Look Out!
New fraud auditing standard holds worrisome implications for financial statement reliability.

According to Gary Zeune, president of The Pros & Cons, Powell, Ohio, a new fraud auditing standard in effect December 15, 2003 is estimated to increase audit fees 15-25%.

"Think of it as Sarbanes Oxley for nonpublic entities," says Zeune. "The new Statement on Auditing Standards—SAS 99—renders the status of the entity irrelevant. So it applies to *any* entity being audited—private companies, government entities, nonprofits, partnerships—*everyone*. Several *major* changes found in SAS 99 will make it *much* harder for some companies to get a 'clean' opinion." Zeune cites four provisions in particular:

1. Auditors are no longer allowed to "trust" a client just because it has never had a problem. Why? Because each year's audit stands on its own.
2. Auditors are now to *assume* that management is overriding internal controls in order to cook the books.
3. Auditors are now to assume that revenue is being manipulated.
4. Auditors must now hold a "brainstorm" throughout the audit to predict how and why the client would cook the books.

Sound tough? You bet, says Zeune. And tough translates into more expensive. "Lenders need to be aware that because audit fees are increasing substantially for private companies, a few will fire their auditors and use desktop publishing software to create their own 'clean' opinion," he says. "It's important to confirm the clean opinion with the borrower's auditor." ❒

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