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Restoring public trust in the accounting profession by developing anti-fraud education, programs, and auditing

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Abstract *The public trust in auditors' judgments and reputation plays an important role in substantiating audit functions as value-added services, which lend credibility to published financial reports. Recent numerous financial restatements by high profile companies coupled with bankruptcies of major companies caused by reported financial statement fraud have eroded public confidence in financial reports and related audit functions. Restoring the public confidence requires considerable efforts by legislators, regulators, standard-setting bodies, the business community, and the accounting profession. This article suggests 12 ways that the accounting profession can rebuild public trust in financial reports and related audit functions.*

Introduction

Certified Public Accountants (CPAs) have cherished and honored the public trust in their profession and should be proud of their heritage in serving the public interest. Unfortunately, an increasing number of financial restatements by high profile companies, coupled with bankruptcies of major companies caused by reported financial statement fraud and related audit failures, have eroded public confidence in the financial reporting process and audit functions. Restoring the public confidence requires a considerable coordinated effort of all members of the accounting profession, including the American Institute of Certified Public Accountants (AICPA), state societies, public accounting firms, standard-setting bodies, CPAs, and academicians. Barry Melancon, the President of the AICPA, rightly states that "We must restore our most priceless asset – our reputation. We must reach back to our core roots which earned us enormous respect as trusted advisors" (Melancon, 2002). He also calls for a rejuvenation of the accounting culture by focusing on stronger fraud detection measures and improved financial reporting. This article is a response to this important call by exploring the importance of anti-fraud education, training programs, and auditing in improving the quality of financial reports and audit efficacy.

In an open letter to the newly created Public Company Accounting Oversight Board (PCAOB) under the Sarbanes-Oxley Act of 2002, the three

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former Chief Accountants of the Securities and Exchange Commission (SEC) raised concerns about the integrity and quality of the financial reporting process, as well as the credibility and objectivity of the related audit functions (Schuetze *et al.*, 2003). The letter states that "The foundation upon which investor confidence is built is an audit of the financial statements by an independent third party, the independent auditor. However, the past several years have shown numerous cracks in this foundation" (Schuetze *et al.*, 2003). They suggested that the PCAOB take the lead in restoring public trust in the accounting profession by:

- developing independence guidelines for auditors;
- establishing auditing standards rather than adopting the existing standards or delegating this role to the accounting profession; and
- investigating, monitoring, and disciplining the auditing profession rather than outsourcing the process to the profession.

This view of fully regulating the accounting profession is shared by others. It appears that we are moving from one extreme of a loose and seemingly ineffective self-regulatory process to a rigid and rather unnecessary regulated profession, only ruled by law. This article suggests a compromised solution to this crisis in the accounting profession through more coordinated and cooperating efforts by the accounting profession, particularly the AICPA and the PCAOB, to rebuild public trust. Arthur Levitt, former SEC chairman, in endorsing the nomination of William J. McDonough as the chairman of the PCAOB, states that "He needs to help establish all public credibility, without overburdening it with such regulatory overkill that it cannot function" (Solomon and Bryan-Low, 2003).

Public trust

The government has trusted the accounting profession to audit financial statements of publicly traded companies since the 1930s. Some defining characteristics of the auditing profession are its integrity, independence, and trust. The public trust in auditors' judgments and reputation plays an important role in substantiating audit functions as value-added services, which lend credibility to published financial statements. However, recent reported financial statement fraud committed by high profile companies (e.g. Enron, WorldCom, Global Crossing, and Adelphia) has raised the question as to whether audit functions can be trusted. In light of the current perceived crisis in the accounting profession, two important questions for the profession are:

(1) How to restore the public confidence in the financial reporting process and audit functions?

(2) What assurance does the public expect auditors to provide?

