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**WithumSmith+Brown**



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Where Success Begins<sup>SM</sup>

**WS+B IS NATIONALLY RECOGNIZED  
AS BOWMAN'S 'BEST OF THE BEST'**

WithumSmith+Brown was recently selected by *BOWMAN'S* as one of the "BEST OF THE BEST" among America's accounting firms.

"We are very pleased to have earned this recognition, which our firm has achieved for the fifth consecutive year and for six out of the past seven years," said Ivan C. Brown, managing director of WS+B. "Almost 330 of America's largest CPA firms participated in *BOWMAN'S* annual analysis of firms. This is the ninth year the 'BEST OF THE BEST' have been named; only 25 firms receive this award annually, and we are proud to be among the 'BEST OF THE BEST' again for 2002."

*BOWMAN'S* annual analysis of firms, as published in *BOWMAN 100 SPECIAL REPORT*, is the longest-running, independent analysis focusing on management operations of America's large local, regional and national firms. In determining the best, firms are ranked on approximately 25 different data points based on fiscal and management performance. Name, size and location are not factors. Only those firms with well-rounded high-performing practices have the chance to be recognized as the "BEST OF THE BEST."

*Many thanks to all our clients and business associates  
for helping us achieve this honor!*

**THE SARBANES-OXLEY ACT –  
No Longer Business As Usual**

*By Robert W. Van Arnum, CPA, Shareholder*

As of last summer, chief financial officers, auditors, and lawyers have been analyzing the most comprehensive law on securities regulation and corporate governance since the original SEC rules and regulation: the Sarbanes-Oxley Act of 2002. President Bush signed this new piece of legislation on July 30, 2002, to deal with the accounting scandals that had become of great concern to investors.

The new law has significant implications for how companies organize their affairs and report their operations to the SEC and the public. In brief, the Sarbanes-Oxley Act:

- Requires the SEC to establish a Public Company Accounting Oversight Board, a five-member panel with the authority to set standards and investigate and discipline auditors.
- Requires chief executive officers and CFOs to certify quarterly and annual financial reports.
- Redefines the relationship between external auditors and their client companies and makes audit committees directly responsible for those relationships.
- Requires reporting on insider stock transactions within two business days.
- Restricts certain transactions by officers and directors and bans most loans by public firms to their officers and directors.
- Strengthens enforcement measures, including criminal penalties, for securities-related offenses.

Some areas of the new law generating the most interest are code of ethics requirements, whistle-blowing provisions, audit committee rules on the hiring of external auditors, management assessments of internal controls, CEO/CFO certifications, new internal control auditing standards, and the new oversight board. For example, the Sarbanes-Oxley Act:

- Requires the SEC to issue rules on how a company should disclose whether or not it has adopted a code of ethics for senior financial officers.
- Calls for each audit committee to establish procedures to 1) receive, retain, and treat complaints and 2) handle whistle-blower information regarding questionable accounting or auditing matters.



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- WS+B Is Named "BEST OF THE BEST"



## PREVENTING FINANCIAL STATEMENT FRAUD IN CORPORATE AMERICA

By John J. O'Donnell, CPA, CFE, DABFA, Senior Manager

Unfortunately, incidents of financial statement fraud have become all too commonplace in corporate America. We've all seen the well-publicized disclosures of fraud committed by the executives of WorldCom, Enron, Adelphia Communications and others. In addition, we've seen many large public companies review and restate financial statements to correct prior earnings overstatements. These incidents have not only had an adverse impact on the individual companies and their shareholders but have severely undermined the public's confidence in the financial markets overall as well as the CPA profession.

As a result of these recent disclosures, investors have been reluctant to invest in the equity markets because of questions regarding the accuracy of the data reported in financial statements. Unfortunately, the certified public accountant has not escaped blame for this mess. Although audits are not intended to detect fraud or intentional misrepresentation by management, the public looks to the independent accountant to provide confidence that the financial statements are presented accurately and fairly.

To combat this problem, the AICPA's Auditing Standards Board has established an anti-fraud program to re-establish audited financial statements as a clear picture window into corporate America. This program will examine the circumstances and origins of fraud in an attempt to develop procedures to minimize and prevent fraud, establish anti-fraud criteria and controls as well as educate CPAs in fraud detection and deterrence.

The Financial Accounting Standards Board (FASB) has also released new audit guidance, SAS No. 99 entitled "Consideration of Fraud in a Financial Statement Audit," effective for audits of financial statements for periods beginning on or after Dec. 15, 2002. The AICPA is encouraging firms to implement this new auditing standard early.

FASB recognizes that corporate managers are in the best position to perpetrate financial statement fraud since they have the ability to manipulate accounting information. Accordingly, the new standard stresses increased professional skepticism by the CPA as well as enhanced communication with management, the audit committee and others. FASB also recommends the use of unpredictable audit testing and establishes criteria to address incidents where management overrides internal controls. In summary, these measures have been instituted to assist the accounting profession in detecting and preventing fraud as well as to re-establish the public's confidence in the audited financial statements.

*Continued from page 1*

- Requires that all audit services – and nonaudit services – be preapproved by the company's audit committee.
- Mandates companies to disclose to the public on a current basis any information concerning material changes in the company's financial condition or operation – in plain English.

This article provides only a brief summary of some of the key provisions of the Sarbanes-Oxley Act. To find out how these provisions and other requirements can affect how you do business, contact a WS+B professional at your local office.

## FORENSIC ACCOUNTING – It's Not Only For The Enrons Of The World

By William B. Edwards, MBA, CFE, CIA, Principal

Many believe that the benefits of "forensic" or "investigative" accounting are limited to the detection of fraud and malfeasance in large corporations, but that is far from the truth. Small public companies, privately-held companies, municipalities and other governmental units can benefit tremendously from the services provided by forensic accountants. In fact, according to the Association of Certified Fraud Examiners, small businesses are the most vulnerable to occupational fraud and abuse. The average fraud scheme in a small business causes \$127,500 in losses, compared to \$97,000 in the larger companies. Is this a risk you can afford to take?

Fraud can be committed by a business owner, manager, vendor, employee or more than one of these working in collusion. The forensic accountant's role is to analyze, identify and expose these crimes and develop appropriate policies, procedures and internal controls to prevent their recurrence. Generally, lawyers, municipalities, government entities, small and large corporations and even spouses hire forensic accountants to weed out fraud, theft and deception.

While often reactive, forensic accounting is far more beneficial and productive if engaged in a proactive manner. The forensic accountant tends to be people-oriented, operationally focused and looks behind the numbers to help clients solve problems, eliminate vulnerabilities, streamline operations, increase efficiencies and add tremendous value to their businesses or operations.

For a relatively modest cost, municipalities, government entities, businesses and other organizations can have a seasoned, independent and unbiased review and examination of how they operate their business or conduct their affairs. This can be a very worthwhile endeavor, even if no fraud and/or malfeasance is suspected or discovered. Consider it an opportunity to explore why the Public Works Department is always over budget, why parking revenues are decreasing, what corporate credit cards and petty cash are being used for, when company vehicles are driven for personal use, or any one of a myriad of other concerns, while gaining the residual benefit of improving your policies and procedures and instituting effective internal controls to prevent future abuse.

Certified and highly trained in the specialized field of financial investigative services, WithumSmith+Brown's team of forensic accountants can help you protect yourself and your company. For more information, just give us a call at your local WS+B office.

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