Restated financial statements and type of internal control disclosures

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Abstract

This study assesses the type of internal control (IC) disclosures being utilized by companies restating (2004-2006) their financial statements (FS) in light of the Public Company Accounting Oversight Board's Auditing Standard 2 (2004). Analyzing types of disclosures (effective, deficiency–*not a material weakness*, or material weakness), generally, infers that as familiarity with Auditing Standard (AS) 2 requirements increased so to did material weakness disclosures. Inconsistencies, however, exist in rationales for IC disclosures since some companies identify a failure to follow Generally Accepted Accounting Principles (GAAP) and conclude IC is effective, while others note the incorrect application of GAAP constitutes a material weakness. Comparing multiple restatement disclosures suggests that as companies have been forced to evaluate IC they have discovered their IC is not, and has not been, adequate to ensure FS in accordance with GAAP. Overall, the results support AS2's examples of restatements as at least a significant deficiency and a strong indicator of a material weakness, and failure to follow GAAP as at least a significant deficiency. Furthermore, given inconsistencies and lack of relevant information, particularly for companies that restate and conclude IC effective, adequate information should be required enabling users to ascertain why a significant deficiency or material weakness is not being disclosed for restatements that involve GAAP errors.

Keywords: restated financial statements, internal control disclosures, auditors, Auditing Standard 2, restatement effects, accounting issues

INTRODUCTION

According to the Public Company Accounting Oversight Board's (PCAOB) Auditing Standard (AS) 2[1] the "restatement of previously issued financial statements to reflect the correction of a misstatement due to error or fraud (not a change in accounting principle) should be regarded as at least a significant deficiency and as a strong indicator that a material weakness in internal control over financial reporting exists" (2004 ¶140). AS2 defines a significant deficiency and a material weakness as follows:

> A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to … report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's … financial statements that is more than inconsequential will not be prevented or detected (¶9). A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement … will not be prevented or detected (¶10).

Even though AS2 clearly indicates the restating of previously issued financial statements (FS) is a strong indicator of a material weakness some in the profession have questioned this guidance. The following statement identifies the primary concerns surrounding restatements and material weakness (Dzinkowski 2006, 53):

> First, evaluating a deficiency and the extent of a deficiency is hard enough. But then when you have a situation where deficiencies are a strong indicator, restatement is a strong indicator of a material weakness, and vice versa, then you've got very serious issues about when a restatement leads to a material weakness … You know, from the profession's viewpoint, every restatement doesn't mean you have a material weakness.

The foregoing quote suggests various interpretations of AS2 may be used in determining whether or not restated FS trigger a material weakness disclosure. Therefore, this study's purpose is to analyze restated FS's internal control (IC) disclosures to determine the type of IC disclosure (effective, deficiency–*not a material weakness*, or material weakness) utilized.

PRIOR RESEARCH

While no research has been published, to date, regarding restatements and the type of IC disclosure, one study looked at material weakness disclosures. Ge and McVay's (2005) investigation found the most common material weaknesses involved specific accounts, training of personnel, accounting policies, segregation of duties, and account reconciliation. The specific accounts most cited were accounts payable, accounts receivable, inventory, income tax, and expense/restructuring. These findings are somewhat disconcerting since adequately trained personnel, segregation of duties, and account reconciliation are very basic and long established components of good internal control. Furthermore, accounts receivable, accounts payable, and inventory would not, for the most part, be considered to involve complex accounting standards.

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[1] Although AS2 was superceded by AS5 (November 2007) this paper refers to AS2 since that was the guidance in effect for the 2004-2006 period from the PCAOB.

Although some have maintained normal IC processes were in place and operating prior to the Sarbanes-Oxley Act (SOX) of 2002, and in particular Section 404 (Tackett, et al. 2006), Ge and McVay's results seem to suggest this was not the case. While SOX Section 404[2] requires companies to do what they should have been doing all along (Hayes 2005) Ge and McVay's findings tend to support the notion that prior to SOX "establishing internal controls and investing in infrastructure was something most firms did as an afterthought" (Santos 2005, 40).

RESEARCH SCOPE AND METHODOLOGY

The sample consisted of 878 publicly traded companies and 92 of the companies (10.5%)[3] restated their FS during 2003-2006. Each company's amended annual report (10K/A) was read to determine the nature of the restatement and type of IC disclosure. The sample was then categorized into restatements that concluded IC was effective (42), had a deficiency (11), or a material weakness (53). Of the 106[4] restatements 44 percent occurred during 2005 (Table 1, Appendix). In 2003, 93 percent of the restatements indicated IC was effective and by 2004 this percentage had dropped to 55. The trend changes in 2005 with material weakness being cited in more than half of the restatements (57%) and by 2006 this percentage had increased to 71.

The initial analysis considered 2003 since not many restatements during this period would be expected to identify a material weakness (which is born out by the data- Table 1, Appendix), because accelerated filers had until 11/15/04 and other companies had until 7/15/05 to comply with SOX Section 404 (AS2 ¶215). Table 1 (Appendix), years 2004-2006, may also suggest that as companies and auditors became more familiar with AS2 requirements the number of restatements triggering material weakness disclosures increased.