The letter "P" in CPA stands for public trust and interest, as stated in the AICPA code of professional conduct: "Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism" (AICPA, 2002a). However, recent financial scandals and related audit failures suggest there is a serious disconnect between what society expects of auditors and what auditors expect of themselves, which has created a trust gap. Lynn Turner, the former SEC chief accountant, refers to this expectation gap as expectation chasm and states that "there is a chasm as wide and as deep as the Grand Canyon between what the public expects from us and what we deliver in the way of an audit . . . we must close the chasm by changing what we deliver in the way of an audit and audit report, to conform to the desires of our customer" (Turner, 2002).

During the 1980s, there was an expectation gap referring to the difference between what the public viewed auditors' responsibilities to be and what auditors were willing to assume as responsibility in accordance with their professional standards. In the late 1980s, this expectation gap was widened and thus, in 1988 the AICPA sought to reduce the expectation gap with a series of Statements on Auditing Standards (SAS), No. 53-61, better known as expectation gap standards. However, these standards did not sufficiently address the expectation gap that existed in the area of fraud detection and eventually it turned into a trust gap resulted from an increasing number of financial statement fraud and audit failures. One message coming through loud and clear these days is that public confidence is eroded regarding the financial reporting process and related audit functions.

During the 1990s, while the accounting profession kept itself busy with soft and fluffy ethical issues and independence standards, its real business of preserving public interest was falling away. First, there was a growing lack of confidence in public accounting and the ability of the accounting profession to implement a credible, effective, reliable, and transparent financial reporting system. Second, audit failures were mistakenly tied to business failures, which raised serious concerns regarding credibility and effectiveness of audit functions. Finally, either the public had failed to recognize some important initiatives taken to improve the quality, integrity, and reliability of the financial reporting process and audit functions, or the accounting profession had failed to advocate forcefully, both to its own members and the public at large, the progress it has made. William F. Ezzell, the chairman of the AICPA Board of Directors, declares 2003 as a year of restoration of public trust in CPAs' reputation and connection to their core values of commitment to serve the public (Ezzell, 2002). He also points out many initiatives taken to improve corporate governance, to enhance the integrity, quality, and reliability of financial reports, and to promote the credibility and effectiveness of audit functions (Ezzell, 2002).

Audit effectiveness and auditor's reputation

The auditing profession has a long history of contributing to the effective and efficient function of business operations, the capital markets, and the economy by adding credibility to financial statements. Audit effectiveness, and thus the auditor's reputation, is the cornerstone of the auditing profession. This perception is based on the concept that it is irrational for auditors to engage in unethical, illegal, negligent, and fraudulent activities because they are pledging their reputation, built over years or decades, to be the public gatekeepers of proving reasonable assurance regarding fair presentation of financial statements. Since auditors serve many clients, they will perform audits diligently and will not sacrifice their reputation to subordinate their judgment in pleasing any single client. However, any audit ineffectiveness and the resulting impairment in auditor's reputation can be measured in terms of earnings restatements by the client or enforcement actions by the SEC against the client. Earnings restatements and Accounting and Auditing Enforcement Releases (AAER) issued during 1995-2002 can be used as the sign of audit failures and the resulted damage to auditor's reputation. While an earnings restatement or an SEC's AAER is not necessarily proof of audit failures or damage to an auditor's reputation, it may imply that an auditor has deferred excessively to their clients and their objectivity, integrity, and reputation have been impaired. The government reports a record number of financial fraud investigations since July 2002 when the Corporate Fraud Task Force was formed. The Department of Justice (DOJ) has opened more than 100 investigations into alleged corporate fraud and the SEC has filed more than 150 actions for the alleged financial fraud and disclosure violations (Corporate Fraud Task Force, 2002). The filed restatements (10K and 10-Q) went from 158 in 1998 to 330 in year 2002 (Hunron Consulting Group, 2002).

