

Memorandum essay examples

[Business](#), [Company](#)



The article concerns a fine of \$2 million imposed by the Public Company Accounting Oversight Board (PCAOB) on Ernst & Young (E & Y), an accounting and consultancy firm for violating the board's rules and regulations. According to PCAOB chairman, James Doty, E & Y failed to “exercise professional skepticism” when evaluating the 2005 to 2007 financial statements for Medicis pharmaceuticals Corp, which sells prescription drugs for skin and asthma conditions (Aubin).

Specifically, Ernst & Young failed to properly evaluate reserves for Medicis sales returns. According to the PCAOB, E & Y ought to have known that the reservation method employed by Medicis was not appropriate since it was not supported by audit evidence and conflicted with the accepted accounting principles (Aubin). The PCAOB also sanctioned four former and current E & Y Audit partners for violating the board's rules when auditing for Medicis. E & Y cooperated with the PCAOB and promised to implement changes to its policies to address PCAOB's concerns. Medicis also promised to correct the accounting errors relating to past audits and restate its financial statements.

It was necessary for both E & Y and Medicis to cooperate with PCAOB. First, both companies could avoid hurting themselves financially and risk collapse as it happened in early 2000 where several large companies like Enron and Tyco collapsed due to accounting malpractices. E & Y could face costly legal suits for failure to cooperate or even risk being blacklisted, which could adversely affect its financial status.

Works Cited

Aubin, Dena. “ Watchdog fines Ernst & Young \$2 million over audits”

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