In order to assess the impact of AS2, on the type of IC disclosure (effective, deficiency, or material weakness), the sample was reduced to companies restating their financial statements during 2004-2006. The data for the analysis that follows is contained, for the most part, in the Appendix (Tables 2-4) which provides company names (ticker symbol), restatement date (years involved), restatement effect, accounting issue, and auditor. Of the 92 restatements, 29 concluded IC effective (Table 2), 10 mentioned deficiency (Table 3), and 53 identified material weakness (Table 4).

RESEARCH RESULTS

Type of IC Disclosure and Auditors

Analyzing restatements for the 2004-2006 period (Table 5, Appendix)[5] reveals 45 percent were audited by PricewaterhouseCoopers (PWC), 22 percent KPMG, 18 percent Deloitte and Touche (D&T), 13 percent Ernst and Young (E&Y), and two percent Grant Thorton (GT). Seventy-two percent of PWC clients identify material weakness, 66 and 47 percent, respectively, of E&Y and KPMG did likewise while 59 percent of D&T indicate IC effective. PWC audited

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[2] PCAOB AS2 is the standard that addresses SOX Section 404.

[3] This sample seems representative since other studies have indicated restatements reached 10% of all publicly traded companies in 2004 (Anonymous 2005) and 2006 (Orenstein 2007).

[4] Does not add to 92 since some companies restated more than once in different categories and/or years.

[5] Adds to 94 instead of 92 because H&R Block (HRB) had two material weakness restatements and was audited by both PWC and KPMG.

over half (54%) of the restatements identifying material weakness and KPMG audited half of the restatements citing a deficiency. Analyzing the restatements and type of IC disclosure by years and auditors (Table 6, Appendix) shows PWC was somewhat evenly split between effective (43%) and material weakness (57%) in 2004, the trend toward material weakness increases (61%) in 2005, and by 2006 88 percent of their clients' restatements indicate material weakness. D&T clients, on the other hand, show an increase from 2004 to 2006 for IC effective and material weakness of 60 and 40 percent, respectively. E&Y and KPMG had their highest percentages for material weakness in 2005 and these numbers decline considerably for 2006.

The concept of materiality plays a central role in the determination of a material weakness in IC. For example, AS2 states

> the auditor should apply the concept of materiality in an audit of internal control over financial reporting at both the financial-statement level and at the individual account-balance level. The auditor uses materiality at the financial-statement level in evaluating whether a deficiency, or combination of deficiencies, in controls is a significant deficiency or a material weakness (¶22). The same conceptual definition of materiality that applies to financial reporting applies to information on internal control over financial reporting … (¶23).

Regarding materiality and financial reporting AU 312 ¶4 (AICPA 1999) notes "financial statements are materially misstated when they contain misstatements whose effect, individually or in the aggregate, is important enough to cause them not to be presented fairly, in all material respects, in conformity with generally accepted accounting principles." A common practice among auditors is to assign a number to materiality based on a percentage, such as five percent of net income (Kranacher 2007), and this percentage typically falls in a range from three to ten depending on the risk associated with the client (Weinstein 2007).

Analyzing the restatement effect[6] and auditors reveals none of PWC's clients had more than a three percent change when concluding IC effective (Table 7, Appendix); the other three all had some clients who exceeded this percentage. In terms of deficiency (Table 8, Appendix), again, only PWC clients indicate a consistency since none of them were in the three percent or less column; the other three all have clients in columns similar to those that noted IC effective (Table 7, Appendix). With respect to material weakness (Table 9, Appendix) all "Big 4" show patterns inferring the restatement effect is not impacting whether IC is deemed effective, deficient, or a material weakness since all have clients in columns similar to the previous Tables (7 and 8, Appendix). While PWC's patterns in Tables 7 and 8 seem to suggest the restatement effect affected whether IC was deemed effective or deficient, this notion is dispelled by Table 9 since they have clients in the nine percent and less columns identifying a material weakness.

Sample Rationales and Type of IC Disclosure

IC Effective

[6] Restatement effect was calculated as the change in retained earnings (or accumulated deficit) since the correction of prior period errors is an adjustment to retained earnings.

In coming to the conclusion that IC was effective and the control deficiency that resulted in the restatement (4/13/05)was not a material weakness Kroger (KR) notes the adjustments did not have a material impact on the FS of prior interim or annual periods taken as a whole, the cumulative impact of the adjustments on shareowner's equity was not material on the FS of prior interim or annual periods, and the FS were restated solely because the cumulative impact of the error, if recorded in the current period, would have been material to the current year's net income.

Kelly Services' (KELYA) and MBIA's (MBI) first two rationales are similar to KR. KELYA further indicates it decided to restate (5/13/05) previously issued FS, the control deficiency, was not in itself a material weakness (and when aggregated with other deficiencies did not constitute a material weakness), and the restatement adjustments (effect) represented less than 0.2% of stockholders' equity. Concerning its restatement (11/14/05) MBI, additionally, states it decided to restate previously issued FS in connection with potential settlements of investigations, the control deficiency that gave rise to the error was not a material weakness, the reinsurance transactions that gave rise to the restatement were done in 1998, and effective controls over these transactions now exist.

