

# United States Senate

WASHINGTON, DC 20510

October 9, 2024

Erica Y. Williams  
Chair  
Public Company Accounting Oversight  
Board  
1666 K Street NW  
Washington, D.C. 20006

Dear Chair Williams:

We write regarding the profoundly troubling findings of exorbitantly high auditing deficiency rates recently reported by the Public Company Accounting Oversight Board (PCAOB).<sup>1</sup> According to the PCAOB's own review, public company audit deficiency rates remain "unacceptable" across the largest US auditing firms and mid-tier firms.<sup>2</sup> Specifically, the agency found that nearly half of auditing engagements reviewed in 2023 revealed "deficiencies...that were of such significance that ...the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the public company's financial statements."<sup>3</sup>

This is an astonishing finding that calls for immediate action by the PCAOB—and careful review by regulators. The mission of the PCAOB is to "regulate the audits of public companies and SEC-registered brokers and dealers in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports."<sup>4</sup> But the findings of this new analysis reveal a nearly complete failure, indicating that investors and the public essentially face a coin flip when it comes to whether they should believe and trust the results of public companies' audits.

This is not the first time we have raised concerns about the PCAOB's effectiveness. Last year, Senator Wyden and Senator Warren called for the PCAOB to take action to stop sham audits of crypto firms: the agency took some action but failed to fully address the problem.<sup>5</sup> In 2021,

---

<sup>1</sup> Public Company Accounting Oversight Board, "SPOTLIGHT Staff Update on 2023 Inspection Activities," August 2024, pp. 4-9, <https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2023-inspection-activities-spotlight.pdf>.

<sup>2</sup> Financial Times, "BDO sinks to bottom of US audit quality league table," Stephen Foley, August 15, 2024, <https://www.ft.com/content/3457990d-21cc-4051-894f-33891ae016171>; The Wall Street Journal, "Big Four Audit Shortfalls Stabilize, Latest Inspections Show," Mark Maurer, August 15, 2024, <https://www.wsj.com/articles/big-four-auditing-deficiencies-level-off-in-latest-inspections-962f3142>.

<sup>3</sup> Public Company Accounting Oversight Board, "SPOTLIGHT Staff Update on 2023 Inspection Activities," August 2024, p. 9, <https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2023-inspection-activities-spotlight.pdf>.

<sup>4</sup> Public Company Accounting Oversight Board, "Mission, Vision, and Values," <https://pcaobus.org/about/mission-vision-values>.

<sup>5</sup> Letter from Senator Elizabeth Warren to PCAOB Chair Erica Y. Williams, March 21, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.03.21%20Letter%20to%20PCAOB%20re%20Banking>

Senator Sanders and Senator Warren urged the SEC to remove and replace all members of the PCAOB because the Board sharply reduced enforcement actions and weakened auditor independence standards.<sup>6</sup> In June of 2021, the Board did so.<sup>7</sup> In 2017, Senator Markey and Senator Warren raised concerns in a letter to the PCAOB over KMPG's financial reporting.<sup>8</sup> The new findings of frequent audit deficiencies raise fresh questions about the accuracy and utility of public company audits and about the PCAOB's ability to carry out its statutory role as auditor of the auditors.

Your new analysis reveals a number of disturbing findings. Last year, the PCAOB inspected audits of over 200 accounting firms and in 46% of audits, found deficiencies revealing that there was insufficient audit evidence to support the firm's opinion(s) on the "public company's financial statements and/or internal control over financial reporting (CFR)."<sup>9</sup> The percentage of audits with serious deficiencies has increased from 40% in 2022 to 46% in 2023.<sup>10</sup>

Two firms—BDO and Grant Thornton—had audit deficiency rates of over 50%.<sup>11</sup> And for BDO, nearly every audit that was reviewed contained a significant deficiency or multiple deficiencies.<sup>12</sup> For the big four accounting firms: Deloitte, Ernst & Young, KPMG, and PwC, the biggest and most prestigious auditors, the average deficiency rate was 26%.<sup>13</sup> And one in five big four audits had multiple serious deficiencies.<sup>14</sup>

---

[%20Crisis%20and%20Crypto%20Audits.pdf](#).

<sup>6</sup> Letter from Senator Elizabeth Warren to SEC Chair Gary Gensler, May 25, 2021,

<https://www.warren.senate.gov/imo/media/doc/Letter%20to%20Gensler%20on%20PCAOB.pdf>.

