

Chapter VI

Conclusions and Limitations

Conclusions

This study has produced several results that measure the PCAOB's accomplishment of its mission. The first result was that the total number of Settled Disciplinary Orders has increased over time, especially since 2013. The increase of yearly Settled Disciplinary Orders shows that the PCAOB is accomplishing its mission by detecting more audit deficiencies within and beyond the United States. It appears that the global reach of the PCAOB has expanded and has contributed significantly to the increase in Settled Disciplinary Orders. The PCAOB has used its expanded reach to improve audit quality by detecting more deficient audits.

The modes of each independent variable also measured the PCAOB's accomplishment of its mission by clarifying the outliers of each variable. Deloitte Brazil was an outlier of the firm variable, PCAOB Issues was an outlier of the industry variable, and there was no outlier of the cause variable. The Deloitte Brazil outlier shows that any firm can have many causes of deficient audits, but the PCAOB was able to detect those deficient audits through inspections. The PCAOB Issues outlier shows that the Board is very strict about getting its annual fees and reports, which makes sense since the PCAOB is funded by annual fees paid by audit firms. The lack of an outlier for the cause variable shows that the PCAOB is properly protecting investors by ensuring that the standards set in place keep the causes of deficient audits evenly distributed. With these standards, the PCAOB is preserving audit quality.

Another significant result was the lack of a relationship between the firm and cause variables and between the industry and cause variables. Since these variables have no relationships with each other, it provides evidence that there are no firms or industries with an unusual amount of one cause of audit deficiency. The PCAOB safeguards against this through its inspections.

The results of this study provide evidence to support the overall hypothesis that the PCAOB is properly protecting investors. The PCAOB is effectively overseeing the auditing industry and is preserving audit quality. Although the overall number of Settled Disciplinary Orders has increased over time, this could indicate initiative from the Board. It is becoming more active in detecting deficient audits, which is in the best interest of the public.

Limitations

There were several limitations for this study. The first is that Settled Disciplinary Orders are only published when an issue has not been settled or resolved within one year of the issue's discovery. There are potentially many audit deficiencies resolved before a year passes, so the data of this study were limited to the issues that are over a year old.

Another limitation was the data's dependency on how the Settled Disciplinary Orders were written. All three variables of this study depended on the content of the Orders, so any variation in the wording of the Orders impacted the data's interpretation. Additionally, some Settled Disciplinary Orders included the firm and the individuals that

completed a deficient audit in a single Order, but some Orders separated the firm and individuals into multiple Orders. The inconsistency of the documentation of the Settled Disciplinary Orders could have impacted the total number of Orders over time.

Chapter VII

Areas for Continued Research

The results of this study generate more questions about the PCAOB and the auditing field. As mentioned earlier, KPMG recently solicited proprietary information from former PCAOB employees to disclose the standards used during inspections in order to minimize the findings from yearly PCAOB inspections. One would expect the firm to have a history of many Settled Disciplinary Orders. However, the data of this study showed that KPMG was only issued one Settled Disciplinary Order from 2005-2017. This result could be examined to see whether the low number of Orders can be explained by the firm resolving all past issues before a year had passed, if it had used the information from the PCAOB officials to minimize findings from inspections, or if there was another reason for the low number of Settled Disciplinary Orders.

Research could also be conducted on Deloitte Brazil, the auditing firm with the most causes of deficient audits. By looking closely at Deloitte Brazil and its parent firm, Deloitte, the reasons why the firm had an unusual number of issues might be determined. It is possible that auditing firms expanding internationally need to provide more guidance to their regional firms to prevent deficient audits from reoccurring. A comparison of the standards used by parent firms and regional firms could be an extension of research from this study.

Another research area could be an examination of the increase in number of Settled Disciplinary Orders over time. The amount of Orders drastically increased in the past four years, and it was hypothesized that the increase was due to the number of

Orders issued to firms in other countries. A formal study is needed to support this conjecture or discover other evidence to explain the increase in Orders.

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Appendix

Appendix A. Fields of Accounting

Profession	Function	Current Standard Setting Body
Financial Accounting	Preparation of financial information	Financial Accounting Standards Board (FASB)
Auditing	Attestation services	Public Company Accounting Oversight Board (PCAOB)
Tax	Tax preparation and planning	Internal Revenue Code (IRC)

Appendix B. Firm Names and Assigned Codes

Firm Name	Firm Code
Grant Thornton LLP	1
Edward Richardson Jr., CPA	2
Deloitte Turkey	3
Stevenson & Company CPAs LLC	4
Weld Asia Associates	5
Peter D. Willner, CPA	6
VanDuyne, Bruno & Co., P.A.	7
Anthony Kam & Associates Limited	8
Brace & Associates, PLLC	9
Weaver and Tidwell, L.L.P.	10
Pinaki & Associates LLC	11
BDO Spain	12
Seale and Beers CPAs, LLC	13
Pitcher Partners	14
Jerome Rosenberg CPA, P.C.	15
William T. McCallum CPA, P.C.	16
L&L CPAs, PA	17
Enterprise CPAs, Ltd.	18
PwC	19
Crowe Horwath (HK) CPA Limited	20
Tanner LLC	21
Fulvio & Associates, L.L.P.	22
W.T. Uniack CPA, P.C.	23
Kyle L. Tingle, CPA, LLC	24
Deloitte Mexico	25
Thomas W. Klash, CPA	26
BDO Hungary	27
Schild & Co., Inc.	28
Samet & Company PC	29
Thomas J. Trumeter	30
SEJONG LLP	31
Maurice F. Wallace CPA	32
Korwek & Company, PA	33
Goldstein, Zugman, Weinstein & Poole, LLC	34
PwC Spain	35

