards referring to the preparation and retention of audit work papers require that there is proper planning of the audit work and sufficient supervision of the audit staff, an understanding of the entity being audited, and sufficient appropriate audit evidence to give an opinion of the entity being audited. Professional audit standards also require that the audit be performed by someone who is not affiliated with the company, who is independent in mental attitude, and exercises due professional care in the performance of the audit and the preparation of the report. The audit paperwork is " owned" by the firm performing the audit and must be kept for at least five years from the report release date.

5. In order to strengthen the independent audit function following the Enron scandal several recommendations were made. First, there was the recommendation of limiting the types of non-audit services that an audit firm can provide for a company it is auditing. This was implemented by Sarbanes-Oxley and I agree that an audit firm should be independent from the company it is auditing in order to maintain integrity. Then, there was the recommendation that audit clients change out their audit firms which was also enacted by Sarbanes-Oxley. I also agree with this recommendation as over time, an audit firm would be less independent from its audit client. There was a recommendation to establish an audit oversight board of public companies which was enacted by Sarbanes-Oxley by creating the PCAOB (Public Company Accounting Oversight Board). I agree with this recommendation to have more regulatory bodies overseeing the actions of public companies for the public good. There was a recommendation to have requirements that prohibit audit clients from intentionally trying to mislead

the audit team. This was enacted by Sarbanes-Oxley and I agree that this should be a regulation because this would relieve the audit firm from any burden placed upon it by the audit client. Finally, there was the recommendation that the audit firm work more closely with the audit client's audit committee. This was enacted by Sarbanes-Oxley and it allows for more communication between the two and hopefully would result in less fraud.

6. I believe that the concept of " professionalism" as it relates to the public accounting discipline has significantly changed over the past several decades. The public accounting community was more concerned with tactics to make money than to stay true to their profession. The embarrassment of the entire accounting community after the Enron scandal led to a revamp of the accounting community in trying to rebuild its reputation. By implementing the Sarbanes-Oxley Act, The public accounting community was allowing itself to regain the public trust and reassess what their goals were. By implementing more rules and regulations, the accounting community is now seen as a more professional community.

7. Audit firms are required to review, but not audit, the quarterly financial statements of public companies. I believe that having quarterly financial statements audited would ensure that the users of the financial statements are getting accurate information at a more constant rate, but ultimately, the statements are audited each year anyway. It could be seen as overkill by the company being audited.