

Dan Goelzer



AUDIT COMMITTEE AND AUDITOR OVERSIGHT UPDATE

Update No. 103
September 2025

This Update summarizes recent developments relating to public company audit committees and their oversight of financial reporting and the company's relationship with its auditor.

In This Update

[2024 PCAOB “Next Eight” Annually Inspected Firm Inspection Reports](#)

[Fraud at U.S. Public Companies: The View from Inside and Outside](#)

[On the Update Radar: Things in Brief](#)

[PCAOB Defers New Quality Control Standard for One Year](#)

[Springtime in Washington: The SEC’s Regulatory Agenda](#)

[California Climate Disclosure Laws Survive a Challenge](#)

[Catnip for the Plaintiffs’ Bar: Adverse Disclosures with a Material Price Impact](#)

[Going Concern Opinions Neared Record Low in 2024](#)

[Is Public Company Sustainability Reporting in Decline or Just Delayed?](#)

[The Audit Blog](#)

2024 PCAOB “Next Eight” Annually Inspected Firm Inspection Reports

On July 31, the Public Company Accounting Oversight Board released the inspection reports for the eight U.S. accounting firms that were subject to annual inspection in 2024, but that are not global network firms. In 52 percent of the 2024 engagements the PCAOB inspected for these eight firms, it found one or more Part I.A deficiencies – that is, deficiencies of such significance that it appeared that the firm did not obtain sufficient evidence to support its opinion. This compares to a nearly-identical 53 percent deficient engagement rate for these firms in 2023. The deficient engagement rate for all PCAOB 2024 inspections

Dan Goelzer is a retired partner of Baker McKenzie, a major international law firm. The SEC appointed him to the Public Company Accounting Oversight Board as one of its founding CPA members, and he served on the PCAOB from 2002 to 2012, including as Acting Chair from 2009 to 2011. Dan was on the Securities and Exchange Commission’s staff for 16 years and served as SEC General Counsel from 1983 to 1990. He chaired Deloitte’s Audit Quality Advisory Council for eleven years, and, from 2017 to July 2022, was a Sustainability Accounting Standards Board member.

was 39 percent. For the six global network firms, the 2024 rate was 26 percent, and for the Big Four it was 20 percent. See [How the PCAOB Staff Sees the 2024 Inspection Results, March-April 2025 Update](#).

The Sarbanes-Oxley Act requires that the PCAOB annually inspect every firm that issues 100 or more public company audit reports. In 2024, 14 firms met that threshold. On March 31, the PCAOB issued inspection reports for the U.S. affiliates of the six global network accounting firms -- BDO, Deloitte, E&Y, Grant Thornton, KPMG, and PwC. See [2024 PCAOB Large Firm Inspection Reports, March-April 2025 Update](#). The remaining eight firms subject to annual inspection in 2024 were Baker Tilly US, LLP (Baker Tilly), Cohen & Company, Ltd. (Cohen), Crowe LLP (Crowe), Forvis Mazars, LLP (Forvis), Marcum LLP (Marcum), Moss Adams (Moss Adams), RSM US LLP (RSM), and WithumSmith+Brown, PC (Withum). This post analyzes the 2024 inspection reports of these eight firms and compares them to last year's results. Audit committees should review their audit firm's inspection report and discuss it with their engagement partner. The information below is intended to provide context for that discussion.

Overview of Eight Firms' 2024 Inspection Results

As noted above, in 52 percent of the eight firms' audit engagements it inspected in 2024, the PCAOB found one or more Part I.A deficiencies. (In this post, the percentage of inspected engagements in which the staff found one or more Part I.A deficiencies is referred to as the "deficient engagement rate" or DER). Compared to 2023, the DER fell for three of the firms, rose for three, and was unchanged for the other two. Forvis experienced the greatest improvement, with its DER falling from 90 percent in 2023 to (a still high) 71 percent in 2024. See Table 1. (The tables referenced in this discussion appear in the "Tabular Comparison of the Eight Firms' 2024 Reports" section of this post, which follows the summaries of the eight reports.)

Cohen's 2024 inspection results were the best in the group, followed by Crowe. The Board found deficiencies in one of the nine Cohen audits it inspected (11 percent). Cohen's 2023 DER was also 11 percent. Crowe had three deficient engagements (18 percent). At the other end of the spectrum, Marcum had the highest percentage of deficient engagements. The Board found problems with 21 of the 26 Marcum audits it inspected or 81 percent, the same DER as last year.

An engagement in Part I.A of an inspection report may contain one or more audit deficiencies. Therefore, in addition to comparing their DERs, another way of assessing the firms' inspection results is to compare the number of individual audit deficiencies the Board found. See Table 2. Cohen and Crowe were also the best performers by this metric. For Cohen, the Board inspected nine engagements and found one audit deficiency -- 0.1 deficiencies per inspected engagement and one deficiency per engagement in Part I.A. In Crowe's report, there were 0.5 deficiencies per inspection and an average of 2.7 deficiencies per Part I.A engagement. In contrast, for Marcum, the comparable numbers were 4.9 deficiencies per inspection and an average of 3.9 deficiencies per Part I.A engagement. Forvis had 2.7 deficiencies per inspection and an average of 3.8 deficiencies per Part I.A engagement. Table 3 provides a similar comparison based on the number of auditing standards cited in each inspection report.

