



Laurence Longe
National Managing Partner





The Accounting Profession Post Sarbanes Oxley

Sarbanes Oxley

- July 30, 2002
- “An Act - To protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.”
- Sarbanes Oxley quickly becomes SOX.
- Pre-SOX period
- Post-SOX period

SOX Countdown

- October 31, 2001: SEC announces an enquiry into Enron
- November 29, 2001 SEC begins an investigation of Arthur Andersen
- December 2, 2001 Enron files for bankruptcy
- January 10, 2002 Andersen admits destruction of documents
- June 25, 2002 WorldCom fires its CFO, Scott Sullivan after uncovering improper accounting of US \$3.8 billion of expenses

SOX Countdown

- March 11, 2002: SEC begins an accounting investigation into WorldCom
- March 14 2002: Announcement of criminal charges against Arthur Andersen for obstruction of justice
- June 15, 2002 Houston jury finds Andersen guilty



The End of Self-Regulation for the Accountancy Profession?

SOX Final Countdown

- July 15, 2002 "Everybody has endorsed the Sarbanes bill - except the administration,"
(market analyst)
- July 21, 2002 WorldCom files for bankruptcy protection

SOX Becomes Law

- “My administration pressed for greater corporate integrity. A united Congress has written it into law. And today I sign the most far-reaching reforms of American business practices since the time of Franklin Delano Roosevelt.

This new law sends very clear messages that all concerned must heed. This law says to every dishonest corporate leader: you will be exposed and punished; the era of low standards and false profits is over; no boardroom in America is above or beyond the law.” July 30, 2002

Post SOX Developments

- August 31, 2002, Andersen surrenders its license to audit in all states
- October 2, 2002, Former Enron CFO Andrew Fastow charged with fraud
- October 16, 2002, Andersen fined US\$500,000 and given five years probation

Post SOX Developments

- January 14, 2004, Andrew Fastow of Enron pleads guilty and accepts 10 year prison sentence in a plea bargain
- February 19, 2004, Ex Enron CEO Jeffrey Skilling charged with fraud
- March 2, 2004 Ex WorldCom CFO Scott Sullivan pleads guilty to fraud and agrees to co-operate with authorities
- March 2, 2004 Bernie Ebbers Ex-WorldCom CEO charged with conspiracy and fraud
- July 7, 2004 Kenneth Lay Ex-Enron Chairman and CEO charged with conspiracy and fraud

Post SOX Developments

- March 15, 2005 Bernie Ebbers of WorldCom found guilty of conspiracy and fraud
- May 3, 2005 Supreme Court overturns Andersen conviction



Profession Post SOX: The Best of Times, the Worst of Times?

Regulation, Regulation, Regulation



Public Company Accounting Oversight Board

- “The PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports”

Public Company Accounting Oversight Board

- Funding
- Standard Setting
- Investigative and Disciplinary Authority
- International Authority
- Audit Committees and Auditors
- Service prohibitions
- Audit partner rotation

Public Company Accounting Oversight Board

- Criminal Penalties and Protection for Whistleblowers
- Maintaining working papers/document destruction
- Required changes to financial reporting and auditing processes
- Second partner review
- Management Assessment of Internal Controls

Public Company Accounting Oversight Board

- What does its Chairman, William J McDonough, have to say about its performance so far?

Public Company Accounting Oversight Board

“If your mother says she loves you - check it out!”

(William J McDonough, Chairman of the
PCAOB 13 June 2005)

Public Company Accounting Oversight Board

“Ask nearly any business executive to name the biggest menace facing corporate America, and the answer is apt to be a number: “404” ...

“It’s springtime for auditors...”

(CNN News report)

Public Company Accounting Oversight Board

“...The response of the US Congress to the Enron and Worldcom scandals shows what governments can do wrong...”

(British Prime Minister, Tony Blair, 26 May 2005)

The Financial Reporting Council

- The Financial Reporting Council (FRC) is the UK's independent regulator for corporate reporting and governance.
- Its aim is to promote confidence in corporate reporting and governance.

The Financial Reporting Council

Its five key objectives are to promote:

- high quality corporate reporting
- high quality auditing
- high standards of corporate governance
- the integrity, competence and transparency of the accountancy profession
- its effectiveness as a unified independent regulator

The Professional Oversight Board for Accountancy (POBA)

- POBA provides independent oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies
- monitors the quality of the auditing function in relation to economically significant entities

Audit Inspection Unit (AIU)

- The Audit Inspection Unit will tackle the issue of judgement, which can be key to whether audit is an effective tool.
- The AIU will be supported by a Panel of very senior individuals with experience of audit who will be available to provide advice on inspections, and particularly on issues involving professional judgement.

Audit Inspection Unit (AIU)

- The AIU has a general responsibility for considering audit quality. Its independent and risk based approach is intended to scrutinise thoroughly the audit approach, the firm wide procedures and the key audit judgements in respect of specific audits selected on a sample basis.

Audit Inspection Unit (AIU)

- First report on the 2004/2005 Audit Quality Inspections of a selection of Big 4 audits published 20 June 2005
- Generally reported as: “Good work, but the Big 4 could do better.”

European Reform

The Eighth Directive

Big 4 Client Displacement

- Resource Constraints
- Client Continuance Decisions
 - Risk
 - Economics
- Audit Committee Oversight
- 'Once in a lifetime opportunity' for many professional firms.
- Opportunities for non-Big 4 but also huge audit revenue increases for the Big 4.



Questions?