PCAOB
Public Company Accounting Oversight Board

1666 K Street NW, 9th Floor
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

JANUARY 29, 2008 OPEN MEETING

AUDITING STANDARD NO. 6 --PROPOSED AUDITING STANDARD ON EVALUATING CONSISTENCY OF FINANCIAL STATEMENTS

Statement of Charles D. Niemeier

As I said when the Board proposed this standard, the crux of the proposal, like the existing standard, is that, to be useful, audit reports need to be credible. Without a requirement for the auditor to evaluate and report on consistency, a report saying that financial statements are fairly presented today – even though they are based on different accounting principles or different numbers than were used in the past – risks losing its credibility.

The proposed new standard before us is, for the most part, a rewriting and reorganization of the existing auditing standard on consistency, which was cobbled together over many years. In that respect, this is a small project, intended mostly to express the auditing requirements in simpler and clearer terms.

But there is one idea reflected in the new standard that I think is worth highlighting. It's that the risk of inconsistency in financial reporting has shifted in some respects in light of FASB's adoption of Statement 154. In particular, the new standard more clearly focuses auditors on the importance of evaluating material changes to previously issued financial statements, whatever the reason for the change. There's no doubt that auditors have had to sign-off on changes to previously issued financial statements in the past. But the proposal would specifically focus auditors on ensuring that disclosures about those changes are accurate.

One of the things we've heard during the development of this project is that retroactive changes to previously issued financial statements can be confusing to analysts and other users if there is not adequate disclosure about the changes. This can present a risk to the credibility of audit reports if users get the impression that the auditor continuously signs off on an ever changing financial statement. Given this risk, to me, the most important thing an auditor should do in this area is evaluate whether changes are accurate as well as whether disclosures about the changes are appropriate. This proposal should go a long way to addressing these problems.