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CPAs' Perceptions of the Impact of SAS 99

By Donald C. Marczewski and Michael D. Akers

In November 2002, the Auditing Standards Board (ASB) issued Statement on Auditing Standard 99, *Consideration of Fraud in a Financial Statement Audit*. Although SAS 99 was developed before the recent accounting scandals, its release came in their wake. The ASB crafted SAS 99 in response to perceived inadequacies in its predecessor, SAS 82. After the major accounting scandals rose to public attention, the ASB made SAS 99 a priority to try to address the allegations of fraud by management executives and auditors (as noted by Linda B. Specht and Petrea K. Sandlin in the February 2003 *CPA Journal*). SAS 99 became effective for audits of financial statements for fiscal years beginning on or after December 15, 2002.

Comparison of SAS 82 and SAS 99

SAS 99 was issued in November 2002; it superseded SAS 82, issued in 1997. SAS 82 attempted to address shortcomings of the audit process and audit quality (as reported by Jakubowski, Broce, Stone, and Conner in the February 2002 *CPA Journal*), and SAS 99 was issued for similar reasons. Whether SAS 99 actually expands an auditor's role in detecting fraud or merely reorganizes SAS 82 has been a matter of debate. Is there increased substance and responsibility attached to the new standard, or is it just a restatement of SAS 82 aimed at convincing public critics that increased efforts to detect fraud are taking place?

The most notable change is that SAS 99 takes a more proactive approach to the prevention and deterrence of fraud, while SAS 82 and its predecessors focused on detection. Both standards also focused on responding to and documenting fraud that affects the financial statements. A critical comparison of SAS 82 and SAS 99, following the analysis of Michael Ramos ("Auditors'

Responsibility for Fraud Detection," *Journal of Accountancy*, January 2003) reveals the differences shown in Exhibit 1.

Survey

A questionnaire was designed to examine the items in Exhibit 1 as well as audi-

tors' perception of the following issues found in SAS 99:

- Changes in auditor responsibilities
- Changes in audit procedures
- Increases in auditor liability
- Increased fraud risk factors
- Changes in auditor or client interaction

EXHIBIT 1 Changes in SAS 99 from SAS 82

- A dramatically increased emphasis on maintaining an attitude of professional skepticism.
- Increased discussion among engagement personnel regarding fraud in the financial statements. (Most notably required were brainstorming sessions regarding fraud risk factors of the entity under audit.)
- Emphasis on obtaining more information regarding fraud risks.
- Increased inquiry and interaction with client personnel on all levels and in all areas. (Not just top management or accounting.)
- Increased emphasis on designing audit procedures to identify fraud risks.
- Continuing attention to fraud risk factors and indicators throughout the audit.
- Expanded assessment and increased documentation.

EXHIBIT 2 Auditor Responsibility

Statement	Partners	Managers
An auditor has increased responsibility to detect fraud under SAS 99, as compared to SAS 82.	2.3	3.0
The auditor's general responsibility increased under SAS 99.	2.2	2.5
Litigation against auditors will increase for misstatements due to fraud, which went undetected in an audit conducted in accordance with GAAS because of the requirements of SAS 99.	2.3	2.7
The judicial system will hold auditors more accountable under SAS 99.	2.1	2.5
Auditors with final responsibility for the engagement are more selective in their choice of audit personnel based upon SAS 99.	3.0	3.2

Note: All survey questions were based upon a scale of 1 to 5, 1 being strongly agree, 5 being strongly disagree.

- Changes in clients' and the public's attitude
- Collusion and management override of controls
- Documentation changes
- Whether the auditor must more actively search for signs of fraud.

The questionnaire was sent to a random sample of 300 Wisconsin CPAs selected from the membership of the Wisconsin Institute of CPAs, which included 150 partners and 150 managers from Wisconsin public accounting firms. The response rate was 35%, with an almost equal balance of partners and managers.

Respondents were asked to rate each of the 29 statements in the questionnaire on a scale from 1 to 5, with 1 representing that the respondent strongly agreed with the statement, while 5 represented that the respondent strongly disagreed. If any significant differences existed between the responses provided by the partners and by the managers, a statistical t-test was conducted for each question. The results were grouped and presented in the following five categories: auditor responsibility; client interaction and public opinion; fraud risk factors and audit effectiveness; workpaper documentation; and audit procedures.

Auditor responsibility. The findings show (*Exhibit 2*) that partners and managers agree that SAS 99 will have an impact on auditor responsibility or on third parties' perceptions of auditor responsibility. The respondents also agree that auditors will likely face more litigation and will be held to a higher standard in court. This may indicate that auditors should not create unreasonable expectations in the investing public and other third parties. The data also indicate that, despite the perceived increase in responsibility, there has been no apparent change in the assignment of audit personnel, although other steps may have been taken to address the increased responsibility.

