

Statement on Auditing Standards (SAS) No. 99 *Consideration of Fraud in a Financial Statement Audit*

Management's responsibility related to fraud

- Adopt sound accounting policies and establish and maintain internal control consistent with management's assertions embodied in the financial statements
- Management as well as those with responsibility for oversight of the financial reporting process (e.g. Board of Directors and Audit Committee)
- Selected responsibilities under Sarbanes Oxley
 - Pursuant to Section 302, certification of responsibility for financial reports, including disclosure to auditors and audit committee
 - All significant deficiencies in the design or operation of internal controls
 - Any fraud, whether or not material, that involves management or other employees who have significant role in internal controls
 - Pursuant to Section 404, requirement to file in annual report an internal control report of management stating:
 - Responsibilities for establishing and maintaining adequate internal controls and procedures for financial reporting for the company
 - Assessment of the effectiveness of the company's internal controls and procedures for financial reporting as of the end of the company's most recent fiscal year

Auditor's responsibility related to fraud under Generally Accepted Auditing Standards (GAAS) (SAS 99)

- Plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud
- SAS 99 Audit Approach
 - Identification of fraud risk factors
 - Response to identified fraud risk factors
 - Establish procedures to identify fraud risk indicators
 - Includes understanding programs and controls to prevent, deter and detect fraud
 - Does not include evaluation of the operating effectiveness of programs and controls or specific procedures to identify matters related to management "misconduct" and travel and entertainment expenses

“The New Governance Expectations”
“New Fraud Issues for the Auditee”
Ethics and Governance Seminar
NRECA
Nashville, Tennessee
December 15 – 17, 2003

- Presented by Steve Dawson, CPA, CFE (Bolinger, Seagars, Gilbert & Moss, L.L.P.)
- Discussed “why we are here” – economic downturns, fraud, business failures Sarbanes- Oxley, new audit standard (SAS 99).
- Sarbanes- Oxley only applicable to “issuers”, but “cascade” effect (spillover to Non-SEC registrants) could be coming.
- Focused discussion on new Accounting/ Auditing Standard 99.
- “Consideration of Fraud in Financial Statement Audit”
- Four years in the making.
- Big changes in process – more interaction with all client personnel and “officials”
- New responsibilities for the auditor:
 - Determine if suitable programs to detect fraud have been designed and are in place.
 - Interview all levels of the organization regarding knowledge of fraud **and** Where fraud may be likely.
 - Ask about management monitoring of the antifraud programs.
 - Ask how management communicates to the audit committee and Board of Directors concerning how the internal controls serve to prevent, deter, and Detect fraud.
- SFAS 99 contains “Management Antifraud Programs and Controls” – Guidance to help prevent, deter, and detect fraud. First of its’ kind in an Auditing standard.
- Recommends companies establish three fundamental practices:

1. Create a culture of honesty and high ethics- “Tone at the Top”
2. Learn to evaluate risks of fraud and establish antifraud processes and Controls- involves audit committee.
3. Establish an appropriate oversight process- management responsibility.

- Also recommended other oversight mechanisms:

1. Internal Auditors
2. Independent Auditors
3. Certified Fraud Examiners.