

A Look At PCAOB's Record-Breaking Enforcement In 2024

By **Robert Cox and Jacob DeRue** (January 8, 2025)

In November 2021, the U.S. Securities and Exchange Commission appointed four new board members, including Chair Erica Williams, to the five-member Public Company Accounting Oversight Board.[1] The board promised more enforcement and increased sanctions during its tenure. As shown by the 2024 audit year, the board has delivered on its promise.

Since 2021, the PCAOB has increased its enforcement activity against auditors, including the number of enforcement actions brought against auditors and increasingly higher monetary penalties, with the number of actions and civil monetary penalties peaking in 2024. Investor protection drove the increase in penalties and enforcement actions.

As Williams explained in a fireside chat in August 2024, "People are at the heart of everything we do, and so ultimately to measure success we need to make sure that in each of those areas we're putting forward standards and we're engaging inspections — and we have enforcement that is pushing forward investor protection." [2] Thus, the board focused primarily on investor protection in 2024, which increased deterrence and penalties for persons who violated the PCAOB rules.



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PCAOB Enforcement Efforts Peak in 2024

After a consistent increase in enforcement activity since the appointment of the board members in 2021, the PCAOB had its most effective enforcement year to date in 2024.

The PCAOB has already made public 51 settled orders.[3] This marks a wholly changed enforcement culture from 2018 to 2021 under the first Trump administration, during which the number of settled orders dropped significantly.[4] By contrast, the prior two years saw over 40 settled disciplinary orders.

In a public address in November announcing an enforcement action, Williams stated, "[a]ll registered firms must comply with PCAOB reporting requirements, which are designed to provide the PCAOB, investors, and other stakeholders with important information." She further warned, "[w]hen firms don't comply, the PCAOB will use the tools at our disposal to hold them accountable to fulfill our investor-protector mission." [5]

As evidenced by many 2024 settled disciplinary orders, the board has not been afraid to exercise its power to fine and reprimand firms. The PCAOB will likely continue to aggressively pursue firms that do not cooperate with its processes. As Robert Rice, director of the PCAOB's Division of Enforcement and Investigations, stated in November, "[c]ooperation with the board's processes is a bedrock principle under our rules and standards and is not optional." [6]

Enforcement Key Points

Some key points from the 2024 settled orders are:

- Civil money penalties continue to substantially rise, as both firms and individuals settling enforcement matters with the PCAOB paid a combined 78.5% more in civil money penalties than in 2023.
- KPMG Netherlands was fined \$25 million, the highest civil money penalty in PCAOB history.
- There was a continued focus on cross-border/international audits.
- The U.S. Supreme Court's June decision in *Jarkesy v. SEC* may signal possible coming changes to administrative proceedings.
- There was also a continued focus on work paper alteration and other PCAOB rule violations.
- There was a continued trend of an increase in PCAOB settled orders year over year.

High Civil Money Penalties In 2024

Upon assuming her position, Williams expressed her criticism that to date, the PCAOB had assessed civil money penalties that were too modest.[7] Within a year of assuming her position, Williams and PCAOB staff set to work to substantially increase civil money penalties.

From 2022 to date, civil money penalties have significantly increased.

- 2020: Civil money penalties totaled \$1.5 million.
- 2021: Civil money penalties totaled \$1.1 million.
- 2022: Civil money penalties totaled \$11.0 million.
- 2023: Civil money penalties totaled \$20.0 million.
- 2024: Civil money penalties totaled \$35.7 million.[8]

Williams said when announcing the KPMG settlement that this increase affirms her promise to bring tough penalties on firms that "fail to enforce a culture of honesty and integrity." [9]

Similarly, in the August fireside chat, Williams stated,

As of this month, the PCAOB has imposed \$34 million in penalties in 2024, and we've only just begun. We set a record in 2022. We broke that record in 2023, and we broke it again just four months into 2024. We want this to be a clear warning that if you put investors at risk there will be consequences.[10]

Higher civil money penalties substantially concern smaller firms that have limited financial resources to pay significantly higher civil money penalties. In some limited cases, however, the PCAOB seems to consider a firm or individual's financial resources.