Client interaction and public opinion. The results with respect to client interaction (*Exhibit 3*) indicate that there have been changes to how auditors interact with audit clients regarding fraud risk and procedures to identify fraud. Specifically, those surveyed indicated that there is more discussion with the audit committee and that there is more tension in interactions with the client's personnel. Respondents were neutral regarding SAS 99's effectiveness in

EXHIBIT 3
Client Interaction and Public Opinion

Statement	Partners	Managers
Discussion with the audit committee regarding fraud risk factors and past fraudulent acts has increased.	2.0	2.3
The client or auditor relationship became more adversarial under SAS 99.	2.1	2.2
SAS 99 was written to increase public confidence in the accounting profession.	3.3	3.4
SAS 99 has been effective in increasing public opinion in audited financial statements.	3.2	3.1

EXHIBIT 4
Fraud Risk and Audit Effectiveness

Statement	Partners	Managers
Misstatements are more likely to be characterized as fraud under SAS 99 as compared to SAS 82.	3.3	3.5
Management override of controls is a greater risk now than in the past.	3.3	3.5
It is easier for individuals to rationalize committing fraudulent activity now compared to in the past.	3.8	3.8
There is increased incentive or pressure for individuals to engage in fraudulent activity now compared to in the past.	3.6	3.8
Collusion to commit fraud is more of a problem now than in the past.	3.4	3.7
Increased focus on fraud risk factors increases the effectiveness of an audit.	2.4	2.5

EXHIBIT 5
Workpaper Documentation

Statement	Partners	Managers
Increased documentation of fraud risk factors can be found in the workpapers.	1.8	1.7
Increased documentation of procedures targeting possible fraudulent activity are documented in the workpapers.	1.9	1.8
Discussions of the audit team regarding fraud risks are documented in the workpapers.	1.6	1.6

addressing the public's opinion of the profession and of audited financial statements.

Fraud risk and audit effectiveness. The results on fraud risk and audit effectiveness (*Exhibit 4*) indicate that respondents are neutral on whether there is increased fraud risk since the issuance of SAS 99. Although SAS 99 directly and implicitly states that auditors should increase their focus on fraud risk factors, the findings imply that the respondents don't anticipate that SAS 99 will substantially affect audit effectiveness.

Workpaper documentation. The results regarding workpaper documentation (*Exhibit*

5) show that respondents have increased documentation of procedures regarding fraud detection. SAS 99 mandates increased documentation in certain areas; discussions among members of audit teams, including the mandatory brainstorming session on fraud risk factors for the entity; and documentation of new procedures mandated by SAS 99. Similarly, the aforementioned study by Specht and Sandlin also found that auditors would increase documentation under SAS 99 and, furthermore, thought that increased workpaper documentation of fraud issues would aid a plaintiff in litigation.

Audit procedures. The biggest changes made by SAS 99 affect the implementation of auditing procedures to detect fraud (*Exhibit 6*). The findings show that there is a moderately increased focus on detecting fraud during the audit, and that the procedures required by SAS 99 are effective. The respondents also moderately agreed that there have been changes in testing, most notably in the area of substantive tests, and that unpredictability in testing has increased. Respondents are indifferent, however, as to whether more unusual transactions are actually uncovered in an audit. The results were neutral with regard to whether there were more frequent or more thorough reviews of prior-year accounting estimates and whether there was an increased use of specialists. Respondents moderately agreed that the review of prior-year accounting estimates revealed increased manipulation by client management.

Once again, these results are consistent with Specht and Sandlin. There was no significant difference in auditor performance in most areas, with the exception of client inquiries (especially the personnel to which they were directed) and discussion among members of the audit team.

Partners indicated a stronger awareness than managers that SAS 99 has prompted auditors to focus on, and subsequently uncover more, unusual transactions.

Increased Responsibility

Overall, the study results indicate that partners have a more positive assessment about SAS 99's effect on auditors' perceived responsibility to detect fraud in a financial statement audit than managers do. Both partners and managers, however, perceive that overall audit responsibility has increased, along with accountability and liability exposure. The overall assessment indicates that the changes to audit procedures due to SAS 99 will moderately increase the effectiveness of audits, but may not increase the public's confidence in audits. □

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EXHIBIT 6
Audit Procedures

Statement	Partners	Managers
Under SAS 99, more of the total audit effort is directed toward testing which could uncover misstatements due to fraud.	2.5	2.4
Compared to SAS 82, auditors will make additional inquiries and have more interaction with employees of a company under audit.	1.5	1.7
Auditors focus more on and subsequently uncover more unusual transactions under SAS 99.	2.5	2.9
There is more discussion among audit team members regarding fraud and possible risk factors for the company under audit.	1.4	1.5
The additional procedures required by SAS 99 are effective in helping CPAs detect misstatements due to fraud.	2.3	2.5
Retrospective reviews of prior-year accounting estimates are conducted more frequently or thoroughly under SAS 99 as compared to SAS 82.	3.2	2.9
Retrospective reviews of accounting estimates can reveal increased instances of manipulation by management.	2.6	2.4
The use of specialists has increased due to the procedures outlined in SAS 99.	3.0	3.4
Compared to SAS 82, more substantive tests are being performed during the audit to detect possible misstatements due to fraud.	2.6	2.9
In the course of an audit, changes in the nature, timing, and extent of tests are made more often due to fraud risk factors under SAS 99.	2.5	2.5
There is increased unpredictability in audit testing compared to SAS 82.	2.5	2.6