The dynamics of change within the auditing profession have been the transformation of audit services as once the profession's most profitable, prestigious and conspicuous core product to its current state as an unprofitable, unattractive byproduct. Factors that have differentiated audit firms have been the nature and extent of non-audit services offered such as information technology, system design, internal audit outsourcing, and valuation services. Audit services and their quality have been perceived to be the same, no matter which firm provides the services. Many clients took advantage of this change in the profession and started shopping around for the best deal among public accounting firms and putting pressure on prices by lowering audit fees. To survive in this highly competitive market for audit services, accounting firms started to provide a variety of non-audit services and often collected more fees from their clients for non-audit services than audit services. The offering of audit services and non-audit services simultaneously for the same client has created conflicts of interest that apparently have impaired auditors' objectivity and independence, resulting in audit failures. Table I shows a partitioning of

Table I. Partitioning of fees collected by Big Five in 2000 from selected clients

Big five	Client	Fees collected $	Percentage Non-audit services	Percentage Audit services
Arthur Andersen	Marriott Int.	31,331,300	96.25	3.25
Arthur Andersen	Enron	51,000,000	51.90	48.10
Arthur Andersen	Waste management	79,000,000	39.20	60.80
Deloitte & Touche	GAP	8,245,000	93.10	6.90
Ernst & Young	Sprint	66,300,000	96.23	3.77
Ernst & Young	AOL Time Warner	58,900,000	86.70	13.30
KPMG	Motorola	66,200,000	94.11	5.89
KPMG	General Electric	103,600,000	76.90	23.10
Pricewaterhouse Coopers	Raytheon	51,000,000	94.12	5.88
Pricewaterhouse Coopers	J-P Morgan	105,500,000	79.80	20.20
Pricewaterhouse Coopers	IBM	63,200,000	80.70	19.30
Average			*80.86*	*19.14*

Source: Company proxy statements

fees collected by Big Five CPA firms in 2000 for audit and non-audit services from selected clients. As indicated in Table I, more than 80 percent of collected fees were, on average, for non-audit services.

The financial audit had become a low margin business activity that discourages firms to maintain high levels of professional integrity, objectivity, and independence. The mission of public accounting firms has moved away from providing quality financial audits toward being multidisciplinary professional services organizations in providing a variety of non-audit services, as well as becoming business advisors in providing business process reengineering to their clients, rather than being watchdogs of lending credibility to financial statements. In the process of providing business process reengineering, including mergers and acquisitions, risk management, technology and system design, accounting firms compromised the integrity of the independence of their original core of activity auditing. Arthur Levitt, former SEC chairman, has expressed concern about the erosion of the quality of accounting earnings and the link between accounting manipulation and growth in consulting services provided by auditors (Levitt, 2000). The magnitude of non-audit service fees may discourage auditors to challenge their clients on auditing issues.

The existing auditing standards are not designed to catch fraud other than financial statement fraud. Independent auditors are not charged professionally with finding asset fraud, merely material misstatement of financial statements. Clearly, there is a gap between user expectations and the product that independent auditors deliver. The typical audit client is probably unwilling to pay for an audit that would catch most fraud, so the expectation gap will not disappear. After Enron, the auditing environment will change somewhat. But the typical juror will still believe that the purpose of an audit is to uncover any type of fraud or wrongdoing. Even internal auditors do not wish to take on the responsibility of finding fraud, and they are most often concerned with employee fraud rather than management and external fraud. "Due professional care" (Section 280) puts the primary responsibility for deterrence of fraud on management, who is responsible for establishing and maintaining the control systems. In fact, a report has found that the majority of fraud is uncovered from tips and complaints from other employees (Association of Certified Fraud Examiners, 2002).

External auditors are being viewed and often accused of not looking hard enough to detect financial statement fraud. External auditors are being challenged and sued for their association with alleged financial statement frauds by aggrieved investors. External auditors have suffered losses, both monetarily and reputationally, for not properly detecting financial statement fraud (e.g. Andersen). Since fraud is a legal determination to be made based on the consideration of facts, certain types of financial statement fraud make it easier for a plaintiff's attorney to argue and convince judges and juries that the auditor should be held responsible for discovering the fraud. The most frequently and commonly occurring frauds (e.g., overstatement of revenues) and fictitious transaction frauds (e.g. illegitimate earnings management) typically result in a higher likelihood of auditor litigation, primarily because judges and juries would expect the prudent and professional auditor to detect these types of financial statement frauds. Thus, an auditor who does not detect these types of financial statement frauds would be more likely to be charged for negligence and the resulting failure to detect the fraud. Auditors would be expected to detect most frequently the least commonly occurring financial statement frauds in the sense that they should know more about and be better at detecting most common fraud schemes (e.g. fraudulent financial schemes of WorldCom versus those of Enron).