IC Deficiency

Dynegy (DYN) mentions (1/18/05) deficiencies in IC related to system access and system implementation controls, segregation of duties, documentation of controls and procedures, and their effective operation and monitoring. DYN also identifies deficiencies in tax accounting and tax reconciliation controls and processes. To address these deficiencies DYN indicates increasing levels of review in the preparation of the quarterly and annual tax provision, formalizing processes, procedures, and documentation standards, and restructuring the Tax Department to ensure segregation of duties regarding preparation and review of the quarterly and annual tax provision.

IC Material Weakness

United Global Com (UCOMA) concludes (4/28/05) their control to review all financial instruments for potentially significant technical and complex accounting issues did not operate effectively in identifying the proper accounting. While UCOMA does not provide remediation measures they acknowledge the design of the control requires a knowledgeable accountant to review authoritative accounting guidance and obtain approval from the appropriate level of management on the accounting conclusions reached. General Electric (GE) and Compass Bancshares (CBSS) both identify (5/6/05 and 1/11/06, respectively) failure to insure the correct application of GAAP and to correct that error subsequently, and mention remediation by improving training, education, and accounting reviews to ensure that all relevant personnel involved in derivatives transactions understand and apply hedge accounting in compliance with Statement of Financial Accounting Standard (SFAS) 133, and retesting IC with respect to the types of hedging transactions affected by the restatement to ensure compliance with SFAS 133.

Telephone and Data Systems (TDS), United States Cellular (USM), and KR all did restatements (5/14/05, 5/14/05, and 4/13/05, respectively), previously, indicating IC was effective and during 2006 all three restated noting material weaknesses existed. KR (3/6/06) identified errors in deferred tax accounts, TDS (4/26/06) and USM (4/26/06) refer to items not

being recorded in the proper periods and income tax errors, and all three concluded they did not maintain effective internal controls and had deficiencies that constituted material weaknesses. For instance, KR states it did not maintain effective IC to ensure that deferred income tax liabilities and allocated goodwill were fairly stated in accordance with GAAP. TDS and USM mention insufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of GAAP, and failure to maintain effective controls over the completeness, accuracy, presentation and disclosure of accounting for income taxes. Additionally, TDS notes effective controls were not designed and in place to ensure that certain vendor contracts were recorded in conformity with GAAP.

While DYN did a restatement previously (1/18/05), citing an IC deficiency, it is not until their 2006 (5/1) restatement they acknowledge this control deficiency constitutes a material weakness. DYN cautions, however, they will not be able to conclude that the material weakness has been successfully re-mediated, and cannot assure they will be able to make such conclusion, until the testing of controls demonstrates that controls have operated effectively for a sufficient period of time.

AS2 and Sample Disclosures

While analysis is limited, by what companies did and did not disclose, an assessment of the sample rationales and AS2 requirements may be useful. KR, KELYA and MBI all had errors resulting from their failure to follow GAAP that would seem to suggest inadequate controls over the selection and application of GAAP (AS2 ¶40) which is at least a significant deficiency (AS2 ¶139). While KR, KELYA, and MBI concluded their IC was effective UCOMA, GE, and CBSS noted their failure to correctly apply GAAP constituted a material weakness. AS2 (¶165) indicates IC may be deemed effective if IC was changed to eliminate the material weakness and has operated over an adequate period of time. KR, KELYA, and MBI provide no information related to control deficiency re-mediation, whereas, DYN and MBI discuss re-mediation steps taken but do not address "operated over an adequate period of time", probably because they did not conclude their deficiencies constituted a material weakness.

Although TDS, USM, and KR all had restatements indicating IC was effective, previously, their 2006 restatements identify material weaknesses. In their prior restatements TDS, USM and KR all had errors related to failure to follow GAAP which is also the case with their 2006 restatements. DYN also had failure to follow GAAP errors and indicated IC was deficient, however by 2006 DYN changes to material weakness. These examples may suggest that as companies have been forced to assess their IC, in light of AS2, they have come to the realization that their IC are not, and have not been, adequate to ensure their FS are prepared in accordance with GAAP.

Type of IC Disclosure and Accounting Restatement Issue

Leases and stock options are selected as examples for accounting restatement issues because these two areas represent one-third (30/92) of the restatements in this sample for the period 2004-2006. Additionally, the Securities and Exchange Commission's actions during 2005-2006 seem to suggest companies may have pursued aggressive accounting strategies with respect to interpretation and application of GAAP related to leases and stock options.

Leases

Pep Boys (PBY) restated (3/3/05) their 2003-2004 FS, decreasing retained earnings (RE) eight percent, and concludes their disclosure controls and procedures are effective. PBY indicates the restatement occurred to correct the computation of depreciation, straight-line rent expense, and the related deferred rent liability. Historically, PBY depreciated leasehold improvements over a period that included both the initial lease term and all option periods, and recorded rent expense on a straight-line basis over the initial lease term commencing when actual rent payments began. PBY states it will now use a consistent lease period when calculating depreciation and straight-line rent expense, and straight-line rent expense will commence on the date when PBY becomes legally obligated under the lease.

Siebel Systems (SEBL) restated (2/15/05) their 2001-2003 FS, decreasing RE two percent, and identifies a significant deficiency. SEBL notes it failed to properly record rent escalations on a straight-line basis for certain facility leases. SEBL indicates they have corrected this significant deficiency, in their accounting methodology for leases, by implementing additional review procedures of all new lease arrangements and/or modifications of existing lease arrangements to ensure they are properly accounted for in accordance with GAAP.

