

The ACFE Warns Against Changing Sarbanes-Oxley Rules

Nov. 11, 2009 - AUSTIN, Texas--A measure approved last week by the House Financial Services Committee to change Sarbanes-Oxley audit rules would lead to a higher incidence of fraud and an increase in the amount of fraud losses, according to the Association of Certified Fraud Examiners (ACFE). The Austin, Texas-based ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education.

The Garrett-Adler amendment exempts public companies with market capitalizations below \$75 million -- called "small issuers," but making up just over half of all publicly-traded companies -- from Section 404(b), the internal-control provision of the Sarbanes-Oxley Act that requires an audit report.

ACFE President James D. Ratley, CFE said that lawmakers need to reconsider the impact of potential fraud losses on organizations, investors, employees and taxpayers when weighing the cost of anti-fraud controls prescribed by Sarbanes-Oxley.

"At a time when the economic downturn has heightened the risk of fraud for organizations large and small, it simply does not make sense to weaken accounting rules that are in place to protect investors," Mr. Ratley said. "The bottom line is that internal controls are one of the best fraud prevention tools for any organization to have in place. Providing exemptions for some public companies from the SOX 404 requirements only leads to an increased risk of fraud."

In its benchmarking report of fraud statistics, the "2008 Report to the Nation on Occupational Fraud & Abuse," the ACFE found that the implementation of anti-fraud controls has a measurable impact on an organization's exposure to fraud. While the amendment to Sarbanes-Oxley would exempt organizations worth less than \$75 million, the ACFE's Report found that companies of all sizes and industries are susceptible to fraud and rely on internal controls -- second only to tips -- for fraud detection and prevention.

From the ACFE's Report:

"We examined 15 specific anti-fraud controls and measured the median loss in fraud cases depending on whether organizations did or did not have a given control at the time of the fraud. In every comparison, there were significantly lower losses when the controls had been implemented. For example, organizations that conducted surprise audits suffered a median loss of \$70,000, while those that did not had a median loss of \$207,000.

"We found similar reductions in fraud losses for organizations that had anonymous fraud hotlines, offered employee support programs, provided fraud training for managers, and had internal audit or fraud examination departments."

In another ACFE report, "Occupational Fraud: A Study of the Impact of an Economic Recession," almost 90 percent of the Certified Fraud Examiners (CFEs) who were surveyed said they expect fraud to continue to increase during the next 12 months (the report was published in March 2009). The report also found that layoffs are affecting organizations' internal control

systems – and among those CFEs whose companies had experienced layoffs, almost 35 percent said their company had eliminated some anti-fraud controls.

Mr. Ratley said that it is ironic that the amendment to Sarbanes-Oxley is part of a measure named the “Investor-Protection Bill.”

"News of these changes comes during the ACFE's International Fraud Awareness Week (Nov. 8-14, 2009), at a time when our message is that intense financial pressure caused by the economic crisis has led to an increased risk of fraud," Ratley said. "While business leaders should be doing all they can to protect their organizations and investors, this action ignores the lessons learned from the staggering fraud losses of the past several years. We urge lawmakers to reject these changes moving forward."

The ACFE's "2008 Report to the Nation on Occupational Fraud & Abuse" is available for download online at the ACFE's web site: www.ACFE.com/RTTN/2008-RTTN.asp.

The ACFE's "Occupational Fraud: A Study of the Impact of an Economic Recession" (2009) is also available: www.ACFE.com/Occupational-Fraud.

For more information about increasing awareness and reducing the risk of fraud during International Fraud Awareness Week, visit <http://www.fraudweek.com/>.

About the Association of Certified Fraud Examiners

The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with nearly 50,000 members, the ACFE is reducing business fraud worldwide and inspiring public confidence in the integrity and objectivity within the profession. The ACFE proudly celebrates its 20th anniversary as the leader in the global fight against fraud.

Contact the ACFE

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