Many factors can contribute to auditors' failure to discover misstatements including financial statement fraud. Cullinan and Sutton (2002) argue that during the past two decades auditors have gradually placed more relevance on their clients' internal controls to prevent, detect, and correct misstatements due to error than performing tests of account balances and transactions to discover misstatements caused by fraud. For example, in the case of WorldCom, the improperly reported $7 billion in operating expenses as capital expenditures should have been discovered by the auditors had they looked at the individual transactions. The costs to auditors of acquiescing in "earnings management" have substantially decreased during the past decade primarily because:

- several Supreme Court decisions have made it harder to sue accountants; and
- legislations have been passed by Congress to reduce accountants' maximum liability (Coffee, 2002).

The benefits of acquiescing in management's desire to adopt aggressive accounting practices and policies have been evidenced by increased consulting services provided by auditors to their clients.

Another reason for the auditor's failure to discover and report material misstatements, whether caused by errors or fraud, is the way auditors react or do not react to the evidence gathered, indicating potential misstatements when deciding to waive or report the detected misstatements. This is not to suggest auditors under pressure give up to management by waiving the discovered misstatements. Instead, the significance of misstatements may only become apparent later when the client's business fails and eventually goes bankrupt (e.g. Enron's collapse). Thus, more skeptical, alert, tough-minded, ethical, objective, and tougher stands could have spared auditors from some of the recent audit failures. One of the lessons auditors should learn from the recent audit failures is to exercise great care in deciding to waive or report discovered misstatements, because many audit failures are not due to a failure to apply necessary audit procedures, misapplication of audit procedures, or deficiencies in the performance of audits.

Narrowing the perceived trust gap

Financial statement fraud has been and continues to be the focus of the auditing profession. During the 1890s, external auditors viewed the detection of fraud in general, and financial statement fraud in particular, as the primary purpose of the financial audit. The auditing profession had moved from acceptance of fraud detection as a primary purpose to the expression of an opinion on fair presentation of financial statements during the twentieth century. The accounting profession has initially addressed the external auditor's responsibility for financial statement fraud detection in SAS No. 82 and recently in SAS No. 99, titled *Consideration of Fraud in a Financial Statement Audit* (AICPA, 1997, 2002c). SAS No. 99 supersedes SAS No. 82, providing risk factors broken into the fraud pyramid of incentives/pressures, opportunities, and attitudes/rationalizations. However, SAS No. 99 states that "absolute assurance is not attainable and thus even a properly planned and performed audit may not detect a material misstatement resulting from fraud". SAS No. 99 requires auditors to:

- approach every audit with professional skepticism;
- discuss among the audit team members regarding the risks of material misstatement due to fraud;
- identify fraud risk and management incentives, opportunities, and ability to rationalize occurrence of fraud; and
- design audit tests responsive to the risks of fraud.

SAS No. 99 requires that auditors place an increased emphasis on discovering financial statement fraud.

AccountingWeb, in conjunction with Sommella Market Strategies, on June 7, 2002, conducted a survey of 300 accounting professionals (AccountingWEB Survey, 2002). The results indicate that more than two-thirds of the respondents expect the AICPA to take the lead in audit reform while preserving most of the existing auditing standards and responsibilities. Many of the respondents also believe that the focus of the AICPA has shifted away from its roots of leadership for the accounting profession. The 2002 survey of PCPS Management of an Accounting Practice (MAP) reveals that the majority of respondents (more than 80 percent) believe that the future of the accounting profession, public perception of CPAs, and ethics, are the most important issues challenging the profession under the new regulatory environment (AICPA, 2002b). William Ezzell, the chairman of the AICPA, rightfully stated the mission of the profession as "Restoring our belief in ourselves and our connection to our core values. Restoring our reputation with the publics we are committed to serve" (Ezzell, 2002).

