

***Accounting Today* Article Proposal**
By Jared Matthew Peck

Articles in professional magazines such as *Accounting Today* should serve two purposes. The information should be both engaging and beneficial to the reader in their professional development. As a new writer for *Accounting Today*, I would achieve these goals through an interview with Andrew Fastow, the discredited former CFO of Enron and one of the major catalysts for the revised accounting and auditing standards we follow today.

I caution that the purpose of this piece would not be to honor Mr. Fastow or pardon him of his past transgressions. Learning from one's own mistakes is the most powerful way to achieve future improvement. Obviously, this method of education to such an extreme magnitude is not ideal for accountants and finance professionals. Learning from the mistakes of others can serve as the next best option. This is where Mr. Fastow becomes an interesting and beneficial focus of an interview.

Mr. Fastow was one of the key architects of the Enron scandal. As CFO, he utilized off-balance sheet entities to raise capital for Enron and hide losses. This method of earnings management achieved Ken Lay's goal of maximizing the Enron stock price. Enron's audited financial statements were also able to achieve unqualified audit opinions from Arthur Andersen, LLP using these accounting methods and other types of manipulation. These accounting practices eventually came to light and resulted in the bankruptcy of Enron, the collapse of Arthur Andersen, and the creation of the Sarbanes-Oxley Act of 2002. Mr. Fastow was initially sentenced to ten years in jail for fraud, money laundering, conspiracy, wire fraud, and securities fraud. The sentence was later reduced to six years. Andrew Fastow is scheduled to be released from jail in December of this year.

The past transgressions of Mr. Fastow and Enron have been well publicized in book and film. The benefit of an interview with Andrew Fastow would be his unique perspective in assessing the current state of accounting and the profession's trends for the future. Mr. Fastow is not an ethical man, but his intellect and understanding of the use (and misuse) of accounting standards is clearly documented. Specifically, I would question him on the Sarbanes-Oxley requirements put into place after Enron, the potential for abuse under IFRS after convergence, and methods for preventing future corporate fraud in The United States.

The Sarbanes-Oxley Act of 2002 was passed by Congress in response to scandals such as Enron in the early part of the decade. The new regulations addressed areas of abuse specifically utilized by Mr. Fastow in managing earnings. An interview with Mr. Fastow would present an intriguing perspective on the impact of Sarbanes-Oxley. Does Mr. Fastow believe the benefits of Sarbanes-Oxley in preventing another Enron type scandal justifies the cost burden incurred by public companies to maintain compliance? The same question has been debated in academia, in the press, and in Congress – but never by anyone so intimately involved in the type of corporate behavior that necessitated Sarbanes-Oxley regulations in the first place.

I would question Andrew Fastow on the requirement for the CEO and CFO to now certify financial statements. Was Andrew Fastow able to better rationalize his fraud as the act of a faceless corporation with limited individual liability? Obviously the intent of this requirement is to hold executives accountable for their actions within the corporate environment. However, we do not have a way to measure the true impact of this requirement in preventing fraud. Would the obligation to take individual responsibility for the accuracy of the financial statements have changed Mr. Fastow's

willingness to submit inaccurate reports? Other aspects of the Sarbanes-Oxley Act of 2002 were implemented to prevent the type of fraud perpetrated by companies like Enron. Section 401 of SOX specifically addresses the requirement to disclose material off-balance sheet items. Does Mr. Fastow believe this requirement would have prevented the off-balance sheet entities utilized by Enron? Restrictions now prevent the use of CPA firms for audit services if they have a conflict of interest based in advisory fees. This situation occurred with Arthur Andersen, LLP during the height of Enron's ongoing financial statement fraud. Does Mr. Fastow believe the conflict of interest allowed material misstatements to go unnoticed by Arthur Andersen, LLP, or were there additional pressures that allowed Enron to go unchecked by their audit firm? The opinion of Andrew Fastow on these types of questions could weigh heavily on the assessment of Sarbanes-Oxley's impact. Who better to determine if Sarbanes-Oxley would prevent another Enron type of fraud than one of the key parties involved in the Enron scandal?

Convergence of US GAAP and IFRS is a major story in the world of accounting and finance. One aspect of the ongoing debate is about the strength of IFRS compared to the current GAAP principles in preventing earnings management. IFRS is a principles-based approach that allows for a higher degree of judgment in the financial statements than under GAAP. Changes in revenue recognition could also lead to opportunities for earnings management. Once again, the viewpoint of a corporate criminal like Andrew Fastow would add unique and valuable input into the conversation. Does Mr. Fastow see opportunities for financial statement fraud under the proposed IFRS changes? Would IFRS have prevented the Enron executives from performing financial statements management, or would it have created more opportunity for Mr. Fastow to fraudulently increase earnings? Once again, the unique perspective of Andrew Fastow would be valuable in this debate of current events. Mr. Fastow was adept in identifying and manipulating weaknesses in US GAAP. Perhaps he could identify opportunities for exploitation in IFRS so they can be addressed prior to the completion of convergence.

Finally, Andrew Fastow would be a valuable point of view in a general discussion of fraud. Most regulating actions by Congress, FASB, SEC, and PCAOB have been focused on managing the opportunity aspect of the fraud triangle. Perhaps Mr. Fastow could discuss his experiences as an executive who was enticed to carry out fraud. What specifically were the other aspects of the fraud triangle, rationalization and pressure, which led to Mr. Fastow's actions? Through analysis of his experiences, perhaps additional methods of preventing corporate fraud could be identified in alleviating pressure and challenging rationalizations.

An interview in *Accounting Today* with Andrew Fastow, disgraced former Enron Chief Financial Officer and white-collar criminal, is no doubt unorthodox. However, the impact of such an article would be immeasurably beneficial to the reader. Discussing the mistakes and transgressions of Mr. Fastow's career would provide important lessons to the reader. Mr. Fastow, by nature of his past crimes, also offers a unique perspective on the contemporary accounting debates related to Sarbanes-Oxley, IFRS convergence, and the prevention of fraud. Learning from the mistakes of Andrew Fastow would better prepare the accountants of today for ethical behavior. Even more significant, the consideration of his unique professional experiences would better prepare the accounting profession for the coming challenges of IFRS and accuracy under US GAAP.