Starbucks (SBUX) restated (2/18/05) their 2002-2004 FS, decreasing RE one percent, and discloses a material weakness. SBUX notes its method of accounting for leasehold improvements funded by landlord incentives or allowances was incorrect. SBUX indicates they re-mediated the material weakness by conducting a review of accounting related to leases, and correcting the method of accounting for tenant improvement allowances and rent holidays.

PBY, SEBL, and SBUX all restated, in the same year, because they did not record leases in accordance with GAAP. Although PBY had the most incorrect applications of GAAP and the largest restatement effect (8%) it is the one indicating IC effective. By way of contrast, SEBL and SBUX have smaller restatement effects (2% and 1%, respectively), fewer problems with their lease accounting, and indicate significant deficiency and material weakness, respectively. The difference in type of IC disclosure, between PBY and SBUX, should not be due to the audit firm because both were audited by D&T. Furthermore, the differences in type of IC disclosure, and its appropriateness, should not be related to experience with AS2 requirements since all three did their restatements in 2005.

Stock Options

Cheesecake Factory (CAKE) restated (12/8/06) their 2003-2006 FS, decreasing RE two percent, and states the errors did not result in a material weakness, and disclosure controls and procedures, including IC, were effective. In coming to this conclusion CAKE mentions considering, the design control deficiencies surrounding the stock option (SO) granting process that were identified affected periods prior to 1/3/06 and were re-mediated and operating effectively at 1/3/06, there were no SO adjustments that originated after fiscal 2004, and the Audit Committee found no evidence that any person acted with an intent to deceive or mislead.

NVIDIA (NVDA) restated (11/29/06) their 2004-2006 FS, decreasing RE 15 percent, and indicates the control deficiencies that resulted in the restatement did not constitute a material weakness as of 1/29/06. NVDA notes their Audit Committee concluded that while NVDA used incorrect accounting measurement dates for certain SO grants, those errors were not a result of fraud, and option grant practices had improved significantly since May 2003. For example,

during 2003-2006, NVDA implemented new policies and processes to provide greater IC over SO grant approvals, hired additional qualified personnel in the areas of financial accounting and reporting, required review and approval by the Compensation Committee of SO grant guidelines and policies, and timely approval of SO grants, enhanced focus on the establishment of guidelines in order to achieve a high level of objectivity in the determination of SO grants made to all employees, and increased review of SO grant plans and approval processes and documentation by legal counsel

HCC Insurance Holdings (HCC) restated (12/27/06) their 2003-2005 FS, decreasing RE two percent, and cites a material weakness. HCC notes using incorrect accounting measurement dates for SO grants and the misdating permitted the recipients of the options to exercise at a strike price lower than the price on the actual grant date. HCC identifies a material weakness since they did not maintain an effective control environment and adequate controls to prevent or detect management override. HCC indicates, during 2006, they implemented or are in the process of implementing new policies and controls related to SO granting practices and procedures, such as requiring Compensation Committee approval of all new option grants (documented in the minutes), pricing grants at the market closing price on the day of each Compensation Committee meeting, and increasing the level of communication between the Compensation Committee, senior management, and financial reporting and accounting personnel regarding SO grants. HCC states they are actively engaged in the implementation of other remediation efforts and, although they have not fully re-mediated the material weakness, they believe they have made substantial progress.

CAKE, NVDA, and HCC all restated, in the same year, because they did not record SO in accordance with GAAP. Both CAKE and NVDA stress their errors were not the result of fraud, however AS2 (¶140) does not require that fraud be present to have a material weakness. CAKE and HCC, had similar restatement effects (2%), were both audited by PWC, and CAKE indicates IC effective while HCC identifies material weakness. The difference between the type of IC disclosure for CAKE and HCC seems to be that CAKE re-mediated IC deficiencies and they imply these have operated effectively for an adequate period of time (no adjustments after 2004) while HCC has not completed their re-mediation process. Although NVDA had the higher restatement effect (15%) it maintains the deficiency was not a material weakness because effective controls were in place, however, they provide no evidence the controls have operated effectively for a sufficient period of time.

DISCUSSION

Limitations

This study's major limitation is the information provided by companies' IC disclosures. For example, of the 29 restatements that note IC effective (Table 2, Appendix) only 11 (38%) provide any basis for their conclusion, the others, for the most part, simply stated IC is effective. Companies' IC disclosures mentioning a deficiency (Table 3, Appendix) or a material weakness (Table 4, Appendix) also vary in terms of the usefulness of the information provided. Since this study was comparing types of IC disclosures being used for restatements, in light of AS2, lack of relevant information regarding why the restatement did not constitute a significant deficiency or material weakness is problematic. Furthermore, due to the limited information provided in many

of the IC disclosures it is difficult to discern whether or not something that was disclosed as effective or a deficiency really should have been a material weakness.

Implications

While PCAOB AS2 (2004) indicates the "restatement of previously issued financial statements to reflect the correction of a misstatement due to error or fraud (not a change in accounting principle) should be regarded as at least a significant deficiency and as a strong indicator that a material weakness in internal control over financial reporting exists" (¶40), this study's results suggest "from the profession's viewpoint, every restatement doesn't mean you have a material weakness" (Dzinkowski 2006, 53) or a significant deficiency.

