

ACC531: Auditing and Assurance Services
Case: Papa John's — ICOFR Restatement (2019)

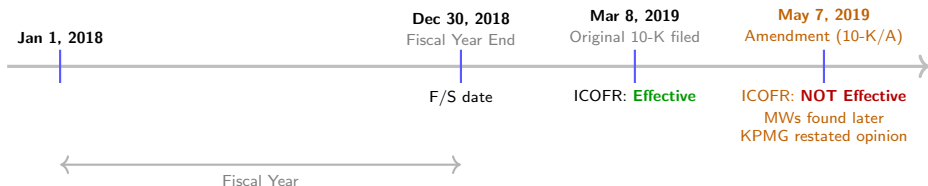
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Subsequently Discovered Facts (AU-C 560)

What must auditors do when **subsequently discovered facts** — found *after* the audit report is already signed — would have affected the reports they issued?

Papa John's International — Case Background

- **Company:** Papa John's International, Inc. (Nasdaq: PZZA)
- **Auditor:** KPMG LLP
- **Fiscal year end:** December 30, 2018
- **Between Mar 8 and May 7:** MGT re-evaluated ICOFR → found MW¹



¹The MW is related to a Variable Interest Entity (VIE): Papa John's Marketing Fund, Inc. (PJMF) has not consolidated since inception in 1991

The VIE: Papa John's Marketing Fund, Inc. (PJMF)

- **What is PJMF?** A national/local advertising fund financed by franchisee contributions; purpose is inseparable from Papa John's brand
- **Established:** 1991 — *never* consolidated in Papa John's consolidated F/S
- **The error:** Under ASC 810, Papa John's is the *primary beneficiary* of PJMF and should have consolidated it since inception
- **Why missed?** VIE accounting is highly complex and requires significant judgment

Papa John's 10-K/A (May 2019)

"The relevant accounting literature governing VIEs is **highly complex** and requires the exercise of significant judgment in determining whether an entity is a VIE and whether that VIE should be consolidated."

What Was (and Was Not) Restated

Papa John's Result

MWs existed, but the resulting errors were **immaterial** — individually *and* in the aggregate.

⇒ ICOFR opinion: restated ⇒ Financial statements: not restated

Investors **may continue to rely** on the original FY 2018 financial statements — only KPMG's report on ICOFR was affected.

Report of Independent Registered Public Accounting Firm

[...]

“In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2018, and the results of its operations and its cash flows for the year ended December 30, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2018 based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.”

/s/ **KPMG LLP**

We have served as the Company's auditor since 2018.

Louisville, Kentucky

March 8, 2019

Report of Independent Registered Public Accounting Firm (Restated)

[...]

"In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2018, and the results of its operations and its cash flows for the year ended December 30, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited [...] the Company's internal control over financial reporting as of December 30, 2018, [...] and our report dated March 8, 2019, *except for the restatement as to the effectiveness of internal control over financial reporting for the material weaknesses related to variable interest entity and consolidation matters, as to which the date is May 7, 2019*, expressed an **adverse opinion** on the effectiveness of the Company's internal control over financial reporting."

/s/ **KPMG LLP**

We have served as the Company's auditor since 2018.

Louisville, Kentucky

March 8, 2019, **except for** *the restatement as to the effectiveness of internal control over financial reporting for the material weaknesses related to variable interest entity and consolidation matters, as to which the date is May 7, 2019*

Dual Dating:

- Dual dating is the auditor's **usual response** to a subsequently discovered fact
- For **all matters**: auditor is responsible through the fiscal year end
- For the **specific matter**: responsibility is *extended* to the later date
- Auditor is **not** responsible for the expanded period for matters other than the specified one

Papa John's Case:

- **All matters**: through Dec 30, 2018
- **ICOFR matter**: through May 7, 2019
- **Other events in the gap**: not KPMG's responsibility