

Current Affairs Noticeboard

US companies restate financials

Several US companies have restated their reported results following limited investigations by the Public Company Accounting Oversight Board into the audit quality and accounting judgements of the Big Four accounting.

While the PCAOB's reviewers found the systems in general were sound they discovered various issues needed attention so each major firm could improve the standard of audit provided by its practitioners.

The limited investigations by teams working for the PCAOB uncovered various problems in the audit systems of all Big Four firms.

In particular, the investigative teams that were called in to examine the accounting firms audit divisions focused on the manner in which a particular Emerging Issues Task Force abstract was applied by the client.

That compliance issue was a part of selective review by the investigative teams sent in to review the control systems and audit working papers of the four major firms.

The compliance with the EITF ruling appeared to pose a uniform difficulty across the client bases of each of the four firms.

Eight Deloitte clients, six KPMG clients, three PricewaterhouseCoopers clients and three E&Y clients restated their accounts after the PCAOB investigators brought to the attention of the audit firms that the EITF ruling – dealing with the balance sheet classification of borrowings outstanding under revolving credit agreements that include both a subjective acceleration clause and a lock-box arrangement – was incorrectly applied.

The inadequate standard of compliance with the EITF ruling was one of several things the PCAOB staff examined as part of the reviews which consisted, according to the PCAOB's own release detailing the conduct of the limited reviews, of:

- An inspection and review of selected audit and review engagements of the firm, performed at various offices and by various associated persons of the firm;

- An evaluation of the sufficiency of the quality control system of the firm, and the manner of the documentation and communication of that system by the firm; and
- Performance of such other testing of the audit, supervisory, and quality control procedures of the firm as are necessary or appropriate in light of the purpose of the inspection and the responsibilities of the Board.

While the reports – examined in further detail in this issue of Chartac – detail some compliance sins committed by all firms PCAOB chief Bill McDonough says the oversight board remains convinced the firms are capable of high quality audit work.

He says the PCAOB is encouraged by the 'firms' demonstrably cooperative attitude toward our inspections' that are designed to drive improvement in trouble areas.