In four orders in 2024, the PCAOB considered the financial resources of the respondents in imposing a lower civil money penalty.[11] Unfortunately, the PCAOB provides little public guidance about when and how the board considers a firm's or individual's financial resources when assessing the respondent's ability to pay and determining whether the civil money penalty should be reduced.

The PCAOB's emphasis on higher civil money penalties may have the deleterious effect of dissuading smaller audit firms from becoming or remaining registered with the PCAOB. This correspondingly may adversely dissuade smaller companies from listing on U.S. exchanges.

KPMG Netherlands: Largest Civil Money Penalty in PCAOB History

On April 10, the PCAOB assessed KPMG Netherlands with a \$25 million civil money penalty. The penalty dwarfs the PCAOB's previous highest penalty of \$8 million in 2016 against Deloitte Brazil.[12]

The penalty against KPMG Netherlands arose from alleged cheating on the firm's internal training program. The PCAOB order asserted that hundreds of firm professionals were involved in improper answer sharing by either providing or receiving test questions and answers to mandatory internal training courses to co-workers.

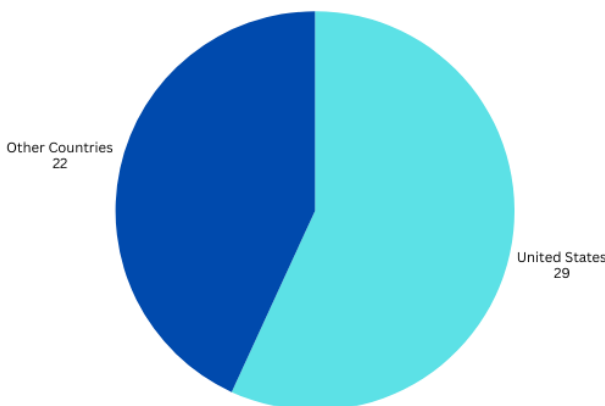
Along with the \$25 million penalty, the PCAOB required the firm to establish, revise, or supplement policies and procedures to ensure (1) personnel perform all internal training and tests with integrity; (2) personnel have the required skills to perform their duties; (3) KPMG's continuing professional education classes meet professional and regulatory standards; and (4) the updated policies are well designed and effectively implemented.[13]

Continued Focus on International Audit Enforcement

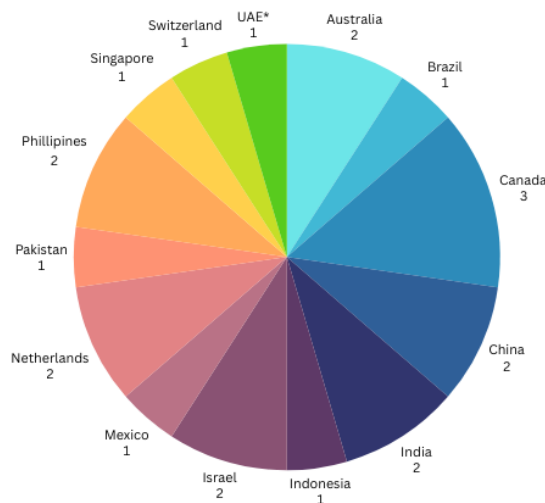
The PCAOB continues to focus on non-U.S. firms, with 800 audits each year in more than 50 jurisdictions and cooperative arrangements in 30 jurisdictions.[14] Almost half of the 51 settled orders in 2024 — 22 orders — involved foreign firms and individuals. Similarly, \$28.04 million of the \$35.73 million civil money penalties the PCAOB imposed in 2024 were against foreign registered firms and their associated persons.

PCAOB International Enforcement for 2024*

United States v. Other Countries



Other Countries by Number of Orders



*Data for 2024 includes up to the December 3, 2024 settled orders.

UAE = United Arab Emirates

Although the PCAOB settled slightly more orders against U.S. firms than foreign firms in 2024, the PCAOB settled enforcement actions involving firms in four new countries for the first time: the United Arab Emirates, Pakistan, Philippines and Switzerland. Those actions accounted for roughly 22% of the foreign actions in 2024.[15] This trend of pursuing investigations against foreign firms in new countries may extend in 2025 and expand the PCAOB's international enforcement regime.

