

A Post-Enron Examination of Student Perceptions to Potential Accounting Reforms

William H. Belski

wbelski@vt.edu

Ph.D. Student

Department of Accounting & Information Systems

3007 Pamplin Hall

Virginia Polytechnic Institute and State University

Blacksburg, VA 24061

Phone: (724)322-3189

July 14, 2003

A Post-Enron Examination of Student Perceptions to Potential Accounting Reforms

The accounting profession has gone through a number of difficult changes in the months since the failure of Enron. With the public perception of the profession at all time lows and the demise of Arthur Andersen, it is clear that recent accounting scandals have forever altered the landscape of both American and international business.

A number of reform packages were forwarded in the interim period by members of both the professional and academic communities. These packages became the genesis of what eventually culminated in the passage of the Sarbanes-Oxley Act of 2002. In an attempt to include the opinion of future business persons, students were asked to evaluate and respond to various questions regarding potential reforms to the accounting profession and financial reporting landscape. Since current business students represent our future business leaders, an examination using upper-level business students was warranted. Students also tend to give us a generalized understanding of how the general business public may view such reforms. The topics investigated in this study included:

- Self-regulation of the accounting profession
- Offering non-audit services to audit clients
- Rotation of independent auditors
- Auditor working for prior audit clients
- Use of forensic auditing
- Composition of audit committees
- Cleaning-up the accounting rules
- Payment of audit fees
- General questions related to Enron failure

A questionnaire was initially developed and adapted from a January 28, 2002 article from Business Week entitled "*Accounting in Crisis*," which addressed a number of each of the above topics. A short commentary relating to each of the above topics was

included to ensure that the students were better able to understand the survey questions related to each of the topics of interest. The subjects in this study were comprised of 150 fourth year undergraduate business students, master's students in the Department of Accounting & Information Systems, and general MBA students located at a large, public land grant university located in the Southeast region of the United States. All programs are accredited by the American Assembly of Collegiate Business Schools (AACSB). The written instructions stated that the questionnaire was designed to investigate subject's perceptions of potential accounting reforms and Enron related issues. The instructions also noted that there was no right or wrong answers in the survey. Additionally, subjects were asked to share their ideas on improving the image of the profession or the process of financial reporting in the space at the end of this survey. Participation was voluntary and the responses to the questionnaire were anonymous. This guarantee of anonymity and the statement that there were no right or wrong answers were in the instructions to the questionnaire to minimize any demand effect bias. The objective of this survey was to obtain the real opinions of the students rather than an exercise where students mimic the opinions of their professors. The survey was given to students in the spring of 2002. The survey took approximately 25 minutes to complete and was given during the standard class time. Of the 158 completed questionnaires, 8 subjects did not complete the demographic questions or answer the entire questionnaire, resulting in 150 useable responses. Lastly, the students were asked to respond to a demographic questionnaire. A copy of the survey and demographic questionnaire are included in the appendix with a breakdown of the responses to the demographic questionnaire.

Here are some of the key findings of the research:

SELF-REGULATION OF THE ACCOUNTING PROFESSION

- Over 72% of business students agree that a problem exists in the way the accounting profession is self-regulated. Approximately (52%) half of accounting majors agree.
- Students ranked the following choices in order as the most effective for the accounting profession in re-establishing public trust with respect to self-regulation:
 - Nearly 45% believe a government agency should be set up to oversee and regulate accounting with about one-fifth (21%) of accounting majors in concurrence.
 - 38% believe a new self-regulatory organization (SRO) staffed and overseen by public outsiders should take over the review process with over 50% of accounting majors in agreement.
 - About 17% think that the current self-regulation is sufficient with approximately one-quarter (23%) of accounting majors in agreement.

OFFERING NON-AUDIT SERVICES TO AUDIT CLIENTS

- To ensure an independent audit, nearly 62% suggest that accounting firms split off their management consulting groups and 28% suggest that tax and corporate finance work groups should be split. The response by accounting majors in splitting off the groups is similar, at 53% and 25% respectively.
- Nearly 75% (70% of accounting majors) agree that changes need to be made with respect to non-audit services being made available to audit clients.
- The groups are equally split on how to maintain the independence of auditors with respect to non-audit services.
 - Approximately 42% agree that a firm can maintain its independence by permitting firms to keep their management consulting and tax groups, but barring them from providing both audit and non-audit services to the same client.
 - About 38% disagree with this and require firms to split off non-audit groups.