<sup>7</sup> Thomson Reuters, "SEC Removes PCAOB Chairman Duhnke, Seeks to Fill All Board Member Positions," Soyoung Ho, June 7, 2021, <https://tax.thomsonreuters.com/news/sec-removes-pcaob-chairman-duhnke-seeks-to-fill-all-board-member-positions/>.

<sup>8</sup> Letter from Senator Elizabeth Warren to PCAOB Chair James Doty, April 25, 2017;

[https://www.warren.senate.gov/files/documents/2017\\_04\\_25\\_Letter\\_%20to\\_PCAOB.pdf](https://www.warren.senate.gov/files/documents/2017_04_25_Letter_%20to_PCAOB.pdf).

<sup>9</sup> Public Company Accounting Oversight Board, "SPOTLIGHT Staff Update on 2023 Inspection Activities," August 2024, pp. 4, 9,

<https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2023-inspection-activities-spotlight.pdf>.

<sup>10</sup> *Id.* p. 4; Public Company Accounting Oversight Board, "SPOTLIGHT Staff Update on 2022 Inspection Activities," July 2023, p. 4, [https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/spotlight-staff-preview-2022-inspection-observations.pdf?sfvrsn=1b116d49\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/spotlight-staff-preview-2022-inspection-observations.pdf?sfvrsn=1b116d49_4).

<sup>11</sup> Public Company Accounting Oversight Board, "SPOTLIGHT Staff Update on 2023 Inspection Activities," August 2024, p. 4,

<https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2023-inspection-activities-spotlight.pdf>.

<sup>12</sup> Public Company Accounting Oversight Board, "2023 Inspection BDO USA, P.C.," May 23, 2024, pp. 2, 39-41, [https://assets.pcaobus.org/pcaob-dev/docs/default-source/inspections/reports/documents/104-2024-075-bdo-usa.pdf?sfvrsn=e3b4fe4a\\_2](https://assets.pcaobus.org/pcaob-dev/docs/default-source/inspections/reports/documents/104-2024-075-bdo-usa.pdf?sfvrsn=e3b4fe4a_2).

<sup>13</sup> Financial Times, "BDO sinks to bottom of US audit quality league table," Stephen Foley, August 15, 2024, <https://www.ft.com/content/3457990d-21cc-4051-894f-33891ae016171>; Public Company Accounting Oversight Board, "SPOTLIGHT Staff Update on 2023 Inspection Activities," August 2024, p. 4,

<https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2023-inspection-activities-spotlight.pdf>.

<sup>14</sup> Public Company Accounting Oversight Board, "SPOTLIGHT Staff Update on 2023 Inspection Activities," August 2024, p. 4,

<https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2023-inspection-activities-spotlight.pdf>.

These are deeply troubling findings. The PCAOB was established under the Sarbanes-Oxley Act to counteract the financial reporting scandals of the 1990s<sup>15</sup> and was given the authority to “regulate the audits of public companies and SEC-registered brokers and dealers” “through forward-looking, responsive, and innovative oversight.”<sup>16</sup> In simple terms, the job of the PCAOB is to audit the auditors—and the findings of the review cast doubt upon the agency’s ability to do its job. Indeed, given the high serious deficiency rates among all audits, the new findings raise questions about the entire auditing process that underpins the public’s investment in publicly traded companies.

In a statement upon the release of the report, Chair Williams commented that: “These inspection results point to some small signs of movement in the right direction.”<sup>17</sup> This is the wrong conclusion to draw from an embarrassing and intolerable set of findings. Even more troubling is the PCAOB’s attribution of these systemically high failure rates—which appears to affect virtually all auditors—to “more isolated incidents” and outliers.<sup>18</sup>

And at least one other PCAOB board member appears to be focused on downplaying and misdirecting attention from these atrocious findings. Last month, Board Member Christina Ho denied that the inspection results were a problem, instead claiming that “there is another side to the story,” and that “PCAOB has become overzealous in its enforcement program,” falsely claiming that the inspection results “lump[] all deficiencies together without a qualitative assessment of their severity.”<sup>19</sup>

The PCAOB must do better. The Sarbanes-Oxley Act requires that the PCAOB “establish ... auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for issuers, brokers, and dealers.”<sup>20</sup> Either these standards are inadequate—or the PCAOB is failing to establish accountability for firms that do not meet them. These are unacceptable failures by the PCAOB.