In December 2022, the PCAOB announced that, under a memorandum of understanding with Chinese authorities, it had secured complete access to inspect and investigate registered public accounting firms in mainland China and Hong Kong. In 2024, despite many assuming the Division of Enforcement and Investigations would pursue many more investigations of Chinese auditors under its newfound authority, only two settled disciplinary orders were made public[16] compared to three settled disciplinary actions in 2023[17].

However, actions like the one against Chinese firm JTC Fair Song on Nov. 8, where the PCAOB revoked the firm's registration for noncooperation,[18] demonstrate that the board is still willing to assert its newfound authority under the memorandum of understanding with the China Securities Regulatory Commission and Ministry of Finance to pursue mainland Chinese firms.[19]

Continued Focus on Sanctioning Reporting Violations

Reporting violations were a primary focus of the PCAOB in the 2024 auditing year, with the

board conducting sweeps for reporting violations, such as Form AP and Form 3.

On Nov. 19, the PCAOB announced settled disciplinary orders sanctioning five audit firms for violating PCAOB required reporting rules: Bush & Associates CPA LLC, Barton CPA PLLC, Crowe Hussain Chaudhury & Co., BSR & Co. LLP and RSM Brasil Auditores Independentes Sociedade Simples.[20]

All five firms consented to their orders, which censured the firms and imposed civil money penalties of \$50,000 on Bush, and \$25,000 each on Barton, Crowe Hussain, BSR and RSM. The orders also required each firm to undertake remedial measures to improve its policies and procedures to strengthen compliance with PCAOB reporting.[21]

When announcing the sanctions, Williams stated, "[f]ailures to make required disclosures undercut the PCAOB's ability to protect investors, and firms must not take these obligations lightly." [22] Further, Rice stated that "[s]weeps are a critical aspect of the PCAOB enforcement program. We will continue to use sweeps — and ongoing monitoring — to identify firms that fail to comply with PCAOB reporting requirements." [23]

Continued Focus on Sanctioning Independence/Communication Violations

The PCAOB also continued its enforcement focus on auditor independence/audit committee communications violations in 2024, conducting sweeps for violations of PCAOB rules regarding audit committee communications.

For example, the PCAOB penalized four audit firms for breaches related to communication standards with audit committees: Baker Tilly US, Grant Thornton Bharat (India), Mazars USA and SW Audit (Australia).[24]

The PCAOB imposed civil money penalties on the four firms for failing to comply with Auditing Standard 1301 communication requirements and/or obtain required audit committee preapproval for certain nonaudit services. Those penalties totaled \$240,000.[25] Each firm consented to the PCAOB's findings and agreed to revise its policies to better align with the board's regulatory standards.[26]

The PCAOB's focus on communication violations coincides with the board's emphasis in 2024 on upholding regulatory integrity.

Implications of SEC v. Jarkesy

On June 27, in a 6-3 ruling, the Supreme Court affirmed the U.S. Court of Appeals for the Fifth Circuit's decision in SEC v. Jarkesy.[27] The court held that the Seventh Amendment prevented the SEC from imposing monetary penalties for securities fraud without a jury. Thus, the SEC cannot impose monetary penalties through its administrative courts.

The court's decision in Jarkesy raises the question of how the ruling will apply to accountants alleged to have violated Rule 102(e) of the SEC's Rules of Practice.[28] Although courts have not yet addressed how Jarkesy applies to PCAOB investigations, the effects of Jarkesy will likely be fleshed out by the courts in the next few years.