In the aggregate for the eight firms, 36 percent of the 122 inspected engagements were integrated audits of both internal control over financial reporting (ICFR) and the financial statements. Inspectors found ICFR audit deficiencies in 50 percent of the integrated audits they inspected, while 48 percent of all inspected engagements were found to have a financial statement audit deficiency. Thirty-four percent of audit engagements described in Part I.A of the eight firms' 2024 inspection reports included an ICFR deficiency, while 92 percent included a financial statement audit deficiency. AS 1105, [Audit Evidence](#), which requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion, was the most frequently cited auditing standard in Part I.A of the eight reports. See Table 4. "Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk" in a financial statement audit was the most frequent audit deficiency. See Table 5.

Part I.B of an inspection report describes instances of non-compliance with PCAOB standards or rules that do not relate directly to the sufficiency or appropriateness of the evidence supporting an audit opinion. The 2024 inspection reports of the six firms contained 97 Part I.B deficiencies. See Table 6. The most-frequently cited PCAOB standard or rule in Part I.B was AS 2401, Consideration of Fraud in a Financial Statement Audit, and the most common Part I.B finding was the failure to make all required inquiries of management regarding fraud risks or risks of material misstatement. See Tables 7 and 8.

Part I.C of an inspection report describes instances of potential non-compliance with rules related to auditor independence. The 2024 inspection reports of the eight firms describe 26 instances of potential non-compliance with the independence rules, of which 17 were firm self-reported and nine were identified by the PCAOB. See Table 9. As the PCAOB points out, disclosure in Part I.C of an instance of potential non-compliance with the independence rules does not necessarily mean that the Board or the firm has concluded that the firm was not objective and impartial throughout the audit and professional engagement period. In each of the 26 instances of apparent non-compliance described in Part I.C of the eight reports, the firm involved evaluated the potential non-compliance and determined that its objectivity and impartiality were not impaired.

Summaries of Eight Firms' 2024 Inspection Reports

Below are summaries of the 2024 inspection reports of each of the six U.S. GNF affiliates:

- [Baker Tilly US, LLP](#). The PCAOB reviewed twelve Baker Tilly public company audits, four of which were integrated audits of both the financial statements and ICFR. In seven of the twelve audits (58 percent), the PCAOB identified deficiencies of such significance that it appeared that the firm had not obtained sufficient appropriate audit evidence to support its opinion. This compares to Baker Tilly's 67 percent DER in 2023. Two of the seven engagements in Part I.A included deficiencies related to both the audit of the financial statements and the audit of ICFR, and five included only a financial statement audit deficiency. The PCAOB described 24 audit deficiencies (2.0 deficiencies per inspected engagement) associated with 26 auditing standards (2.2 standards per inspection) in Part I.A. In Part I.B of the inspection report, the PCAOB identified four instances of noncompliance with PCAOB standards or rules that did not relate directly to the evidence the firm obtained to support an opinion. In Part I.C, the Board described two instances of potential non-compliance with independence rules that the firm identified.
- [Cohen & Company, Ltd.](#) The PCAOB reviewed nine Cohen public company audits, one of which was an integrated audit of both the financial statements and ICFR. In one of the nine audits (11 percent), the PCAOB staff identified a deficiency of such significance that it appeared that the firm had not obtained sufficient appropriate audit evidence to support its opinion. Cohen's DER was also 11 percent in 2023. The one engagement in Part I.A included a deficiency related to both the audit of the financial statements and the audit of ICFR. The PCAOB described one audit deficiency (0.1 deficiencies per inspected engagement) associated with one auditing standard (0.1 standards per inspection) in Part I.A. In Part I.B of the inspection report, the PCAOB identified three instances of noncompliance with PCAOB standards or rules that did not relate directly to the evidence the firm obtained to support an opinion. In Part I.C, the Board described no instances of potential non-compliance with independence rules.
- [Crowe LLP](#). The PCAOB reviewed 17 Crowe public company audits, twelve of which were integrated audits of both the financial statements and ICFR. In three of the 17 audits (18 percent), the PCAOB staff identified deficiencies of such significance that it appeared that the firm had not obtained sufficient appropriate audit evidence to support its opinion. This compares to Crowe's seven percent DER in 2023. All three of the engagements in Part I.A included deficiencies related to both the audit of the financial statements and the audit of ICFR. The PCAOB described 8 audit deficiencies (0.5 deficiencies per inspected engagement) associated with eight auditing standards (0.5 standards per inspection) in Part I.A. In Part I.B of the inspection report, the PCAOB identified 20 instances of non-compliance with PCAOB standards

or rules that did not relate directly to the evidence the firm obtained to support an opinion. In Part I.C, the Board described five instances of potential non-compliance with independence rules that the firm identified.

