TIMES ONLINE

PRINT THIS ARTICLE

CLICK HERE TO PRINT

CLOSE WINDOW

August 28, 2004

Report shows US auditors failing in accuracy

FROM JAMES DORAN, WALL STREET CORRESPONDENT

DESPITE the fallout from the collapse of Enron, accounting problems continue to plague American companies and their auditors, more than three years after a spectacular accounting fraud brought about the energy giant's record bankruptcy.

Evidence contained in the first report into the way the Big Four global accountancy firms audit public companies, published in America this week, revealed that some companies still fail to account properly for debts and liabilities in their books while their auditors fail to fix such errors.

The investigation was undertaken by the Public Company Accounting Oversight Board, a special committee set up by US Congress in the wake of the Enron scandal.

Arthur Andersen, the former accountancy firm, was held responsible in 2001 for helping Enron insiders to hide billions of dollars of liabilities in its books and thereby defraud investors.

The PCAOB looked at the way Ernst & Young, PriceWaterhouseCoopers, Deloitte & Touche and KPMG audited some of their listed clients' books in 2003.

William McDonough, the former head of the US Federal Reserve who is now in charge of the PCAOB, said: "In the inspections, the Board identified significant audit and accounting issues that were missed by the firms and identified concerns about significant aspects of each firm's quality controls systems."

In all, 19 companies involved in the investigation were forced to restate their earnings last year because of errors discovered by the PCAOB. But only between 15 and 20 clients of each firm were included in the investigation.

Deloitte & Touche came off the worst in the investigation as eight of its clients in the limited study were forced to restate their accounts. KPMG was forced to restate six of its clients' earnings statements for last year while Ernst & Young and PWC were forced to restate three each.

The majority of the errors surrounded liabilities, such as debt, recorded incorrectly on the balance sheet, which had the effect of making the company look in better health than it actually was.

Niels Holch, the chairman of the Association of Mutual Fund Investors, an investor advocacy group, said: "With Enron the investing public learnt that these professional intermediaries can not always be trusted. It is very clear that there is a lot more work to be done."

Each of the auditing firms involved in the investigation welcomed its findings, however, and said that they were continuing to work to improve their systems.