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), in July 2003, released its Exposure Draft (ED) titled, "Enterprise risk management framework" (ERMF) (COSO, 2003) The ERMF defines enterprise risk management, its components, underlying principles, benefits, limitations, and roles and responsibilities of involved parties including boards and management. The ERMF assists management to effectively deal with uncertainty, associated risk and opportunities, and control activities to achieve organization objectives of building value. The ERMF is a comprehensive concept that can be used by the accounting profession to identify all internal and external factors that may affect its reputation, assess the risk of likelihood and adverse effects of these factors, establish risk response options and control activities to close the perceived trust gap. The ERMF is based on eight key components of internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring.

The following suggestions can help the accounting profession to narrow the perceived trust gap:

(1) The accounting profession, especially the AICPA, should speak up and be more aggressive in addressing the perceived trust gap because the lack of proper action or silence will further widen this gap and damage the profession. Given the credibility issues and trust gap facing the accounting profession, it is important that the public have confidence in governing bodies such as the SEC and AICPA. The AICPA, the leading advocate for the view of CPAs, should be more active in addressing the perceived trust gap and ways to narrow this gap. Continuing focus on anti-fraud education, training programs, and auditing can bridge this credibility gap. The AICPA is committed to fulfill six leadership roles to

help restore confidence in the financial reporting process and its reputation (Melancon, 2002). These six leadership roles are:

- a standard-setting role of obtaining greater involvement of users of financial statements in setting auditing standards and establishing new guidance on issues affecting the profession such as auditor rotation requirements and compensation policies for audit partners;
- a fraud prevention and detection liaison role of assisting market institutions and corporations in designing and communicating anti-fraud controls and programs to the public and assisting corporations to implement them;
- a research role of promoting academic research in areas such as corporate fraud prevention, how investors can help protect themselves against fraud, and the strengthening of undergraduate anti-fraud education through cooperation with universities and the Association of Certified Fraud Examiners by establishing an Institute of Fraud Studies;
- an educational role of developing training programs aimed at combating fraud, changing the continuing education rules for CPAs to include more credits on fraud detection, and integrating anti-fraud education into college courses and textbooks for accounting students and anti-fraud training materials into training courses for management and directors;
- a financial reporting role of working with other standard-setters to improve the quality, reliability, and transparency of business and financial reporting and initiating debates on such topics as big GAAP versus little GAAP; and
- a corporate governance role of promoting and improving corporate governance and internal control systems by revising auditing standards so that the public will be put on notice when the auditor communicates internal control weaknesses to the audit committee.

(2) Public accounting firms including Big Four, national, and local firms should get more aggressive with their visibility strategies of getting involved in the business community, increasing press releases, participating in professional radio and TV talk shows, publishing articles in professional trade journals to demonstrate their commitment to rejuvenate the profession's culture, and participating in restoring its reputation.

(3) Public accounting firms should participate in local community activities, especially activities of colleges and universities. This is not the time for accounting firms to reduce their participation and visibility on college

campuses, which may give a wrong impression that there is a reason for their behavior.

(4) Expansion of auditing and accounting services to clients, which assist them to ensure the integrity and reliability of their financial reports. Examples of these services are anti-fraud training for management, boards of directors, and audit committees. Assist their clients to implement the newly developed ERM framework by the COSO to identify uncertainties and risks associated with their operations, as well as establishing proper control activities to achieve strategic operations, reporting and compliance objectives.