- [Forvis Mazars, LLP](#). The PCAOB reviewed 14 Forvis public company audits, six of which were integrated audits of both the financial statements and ICFR. In ten of the 14 audits (71 percent), the PCAOB staff identified deficiencies of such significance that it appeared that the firm had not obtained sufficient appropriate audit evidence to support its opinion. This compares to Forvis's 90 percent DER in 2023. Four of the engagements in Part I.A included deficiencies related to both the audit of the financial statements and the audit of ICFR, four included only a financial statement audit deficiency, and two included only an ICFR audit deficiency. The PCAOB described 38 audit deficiencies (2.7 deficiencies per inspection) associated with 40 auditing standards (2.9 standards per inspection) in Part I.A. In Part I.B of the inspection report, the PCAOB identified 13 instances of noncompliance with PCAOB standards or rules that did not relate directly to the evidence the firm obtained to support an opinion. In Part I.C, the Board described one instance of potential non-compliance with independence rules that the firm identified.
- [Marcum LLP](#). The PCAOB reviewed 26 Marcum public company audits, six of which were integrated audits of both the financial statements and ICFR. In 21 of the 26 audits (81 percent), the PCAOB staff identified deficiencies of such significance that it appeared that the firm had not obtained sufficient appropriate audit evidence to support its opinion. Marcum's DER was also 81 percent in 2023. Three of the engagements in Part I.A included deficiencies related to both the audit of the financial statements and the audit of ICFR, 17 included only a financial statement audit deficiency, and one included only an ICFR audit deficiency. The PCAOB described 102 audit deficiencies (3.9 deficiencies per inspected engagement) associated with 112 auditing standards (4.3 standards per inspection) in Part I.A. In Part I.B of the inspection report, the PCAOB identified 22 instances of noncompliance with PCAOB standards or rules that did not relate directly to the evidence the firm obtained to support an opinion. In Part I.C, the Board described one instance it identified of potential non-compliance with independence rules and four instances that the firm identified.
- [Moss Adams](#). The PCAOB reviewed twelve Moss Adams public company audits, five of which were integrated audits of both the financial statements and ICFR. In six of the twelve audits (81 percent), the PCAOB staff identified deficiencies of such significance that it appeared that the firm had not obtained sufficient appropriate audit evidence to support its opinion. This compares to Moss Adam's 42 percent DER in 2023. Two of the engagements in Part I.A included deficiencies related to both the audit of the financial statements and the audit of ICFR, and four included only a financial statement audit deficiency. The PCAOB described 19 audit deficiencies (1.6 deficiencies per inspection) associated with 19 auditing standards (1.6 standards per inspection) in Part I.A. In Part I.B of the inspection report, the PCAOB identified 15 instances of noncompliance with PCAOB standards or rules that did not relate directly to the evidence the firm obtained to support an opinion. In Part I.C, the Board described seven instances it identified of potential non-compliance with independence rules and three instances that the firm identified.
- [RSM US LLP](#). The PCAOB reviewed 17 RSM public company audits, eight of which were integrated audits of both the financial statements and ICFR. In seven of the 17 audits (41 percent), the PCAOB identified deficiencies of such significance that it appeared that the firm had not obtained sufficient appropriate audit evidence to support its opinion. This compares to RSM's 47 percent DER in 2023. One of the engagements in Part I.A included deficiencies related to both the audit of the financial statements and the audit of ICFR, five included only a financial statement audit deficiency, and one included only an ICFR audit deficiency. The PCAOB described 17 audit deficiencies (1.0 deficiencies per inspection) associated with 19 auditing standards (1.1 standards per inspection) in Part I.A. In Part I.B of the inspection report, the PCAOB identified ten instances of noncompliance with PCAOB standards or rules that did not relate directly to the evidence the

firm obtained to support an opinion. In Part I.C, the Board described one instance of potential non-compliance with independence rules that the firm identified.

- [WithumSmith+Brown, PC](#). The PCAOB reviewed 15 Withum public company audits, two of which were integrated audits of both the financial statements and ICFR. In nine of the 15 audits (60 percent), the PCAOB staff identified deficiencies of such significance that it appeared that the firm had not obtained sufficient appropriate audit evidence to support its opinion. This compares to Withum's 40 percent DER in 2023. In two of the nine deficient engagements, the issuer concluded that its financial statements included misstatements and should be restated. One of the engagements in Part I.A included deficiencies related to both the audit of the financial statements and the audit of ICFR, seven included only a financial statement audit deficiency, and one included only an ICFR audit deficiency. The PCAOB described 28 audit deficiencies (1.9 deficiencies per inspected engagement) associated with 30 auditing standards (2.0 standards per inspection) in the engagements in Part I.A. In Part I.B of the inspection report, the PCAOB identified ten instances of noncompliance with PCAOB standards or rules that did not relate directly to the evidence the firm obtained to support an opinion. In Part I.C, the Board described one instance it identified of potential non-compliance with independence rules and one instance that the firm identified.

