

COMPLIANCE WEEK

Help On Past Auditors; Equity Deals; More


By Paul J. Martinek — June 20, 2006

The Public Company Accounting Oversight Board has published a series of staff questions and answers on how to adjust prior-period financial statements that had been audited by a predecessor auditor.

Among other points, the Q&A notes that:

- Several factors should be considered when determining whether a successor auditor is able to audit only the adjustment to prior-period financial statements or should re-audit the financial statements in their entirety. These factors include the extent of the adjustments, the reason for the adjustments, and cooperation of a predecessor auditor.
- When a new auditor audits and reports on adjustments made to prior-period financial statements due to the correction of an error, the prior auditor may re-issue its report on the prior-period financial statements.
- If the predecessor auditor does not re-issue its report on the prior-period financial statements, the successor auditor may re-audit and report on those financial statements as adjusted.
- A successor auditor cannot audit and report on the adjustments made to the prior-period financial statements without first completing an audit of the current-period financial statements.

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 [PCAOB Questions & Answers On Past Auditor Work \(June 9, 2006\)](#)

Aram Kostoglian, a director at CBIZ Accounting, Tax & Advisory, says the Q&A “is actually just a restatement of existing practice. They’ve codified what was basically known to be the [PCAOB’s] practice but was never really published anywhere. There must have been some differentiation of practice out there and [the PCAOB] felt that was enough, that they should just get it out there.”



Kostoglian

Kenneth Goldmann, a partner in the auditing practice at CPA firm J.H. Cohn, agrees that the bulletin largely restates prior positions but nevertheless calls it “a valuable resource that helps provide accountants and auditors the needed clarity that was previously lacking regarding adjustments to prior-period financial statements.”

Goldmann notes that before the bulletin was issued, his firm went through a restatement for a recently acquired client, and experienced the difficulty often associated with answering similar questions. Previously, he said, guidance on the issue was available in various pieces of accounting literature, “but the process was difficult to organize. With the issuance of these Q&As, the PCAOB has accomplished getting the information all in one centralized location.”

More importantly, he added, “it’s information that can be relied upon. It guides auditors in how to respond based on facts, and provides tangible examples and variations to the different circumstances associated with every individual client situation.”