Although Table 1 (Appendix), years 2004-2006 seems to infer that as companies and auditors became more familiar with AS2 the number of restatements triggering material weakness disclosures increased, many inconsistencies are apparent when looking at companies' IC disclosures. For example, KR, KELYA, and MBI all had errors resulting from their failure to follow GAAP which suggests inadequate controls over the selection and application of GAAP (AS2 ¶40) and at least a significant deficiency (AS2 ¶139). KR, KELYA, and MBI, however, conclude IC is effective while UCOMA, GE, and CBSS note their failure to correctly apply GAAP constitutes a material weakness.

Analyzing the restatement effect and auditors indicates some consistency for PWC, only, since none of its clients had more than a three percent change when indicating IC effective (Table 7, Appendix) and none had three percent or less for deficiency (Table 8, Appendix). With respect to material weakness (Table 9, Appendix) all "Big Four" show patterns that suggest the restatement effect is not impacting whether IC is deemed effective, deficient, or a material weakness since all have clients in percentage columns similar to Tables 7 and 8.

Types of IC disclosures are also inconsistent when looking at restatements due to the same accounting issue. For example, PBY had the most incorrect applications of GAAP for leases, the largest restatement effect (8%), and indicates IC effective. SEBL and SBUX, on the other hand, have smaller restatement effects (2% and 1%, respectively), fewer problems with their lease accounting, and indicate significant deficiency and material weakness, respectively. The difference in type of IC disclosure, between PBY and SBUX, should not be due to the audit firm because both were audited by D&T. Furthermore, the differences in type of IC disclosure, and its appropriateness, should not be related to experience with AS2 requirements since all three did their restatements in 2005.

In comparison to lease IC disclosures in 2005, SO disclosures in 2006 appear to be somewhat better. For example, CAKE and HCC restated because they did not record SO in accordance with GAAP, had similar restatement effects (2%), were both audited by PWC, and CAKE indicated IC effective while HCC identified material weakness. The difference between the type of IC disclosure for CAKE and HCC seems to be appropriate because CAKE re-mediated IC deficiencies and they imply these have operated effectively for an adequate period of time while HCC has not completed their re-mediation process.

CONCLUSION

Analysis of multiple restatements over time may suggest that as companies have been forced to assess their IC, in light of AS2, they have come to the realization that their IC are not,

and have not been, adequate to ensure their FS are prepared in accordance with GAAP. For example, TDS, USM, and KR had restatements, previously, related to failure to follow GAAP errors, concluded internal control was effective, and by 2006 their restatements indicate material weaknesses exist due to failure to follow GAAP.

This study's results seem to support AS2's (¶140) use of restatements as an example that should be considered at least a significant deficiency and a strong indicator of a material weakness, and failure to follow GAAP suggests inadequate controls over the selection and application of GAAP (AS2 ¶40) that should be considered at least a significant deficiency (AS2 ¶139). Of the 92 restatements (2004-2006) all but one had restatement errors due to failure to follow GAAP. Furthermore, given the lack of relevant information, particularly for companies that restated and concluded IC effective, the PCAOB should require that adequate information be provided enabling users to determine why a significant deficiency or material weakness is not being disclosed for restatements that involve a failure to follow GAAP.

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Restated financial statements

APPENDIX

Table 1
Restatements (2003-2006) and Type of Internal Control Disclosure

Internal Control	2003	2004	2005	2006	Restatements
Effective	13 (93%)	10 (55%)	13 (28%)	6 (22%)	42
Deficiency	1 (7%)	1 (6%)	7 (15%)	2 (7%)	11
Material Weakness	0	7 (39%)	27 (57%)	19 (71%)	53
Total	14 (13%)	18 (17%)	47 (44%)	27 (26%)	106

Restated financial statements

Table 2
Internal Control Effective (29 restatements)

Name (Ticker Symbol)	Restatement Date (Years Involved)	Restatement Effect	Percentage Change	Accounting Issue	Auditor
Kroger (KR)	4/13/05 (2002-2004)	Decreased (↓) Retained Earnings (RE) 26 million (M)	1%	Leases (L)	PWC
Family Dollar Stores (FDO)	4/15/05 (2002-2004)	↓ RE 23.3 M	2%	L	PWC
Walgreen (WAG)	4/8/05 (2002-2004)	↓ RE 88.3 M	1%	L	D&T
Darden Restaurants (DRI)	1/7/05 (1996-2004)	↓ RE 70.3 M	6%	L	KPMG
Rite Aid (RAD)	4/6/05 (2002-2004)	Increased (↑)RE Deficit 17.5 M	1%	L	D&T
Pep Boys (PBY)	3/3/05 (2003-2004)	↓ RE 45.9 M	8%	L	D&T
Kelly Services (KELYA)	5/13/05 (2002-2004)	↓ RE 1.8 M	1%	L	PWC
Fortune Brands (FO)	2/14/06 (2002-2004)	Decreased (↓) Retained Earnings (RE) 78.9 Million (M)	1%	Taxes (T)	PWC
Washington Mutual (WM)	8/9/06 (2001-2005)	↓ RE 337 M	2%	T	D&T
CIGNA (CI)	2/24/05 (2001-2003)	Decreased (↓) Retained Earnings (RE) 279 Million (M)	3%	Stock Options (SO)	PWC
Cablevision Systems (CVC)	9/21/06 (2003-2005)	↑Accumulated Deficit (AD) 90.2 M	3%	SO	KPMG
Cheesecake Factory (CAKE)	12/8/06 (2003-2006)	↓ RE 7.7 M	2%	SO	PWC
PMC Sierra (PMCS)	8/16/06 (2002-2005)	↑AD 89.6 M	16%	SO	D&T