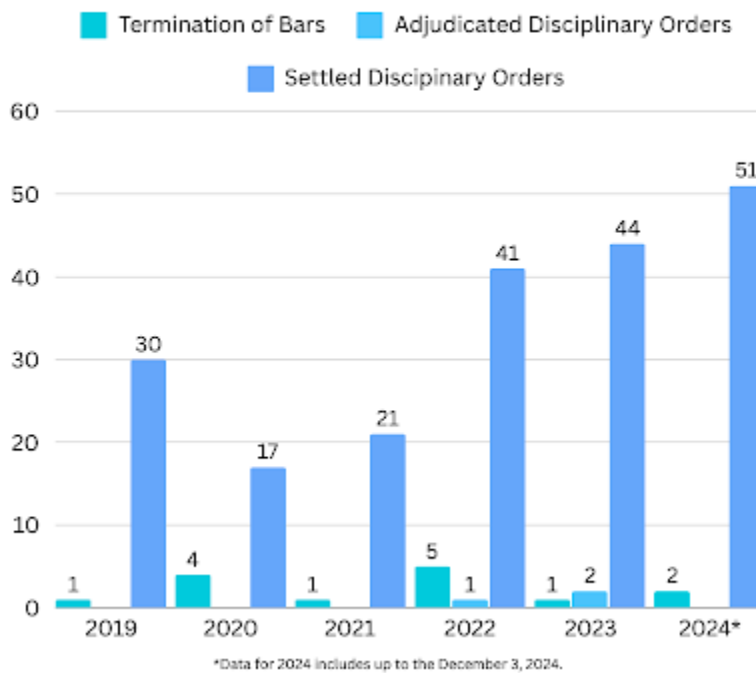
In pending federal district court cases in the U.S. District Courts for the District of Columbia and the Middle District of Tennessee, PCAOB-registered firms have asserted Jarkesy-based claims against the PCAOB, such as the right to a jury trial. These cases may affect the conduct of PCAOB disciplinary proceedings in 2025, including the potential referral

of some disciplinary proceedings to the SEC to pursue in federal courts.

Increased Volume of PCAOB Actions

Lastly, the PCAOB continued its trend of increasing actions against firms and individuals in the past three years. The PCAOB published 51 publicly settled disciplinary orders, marking the third year in which the board has published over 40 orders. This trend is likely to continue as the PCAOB attempts to protect investors.

PCAOB Enforcement Actions 2019-2024



On Oct. 21, the amendment to PCAOB Rule 3502 went into effect to "harmonize the ethics rules that apply to audit firms and to the associated persons who actually perform the audit on the audit firm's behalf."^[29] This amendment changed the auditing standard from "negligence" for audit firms and "knowing" or "reckless" for associated persons, to a sweeping "negligence" standard for both auditing firms and associated persons.^[30] Thus, the bar has been lowered to penalize associated persons.

It is reasonable to expect the board to use this new lower standard to ensure that individuals performing audits exercise a higher degree of care in their work. Implementing this amended rule will likely increase actions against associated persons in the upcoming years.

Conclusion

The PCAOB is likely to increase its enforcement activity in 2025, both in the number of investigations and the severity of imposed penalties. In 2024, the Division of Enforcement and Investigations focused on significant audit failures, quality control, audit integrity and compliance.

The division has also continued to extend its reach globally by imposing high civil money penalties on foreign firms and individuals in countries that have never had a PCAOB-settled disciplinary order before.

Lastly, larger and smaller firms, and their associated persons, have faced substantially higher civil money penalties in settling enforcement investigations. These trends may continue in the PCAOB 2025 audits.

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[1] Board member Duane DesParte, who was appointed to the Board in 2018, was the only Board member to survive the SEC's 2021 Board restructuring.

[2] Erica Y. Williams & Paquita Davis-Friday, Keynote–Fireside Chat with PCAOB Chair Erica Y. Williams, The CPA Journal (Aug. 2024), <https://www.cpajournal.com/2024/08/05/keynote-fireside-chat-with-pcaob-chair-erica-y-williams-3/>.

[3] PCAOB also announced two orders terminating a bar of an accountant, which are not included in the 46 settled disciplinary orders. See In the Matter of Bernardo Soto Peñafiel, PCAOB Release No. 105-2024-027 (Apr. 24, 2024); In the Matter of Juan Francisco Olvera Díaz, PCAOB Release No. 105-2024-028 (Apr. 24, 2024).

