

Indiana CPA Society Case Study 2003

You are the managing partner for the audit practice of a regional CPA firm. Your firm conducts the audit for a handful of SEC-registered companies, the fees from which comprise nearly 40 percent of your annual audit practice revenue. As the managing partner, it is your responsibility to develop the strategic plan for the practice group.

The Sarbanes Oxley Act of 2002 (“the Act”) requires firms that audit public companies to register with the Public Company Accounting Oversight Board (PCAOB). In addition, the Act imposes significant new obligations and restrictions on firms auditing SEC registrants. You realize that the Act will have a significant effect on your firm, including what it does, how it does it, and for whom. Other firms will be struggling with the same issues; the competitive landscape is sure to change.

Attached you will find a table providing background information concerning your firm. In addition, a copy of the Act is attached. Use these and any other resources necessary and available to you to complete this case.

Required Documentation and Analysis

1. Explain the effect the Act will have on the CPA firm you manage.
 - a. How will the Act change the way your firm does business?
 - b. What sections are likely to have the greatest impact on the firm? Why?
 - c. What impact, if any, will the Act have on your firm’s culture?
 - d. How will the Act change your relationships with clients?
2. Discuss the role you see the PCAOB playing within the CPA profession during the next 10 years.
 - a. What concerns do you have about the PCAOB?
 - b. Will your clients and their investors be affected by your firm’s registration with the PCAOB?
 - c. What additional actions will be required of your firm in relation to the PCAOB?
 - d. How do you feel about having to register your firm with the PCAOB?
3. Because you are a CPA, many people solicit your advice. Over the weekend, a former employee of your firm, Dave, came to you for some “off-the-record” advice. Dave works for a public company that is not a client of your firm. He is on his company’s Sarbanes-Oxley Section 404 project team, which is charged with identifying, documenting, and performing management tests on key internal controls. Dave is unaware that your spouse owns a fairly significant (at least to you) amount of stock in the company for whom he works. You are also aware that one of your clients (a private company) has been approached by the chairman of the board of Dave’s company to inquire about any interest in merging. Through his investigations, Dave finds that many key controls are not only poorly

- documented, but sometimes do not even exist. For this reason, he is certain that the systems in place at his company are not providing adequate prevention of material errors. When Dave brought these concerns to the attention of the CFO to whom he reports, he dismissed Dave's opinions due to his "lack of experience" and the impact of a negative assessment of controls on the stock price of the company. You want to help Dave with this difficult situation.
- a. What are Dave's options?
 - b. What effect might each of these options have on Dave's professional life?
 - c. What are Dave's obligations? To whom is he obligated?
 - d. As a caring friend and fellow CPA, what do you recommend that Dave do?
 - e. What are the implications to you from this visit?
4. In the event of an oral presentation, be prepared to address the partners of your firm.

Case Format and Guidelines

The written case has no minimum or maximum page restrictions, so long as the above requirements have all been addressed. Each case should, however, contain a two- to five-page executive summary and any exhibits you plan to use to support your points.

Background of your firm

	2002 (Actual)	2003 (Projected)
Revenues (millions)	\$22.7	\$24.2
Staff		
Partners	21	22
Professional staff	135	146
Number of offices	2	2
Mix of revenues for firm		
Accounting and auditing	35%	38%
Tax	35%	31%
Consulting	30%	31%
SEC Clients		
Number of clients	5	5
Revenues from accounting/auditing	\$2.7	\$2.9
Revenues from tax	2.8	2.7
Revenues from consulting	4.1	2.7

Resource Links:

[Sarbanes-Oxley Act of 2002](#)

[Sarbanes-Oxley Act of 2002 Summary](#)

[Public Company Accounting Oversight Board](#)