

BLACK TECH FORENSICS

Post-Enron Guidelines for Financial Frauds: Where Are They? And How Effective Are They?

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The public accounting profession has been under scrutiny with the recent corporate financial audit failures, with Enron at the epicenter in December 2001, and the eventual collapse of Arthur Andersen. Although corporate frauds can come in many forms, all frauds are becoming more technically and digitally based. Therefore it is interesting to look at the practice remedies taken by the American Institute of Certified Public Accountants (AICPA), the Public Company Accounting Oversight Board (PCAOB), and other organizations since 2001. It is contended here that electronic financial frauds change the ground rules of internal control and investigation. Digital data needs to be examined, collected, and safeguarded using different methods than when physical data is investigated.¹ Interviewing company personnel, collecting physical data, and brainstorming are not likely to uncover frauds that can be performed by one employee or non-employee with unauthorized access to a company's network. This column explores these topics to evaluate whether the recent changes in practices and the structure of standard setting will facilitate fraud investigations for the forensic accountant.²

¹ Digital data are the actual electronic zeros and ones found in a computer or network. Purists would consider anything else as physical data. Thus, the electronic forms that are viewed over a monitor are considered physical data and not the underlying digital data.

First, it should be recognized that without good internal controls, forensic deterrence, detection and investigation of either traditional or high technology frauds becomes difficult. For example, if there is no logging of network activity, an internal control standard, investigations of fraudulent digital transactions are almost impossible. Good internal controls help prevent a fraud from occurring, but after a fraud is committed, forensic accounting is dependent on information collected within an organization's internal control framework to launch an investigation. The steps used by perpetrators to overcome a company's internal controls help the forensic accountant identify the nature of the fraud as well as those involved.

² This review does not consider SAS 94, *The Effect of Information Technology on the Auditor's Consideration of Internal Controls in a Financial Statement Audit* because the SAS was made effective on June 1, 2001 prior to the collapse of Enron on December 2, 2001. Nor does it consider SAS No. 95, *Generally Accepted Auditing Standards*, (effective December 15, 2001) which was a statement describing the hierarchy of authoritative auditing literature or SAS No. 98, *Omnibus Statement on Auditing Standards*, (effective January 1, 2003) as an omnibus standard does not change currently outstanding practices, but incorporates them.

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