Tabular Comparisons of the Eight Firms' 2024 Reports

Part I.A Deficiencies

Table 1 compares the overall results of the 2024 inspections of the eight firms. Table 1 also compares the results of the firm's 2024 and 2023 inspections.

TABLE 1 2024 INSPECTIONS OF EIGHT ANNUALLY INSPECTED U.S. FIRMS (Reports dated May 22 or June 25, 2025, and released on July 31, 2025)				
<u>Firm</u>	<u>Engagements Inspected</u>	<u>Deficient Engagements Described in Part I.A</u>	<u>Percent of Inspected Engagements in Part I.A</u>	
			<u>2024</u>	<u>2023</u>
Baker Tilly	12	7	58%	67%
Cohen & Company	9	1	11%	11%
Crowe	17	3	18%	7%
Forvis Mazars	14	10	71%	90%
Marcum	26	21	81%	81%
Moss Adams	12	6	50%	42%
RSM	17	7	41%	47%
WithumSmith+Brown	15	9	60%	40%
Eight Firm Totals	122	64		
Eight Firm Averages	15	8	52%	

Table 1 focuses on the percentage of inspected engagements that have at least one audit deficiency. Other indicators of the relative performance of the eight firms are the number individual audit deficiencies in each report and the number of auditing standards associated with those deficiencies. These metrics differ from the DER because an engagement included in Part I.A may involve more than one deficiency and a deficiency may involve more than one auditing standard. Table 2 compares the eight firms'

inspections based on the number of audit deficiencies in each inspection report. In some cases, there is an element of judgment in determining the number of deficiencies in a Part I.A engagement description.

<u>TABLE 2</u> <u>AUDIT DEFICIENCIES IN PART I.A OF 2024 INSPECTION</u> <u>REPORTS OF EIGHT ANNUALLY INSPECTED U.S. FIRMS</u>					
<u>Firm</u>	<u>Engagements Inspected</u>	<u>Deficient Engagements</u>	<u>Total Audit Deficiencies</u>	<u>Audit Deficiencies Per Inspected Engagement</u>	<u>Audit Deficiencies Per Part I.A Engagement</u>
Baker Tilly	12	7	24	2.0	3.4
Cohen & Company	9	1	1	0.1	1.0
Crowe	17	3	8	0.5	2.7
Forvis Mazars	14	10	38	2.7	3.8
Marcum	26	21	102	3.9	4.9
Moss Adams	12	6	19	1.6	3.2
RSM	17	7	17	1.0	2.4
WithumSmith+Brown	15	9	28	1.9	3.1
Eight Firm Totals	122	64	237		
Eight Firm Averages	15	8	30	1.9	3.7

Table 3 compares the eight firms' inspections based on the number of auditing standards associated with the deficiencies described in their inspection reports.

<u>TABLE 3</u> <u>COMPARISON OF AUDITING STANDARDS CITATION FREQUENCY IN</u> <u>2024 INSPECTION REPORTS OF EIGHT ANNUALLY INSPECTED U.S. INSPECTED FIRMS</u>					
<u>Firm</u>	<u>Engagements Inspected</u>	<u>Engagements in Part I.A</u>	<u>Audit Standards Cited in Part I.A Engagements</u>	<u>Audit Standards Cited Per Inspected Engagement</u>	<u>Audit Standards Cited Per Part I.A Engagement</u>
Baker Tilly	12	7	26	2.2	3.7
Cohen & Company	9	1	1	0.1	1.0
Crowe	17	3	8	0.5	2.7
Forvis Mazars	14	10	40	2.9	4.0
Marcum	26	21	112	4.3	5.3
Moss Adams	12	6	19	1.6	3.2
RSM	17	7	19	1.1	2.7
WithumSmith+Brown	15	9	30	2.0	3.3
Eight Firm Totals	122	64	255		
Eight Firm Averages	15	8	32	2.1	4.0

Aggregate Part I.A Data on Auditing Standards and Deficiency Descriptions

Table 4 lists the auditing standards most frequently cited as the basis for audit deficiencies in Part I.A of the eight firms' 2024 inspection reports. Table 4 also shows the percentage of all deficiencies that were based on each auditing standard. The same auditing standard may have been cited multiple times in an engagement described in Part I.A. Table 4 only includes standards cited four times or more.