[4] The PCAOB made public 30 settled orders in 2019, 17 settled orders in 2020, 21 settled orders in 2021, 41 settled orders in 2022, and 44 settled orders in 2023.

[5] Jason Bramwell, PCAOB Gives Chinese Audit Firm the Boot Over Rules Violations, CPA Practice Advisor (Nov. 11, 2024), <https://www.cpapracticeadvisor.com/2024/11/11/pcaob-gives-chinese-audit-firm-the-boot-over-rules-violations/113018/>.

[6] Id.

[7] In September 2019, the Project on Government Oversight published an analysis criticizing PCAOB enforcement and civil money penalties. POGO noted that only \$6.5 million in civil money penalties had been assessed against Big Four accounting firms from 2003 to 2019, and auditors at Big Four firms were fined only \$40,000 during that same period.

[8] Speech, Erica Y. Williams, Council of Institutional Investors (Jul. 28, 2022), PCAOB Chair Williams Remarks on 20th Anniversary of Sarbanes-Oxley Act and Establishment of the PCAOB | PCAOB (pcaobus.org); Enforcement Actions, PCAOB, <https://pcaobus.org/oversight/enforcement/enforcement-actions?sort=oldest&mpp=48&effectivedateyear=2024>.

[9] Amanda Iacone, KPMG's Dutch Arm Fined \$25 Million for Exam Cheating Charges (3), Bloomberg Tax (Apr. 10, 2024), <https://news.bloombergtax.com/financial-accounting/kpmgs-dutch-arm-fined-25-million-for-exam-cheating-charges>.

[10] Erica Y. Williams & Paquita Davis-Friday, Keynote–Fireside Chat with PCAOB Chair Erica Y. Williams, The CPA Journal (Aug. 2024), <https://www.cpajournal.com/2024/08/05/keynote-fireside-chat-with-pcaob-chair-erica-y-williams-3/>.

[11] In the Matter of Jack Shama and Jack Shama, CPA, PCAOB Rel. No. 105-2024-004 (Jan. 23, 2024) (\$50,000 civil money reduced to \$0 in consideration of the firm's financial resources); In the Matter of Wilfredo Baltazar, PCAOB Release No. 105-2024-026 (Apr. 10, 2024) (\$50,000 civil money penalty reduced to \$10,000 in consideration of Baltazar's financial resources); In the Matter of JTC Fair Song CPA Firm, PCAOB Release No. 105-2024-043 (Nov. 8, 2024) (\$50,000 civil money penalty reduced to \$0 in consideration of the firm's financial resources); In the Matter of Weinstein International CPA and Idan Weinstein, PCAOB Release No. 105-2024-053 (Dec. 3, 2024) (\$75,000 civil money penalty reduced to \$0 in consideration of the firm's financial resources).

[12] Amanda Iacone, KPMG's Dutch Arm Fined \$25 Million for Exam Cheating Charges (3), Bloomberg Tax (Apr. 10, 2024), <https://news.bloombergtax.com/financial-accounting/kpmgs-dutch-arm-fined-25-million-for-exam-cheating-charges>.

[13] In the Matter of KPMG Accountants N.V., PCAOB Rel. No. 105-2024-022 (Apr. 10, 2024).

[14] Erica Y. Williams & Paquita Davis-Friday, Keynote–Fireside Chat with PCAOB Chair Erica Y. Williams, The CPA Journal (Aug. 2024), <https://www.cpajournal.com/2024/08/05/keynote-fireside-chat-with-pcaob-chair-erica-y-williams-3/>.

[15] In the Matter of BDO Chartered Accountants & Advisors, PCAOB Release No. 105-2024-035 (June 18, 2024) (United Arab Emirates); In the Matter of Crowe Hussain Chaudhury & Co, PCAOB Release No. 105-2024-048 (Nov. 19, 2024) (Pakistan); In the Matter of Navarro Amper & Co., PCAOB Release No. 105-2024-025 (Apr. 10, 2024) (Philippines); In the Matter of Wilfredo Baltazar, PCAOB Release No. 105-2024-026 (Apr. 10, 2024) (Philippines); In the Matter of Ernst & Young AG, PCAOB Release No. 105-2024-039 (Sep. 24, 2024) (Switzerland).