ROTATION OF INDEPENDENT AUDITORS

- Nearly two-thirds of students agree that requiring mandatory rotation of independent auditors would help the accounting profession to maintain its independence, whereas only 25% of accounting majors agree.
- Only one-third of students believe auditors should maintain their current system of changing audit partners periodically but keeping the same firm in place, whereas nearly 60% of accounting majors agree.

AUDITOR WORKING FOR PRIOR AUDIT CLIENTS

- About half (51%) of students believe the rotation between the audit firm and the client's accounting staff should be limited. Approximately 30% of accounting majors agree.
- Nearly 63% of students (40% of accounting majors) would be concerned that the accounting numbers might not be scrutinized or evaluated with the necessary vigor and/or honesty when the company employees are made up of previous audit firm employees.
- Students ranked the following choices as the most effective way for the accounting profession to ensure an independent audit with respect to auditors jumping ship to their respective clients.
 - Nearly 53% would agree to allow movement between the audit firm and the client, but would require that disclosure in the financial statements.
 - 27% agree that auditors should be precluded or limited from accepting employment from an audit client they have previously audited.
 - About 20% (40% of accounting majors) require no changes or limitations with respect to auditors' moving on to work for their clients.

USE OF FORENSIC AUDITING

- Only 35% (28% of accounting majors) of students believe auditors should be required to introduce forensic auditing techniques into the average financial statement audit.

CLEANING UP THE ACCOUNTING RULES

- Approximately 25% (10% of accounting students) of students believe the accounting standard setting should be federalized. That is, they believe government should take over the setting of accounting standards.
- Nearly two-thirds believe the Financial Accounting Standards Board (FASB), the standard setting body of the accounting profession, is more *reactive* than *proactive* in their response to changes in accounting rules with 97% in agreement that accounting has become increasingly complex.
- Some 80% of students agree that accounting should remain to be flexible in the selection of accounting methods available to companies, but 82% also contend that changes are necessary with respect to cleaning up how the accounting rules are set.

COMPOSITION OF AUDIT COMMITTEES

- Approximately 90% of students agree that changes are necessary in the formation and consistency of audit committee members with 85% agreeing with the 1999 recommendations of the SEC blue ribbon commission which requires that audit committees be made up solely of independent (of management) directors, each of whom should be financially literate, with at least one having accounting or financial management expertise.
- Nearly 95% of students agree that audit committees would be biased if directors on the company payroll are permitted to be on the audit committee.

PAYMENT OF AUDIT FEES

- Students ranked the following choices as the most effective way for dealing with the conflict of interest over the payment of audit services:
 - Nearly 43% (60% of accounting majors) agree that auditor's should be paid by the management of companies that audit them.
 - 25% (10% of accounting majors) believe a government agency should be set up to pay all audit fees.
 - Nearly 20% (15% of accounting majors) contend that auditors should be paid by the company's investors rather than the management of the company being audited.
 - Finally, the remaining 12% (15% of accounting majors) support the idea that auditors should be paid by the stock exchange which lists the companies.

GENERAL ENRON-RELATED QUESTIONS

- Approximately 68% of students agree that the collapse of Enron was a business failure, not an audit failure.
- Some 24% (10% of accounting majors) believe the Enron failure was caused by Enron's auditor, Arthur Andersen.
- Nearly 45% (80% of accounting majors) agree that the analyst community and investment companies were as guilty as Arthur Andersen for the huge losses incurred in the Enron failure.
- Only 5% (10% of accounting majors) of students believe that Enron's auditor, Arthur Andersen, operated within the professional standards of the accounting profession with 47% (15% of accounting majors) agreeing that Arthur Andersen could have prevented the Enron failure.
- Finally, 97% (100% of accounting majors) concur that the management of Enron was ultimately responsible for the failure of Enron.