<u>TABLE 4</u> <u>STANDARDS REFERENCED IN EIGHT ANNUALLY INSPECTED</u> <u>U.S. FIRMS' 2024 PART I.A DEFICIENCY FINDINGS</u>		
<u>PCAOB Standard</u>	<u>Number of Times Standard Cited as Deficiency Basis</u>	<u>Percentage of Total Deficiencies Citing Standard</u>
AS 1105, <u>Audit Evidence</u>	55	21.6%
AS 2201, <u>An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of the Financial Statements</u>	53	20.8%
AS 2301, <u>The Auditor's Response to the Risks of Material Misstatement</u>	50	19.6%
AS 2501, <u>Auditing Accounting Estimates</u>	34	13.3%
AS 2810, <u>Evaluating Audit Results</u>	23	9.0%
AS 1201, <u>Supervision of the Audit Engagement</u>	15	5.9%
AS 2305, <u>Substantive Analytical Procedures</u>	6	2.4%
AS 2310, <u>The Confirmation Process</u>	5	2.0%
AS 2415, <u>Consideration of an Entity's Ability to Continue as a Going Concern</u>	4	1.6%

Each inspection report lists the most frequent audit deficiencies, divided between the most frequent deficiencies in financial statement (FS) audits and the most frequent deficiencies in ICFR audits. Table 5 aggregates these deficiency lists for the eight firms. Table 5 also indicates the percentage of engagements in the eight reports that included each deficiency. Table 5 only includes deficiencies listed twice or more.

<u>TABLE 5</u> <u>MOST FREQUENTLY IDENTIFIED AUDIT DEFICIENCIES</u> <u>IN EIGHT ANNUALLY INSPECTED U.S. FIRMS' 2024 INSPECTION REPORTS</u>			
<u>Deficiency Description</u>	<u>Number of Times Deficiency Was Identified</u>	<u>Audit Affected</u>	<u>Share of All Most Frequent Deficiencies</u>
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk.	32	FS	25.4%
Did not sufficiently test an estimate.	29	FS	23.0%
Did not perform sufficient testing of data or reports used in the firm's substantive testing.	27	FS	21.4%
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing.	14	ICFR	11.1%
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion.	12	ICFR	9.5%
Did not identify and/or sufficiently test controls over accuracy and completeness of data or reports that the issuer used in the operation of controls.	8	ICFR	6.3%
Did not perform sufficient roll-forward procedures	2	ICFR	1.6%

Part I.B Results

Part I.B of an inspection report describes instances of non-compliance with PCAOB standards or rules that do not relate directly to the sufficiency or appropriateness of the evidence supporting an audit opinion. In 2024, the PCAOB found an aggregate of 93 such deficiencies in the eight inspections.

Table 6 presents the number of Part I.B deficiencies for each of the eight firms, Table 6 also includes the total number of inspected engagements for each firm. However, it appears that the PCAOB does not review all inspected engagements for every type of Part I.B deficiency. Therefore, the number of Part I.B deficiencies in a firm's inspection report is not directly comparable to the number in other firms' reports.

<u>TABLE 6</u> <u>PART I.B DEFICIENCIES IN 2024 INSPECTION REPORTS</u> <u>OF EIGHT ANNUALLY INSPECTED U.S. FIRMS</u>		
<u>Firm</u>	<u>Engagements Inspected</u>	<u>Deficiencies Described in Part I.B</u>
Baker Tilly	12	4
Cohen & Company	9	3
Crowe	17	20
Forvis Mazars	14	13
Marcum	26	22
Moss Adams	12	15
RSM	17	10
WithumSmith+Brown	15	10
Eight Firm Totals	122	97
Eight Firm Averages	15	12

Table 7 lists the PCAOB auditing standards most frequently referenced in Part I.B deficiencies in the eight reports. Table 7 only includes deficiencies cited more than twice.

<u>TABLE 7</u> <u>STANDARDS AND RULES REFERENCED IN EIGHT ANNUALLY</u> <u>INSPECTED U.S. FIRM'S 2024 PART I.B DEFICIENCIES</u>		
<u>PCAOB Standard or Rule</u>	<u>Number of Times Cited as Deficiency Basis</u>	<u>Percent of Total Deficiencies Citing</u>
AS 2401, <u>Consideration of Fraud in a Financial Statement Audit</u>	24	24.7%
AS 2110, <u>Identifying and Assessing Risks of Material Misstatement</u>	21	21.6%
AS 1301, <u>Communications with Audit Committees</u>	17	17.5%
AS 3101, <u>The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion</u>	12	12.4%
AS 1105, <u>Audit Evidence</u>	9	9.3%
AS 1215, <u>Audit Documentation</u>	3	3.1%
Rule 3211, <u>Auditor Reporting of Certain Audit Participants</u>	3	3.1%

An auditing standard or rule may encompass more than one type of non-audit deficiency. Table 8 sets forth descriptions of the non-audit deficiencies most frequently described in Part I.B of the eight firms' 2024 inspection reports. In some cases, the wording of the deficiency descriptions is not consistent across eight reports. Table 8 only includes standards or rules cited three or more times.