(5) Auditors and CPAs should consider many ways that provisions of the Sarbanes-Oxley Act and related SEC implementation rules affect the accounting profession and work closely with regulators to address their impacts. The creation of the Public Company Accounting Oversight Board (PCAOB) has changed CPAs' self-regulatory framework to an independent private sector regulatory structure. The PCAOB is funded by public companies and their auditors through mandatory registration and annual fees and is empowered to establish or adopt auditing standards and investigate, monitor, and discipline auditors. Independent auditors are overseen and report to the audit committee that approves their audit and non-audit services. The accounting profession should work closely with regulators, particularly with the SEC and the PCAOB, in the proper implementation of provisions of the Act during the transition period of changes from the self-regulatory environment to the new regulatory regime, which is intended to reinvigorate the entire profession through the cascade effects. The Act authorizes the PCAOB to set auditing standards or delegate this authority to any group of accountants (AICPA). However, in its recent meeting (April 16, 2003), the PCAOB voted to take responsibility for setting auditing standards. Thus, CPAs should have sufficient representation on the advisory board formed to draft and establish auditing standards.

(6) Public accounting firms should reconsider external auditors' involvement with their client's internal audit function and internal control structure. Independent auditors have been engaged to review and report on the effectiveness of their client's system of internal controls. This reporting on the internal controls can be very useful and add value to the integrity and quality of the financial reporting process. However, management accepts full responsibility for the design and maintenance of the adequate and effective internal control system. The Sarbanes-Oxley Act of 2002 requires that publicly traded companies' annual reports filed with the SEC contain an internal control report which:

- specifies the responsibility of management for establishing and maintaining adequate internal controls and procedures for financial reporting;
- provides management's conclusions about the effectiveness of the internal control structure and procedures for financial reporting as of the end of the fiscal year; and
- independent auditors have attested to and reported on management's assessment of internal controls and procedures as part of typical financial audits not subject to a separate engagement. The AICPA should establish new auditing standards to provide guidelines for auditors in attesting to and reporting on management representations regarding assessment of adequacy and effectiveness of internal controls as an integral part of a financial statement audit.

(7) Auditors must advise their clients and provide suggestions for the proper disclosures of financial information. A more timely, relevant, objective, and transparent financial reporting process in reporting financial results and conditions should improve the quality, integrity, and reliability of financial information. Corporate governance participants, including the board of directors, the audit committee, management, internal auditors, external auditors, and governing bodies have typically sufficient information about the company's performance and future prospects. However, the current reporting system of focusing on historical financial information and minimum compliance with a set of standards (cookbook standards) fails to communicate crucial information about the quality of the company's performance, its financial information system, internal control structure and the risks threatening its future prospects. The Financial Accounting Standards Board (FASB), in its new proposal entitled *Principles-Based Approach to US Standard Setting*, addresses the importance of high-quality accounting standards that improve transparency of financial information (FASB, 2002). The FASB believes that much of the detail and complexity in the existing accounting standards is caused by exceptions to the principles in the standards; and the amount of interpretation and implementation guidance of the rules-based standards. In responding to these concerns, the FASB is considering the feasibility of adopting a principles-based approach to US standard setting.

(8) Use more effective and objective audit procedures and related standards to improve audit effectiveness. The role of independent auditors and the nature of their audit services offered on financial statements is not clearly defined and understood by the investing public. Management can choose among many alternative accounting methods which barely meet

GAAP to measure, recognize, and report financial transactions. Companies receive standard, unqualified, clear opinions as long as they do the bare minimum to meet GAAP requirements, regardless of the quality of their financial reports. Management has an incentive to withhold relevant information from users of financial statements as long as they are barely passing the test of complying with GAAP in disclosing the minimum required financial information. Thus, more concise auditing standards and procedures are needed to audit the quality of financial reports published by publicly traded companies.

(9) Auditors should continue to focus on anti-fraud education and training programs for the audit staff and clients. The AICPA has recently issued SAS No. 99 which provides guidance in identifying fraud risk factors and applying proper audit procedures to address these risk factors. The AICPA has also released an exposure draft on seven proposed SASs related to audit risk. These proposed SASs would require:

- more in-depth understanding of the client's entity and its environment, including its corporate governance and internal controls;
- more rigorous assessment of the risks of financial statement fraud based on this understanding; and
- improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

(10) Assist your clients to combat fraud, particularly financial statement fraud, by employing management and anti-fraud programs and controls (MAPCs) suggested by several professional organizations including the AICPA (2002c). MAPCs contain recommendations for:

- creating a culture of honesty and high ethics through setting the tone at the top, establishing a positive workplace environment, and providing ongoing monitoring process, training, and discipline;
- evaluating antifraud processes and controls by identifying and measuring fraud risks, mitigating fraud risks, and operating appropriate internal controls; and
- developing a vigilant oversight process consisting of cooperation between the audit committee, senior executives, internal auditors, external auditors, and governing bodies such as the SEC and organized stock exchanges.

