Top Ten
Audit Deficiencies

RotenbergMeril

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CERTIFIED PUBLIC ACCOUNTANTS

The PCAOB regularly conducts inspections of CPA firms that audit the financial statements of public companies. Given the recent economic crisis experienced in our financial markets, the importance of and the investigation into proper disclosure and documentation has grown. The PCAOB has identified audit risks and challenges. RotenbergMeril has summarized the PCAOB key audit deficiencies below:

1. Failure to comply with PCAOB standards in connection with audit areas that were affected by the economy. Specific deficiencies were commonly found in fair value measurements, impairment of goodwill, allowance for loan losses, revenue recognition, inventory, and income taxes.

2. Deficiencies in audit procedures relating to off balance sheet structures — some CPA firms failed to sufficiently test issuers' transactions with external parties or special purpose entities to determine whether transactions were appropriately recorded as off balance sheet.

3. Lack of focus on the improvement of quality control systems in response to the increased risk resulting from the economic crisis.

4. Failure to perform appropriate testing of revenues, costs, and expenses, including evaluation of whether revenues and expenses were recognizable in the period in which they were recorded.

5. Failure to perform and document an adequate evaluation with respect to the issuer's ability to continue as a going concern or the omission of a going concern paragraph where one should have been included.

6. Inappropriate reliance on the work of another auditor to perform substantially all audit procedures that served as basis for the firm's opinion.

7. Improper reference to the work of another auditor whose report was not filed with the financial statements.

8. Improper classification of certain liabilities as long term rather than current obligations. For example, including the classification of an unsecured, due on demand debt obligation as a long term liability.

9. Failure to perform the necessary audit procedures to evaluate whether the company had engaged in material related party transaction.

10. Failure to perform and document adequate procedures related to collectability of accounts receivable. Typically this includes failure to confirm, perform alternative procedures if there are a significant number of non-responses, test for discounts and allowances, and/or inquires about sold or encumbered receivables.

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