<u>TABLE 8</u> <u>MOST FREQUENT DEFICIENCIES DESCRIBED IN PART I.B</u> <u>OF EIGHT ANNUALLY INSPECTED U.S. FIRMS' 2024 INSPECTION REPORTS</u>	
<u>Deficiency Description/Auditing Standard or Rule</u>	<u>Number of Times Deficiency Cited</u>
Firm did not inquire of, and/or make all required inquiries of, certain members of management about fraud risks/risks of material misstatement. AS 2110, <u>Identifying and Assessing Risks of Material Misstatement</u> .	20
Firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not appropriately consider the characteristics of potentially fraudulent journal entries (1) in determining the criteria it used to identify and select journal entries for testing, or (2) when identifying and selecting entries for testing. AS 2401, <u>Consideration of Fraud in a Financial Statement Audit</u> .	14
Firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of entries it identified as having certain fraud risk characteristics to certain entries. AS 2401, <u>Consideration of Fraud in a Financial Statement Audit</u> .	10
Firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform procedures to determine whether the journal entry population from which it made its selections was complete/accurate. AS 1105, <u>Audit Evidence</u> .	9
Firm did not make certain required communications to the audit committee prior to the Issuance of the auditor's report. AS 1301, <u>Communications with Audit Committees</u> .	4
Firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. AS 3101, <u>The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion</u> .	4
Engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include a matter that was communicated to the audit committee and that related to accounts or disclosures that were material to the financial statements. AS 3101, <u>The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion</u> .	4
Firm did not make a required communication to the audit committee related to certain critical accounting estimates. AS 1301, <u>Communications with Audit Committees</u> .	3
Firm's audit report incorrectly identified the issuer's name or the issuer's financial statements. AS 3101, <u>The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion</u> .	3

Part I.C Results

Part I.C of an inspection report discusses instances of potential non-compliance with SEC or PCAOB auditor independence rules. Part I.C describes both instances of potential noncompliance that the PCAOB identified and instances that the firm self-reported during its inspection. Across the eight firms, the Board identified nine instances of potential independence rule noncompliance, seven of which were at Moss Adams. The eight firms self-reported an additional 15 such instances.

Comparison of firm results. Table 9 presents the Part I.C instances of potential non-compliance with the independence rules for each of the eight firms. In reviewing Table 9, readers should be aware that each inspection report contains the following warning:

“While we have not evaluated the underlying reasons for the instance of apparent non-compliance with PCAOB Rule 3520, the number, large or small, of firm-identified instances of apparent non-compliance may be reflective of the size of the firm, including the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm’s independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of the issuer. Therefore, we caution against making any comparison of these firm-identified instances of apparent non-compliance across firms.”

<u>Firm</u>	<u>PCAOB-Identified Instances</u>	<u>Firm-Identified Instances</u>	<u>Issuers Affected By Firm-Identified Instances</u>	<u>Affected Firm-Identified Issuers As Percent of All Issuers Clints</u>	<u>Non-U.S. Associated Firms Involved in Firm- Identified Instances</u>
Baker Tilly	0	2	2	2%	1
Cohen & Company	0	0	NA	NA	NA
Crowe	0	5	2	2%	1
Forvis Mazars	0	1	1	1%	NA
Marcum	1	4	4	1%	NA
Moss Adams	7	3	4	1%	NA
RSM	0	1	1	1%	NA
WithumSmith+Brown	1	1	1	1%	0
Eight Firm Totals	9	17	15		
Eight Firm Averages	1.1	2.1	1.9		

Audit Committee Takeaways

1. Comparisons between these eight firms should be made with caution. The firms differ in the nature of their practices and the types of audit clients they serve. While all eight firms audit 100 or more public companies, they do not necessarily have other common attributes.
2. As a group, these eight firms had relatively weak 2024 inspection results. The eight firms’ aggregate 52 percent DER rate was higher than the average of all firms inspected by the PCAOB in 2024 (39 percent), higher than the average of the other six annually inspected firms (26 percent), and higher than the Big Four average (20 percent). However, the eight-firm average masks the wide differences in inspection results between the firms. Two of the eight– Cohen (11 percent) and Crowe (18 percent) – had DERs that were lower than the Big Four’s 2024 DER average.
3. By a wide margin, the most common Part I.B deficiencies for these eight firms related to consideration of the risk of fraud or misstatement. The two most common auditing standards cited in Part I.B were AS 2401, Consideration of Fraud in a Financial Statement Audit, and AS 2110, Identifying and Assessing Risks of Material Misstatement. Similarly, the top four Part I.B deficiency descriptions involved either management inquiries regarding fraud risk or testing journal entries for misstatements due to fraud. In contrast, audit committee communications lapses dominated the GNF Part I.B non-audit deficiencies.

4. Audit committees **seeking** to understand their audit firm's inspection results and how they fit into the overall context of the 2024 inspections may want to review [Spotlight: Staff Update on 2024 Inspection Activities](#). This PCAOB publication describes in detail the 2024 public company inspection program and discusses the inspection staff's views of the results. See [How the PCAOB Staff Sees its 2024 Inspection Results, March-April 2025 Update](#).