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MBIA (MBI)	11/14/05 (1998-2004)	Decrease (↓) Retained Earnings (RE) 27.7 million (M)	1%	Derivatives (D)	PWC
Washington Federal (WFSL)	11/24/04 (2002-2003)	Increase (↑) RE 7.7 M	13%	D	D&T
LOEWS (LTR)	5/10/05 (2002-2004)	↓ RE 27.3 M	< 1%	Reinsurance contracts	D&T
Ace Limited (ACE)	8/12/05 (2000-2004)	↑ RE 7.4 M	< 1%	Reinsurance contracts	PWC
Cousins Properties (CUZ)	3/24/05 (2001-2003)	No effect	0%	SCF	D&T
Newmont Mining (NEM)	7/28/04 (2002-2003)	No effect	0%	SCF	PWC
Meredith (MDP)	11/5/04 (2003)	↓ RE 3 M	< 1%	goodwill	KPMG
Telephone and Data Systems (TDS)	5/14/04 (2002-2003)	↓ RE 25.3 M	2%	goodwill	PWC
United States Cellular (USM)	5/14/04 (2002-2003)	↓ RE 30.7 M	3%	goodwill	PWC
Lowe's (LOW)	9/29/06 (2003-2006)	↓ RE 43 M	< 1%	Early payment discounts	D&T
Sprint Nextel (S)	11/9/04 (2001-2003)	↓ RE 111 M	11%	Interest capitalization and long term liabilities	E&Y
Cablevision Systems (CVC)	7/30/04 (2001-2002)	↓ AD 1.5 M	< 1%	Expense recognition	KPMG
Lamar Media (LAMR)	12/1/04 (2003)	↑AD 33.2 M	9%	Asset retirement obligations	KPMG
Investors Financial Services (IFIN)	11/15/04 (2001-2003)	↓ RE 5 M	2%	Amortization (SFAS 91)	D&T
Shaw Group (SGR)	7/11/05 (2004)	↑ RE 2 M	1%	Employee benefits	E&Y

Restated financial statements

Nobel Energy (NBL)	1/16/04 (2000-2001)	No effect	0%	C	KPMG

Restatement Effect was calculated by comparing previous 10K amounts with the restated 10K/A amounts rather than relying on monetary disclosures made in the company's 10K/A.

PricewaterhouseCoopers (PWC)
Deloitte and Touche (D&T)
Ernst and Young (F&Y)

Restated financial statements

Table 3
Internal Control Deficiency (10 restatements)

Name (Ticker Symbol)	Restatement Date (Years Involved)	Restatement Effect	Percentage Change	Accounting Issue	Auditor
Ruby Tuesday (RI)	4/26/05 (2002-2004)	↓ RE 10.3 M	2%	Leases (L)	KPMG
Siebel Systems (SEBL)	2/15/05 (2001-2003)	↓ RE 9.5 M	2%	L	KPMG
CEC Entertainment (CEC)	3/21/05 (2003)	↓ RE 28.2 M	8%	L	D&T
Ethan Allen (ETH)	5/10/05 (2002-2004)	↓ RE 4.6 M	1%	L	KPMG
NVIDIA (NVDA)	11/29/06 (2004-2006)	↓ RE 127 M	15%	Stock Options (SO)	KPMG
Affymetrix (AFFX)	8/30/06 (2003-2005)	↑AD 13.2 M	14%	SO	E&Y
Dynegy (DYN)	1/18/05 (2001-2003)	↑AD 98 M	6%	Taxes	PWC
Macromedia (MACR)	6/10/05 (1999-2004)	↑AD 9.2 M	3%	Employee benefits and taxes	KPMG
Health Net (HNT)	3/15/04 (2001-2002)	↓ RE 8.6 M	1%	Expense recognition	D&T
Citrix Systems (CTXS)	3/7/05 (2001-2003)	No effect	0%	SCF	E&Y

Restatement Effect was calculated by comparing previous 10K amounts with the restated 10K/A amounts rather than relying on monetary disclosures made in the company's 10K/A.