Finally, students were asked to rank order each of the above reform issues from 1=most important in addressing the issue of public trust in accounting profession, 2=next most important....., etc. through 8= least important (of the eight choices) in addressing the issue of public trust in accounting profession. The results are as follows:

Reform Issues	Accounting majors	Non-accounting majors
Self-regulation of the accounting profession	2	1
Offering non-audit services to audit clients	1	2
Rotation of independent auditors	5	5
Auditor working for prior audit clients	7	7
Use of forensic auditing	8	6
Composition of audit committees	3	4
Payment of audit fees	6	8
Cleaning up the accounting rules	4	3

The rankings were quite similar for both accounting and non-accounting majors and surprisingly in line with the major thrust of the Sarbanes-Oxley Act of 2002. Both groups of students found that the self-regulation of the accounting profession and the offering of non-audit services to audit clients as the most important issues in restoring the public's trust in the accounting profession.

The credibility of accountants has been tarnished for the moment, but their work remains extremely vital. Many argue that the Enron situation shows it has become more important than ever. Moreover, the scandal may ultimately help to create an environment in which a more ethical accounting culture will thrive.

In an attempt to re-establish the public trust in financial accounting information and the independent audit function, the Sarbanes-Oxley Act of 2002 was signed into law. This law should have a greater impact on financial reporting and the accounting profession than any legislation in the past 70 years and hopefully re-enhance the importance of the profession to incoming students as well as the profession's reliability and integrity in the eye's of the public. As stressed in the many memos by the AICPA: "We must restore our most priceless asset: our reputation."

**Table on the Background/Demographic Information on Participants
(N=150)**

Panel A: Continuous Variables				
Variable:	Mean	Median	Range	Standard Deviation
Age	22.7	22	20 - 40	2.55
Years of Full-time Work Experience	1	0	0 - 17	2.33
Number of Accounting Classes completed	6.53	5	2 - 21	4.28
Number of Ethics or Philosophy Classes completed	1.55	1	1- 6	1.15
Panel B: Dichotomous Variables				
Variable:	Percentage	Number		
Gender				
Males	66.0%	99		
Females	34.0%	51		
Major				
Accounting	39.3%	59		
Other	60.7%	91		
Country of Origin:				
United States	88.7%	133		
International	11.3%	17		
Level of Education				
Undergraduate	82.0%	123		
Graduate	18.0%	27		
Political ideology				
Conservative	60.0%	90		
Liberal	40.0%	60		
Have you heard of the Enron collapse prior to this study?				
Yes	100%	150		
No	0%	0		
Have you invested in common stock/mutual funds in the past?				
Yes	59.3%	89		
No	40.7%	61		
Do you plan to invest in common stock/mutual funds in the future?				
Yes	99.3%	149		
No	0.7%	1		
Have you read through or examined an annual report?				
Yes	97.3%	146		
No	2.7%	4		

Appendix: Questionnaire

PLEASE READ:

The attached questionnaire asks you to evaluate and respond to various questions regarding potential reforms to the accounting profession and financial reporting landscape to re-establish the public trust in financial accounting information and the independent audit function in the wake of the Enron failure. Before each set of questions, there is commentary relating to the questions below. This commentary was derived from a number of business articles. This commentary is not included to influence your decision. It is presented instead to assure you understand the survey questions. Please remember, there is no right or wrong answers in this survey.

The change-for-the-sake-of-change philosophy is often used after a large inequity such as Enron has occurred. Change is only effective if it meets the needs of its core groups. Please keep this in mind when answering these questions. If you can think of any other "ideas" to improve the image of the profession or the process of financial reporting, please share your ideas on the lines at the end of this survey. A demographic questionnaire is also included. The responses to these questions and all demographic information will be held strictly confidential.

Thanks again for your participation.