[16] In the Matter of CHOI Chung Chuen, MA Hong Chao, and DONG Chang Ling, PCAOB Release No. 105-2024-013 (Mar. 20, 2024); In the Matter of JTC Fair Song CPA Firm, PCAOB Release No. 105-2024-043 (Nov. 8, 2024).

[17] In the Matter of Da Hua CPAs (Special General Partnership), PCAOB Release No. 105-2023-039 (Nov. 28, 2023); In the Matter of Shandong Haoxin Certified Public Accountants Co., Ltd., LIU Kun, MA Yao, SUN Penghuan, and ZHU Dawei, PCAOB Release No. 105-2023-045 (Nov. 30, 2023); In the Matter of PricewaterhouseCoopers Zhong Tian LLP, PCAOB Release No. 105-2023-044 (Nov. 30, 2023).

[18] The Board did consider the firm's limited financial resources in not assessing a \$50,000 civil money penalty.

[19] In the Matter of JTC Fair Song CPA Firm, PCAOB Release No. 105-2024-043 (Nov. 8,

2024) (JTC Fair Song failed to timely report the participants in its issuer audits on PCAOB Form AP, in violation of PCAOB Rule 3211 and failed to timely file its annual reports on PCAOB Form 2 for 2021-2023, in violation of PCAOB Rule 2201.).

[20] In the Matter of Bush & Associates CPA LLC, PCAOB Release No. 105-2024-046 (Nov. 19, 2024); In the Matter of Barton CPA PLLC, PCAOB Release No. 105-2024-047 (Nov. 19, 2024); In the Matter of Crowe Hussain Chaudhury & Co, PCAOB Release No. 105-2024-048 (Nov. 19, 2024); In the Matter of B S R & Co. LLP, PCAOB Release No. 105-2024-044 (Nov. 19, 2024); In the Matter of RSM Brasil Auditores Independentes Sociedade Simples, PCAOB Release No. 105-2024-045 (Nov. 19, 2024).

[21] PCAOB Sanctions Five Firms for Failing to Comply with PCAOB Reporting Requirements, PCAOB (Nov. 19, 2024), <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-sanctions-five-firms-for-failing-to-comply-with-pcaob-reporting-requirements>.

[22] Id.

[23] Id.

[24] PCAOB Sanctions Four Audit Firms for Communication Violations, Inside Public Accounting (Feb. 21, 2024), <https://insidepublicaccounting.com/2024/02/21/pcaob-sanctions-four-audit-firms-for-communication-violations/>.

[25] In the Matter of Baker Tilly US, LLP, PCAOB Release No. 105-2024-006 (Feb. 20, 2024) (\$80,000 civil money penalty); In the Matter of Grant Thornton Bharat LLP, PCAOB Release No. 105-2024-007 (Feb. 20, 2024) (\$40,000 civil money penalty); In the Matter of Mazars USA LLP, PCAOB Release No. 105-2024-008 (Feb. 20, 2024) (\$60,000 civil money penalty); In the Matter of SW Audit, PCAOB Release No. 105-2024-009 (Feb. 20, 2024) (\$60,000 civil money penalty).

[26] Id.

[27] SEC v. Jarkesy, 144 S. Ct. 2117 (2024).

[28] Francine McKenna, Now You See It: SEC Dismisses Enforcement Actions Against Audit Partners After Jarkesy, The Dig (Sep. 3, 2024), https://thedig.substack.com/p/now-you-see-it-sec-dismisses-enforcement?utm_campaign=post&utm_medium=web.

[29] Jonathan D. Uslaner & Lauren M. Cruz, SEC Amended PCAOB Rule 3502 to Raise the Bar on Ethics Rules, Reuters (Oct. 1, 2024), <https://www.reuters.com/legal/legalindustry/sec-amended-pcaob-rule-3502-raise-bar-ethics-rules-2024-10-01/>.

[30] Id.