Appendix B. Firm Names and Assigned Codes - Continued

PwC Argentina	36
Nexia Samduk	37
KPMG Brazil	38
Grant Thornton Columbia	39
Grant Thornton Korea	40
Ernst & Young Spain	41
Deloitte Brazil	42
PwC Brazil	43
Canuswa Accounting & Tax Services Inc.	44
Cutler & Co., LLC	45
Ernst & Young Indonesia	46
HJ & Associates	47
Scrudato & Co., PA	48
Arshak Davtyan, Inc.	49
Peterson Sullivan LLP	50
Deloitte Netherlands	51
Tamas B. Revai, CPA	52
David Lee Hillary, Jr.	53
Roth & Company, P.C.	54
Jackson, Howell & Associates, PLLC	55
Berkow, Schechter & Company LLP	56
Goldman Kurland and Mohidin, LLP	57
KCC & Associates	58
Li and Company, P.C.	59
Maillie LLP	60
Donahue Associates LLC	61
Jerry L Stanford, CPA	62
Michael F. Albanese, CPA	63
AWC LLP	64
AWC (CPA) Limited	65
The Hall Group, CPAs	66
Moss, Krusick & Associates, LLC	67
WJB & Co., P.C.	68
Steven G. Hirshenson, Chartered	69
Keiter, Stephens, Hurst, Gary & Shreaves, P.C.	70
Holt & Patterson, LLC	71
Carnaghi & Schwark, PLLC	72
Scott and Company LLC	73
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Appendix B. Firm Names and Assigned Codes – Continued

Clay Thomas, P.C.	75
Kantor Akuntan Publik Jimmy Budhi	75
PKF	76
Craig M Harbsmeier, PSC	77
David A. Levy, CPA, PC	78
L.L. Bradford & Company, LLC	79
Stein & Company, LLP	80
Vernon Oates	81
Oliva, Goddard & Wright, Certified Public Accountants	82
Reilly, Penner & Benton LLP	83
SHEDJAMA, Inc.	84
Turner, Jones and Company PLLC	85
David A. Aronson, CPA, P.A.	86
Brookscardiel & Company, PLLC	87
Buffington & Company, P.C.	88
Albert Thomas	89
Nancy Pei Hui	90
HDSG & Associates	91
Bravos & Associates CPA's	92
Cowan, Guteski & Co.	93
Keith K. Zhen, CPA	94
R.R. Hawkins & Associates, International-A Professional Corporation	95
Timothy Alan Coons, CPA	96
Goracke & Associates, P.C.	97
CST Group, CPAs, P.C.	98
Conn & Company, P.C.	99
Goracke & Associates, P.C.	100
James G. Pirolli, CPA	101
Mistretta Associates	102
Samyn & Martin, LLC	103
Sanford, Baumeister & Frazier, LLP	104
Walker & Armstrong LLP	105
Harris & Gillespie CPA's, PLLC	106
Mark Shelley CPA	107
Ronald R. Chadwick, P.C.	108
Brown and Company CPAs PC	109
R.A. Bianchi & Associates, An Accountancy Corporation	110
Madsen & Associates CPAs, Inc.	111
Morrill & Associates, LLC	112
Grant Thornton Japan	113

Appendix B. Firm Names and Assigned Codes - Continued

Alexander Thompson Arnold PLLC	114
Appelrouth, Farah & Co., P.A.	115
Dean Dorton Allen Ford, PLLC	116
Goldman & Company CPAs P.C.	117
Iftikhar A. Dar, CPA	118
Lederman Zeidler Gray & Co., LLP	119
Leonard Rosen & Company, P.C.	120
Raines and Fischer LLP	121
Raphael and Raphael LLP	122
Riley and Company PLLC	123
Southwest CPA, LLC	124
Timpson Garcia, LLP	125
Walker & Associates, CPA, PA	126
BeachFleischman PC	127
Carney, Delplato LLC	128
Reginald G. Campos, CPA, P.C.	129
Berman W. Martinez y Asociados	130
Mendoza, Berger & Company, LLP	131
Jeffrey & Company	132
Patrick Rodgers, CPA, PA	133
Labrozzi & Co., P.A.	134
Iter Audit S.R.L.	135
Acquavella, Chiarelli, Shuster, Berkower & Co., LLP	136
Harris F Rattray CPA, PL	137
Hood & Associates CPAs, P.C.	138
Deloitte & Touche LLP	139
Lake & Associates, CPA's LLC	140
Gruber & Co., LLC	141
Kabani & Company, Inc.	142
Michael F. Cronin, CPA	143
P. Parikh & Associates	144
Baumgarten & Company LLP	145
McGladrey & Pullen, LLP	146
Jewett, Schwartz, Wolfe & Associates, P.L.	147
Michael T. Studer, CPA, P.C.	148
Brock, Schechter & Polakoff, LLP	149
Ernst & Young LLP	150
Bentleys Brisbane Partnership	151
Reuben E. Price & Co., Public Accountancy Corp.	152