Bill Belski

ENACT SELF-REGULATION WITH TEETH

Currently, the accounting profession is self-regulated. The AICPA, made up of a series of industry trade groups, is charged with the responsibility of monitoring auditor independence and audit quality. The Public Oversight Board (POB), a separate group of the AICPA, is charged with ensuring that the public interest is considered in the oversight of auditors. The POB relies entirely on the CPA firms for its funding and has no authority to investigate, no subpoena power, and no power to punish infractions. Separately, the AICPA runs a system of peer review. Peer review refers to accounting firms "auditing" other accounting firms to ensure professional standards are being upheld. Although smaller firms have occasionally been censured by their peers, no Big Five firm has ever failed a review.

One alternative is to transfer the Regulation and discipline to a new self-regulatory organization (SRO), similar to the National Transportation Board, staffed and overseen largely by public outsiders who would take over the review process. Another includes setting up a governmental agency to regulate auditing and auditors.

But while it sounds good, creating such regulatory bodies such as a SRO or other governmental agency will be far from easy. First of all, to have real power it requires action by Congress, which in a shortened election year already has plenty of other things to do. How it will be funded is sure to be a topic of long and hot debate. Also, the history of regulation has been far from pristine.

A problem currently exists in the way the accounting profession is self-regulated.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

No changes are necessary with respect to the way the accounting profession is self-regulated.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Regulation and discipline should be transferred to a new self-regulatory organization (SRO), similar to the National Transportation Board, staffed and overseen largely by public outsiders who would take over the review process.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

A governmental agency should be set up to oversee and regulate auditing and auditors.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Which of the following choices do you believe will be most effective for the accounting profession in reestablishing public trust?

- a. Current self-regulation of accounting profession is sufficient.
- b. New SRO staffed and overseen by public outsiders who would take over review process
- c. Government agency should be set up to oversee and regulate auditing and auditors.

BAR NON-AUDIT SERVICES TO AUDIT CLIENTS

Accountants have become increasingly dependent on consulting revenue. In 1993, 31% of the industry's fees came from consulting. By 1999, that had jumped to 51%. In 2001, for example, PricewaterhouseCoopers earned only 40% of its worldwide fees from auditing, 29% coming from management consulting and most of the rest from tax and corporate finance work, reports the International Accounting Bulletin. More telling, in a study of the first 563 companies to file financials after Feb. 5, 2001, the University of Illinois' Bailey found that on average, for every dollar of audit fees, clients paid their independent accountants \$2.69 for non-audit consulting.

The industry and others argue that conflict of interest between consulting and audit services is rarely the subject of litigation and that consulting work can provide a better understanding of the company and improve the audit. Some accountants claim that if these new prohibitions are implemented, the quality of audits will suffer because audit firms will know less about the companies they audit

To ensure an independent audit, accounting firms should be required to split off their (non-audit) management consulting groups.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

To ensure an independent audit, accounting firms should be required to split off their (non-audit) tax and corporate finance work groups.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

No changes need to be made with respect to non-audit services being made available to audit clients.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

The independence of the auditor would not be jeopardized if the auditing firms bar all non-audit services to its audit clients but are permitted to keep their management consulting and tax work groups.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Which of the following choices do you believe will be most effective for the accounting profession to ensure an independent audit?

- a. Accounting firms should be required to split off management consulting groups.
- b. Accounting firms should be required to split off tax and corporate finance work groups.
- c. Current policy is fine for allowing firms to have both consulting and tax groups.
- d. Allow accounting firms to keep their management consulting and tax work groups, but bar them from providing both consulting services and audit services to the same client.

ROTATION OF AUDITORS

The rotation of auditors refers to allowing an auditor to serve a company for a certain number of years, but after that time period, a new firm must come in to audit the company. This is said to result in a periodic 'fresh look' at the institution from an audit perspective to the benefit of investors and regulators. Fans of mandatory rotation of auditors argue that scandals would never occur if the auditor knew that within a few years it would be out and a competitor would be reviewing its work. Opponents say that rotation could create more problems, since new auditors need time to learn about a company. They prefer the current system of changing audit partners periodically but keeping the same firm in place.

Requiring mandatory rotation of independent auditors would help the accounting profession to maintain its independence.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

The rotation of independent auditors would create more problems, since new auditors need time to learn about a company.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Instead of requiring mandatory rotation of independent auditors, firms should maintain current system of changing audit partners periodically but keeping the same firm in place.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Which of the following choices do you believe will be most effective for the accounting profession to ensure an independent audit?