---

<sup>15</sup> Public Company Accounting Oversight Board, “Lessons from Enron: The Importance of Proper Accounting Oversight,” July 26, 2006, [https://pcaobus.org/news-events/speeches/speech-detail/lessons-from-enron-the-importance-of-proper-accounting-oversight\\_45](https://pcaobus.org/news-events/speeches/speech-detail/lessons-from-enron-the-importance-of-proper-accounting-oversight_45).

<sup>16</sup> Public Company Accounting Oversight Board, “Mission, Vision, and Values,” <https://pcaobus.org/about/mission-vision-values>.

<sup>17</sup> The Wall Street Journal, “Big Four Audit Shortfalls Stabilize, Latest Inspections Show,” Mark Maurer, August 15, 2024, <https://www.wsj.com/articles/big-four-auditing-deficiencies-level-off-in-latest-inspections-962f3142>.

<sup>18</sup> Public Company Accounting Oversight Board, “SPOTLIGHT Staff Update on 2023 Inspection Activities,” August 2024, pp. 3-4, 6, <https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2023-inspection-activities-spotlight.pdf>.

<sup>19</sup> Public Company Accounting Oversight Board, “Remarks by Board Member Christina Ho at the Institute of Internal Auditors – 2024 Financial Services Exchange,” September 24, 2024, <https://pcaobus.org/news-events/speeches/speech-detail/building-trust-and-inspiring-hope-in-the-accounting-and-auditing-profession>; In fact, the inspection results break deficiencies into three categories, with “significant deficiencies,” those that we focus on in this letter, are “of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the [public company’s] financial statements and/or [internal control over financial reporting.]” Public Company Accounting Oversight Board, “SPOTLIGHT Staff Update on 2023 Inspection Activities,” August 2024, p. 4, <https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-update-2023-inspection-activities-spotlight.pdf>.

<sup>20</sup> 15 U.S.C. § 7211.

Given these significant failures, we ask you to provide us with answers to the following questions no later than October 23, 2024:

1. What specific set of tools does the PCAOB have to hold auditors accountable for ongoing problems?
2. On how many occasions has the PCAOB revoked an auditor’s license in the last decade? Please provide details about each instance of revocation.
3. Nearly every audit conducted by BDO in 2023 was found by your inspectors to be deficient.<sup>21</sup>
  - a. Why did the PCAOB choose not to revoke BDO’s auditing license?
  - b. Can investors have confidence in the quality of BDO’s audits?
4. On September 26, 2023, the PCAOB issued a \$2,000,000 civil penalty on BDO for “violat[ing] PCAOB rules and standards in connection with BDO’s audit of the fiscal year 2017 financial statements of AAC Holdings, Inc.”<sup>22</sup> Later that month, BDO announced its combined global revenue of \$14 billion for the 2023 financial year.<sup>23</sup> In this year’s report, BDO was the leading offender in audit deficiencies.
  - a. Do you believe civil penalties are effective against global auditing firms with the financial means of easily paying any penalty?
  - b. When a civil penalty is a drop in the bucket compared to revenue, please detail successful methods of reprimand used by the PCAOB against repeat offenders of audit deficiencies.
  - c. Please provide instances of action taken by the PCAOB to attempt to ensure that BDO did not repeatedly violate the PCAOB rules and standards after issuing the civil penalty.
5. One of the key values of the PCAOB is that the Board “will be a trusted leader that promotes quality auditing through forward-looking, responsive, and innovative oversight.”<sup>24</sup> What “forward-looking” and “innovative” auditing system does the PCAOB plan to rectify given the “unacceptable” number of audit deficiencies as outlined in the latest Spotlight report?
6. According to the PCAOB enforcement guidelines, “[w]hen violations are found, the PCAOB may impose sanctions, including censures, monetary penalties, and limitations on a firm’s or an individual’s ability to audit public companies or broker-dealers.”<sup>25</sup> As of September 2024, there were 493 published enforcement documents: 445 Settled Disciplinary Orders, 27 Adjudicated Disciplinary Orders, and 21 Termination of Bars.<sup>26</sup>

---

<sup>21</sup> Public Company Accounting Oversight Board, “2023 Inspection BDO USA, P.C.,” May 23, 2024, pp. 2, 39-41, [https://assets.pcaobus.org/pcaob-dev/docs/default-source/inspections/reports/documents/104-2024-075-bdo-usa.pdf?sfvrsn=e3b4fe4a\\_2](https://assets.pcaobus.org/pcaob-dev/docs/default-source/inspections/reports/documents/104-2024-075-bdo-usa.pdf?sfvrsn=e3b4fe4a_2).

