CFO.com: PCAOB's 'Audit Failure' Rate Is Highly Suspect

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Ira Solomon, dean and Debra and Rick Rees Professor of Business, recently co-authored an opinion piece for CFO.com criticizing the Public Company Accounting Oversight Board (PCAOB) for misleading statements regarding the quality of public company audits.

Solomon and co-author Mark Peecher, professor of accountancy at the College of Business at the University of Illinois at Urbana-Champaign, take issue with the PCAOB for its use of the term "audit failure" — which has traditionally referred to the joint occurrence of an unqualified audit opinion and materially misleading financial statements — to describe audits in which the auditor simply failed to obtain sufficient appropriate evidence to support its opinion on the financial statements, regardless of the fairness of the financial statements in question. The authors go on to say that PCAOB criticisms of auditors' evidential bases are themselves open to criticism.

> One reason is that PCAOB inspections usually occur after fieldwork, so hindsight bias can surface, especially when inspectors try to assess audit work on management's estimates, which often are predicated on future economic events. That is, inspectors form retrospective judgments about auditors' judgments regarding the reasonableness of management's judgments. The management judgments in question concern things like the reasonableness of complex financial-statement estimates or the sufficiency of internal controls. It is hard to manufacture precision at the

end of this judgment chain when it starts with so much ambiguity and uncertainty.

To read the article in its entirety, visit CFO.com:

http://ww2.cfo.com/auditing/2014/02/pcaobs-audit-failure-rate-highly-suspect/