Appendix B. Firm Names and Assigned Codes - Continued

GLO CPAs, LLLP	153
Chisholm, Bierwolf, Nilson & Morrill, LLC	154
PwC India	155
J. Crane CPA, P.C.	156
Traci Jo Anderson	157
Robert T. Taylor, CPA	158
The Blackwing Group, LLC	159
Moore & Associates, Chartered	160
Lawrence Scharfman CPA PA	161
Drakeford & Drakeford, LLC	162
Clancy and Co., P.L.L.C.	163
Cordovano and Honeck, P.C.	164
Jaspers + Hall, PC	165
Wieseneck, Andres & Company, P.A.	166
BDO Seidman, LLP	167
Kantor, Geisler & Oppenheimer, P.A.	168
KPMG	169
Timothy L. Steers, CPA, LLC	170
Thomas Benson	171
Williams & Webster, P.S.	172
Armando C. Ibarra, P.C.	173
Turner, Stone & Company, LLP	174
Reuben E. Price & Co. Public Accountancy Corp	175
Clyde Bailey, P.C.	176
Kenny H. Lee CPA Group, Inc.	177
Goldstein & Morris	178

Appendix C. Industry Names and Assigned Codes

Industry Name	Industry Code
Finance	1
PCAOB Issues-Inspections, Annual fees, Annual Report	2
Technology	3
Business Consulting/Management	4
Mining	5
Beauty/Cosmetics	6
Electronic Equipment	7
Retail	8
Agriculture	9
R&D	10
Engineering/Project Management	11
Unified Solutions	12
Digital Media Production and Distribution	13
Mobile Applications	14
Software	15
Energy	16
Manufacturing and Distribution	17
Medical Supplies/Equipment	18
Food Processing/Distribution	19
Telecommunications	20
Airline	21
Pharmaceuticals	22
Travel Agency	23
Automobiles	24
E-commerce	25
Healthcare Services	26
Seeking Acquisitions	27
Cloud Computing/Storage	28
Printing	29
Sports and Recreation	30
Logistics	31
Security/Defense	32
Education	33
Construction	34
Real Estate	35
Litigation Recovery	36
Insurance	37
Marketing	38

Appendix C. Industry Name and Assigned Codes - Continued

Combination of Industries (only used for regression analysis)

39

Appendix D. Causes and Assigned Codes

Cause of Deficient Audit	Cause Code
Lack of Supervision	1
Due Professional Care	2
Professional Skepticism	3
Insufficient Audit Evidence	4
Internal Controls	5
Reasonableness of Accounting Estimates	6
Engagement Quality Review (EQR)	7
Improper Alteration of Workpapers/Noncooperation with Inspectors	8
Audit Documentation	9
Cooperation with PCAOB Inspections	10
Ethics	11
Independence	12
Related Party Transactions	13
Convertible Debt	14
Section 10(b) and Rule 10b-5 of Securities Act of 1934	15
Audit Quality Control Standards	16
Failure to File Special Report	17
AS 17-procedures for supplemental info on fin statements	18
Test for Fraud	19
Address Departure from GAAP	20
Reporting of Stock Transactions	21
Test Valuation of Assets	22
Appropriateness of reporting certain costs	23
Test Occurrence and Valuation of Revenue	24
Report on Significant Asset	25
Late Annual Report to PCAOB	26
Late Annual Fees to PCAOB	27
PCAOB Rule 3502-Knowingly/Recklessly contribute	28
Section 10A(b) of Exchange Act	29
AT 2-Review Engagements Regarding Exemption Reports of Brokers and Dealers	30
Assess and respond to risks of material misstatement	31
Communication with Audit Committee	32
PCAOB Rule 3520	33
Section 10A(j) of Exchange Act	34
Exchange Act Rule 10A-2	35
Section 10A(g) of Exchange Act	36
Insufficient testing for acquisitions	37

Appendix D. Causes and Assigned Codes - Continued

	38
Intangible asset valuation	39
Evaluate Qualifications of Specialist/external team	40
Evaluate Work of Specialist/external team	41
Section 10A(a) of Exchange Act	42
Technical Proficiency	43
Improper Authorization of Firm Consent	44
SOX Section 105(c)(7)(A)	45
PCAOB Rule 1001(p)(1)	46
Testing of Accounts Receivable	47
Testing of Inventory	48
Testing of Cash	49
Stock or stock options valuation	50
Allowance for Doubtful Accounts	51
Appropriate Footnote Disclosures	52
Constructing fake documents	53
Testing of Extraordinary Gains	54
Testing of Equity	55
Testing of Income Taxes	56