- a. Accounting firms should be required to rotate after X number of years.
- b. Accounting firms should maintain their current system of changing audit partners periodically but keeping the same firm in place

USE OF FORENSIC AUDITING

Forensics is associated with the art and science of legal evidence and argument. In forensic accounting, auditors introduce forensic auditing techniques into the average financial statement audit. That is, hot spots such as revenue-recognition issues and the establishment of reserves, two of the most common reasons for earnings restatements, are subject of forensic reviews. Opponents argue that forensic audits will end up with little more than an excuse for auditors to raise their prices. In addition, opponents claim there is no evidence proving the use of forensic auditing increases the effectiveness of the audit.

Auditors should be required to introduce some forensic auditing techniques into the average financial statement audit.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

The current system of independent auditing is adequate without the requirement of forensic auditing. Forensic audits will end up with little more than an excuse for auditors to raise their prices with no increase in the effectiveness of the audit.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Which of the following choices do you believe will be most effective for the accounting profession at increasing the effectiveness of the audit?

- a. Accounting firms should be required to use forensic auditing.
- b. Accounting firms should maintain their current system of financial statement audits.

LIMIT AUDITORS' MOVES TO COMPANIES

Proponents claim that accountants must be barred from later taking jobs with the companies they are hired to audit, until now a common practice. The claim is an auditor hoping to land a lucrative job with his client will not be aggressive in his/her work. The concern is that the numbers might not be scrutinized with the necessary vigor when the company's old audit partners are adding them up. Many claim this idea goes to the perception of independence and state that it might not have anything to do with reality, but often perception becomes reality. Opponents, on the other hand, claim that many companies exhibit similar rotation between their accounting staff and audit firms and never run into independence problems. Moreover, they state that there are legal obstacles to limiting people's freedom to work where they like.

Independent auditors should be precluded or limited from accepting employment from an audit client they have previously audited. That is, the rotation between the audit firm and the client's accounting staff should be limited.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Movement should be allowed, but any movement between the audit firm staff and the client being audited should be disclosed in the financial statements.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

As an investor, you would be concerned that the accounting numbers might not be scrutinized or evaluated with the necessary vigor and/or honesty when the company employees are made up of previous audit firm employees.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

No changes or limitations should be made with respect to auditors' moving on to work for their clients.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Which of the following choices do you believe will be most effective for the accounting profession to ensure an independent audit?

- a. Auditors should be precluded or limited from accepting employment from an audit client they have previously audited.
- b. Movement should be allowed, but any movement between the audit firm staff and the client being audited should be disclosed in the financial statements.
- c. No changes or limitations should be made with respect to auditors' moving on to work for their clients.

REFORM THE AUDIT COMMITTEES

An audit committee is a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management. Most audit committees are made up of three to five or sometimes as many as seven directors who are NOT part of company management. The typical audit committee decides such things as which CPA firm to retain and the scope of services the CPA is to perform. It meets periodically with the CPA firm to discuss audit progress and findings and helps resolve conflicts between the CPA firm and management. In 1999, the SEC blue-ribbon commission recommended that audit committees be made up solely of independent (of management) directors, each of whom should be financially literate, with at least one having accounting or financial management expertise. Had the SEC recommendations been adopted verbatim, half of Enron's six-member audit committee likely would have been barred from service.

When the U.S. stock exchanges moved on the SEC recommendations, they adopted new rules for listed companies which were something else entirely. Under the New York Stock Exchange rules, directors on the company payroll are permitted, former employees and their families can be allowed after three years, and audit committee members with a "significant business relationship" with the company are also acceptable if the board determines the ties won't interfere with their judgment.

Companies should be required to follow the 1999 SEC blue-ribbon commission recommendation.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

As an investor, you would be concerned that the audit committees would be biased if directors on the company payroll are permitted to be on the audit committee.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Former employees and their families should be allowed to serve on the audit committee after three years severance from the company.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Audit committee members with a "significant business relationship" with the company are acceptable if the board determines the ties won't interfere with their judgment.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

No changes are necessary to the formation and consistency of audit committee members.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Which of the following choices do you believe will be most effective for the accounting profession with respect to the audit committees?

