

## **SAS 99 and What It Means for your Organization**

### **What is SAS 99?**

In October of 2002 the AICPA issued SAS 99, *Consideration of Fraud in a Financial Statement Audit*. SAS 99 supersedes SAS 82 and is one of the profession's attempts to help restore confidence in the audited financial statements of corporations and nonprofit organizations. SAS 99 is expected to have implications to both auditors and client organizations. This SAS doesn't change the auditor's responsibility to plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. However, it does provide revised and expanded guidance in fulfilling that responsibility. SAS 99 reinforces the concept that awareness of the potential for fraud should be an integral component of the audit and places increased emphasis on the need for professional skepticism. In addition, it establishes the following procedures to address the potential for material misstatement of the financial statements due to fraud:

- Gather information necessary to identify risks of material misstatement.
- Identify risks of material misstatement.
- Respond to risks of material misstatement.
- Evaluate audit evidence.

### **What to expect**

The planning phase of the audit which includes the gathering of information will be most notably different. SAS 99 requires an auditor to make inquiries of management and others in the organization about the risks of fraud and how they are addressed?. SAS 99 will require the auditors to question management about:

- Their knowledge of any actual fraud or suspicions of fraud affecting the organization.
- Their awareness of any allegations of fraud or suspected fraud affecting the organization.
- Their understanding of the risks of fraud within the organization, including any specific fraud risks the organization has identified or account balances or transaction classes that may be susceptible to fraud.
- How they communicate to employees the importance of ethical behavior and appropriate business practices.
- Programs and controls the organization has implemented to address identified fraud risks and how those programs and controls are monitored.

Auditors may consider making inquiries of the executive director or president, controller, chief financial officer, and treasurer.

If applicable, the auditor should inquire directly of the audit committee (or at least its chairman) about the committee's understanding of the risks of fraud and its knowledge of any actual or suspected instances of fraud. In addition, the auditor should obtain an understanding of the audit committee's role in overseeing the organization's fraud risk

assessment and monitoring process. If the organization does not have an audit committee, inquiries should be made of individuals with a level of authority and responsibility equivalent to an audit committee. Individuals with these responsibilities could include the board of directors; board of trustees; chairman of the governing board, the budget or finance committees; or others to whom the auditors may report.

In addition to the individuals already mentioned, inquiries should be made of others within the organization. This *process* will help to determine whether they are aware of fraud that is occurring or have suspicions of fraudulent activity. The selection of employees to be questioned is a matter of professional judgment that depends primarily on whether the auditor believes those employees may provide information that is relevant to identifying fraud risks. Examples of the types of employees that auditors may consider making inquiries of include-

- Employees outside the accounting department.
- Operating personnel.
- Employees with varying authority within the organization.
- Employees involved in initiating and recording complex or unusual transactions.
- Employees in areas identified as vulnerable to fraud.

Making inquiries of employees outside the accounting department or those with varying levels of authority may be useful in providing a perspective about the risks of fraud that is independent of the financial management of the company. Questioning these individuals may also provide information about the effectiveness of management's communication with employees.

### **Other Changes**

After gathering information and identifying the risks of material misstatement, the auditor will choose an appropriate response which should include -

- Modification of the nature, timing, and extent of audit procedures.
- An element of unpredictability into the selection of audit procedures.
- Examination of journal entries and other adjustments for evidence of material misstatements due to fraud.
- A review of accounting estimates for the possibility of management bias.
- Evaluation of the business rationale for significant unusual transactions.

### **SAS 99 Benefits**

SAS 99 will require additional effort from both the auditor and your organization. In the end these efforts will benefit everyone. The benefits to your organization may be as follows –

- Stronger internal controls to help prevent or deter fraud.
- Reemphasis of the importance of ethical behavior.
- Increased confidence in reported results.
- Board of directors' increased awareness regarding oversight responsibilities.
- Improved detection of fraud in a situation where fraud is present.