SEC Investor Advisory Committee
Panel on Auditing Regulation

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September 9, 2021
Motivation

Given the general decline in restatements over the past decade,* it may seem that we do not need to be concerned with audit quality. However, there’s a difference between financial reporting quality and audit quality. And some people point to indicators that question audit quality.

- In 2017-2019, deficiency rates in PCAOB inspections remained above 20%.
- Major accounting frauds, such as Wirecard and Luckin Coffee, were outed by short-sellers, not auditors.
- Some argue that material misstatements are being incorrectly packaged as revisions rather than restatements.

Further, the risk associated with some levers traditionally thought to induce audit quality, such as litigation risk and competition, appear to have declined.

*There has been an uptick in restatements recently due to SPACs.*
Proposals to Improve Audit Quality

Audits are commonly considered a credence good, so proposals to improve audit quality often attempt to improve the audit committee’s ability to assess the quality of the audit.

- Change the Format of the Audit Report
- Increased Disclosure by the PCAOB
- Disclosure of Audit Quality Indicators, as suggested by Bob Conway
- Allow for Limited Access to Audit Work Papers
- Provide Shareholders with Ability to Select or Remove the Auditor
- Change the Objective of the Audit
- Make External Audits Optional

* For efficiency, this slide omits many of the excellent suggestions already provided by the UK Competition & Markets Authority study dated April 18, 2019.
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