- a. The stock exchanges should be allowed to adopt their own qualifications for audit committees.
- b. Companies should be required to follow the 1999 SEC blue-ribbon commission recommendation.
- c. No changes or limitations should be made with respect to the formation and consistency of audit committee members.

CLEAN UP THE ACCOUNTING RULES

The financial accounting standard setting should be federalized. That is, the government should take over the setting of accounting standards.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Accounting has become increasingly complex just as business has.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

The Financial Accounting Standards Board (FASB), the standard setting body of the accounting profession, is more **proactive** than **reactive** in their response to changes in accounting rules.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

No discretion in the selection of accounting methods should be available to companies. That is, all companies should be required to use the exact same accounting method. For example, all firms should use FIFO, accelerated depreciation, etc.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

No changes are necessary with respect to cleaning up how the accounting rules are set.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

CONFLICTS OF INTEREST

Independent auditors are currently paid by the management of the companies that audit them. Some claim this creates an unmanageable conflict of interest. Many alternatives are forwarded by parties which they claim will eliminate any conflict of interest. One opinion is that auditors should be paid by the stock exchanges rather than the management of the company being audited. Others suggest that auditors should be paid by the company's investors rather than the management of the company being audited. Still others suggest that a governmental agency and fund should be set up to pay all audit fees. The fund would then be paid for by the companies being audited based on the size of the company and the difficulty of the audit. Opponents argue that there is no substitute for personal integrity in auditing since it remains a public good and the current method does not create an unmanageable conflict of interest. Moreover, they claim that adding any regulatory body only adds to the cost of an audit.

Auditors should be paid by the stock exchanges rather than the management of the company being audited.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Auditors should be paid by the company's investors rather than the management of the company being audited.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

No change is necessary to the current system of Independent auditors being paid by the management of the companies that audit them.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- a. I strongly agree with statement

A governmental agency and fund should be set up to pay all audit fees. The fund would then be paid for by the companies being audited based on the size of the company and the difficulty of the audit.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- a. I strongly agree with statement

Which of the following choices do you believe will be most effective for dealing with the conflict of interest over the payment of audit services?

- a. Auditors should be paid by the stock exchanges rather than the management of the company being audited.
- b. A governmental agency and fund should be set up to pay all audit fees.
- c. Auditors should be paid by the management of the companies that audit them.
- d. Auditors should be paid by the company's investors rather than the management of the company being audited.

GENERAL ENRON- RELATED QUESTIONS

At its core, the collapse of Enron was a business failure, not an audit failure.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

The Enron failure was **caused** by Enron's auditor, Arthur Andersen.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

In financial reporting, there is no substitute for personal integrity and honesty.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Instituting all the suggestions and regulations above would surely have prevented the Enron failure.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Financial analysts and investment companies were as guilty as Arthur Andersen for the huge losses incurred in the Enron failure.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Enron's auditor, Arthur Andersen, operated within the professional standards of the accounting profession.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

Arthur Andersen could have prevented the Enron failure.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

The management of Enron is responsible for the failure of Enron.

- a. I strongly disagree with statement
- b. I somewhat disagree with statement
- c. Undecided
- d. I somewhat agree with statement
- e. I strongly agree with statement

RANK THE FOLLOWING ISSUES:

Please rank the following issues from 1=most important in addressing public trust in accounting profession, 2=next most important.....,etc. through 8= least important (of the eight choices) in addressing public trust in accounting profession.

- _____ Self-regulation of profession
- _____ Use of forensic audits
- _____ Limiting auditor moves to audit clients
- _____ Cleaning up the accounting rules
- _____ Composition of audit committees
- _____ Determining what group pays the independent auditor for audit services
- _____ Rotating the independent auditor
- _____ Barring consulting (non-audit) services by auditors

PLEASE PROVIDE ANY ADDITIONAL COMMENTS IN THE SPACE BELOW