5. Audit committees should review their audit firm's inspection report and discuss it with their engagement partner. Among other things, that discussion should focus on the reasons for engagement deficiencies described in the report, whether those deficiencies might have affected the company's audit, what the firm is doing to strengthen its practice and prevent future adverse inspection findings, and how remedial steps might affect the company's audit. As noted in past Updates, the audit deficiency descriptions and auditing standard deficiency tables in this post could also serve as a discussion topic checklist. Of course, if the company's engagement was the basis for an inspection finding, the audit committee should understand in depth the cause of the deficiency, the impact on the audit, and how the auditor plans to remedy it and prevent a recurrence.

6. Audit committee may also want to consider the inspection-related questions that the PCAOB staff suggested in [Spotlight: Staff Update and Preview of 2022 Inspection Observations](#). The staff suggested that audit committees consider asking these four questions in discussions with their independent auditors:

- Has our audit engagement been inspected, and, if so, would you share the results? Were there any audit areas that required significant discussions with the PCAOB that did not result in a comment form?
- Has the engagement partner been inspected on other engagements? If so, what were the results of that inspection?
- What is the audit firm doing to address overall increased inspection findings?
- Are there any audit procedures that are unnecessarily complicated or not "straight-forward" because management is not providing clear, supportable information? (While not related to inspection reporting, this question "may encourage effective two-way communication to assist in understanding matters relevant to the audit.")

Fraud at U.S. Public Companies: The View from Inside and Outside

Two surveys, one of individuals inside or with ties to public companies and the other of institutional investors, shed light on perceptions of the scope, impact, and causes of fraud at U.S. public companies. While the two studies reach somewhat different conclusions, both indicate that public companies incur significant losses due to fraud and that fraud risk is increasing. Both groups of respondents have suggestions as to how companies can reduce their fraud risk.

AFC/ACFE's The Impact of Fraud at U.S. Public Companies Benchmarking Report

The Anti-Fraud Collaboration (AFC), a group comprised of the Center for Audit Quality, Financial Executives International, the Institute of Internal Auditors, the National Association of Corporate Directors, and the Association of Certified Fraud Examiners (ACFE), has released [The Impact of Fraud at U.S. Public Companies Benchmarking Report](#). The report was prepared jointly by AFC and ACFE. According to the ACFE's July 29 press release announcing the report, the U.S. publicly traded companies in this study lost a median of 1.06 percent of their annual revenue to known frauds in 2024. Further, more than 70 percent of participants rated the current level of fraud as medium or high, and two-thirds believed that the overall fraud level will increase during the next two years.

These findings are based on a 29-question survey sent to ACFE members and members of AFC's partners in March 2025. ACFE describes survey participants as "individuals with significant roles in

relation to U.S. public companies, including current employees, those in governance roles, consultants and advisors, external auditors, and government regulators.” Of the 1,049 survey responses, 396 were usable for purposes of preparing the report.

AFC/ACFE survey findings included:

- Fraud Losses. ACFE asked survey participants to provide their organization’s total revenues and known fraud losses in 2023 and 2024. Known fraud losses were 1.06 percent of total revenue in 2024 and 1.07 percent in 2023. Respondents were also asked to estimate total fraud losses from all forms of fraud sustained by a typical U.S. public company in any given year. For all survey respondents, this estimate was 2.5 percent. Company employees estimated overall fraud at three percent, while board members, including audit committee members, thought it was two percent, and external respondents, such as auditors and regulators, estimated overall fraud losses at four percent.
- Likelihood and Significance of Fraud. Survey respondents rated the likelihood and significance of six categories of fraud. Cyberfraud represented both the most likely and the most significant fraud risk. Financial statement fraud was identified as the least likely to occur, but as having the second greatest impact (after cyberfraud) when it did occur. The three fraud risks with the highest likelihood of occurrence were cyberfraud, fraud by vendors and sellers, and customer payment fraud. ACFE characterizes these three risks as “external frauds,” i.e., frauds perpetrated by individuals outside the organization. The risks respondents viewed as least likely to occur were financial statement fraud, bribery and corruption, and asset misappropriation/embezzlement, all of which ACFE characterizes as “internal frauds,” i.e., frauds perpetrated by individuals inside the organization.
- Past, Current, and Future Levels of Fraud. Seventy-two percent of respondents rated the current level of fraud at U.S. public companies as either “material/medium” or “extremely material/high.” Sixty-six percent thought that the overall level of fraud had increased either slightly or significantly over the past two years. The same percentage – 66 percent – expected the overall fraud level to increase either slightly or significantly over the next two years.
- Factors that Contribute to this Current Level of Fraud. ACFE asked employees and individuals in governance roles what could be done to better deter fraud or detect it sooner. Fifty-six percent recommended “more or improved proactive and continuous monitoring for fraud.” Fifteen percent recommended “new or improved use of technology and AI,” and 13 percent suggested “enhanced efforts related to fraud awareness training and an anti-fraud culture.”
- Responsibility for Fraud Prevention. Fifty-eight percent of respondents in employee or governance roles identified internal audit as having responsibility for the anti-fraud program at their organization, followed by compliance (56 percent), legal (45 percent), risk (43 percent), corporate security (41 percent), and investigation (35 percent). (Respondents could select more than one department or function.)
- Strengthening Fraud Prevention and Detection. Different types of respondents had different views about the factors that contribute to the occurrence of fraud.
 - Employees rated the regulatory environment as the most significant contributing factor to fraud, followed by economic conditions/environment, organizational culture/tone at the top, and external pressures (e.g., market expectations for financial performance).
 - Respondents in governance roles (directors, including audit committee members) thought that the most significant factor contributing to fraud was the quality of external audits, followed by technological advancements, the maturity of the organization’s anti-fraud program, and the effectiveness of governance by the board and audit committee.