Table 4
Internal Control Material Weakness (53 restatements)

Name (Ticker Symbol)	Restatement Date (Years Included)	Restatement Effect	Percentage Change	Internal Control	Auditor
Starbucks (SBUX)	2/18/05 (2002-2004)	↓ RE 12.6 M	1%	Leases (L)	D&T
Luby's (LUB)	3/29/05 (2002-2004)	↓ RE 3.5 M	2%	L	E&Y
Whole Foods Market (WFMI)	3/7/05 (2002-2004)	↓ RE 38.8 M	9%	L	E&Y
WFMI	5/18/05 (2002-2004)	↑ RE 19M	5%	L	E&Y
Wild Oats Market (OATS)	4/4/05 (2002-2003)	↑ RE Deficit 12.7 M	40%	L	E&Y
AMB Property (AMB)	11/9/04 (2001-2003)	↓ Total Assets 11.1 M	1%	L	PWC
Continental Airlines (CAL)	7/20/05 (2002-2004)	↓ RE 111 M	19%	L	E&Y
Abercrombie & Fitch (ANF)	4/12/05 (2002-2004)	↓ RE 13.5 M	1%	L	PWC
Amkor Technology (AMKR)	10/6/06 (2003-2005)	↑AD 105.5 M	10%	Stock Options (SO)	PWC
Brocade Communications Systems (BRCD)	11/14/05 (2002-2004)	↑AD 71.9 M	23%	SO	KPMG
Advent Software (ADVS)	11/30/05 (2002-2004)	↑AD 4.6 M	6%	SO	PWC
Altera (ALTR)	10/24/06 (2003-2005)	↓ RE 35.1 M	4%	SO	PWC
Mercury Interactive (MERQ)	7/3/06 (2002-2004)	↓ RE 525 M	151%	SO	PWC
HCC Insurance Holdings (HCC)	12/27/06 (2003-2005)	↓ RE 18.6 M	2%	SO	PWC
Dynegy (DYN)	5/1/06 (2005)	↑AD 13 M	1%	Taxes (T)	PWC
H&R Block (HRB)	3/31/06 (2004-2005)	↓ RE 27.1 M	1%	T	PWC & KPMG
Hercules (HPC)	11/22/04 (2002-2003)	↓ RE 48 M	3%	T	PWC
Hillenbrand Industries (HB)	12/16/05 (2003-2004)	↑ RE 84 M	5%	T	PWC

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Mead Westvaco (MWV)	3/14/05 (2002-2003)	↑ RE 15 M	2%	T	PWC
Tyson Foods (TSN)	2/8/06 (2005)	↑ RE 19 M	1%	T	E&Y
UTStarcom (UTSI)	4/13/05 (2003)	↑ RE 13.3 M	5%	T	PWC
ConAgra Foods (CAG)	4/29/05 (2002-2004)	↓ RE 45.2 M	2%	T	D&T
Kroger (KR)	3/6/06 (2003-2005)	↑ RE 79 M	2%	T	PWC
American International Group (AIG)	3/16/06 (2000-2004)	↓ RE 925 M	1%	Derivatives (D)	PWC
General Electric (GE)	5/6/05 (2002-2004)	↑ RE 616 M	1%	D	KPMG
United Global Com (UCOMA)	4/28/05 (2004)	↓ Accumulated Deficit 26 M	7%	D	KPMG
Compass Bancshares (CBSS)	1/11/06 (2001-2004)	↑ RE 11.1 M	1%	D	PWC
Colonial Banc Group (CNB)	2/14/06 (2002-2004)	↑ RE 4.7 M	1%	D	PWC
SVB Financial Groups (SIVB)	12/30/05 (2002-2004)	↑ RE 12.4 M	3%	D	KPMG
Ford Motor Company (F)	11/14/06 (2003-2005)	↑RE 603 M	5%	D	PWC
General Motors (GM)	3/28/06 (2002-2004)	↓ RE 366 M	2%	Revenue and expense recognition (RER)	D&T
Interpublic Group (IPG)	10/17/05 (2001-2003)	↓ RE 359 M	42%	RER	PWC
Visteon (VC)	3/16/05 (2001-2003)	↑AD 54 M	4%	Expense Recognition (ER)	PWC
VC	11/22/05 (2003-2004)	↑AD 87 M	3%	ER	PWC
Symbol Technologies (SBL)	2/25/04 (2000-2002)	↑AD .82 M	< 1%	RER	D&T
BISYS Group (BSG)	8/10/04 (2001-2003)	↓ RE 69.1 M	16%	RER	PWC
Computer Associates (CA)	10/19/05 (2003-2005)	↓ RE 119 M	6%	Revenue recognition	KPMG

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				(RR)	
Qwest Communications (Q)	11/8/04 (2000-2001)	↑AD 2889 M	71%	RR	KPMG
Highwoods Properties (HIW)	11/15/04 (2001-2003)	↑AD 35 M	13%	RR	E&Y
Diebold (DBD)	8/12/05 (2002-2004)	↓ RE 11.6 M	1%	Expense Recognition	KPMG
Corning (GLW)	5/9/06 (2003-2005)	↑AD 123 M	2%	Contingent liabilities	PWC
AULT	10/7/05 (2004)	↑AD .59 M	8%	Consolidation (C)	GT
AULT	1/10/06 (2004-2005)	↑AD .59 M	4%	C and Unrecorded liabilities	GT
Solectron (SLR)	4/14/05 (2002-2004)	↑AD .4 M	< 1%	Multiple Errors (ME)	KPMG
HRB	8/5/05 (2003-2004)	↓ RE 85.5 M	3%	Taxes	PWC & KPMG
Telephone and Data Systems (TDS)	4/26/06 (2002-2004)	↑ RE 8.7 M	1%	ME	D&T
United States Cellular (USM)	4/26/06 (2002-2004)	↓ RE 2.7 M	< 1%	ME	PWC
Pride International (PDE)	1/25/06 (2002-2004)	↑ RE .26 M	< 1%	ME	PWC
Patterson UTI Energy (PTEN)	3/17/06 (2002-2004)	↓ RE 41.8 M	10%	embezzlement	PWC
Flowserve (FLS)	4/27/04 (2000-2002)	↓ RE 19 M	5%	inventory	PWC
Johnson Controls (JCI)	8/9/05 (2002-2004)	No effect	0%	Segment reporting	PWC
Milacron (MZIA)	10/14/05 (2004)	No effect	0%	EPS	E&Y
AMKR	6/6/05 (2002-2004)	No effect	0%	SCF	PWC

