

The following is your first graded discussion activity.

Instructions:

After carefully reading the article below - Reflect on and answer ONE of the questions following the article. Make sure your responses are well written, and grammatically correct. Additionally, your answers should demonstrate you understand the scope of the issue and that you can incorporate additional research and the ethical framework to your paper. See page 4 of this assignment for the detailed assessment rubric for this activity.

Eyebrows Go Up as Auditors Branch Out

By MICHAEL RAPOPORT

Auditing wasn't all Deloitte LLP did for Autonomy Corp., the software firm recently accused of accounting improprieties by its parent company. To many observers, that sort of multitasking is potentially an industry problem.

As auditor, the U.K. unit of Deloitte Touche Tohmatsu was in charge of signing off on Autonomy's financial statements before [Hewlett-Packard Co.](#) bought the company in 2011. But Deloitte also was paid significant fees for other work it did for Autonomy, like due-diligence work on a potential acquisition. In 2010, Deloitte received \$1.2 million from Autonomy for nonaudit work, close to the \$1.5 million the firm was paid for the audit itself.

Nonaudit businesses form a steadily increasing portion of Deloitte's business, with 39.6% of revenue now coming from consulting or financial advisory, up nearly a third since 2006.

The rise in Deloitte's nonaudit revenue spotlights a recent resurgence in consulting and other nonaudit work by the Big Four accounting firms, a decade after conflict-of-interest concerns and corporate scandal sharply limited such work.

The firms—Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers—say that their nonaudit businesses operate within legal boundaries, and that their growth isn't cause for concern. They focus their nonaudit work on U.S. companies they don't audit, and on foreign companies that aren't U.S.-listed and thus aren't subject to the U.S. restrictions on nonaudit work.

Even so, the move has revived fears that an increased focus on nonaudit work compromises companies' capacity to sniff out fraud.

"If firms become too preoccupied with consulting, I think it hurts the authenticity of the audit," said former Federal Reserve Chairman Paul Volcker in an interview. Mr. Volcker spoke last week at a New York University roundtable on the comeback of consulting by accounting firms.

Plunging too far into nonaudit services can "distract" firms' attention from auditing and "weakens the public trust" in audits, Paul Beswick, the Securities and Exchange Commission's acting chief accountant, said at an accounting conference Monday. Even if it's only a matter of perception, "negative perceptions can undermine confidence in audits," he said.

The growing focus on consulting and other nonaudit services "threatens to weaken the strength of the audit practice in the firm overall," James Doty, chairman of the Public Company Accounting Oversight Board, the U.S. government's auditing regulator, said at the conference.

H-P alleged last week that Autonomy is riddled with accounting improprieties, though it hasn't alleged any wrongdoing by Deloitte and hasn't cited the firm's dual role as a problem.

Deloitte said much of its nonaudit fees for Autonomy were for "audit-related services" typically carried out by the auditor and actually classified by Deloitte as audit revenues. The firm says it didn't do any consulting work for Autonomy, and that Autonomy had procedures to ensure that any nonaudit services provided by Deloitte didn't compromise its independence.

A decade ago, there was widespread concern that the Big Four would get too cozy with their audit clients because the same companies also were paying them lucrative consulting fees. Those fears peaked when Arthur Andersen imploded after shredding company documents related to Enron Corp.; the auditor made more consulting for Enron than it did for auditing.

The Sarbanes-Oxley Act subsequently barred most consulting for audit clients, and all of the Big Four except Deloitte divested themselves of their consulting businesses.

The firms have since rebuilt those businesses by providing nonaudit services to other companies, within the new prescribed limits. Demand for Sarbanes-Oxley compliance, forensic investigations and merger-and-acquisition work have helped the growth in nonaudit services.

Consulting and other nonaudit lines of business are growing at rates far outpacing auditing. At PwC, for instance, advisory revenue rose 16.9% in fiscal 2012, versus 3.4% for auditing.

"The auditing market is pretty much saturated," said Martin G.H. Wu, an associate professor of accounting at the University of Illinois at Urbana-Champaign. "Consulting, on the other hand, is pretty unlimited."

If consulting growth continues to boom, the Big Four effectively could become consulting firms that "dabble" in auditing, said Joseph Carcello, a University of Tennessee accounting professor. "I think if we get to that point, we'd have a major, major problem."

The firms disagree. "We wouldn't jeopardize audit quality for anything," said Greg Garrison, clients and markets leader at PwC. "I don't think there's any chance we'd take our eye off the ball, and I don't think our competition would either."

At PwC, 90% of advisory work is for nonaudit clients, said Dana McIlwain, PwC's U.S. advisory leader. The Big Four also argue that consulting provides synergies even if they don't consult for and audit the same companies. Offering consulting gives them expertise they can draw upon when related issues arise at their audit clients, they say.

"We believe the services we're in actually help us on the front of audit quality," said John Ferraro, Ernst & Young's global chief operating officer.

Deloitte could both audit and consult with Autonomy, because it was a U.K. company that didn't trade in the U.S. and thus wasn't subject to Sarbanes-Oxley restrictions. Autonomy paid its auditors about \$3.2 million in nonaudit fees over its last three years as an independent company, compared with about \$4.5 million in audit fees, according to company filings.