(11) Auditors must be skeptical, alert, professional, and inquisitive and understand the public trust in their profession and why they are licensed to serve as auditors. Their role is to lend credibility to published financial statements and provide reasonable assurance that financial

statements fairly reflect underlying business realities, substance, financial conditions, and results of operations. SAS No. 99 defines skepticism as "an attitude that includes a questioning mind and a critical assessment of audit evidence". The auditor should conduct the engagement with a mindset that recognizes the possibility that a material misstatement owing to fraud could be present, regardless of any past experience with the entity and regardless of the auditor's belief about management's honesty and integrity (AICPA, 2002c). Every publicly traded company has a right to be audited under the law. However, an audit is not an entitlement for receiving a clean or unqualified audit opinion. Some companies should not receive standard unqualified opinions until they clean up their act by providing objective, high-quality, reliable, and transparent financial statements. Auditors must be alert to management overriding controls, resulting in fraudulent financial reporting and misappropriation of assets.

(12) Auditors need to work closely with the AICPA in finalizing the emerging Business Reporting Model (BRM), intended to improve the timeliness, reliability, and transparency of financial reports. The BRM consists of five fundamental elements:

- reliable systems to gather, measure, and analyze information;
- industry-specific financial and non-financial performance measures;
- better quality disclosure written in plain English;
- corporate accountability; and
- real-time distribution of information (AICPA, 2002d).

The proper establishment and implementation of the BRM would make dissemination of online and real-time information possible. More timely, reliable, and transparent financial statements would in turn improve the quality, effectiveness, and credibility of associated audit functions.

Conclusion

Narrowing the perceived trust gap and restoring public confidence in financial reports and audit functions will take time and considerable efforts by legislators, regulators, standard-setting bodies, and the accounting profession. The Sarbanes-Oxley Act of 2002 was enacted to:

- improve corporate governance, the quality of financial reports, and the effectiveness of audit functions;
- provide new disclosure requirements for public companies;
- create an independent regulatory structure for the accounting profession; and
- establish stronger criminal penalties for securities fraud.

The Act and related SEC implementation rules provide unprecedented opportunities for the accounting profession, especially CPAs, to reform their profession in an attempt to restore public confidence in the financial reporting process and audit functions. It requires the establishment of the five-member Public Company Accounting Oversight Board (PCAOB) with the authority of setting forth auditing, attestation, quality control, ethics, and independent standards for the registered auditors of public companies, and inspecting and imposing disciplinary and remedial sanctions for violation of the board's rules, securities laws, and professional auditing standards. The AICPA should continue to:

- work closely with the PCAOB in fulfilling its regulatory oversight role;
- send the message to all members that substandard audits will not be tolerated;
- remind members of their need to develop and use anti-fraud education, training programs, and auditing techniques; and
- rebuild public trust in the accounting profession.

The public trust in auditor's judgments plays an important role in accepting audit functions as value-added services, which lend credibility to published financial statements. This trust can be enhanced by CPAs to focus their core values of integrity, objectivity, independence, and competence. The increasing interest in and the demand for the improved corporate governance and accountability have created a unique and timely opportunity for accountants and the AICPA to align their strategic vision with the emerging demands for effective oversight of corporate governance. The AICPA's six leadership roles discussed in this paper, address the AICPA's commitment to stronger fraud detection and prevention measures to improve the quality, transparency and reliability of financial reports. This article also suggests 12 ways that the accounting profession can restore public trust in the financial reporting process and related audit functions.

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