<sup>22</sup> Public Company Accounting Oversight Board, “Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions In the Matter of BDO USA, P.C., Kevin Olvera, CPA, and Michael Musick, CPA,” September 26, 2023, [https://assets.pcaobus.org/pcaob-dev/docs/default-source/enforcement/decisions/documents/105-2023-024-bdo-olvera-musick.pdf?sfvrsn=452e0531\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/enforcement/decisions/documents/105-2023-024-bdo-olvera-musick.pdf?sfvrsn=452e0531_4).

<sup>23</sup> BDO, “BDO announces robust global revenue growth to over US\$14 billion,” press release, December 20, 2023, [https://www.bdo.global/en-gb/news/2023/bdo-announces-robust-global-revenue-growth-to-over-us\\$14-billion](https://www.bdo.global/en-gb/news/2023/bdo-announces-robust-global-revenue-growth-to-over-us$14-billion).

<sup>24</sup> Public Company Accounting Oversight Board, “Mission, Vision, and Values,” <https://pcaobus.org/about/mission-vision-values>.

<sup>25</sup> Public Company Accounting Oversight Board, “Enforcement,” <https://pcaobus.org/oversight/enforcement#:~:text=When%20violations%20are%20found%2C%20the,public%20companies%20or%20broker%2Ddealers>.

- a. How many times has the PCAOB censured firms in the last five years? Please provide a full list of all censures, including the reason for the censures.
  - b. How many times has the PCAOB imposed monetary penalties on firms in the last five years? Please provide a full list of all such instances, including the reason for these penalties.
  - c. How many times has the PCAOB imposed limitations on a firm’s ability to audit public companies in the last five years? Please provide a full list of all such instances, including the specific limitation and the reason for imposing it.
  - d. Please provide records that show the effectiveness of settled disciplinary orders in deterring repeated violations.
7. In a statement following the “unacceptable” audit deficiencies, Chair Williams said: “Now is the time to double down on efforts to improve and deliver the audit quality investors deserve.”<sup>27</sup> Please explain what specific efforts the PCAOB plans to take to deliver the audit quality investors deserve.
  8. In a speech last month, Board Member Christina Ho denied that the inspection results were a problem, instead claiming that “there is another side to the story,” that “PCAOB has become overzealous in its enforcement program,” falsely claiming that the inspection results “lump[] all deficiencies together without a qualitative assessment of their severity.”<sup>28</sup> Do you agree with these statements from Board Member Ho?
  9. On September 9, 2024, SEC approved new audit standards, in part in response to the findings of the audit review.<sup>29</sup> How will these changes help address the concerns about the high rate of significant deficiencies in public company audits?

Sincerely,



Elizabeth Warren  
United States Senator



Sheldon Whitehouse  
United States Senator

---

<sup>26</sup> Public Company Accounting Oversight Board, “Enforcement Actions,” <https://pcaobus.org/oversight/enforcement/enforcement-actions>.

<sup>27</sup> The Wall Street Journal, “Big Four Audit Shortfalls Stabilize, Latest Inspections Show,” Mark Maurer, August 15, 2024, <https://www.wsj.com/articles/big-four-auditing-deficiencies-level-off-in-latest-inspections-962f3142>.

<sup>28</sup> Public Company Accounting Oversight Board, “Remarks by Board Member Christina Ho at the Institute of Internal Auditors – 2024 Financial Services Exchange,” September 24, 2024, <https://pcaobus.org/news-events/speeches/speech-detail/building-trust-and-inspiring-hope-in-the-accounting-and-auditing-profession>.

<sup>29</sup> Reuters, “US SEC approves new audit quality benchmarks over Republican objections,” September 9, 2024, <https://www.reuters.com/markets/us/us-sec-approves-new-audit-quality-benchmarks-over-republican-objections-2024-09-09/>.