Link: <http://online.wsj.com/news/articles/SB10001424127887324705104578149222319470606>

Additional background article you may wish to reference:

<http://academic.brooklyn.cuny.edu/economic/cohn/ind.htm>

Questions (select ONE and respond in the correct discussion room):

- 1) Having read the above article, identify and discuss what ethical challenges the accounting industry might confront as it increases its management consulting business with clients.
- 2) Assuming the accounting profession is on shaky ground in regards to potential ethical conflicts as it continues to increase its consulting revenues do you believe it's imperative that the profession equips auditors with a strong ethical awareness in order to prepare them to successfully meet ethical challenges? Whether your response is "yes" or "no" make sure to elaborate on your answer and to support it with specific references to the AICPA Rules for independence.
- 3) Assume you are an outside consultant hired by the big-4 accounting firms to assist them with equipping auditors with a strong ethical awareness in order to successfully meet the anticipated increased ethical challenges. Provide in detail the advice and primary plan of action you would deliver to your clients for meeting their challenge.

Assessment Rubric specific to discussion activity is on following page:

Outcome: Understanding of professional and ethical responsibility.

Learning Outcome	Unacceptable Points: 0	Marginal Points: 1	Acceptable Points: 1.5	Exceptional Points: 2.5	Total Possible Points: 10
Able to analyze a situation for potential ethical problems.	Your submitted work shows no awareness of potential ethical problems in response to the case assigned	Your submitted work demonstrates you are aware of some ethical problems in the case but are not using appropriate tools, course materials or independent research/articles to analyze the problem(s).	Your submitted work demonstrates your understanding of the major ethical problems in the case and that you are applying the tools you have learned together with course materials and some independent research/articles to analyze the situation.	Your submitted work shows that you are able to analyze a complex ethical situation and demonstrate an understanding of <i>major</i> and <i>subtle</i> ethical problems in the case using tools learned together with course materials and independent research/articles to analyze the situation.	2.5 possible
Awareness of the framework for ethical decision making in accounting	Your submitted work shows no evidence that you are Aware of the framework for ethical decision making in accounting	Your submitted work shows you to are aware of the framework for ethical decision making in accounting but do not make use of it as you approach ethical problems in this case.	Your submitted work demonstrates you are aware of the framework for ethical decision making in accounting, and that you use it when faced with a potentially unethical situation in the case.	Your submitted work on this case demonstrates you are aware of the framework for ethical decision making in accounting, and use it to routinely to work in a professional and ethical manner.	2.5 possible
Awareness of your responsibility to work in an ethical and professional manner	Your submitted work shows no evidence that you considered ethics or professionalism as you responded to the case assigned.	Your submitted work indicates that you do not fully understand what it means to work in an ethical and professional manner	Your submitted work demonstrates you are aware that accountants have a responsibility to work in an ethical and professional manner.	Your submitted work demonstrates you fully understand and embrace the importance of ethical and professional accounting practices.	2.5 possible
Response to classmates postings	No response postings contributed, or postings made late – not allowing for meaningful interaction.			2 or more thoughtful postings, made in a timely manner	2.5 possible Total possible points: 10

***See next page for detailed expectations and hints for participation:**

Participation: Once you have posted your analysis of the article, you will then be expected to review the postings of your classmates and constructively comment on a **minimum** of two postings. Your comments relative to experiences in your workplace are particularly useful. You can critique the content of other student's answer, but do not critique the student! We will read all of your postings and may choose to comment or provide an "interim" question in order to moderate the discussion.

2.5/2.5 – 2 or more postings, made in a timely manner – allowing for your classmate to read and respond to your comments (meaning, do not log in at 10pm the night the assignment is due and post two comments!)

0/2.5 – no postings contributed, or postings made late – not allowing for meaningful interaction.

Hints for useful participation:

This course requires you to actively participate in the discussion forums. Staying actively involved in the discussion and posting is critical for maximizing your learning experiences in this course and for optimizing your final grade. You are required to be part of an online community who interact, through discussion, to enhance and support the professional development of the group. Part of the assessment criteria for the course includes assessing the quality and quantity of your participation in the discussion forum.

Some characteristics that are considered to be part of excellent discussion contributions are outlined below. You can expect that we as instructors will consider these characteristics when assessing the quality and level of your participation.

- You should submit your initial post(s) early in the topic session, and your subsequent responses to the posts of other learners at timely intervals within the duration of the topic session. Keep in mind the goal is to have a dynamic discussion that lasts throughout the entire topic thread session.
- Your posts and responses should be thorough and thoughtful. Just posting an "I agree" or "Good ideas" will not be considered adequate. Support your statements with examples, experiences, or references. You are, however, encouraged to be brief — keep each post and response to one or two short paragraphs. Keep in mind that your fellow learners will be reading and responding to you, too.
- Make certain to address the discussion questions in this assignment. This does not mean you should not extend the topic, but do not stray from the topic.
- Discussions occur when there is dialogue. So, build upon the posts and responses of other learners to create discussion threads. Make sure you revisit the discussion forum and respond (if necessary) to what other learners have posted to your initial responses.
- When relevant, add to the discussion by including prior knowledge, work experiences, references, Web sites, resources, etc. (giving credit when appropriate).
- Your contributions to the discussions (posts and responses) should be complete and free of grammatical or structural errors.