Restated financial statements

Restatement Effect was calculated by comparing previous 10K amounts with the restated 10K/A amounts rather than relying on monetary disclosures made in the company's 10K/A.
Grant Thorton (GT)

Restated financial statements

Table 5
Restatements (2004-2006), Type of Internal Control Disclosure, and Auditors

		Effective	Deficiency		Material Weakness	Total
PWC	26%	11 (38%)	1 (10%)	72%	30 (54%)	42 (45%)
D&T	59%	10 (35%)	2 (20%)	29%	5 (9%)	17 (18%)
E&Y	17%	2 (6%)	2 (20%)	66%	8 (15%)	12 (13%)
KPMG	29%	6 (21%)	5 (50%)	47%	10 (18%)	21 (22%)
GT					2 (4%)	2 (2%)
Total		29	10		55*	94*

PricewaterhouseCoopers (PWC)
Deloitte and Touche (D&T)
Ernst and Young (E&Y)
Grant Thorton (GT)

* Does not add to 53 and 92 because H&R Block had two restatements (material weakness) and was audited by both PWC and KPMG

Restated financial statements

Table 6
Restatement by Year (2004-2006), Type of Internal Control Disclosure, and Auditors

		Effective	Deficiency	Material Weakness	Total
PWC					
	2004	3 (43%)		4 (57%)	7
	2005	6 (33%)	1 (6%)	11 (61%)	18
	2006	2 (12%)		15 (88%)	17
Total		11	1	30	42
D&T					
	2004	2 (50%)	1 (25%)	1 (25%)	4
	2005	5 (63%)	1 (12%)	2 (25%)	8
	2006	3 (60%)		2 (40%)	5
Total		10	2	5	17
E&Y					
	2004	1 (33%)		2 (67%)	3
	2005	1 (14%)	1 (14%)	5 (72%)	7
	2006		1 (50%)	1 (50%)	2
Total		2	2	8	12
KPMG					
	2004	4 (80%)		1 (20%)	5
	2005	1 (7%)	4 (31%)	8 (62%)	13
	2006	1 (33.3%)	1 (33.3%)	1 (33.3%)	3
Total		6	5	10	21
GT					
	2005			1 (100%)	1
	2006			1 (100%)	1
Total				2	2
Grand Total		29	10	55*	94*

* HRB was audited by both PWC and KPMG

Restated financial statements

Table 7
Internal Control Effective
Restatement by Year (2004-2006), Restatement Effect, and Auditors

		0%-<1%	1-3%	4-9%	10-16%	Total
PWC						
	2004	1	2			3
	2005	1	5			6
	2006		2			2
Total		2 (18%)	9 (82%)			11
D&T						
	2004		1		1	2
	2005	2	2	1		5
	2006	1	1		1	3
Total		3 (30%)	4 (40%)	1 (10%)	2 (20%)	10
E&Y						
	2004				1	1
	2005		1			1
	2006					
Total			1 (50%)		1 (50%)	2
KPMG						
	2004	3		1		4
	2005			1		1
	2006		1			1
Total		3 (50%)	1 (17%)	2 (33%)		6

Restated financial statements

Table 8
Internal Control Deficiency
Restatement by Year (2004-2006), Restatement Effect, and Auditors

		0%-<1%	1-3%	4-9%	10-16%	Total
PWC						
	2004					
	2005			1		1
	2006					
Total				1 (100%)		1
D&T						
	2004		1			1
	2005			1		1
	2006					
Total			1 (50%)	1 (50%)		2
E&Y						
	2004					
	2005	1				1
	2006				1	1
Total		1 (50%)			1 (50%)	2
KPMG						
	2004					
	2005		4			4
	2006				1	1
Total			4 (80%)		1 (20%)	5

Restated financial statements

Table 9
Internal Control Material Weakness
Restatement by Year (2004-2006), Restatement Effect, and Auditors

		0%-<1%	1-3%	4-9%	10-16%	≥ 17%	Total
PWC							
	2004		2	1	1		4
	2005	2	3	5		1	11
	2006	2	8	2	2	1	15
Total		4 (13%)	13 (43%)	8 (27%)	3 (10%)	2 (7%)	30
D&T							
	2004	1					1
	2005		2				2
	2006		2				2
Total		1 (20%)	4 (80%)				5
E&Y							
	2004				1		1
	2005	1	1	2		2	6
	2006		1				1
Total		1 (12.5%)	2 (25%)	2 (25%)	1 (12.5%)	2 (25%)	8
KPMG							
	2004					1	1
	2005	1	4	2		1	8
	2006		1				1
Total		1 (10%)	5 (50%)	2 (20%)		2 (20%)	10

Restated financial statements