- For external respondents (regulators, consultants, and external auditors), the top four most significant contributors to fraud were economic conditions/environment, organizational culture/tone at the top, external pressures (e.g., market expectations for financial performance), and board and audit committee governance.

As ACFE notes, the employee and external respondents' rankings of the contributing factors were similar, while the rankings of those involved in governance differed. The only factor that all three groups ranked as one of the top five contributors was economic conditions/environment.

CAQ's Institutional Investor Survey

Seventy-nine percent of institutional investors believe that the overall level of fraud at U.S. public companies is either "extremely material/high" or "material/medium," according to [Institutional Investor Survey \(July 2025\)](#), a new Center for Audit Quality (CAQ) publication. These respondents also think that the typical U.S. publicly traded company loses three percent of its revenue each year because of fraud.

KRC Research, a global opinion research and insights consultancy, conducted the online survey on which the CAQ's report is based in April. There were 100 survey respondents, all of whom had at least six years of professional investment experience and were employed at the director or higher level at firms with a U.S. primary market focus that managed at least \$500 million in assets.

Other CAQ survey findings included:

- Likelihood and Significance of Fraud. Survey respondents said that the types of fraud most likely to occur are cyberfraud, customer payment fraud, and fraud by vendors and sellers. Eighty-three percent of respondents said that cyberfraud was either probable or reasonably possible, followed by customer payment fraud (82 percent), fraud by vendors and sellers (81 percent), asset misappropriation/embezzlement (80 percent), financial statement fraud (79 percent), and bribery and corruption (63 percent).

Investors believe that the type of fraud that has the potential to be the most catastrophic is cyberfraud. Eighty-six percent of respondents thought that cyber fraud had the potential to be either "catastrophic/extremely material" (63 percent) or "moderate/material" (23 percent). Asset misappropriation/embezzlement placed second, at 82 percent, although only 23 percent of respondents thought that type of fraud had the potential to be "catastrophic", while 59 percent thought it could potentially be "moderate/material." Combining both likelihood of occurrence and potential impact, respondents viewed cyberfraud as the most serious fraud risk U.S. public companies face.

- Past, Current, and Future Levels of Fraud. Over two-thirds of institutional investors believe fraud increased in the last two years, and over half think it will increase further in the next two years. Sixty-eight percent of respondents said that the overall level of fraud occurring at U.S. publicly traded companies had increased either "significantly" (14 percent) or "slightly" (54 percent) in the past two years, while 18 percent thought it had stayed about the same and 14 percent thought it had declined. Fifty-six percent thought fraud would increase either "significantly" (11 percent) or "slightly" (45 percent) in the next two years. Twenty percent thought it would stay about the same, and 24 percent thought it would decrease.
- Responsibility for Fraud Prevention. A plurality of institutional investors believe that internal audit is primarily responsible for preventing and detecting fraud, followed by company management and the board of directors. Twenty-four percent of respondents thought that internal audit had primary fraud prevention and detection responsibility, followed by management (20 percent) and the board of directors (18 percent). External auditors came in fourth at twelve percent.

However, 41 percent of respondents said that senior management was “most responsible” when financial reporting fraud occurs at a publicly traded company. Twenty-five percent viewed the board of directors/audit committee as most responsible, followed by internal auditors (13 percent), external auditors (12 percent), and business units/subsidiaries (nine percent).

- Strengthening Fraud Prevention and Detection. Respondents were asked, based on their knowledge of fraud at companies they had invested in or were otherwise aware of, what could have been done differently to deter fraud or detect it sooner? The top four suggestions were “AI to monitor transactions/Machine learning algorithms to detect fraud” (14 percent), “Promote ethical leadership and culture” (14 percent), “Training/Fraud awareness programs” (twelve percent), and “Severe penalties for unethical behavior/Harsher penalties for executives involved” (eleven percent).

Audit Committee Takeaways

1. Fraud losses are a significant issue. Based on the results of these surveys, fraud losses are a serious problem. In both studies, respondents rated fraud risk as medium or high. The AFC respondents put losses from known fraud at over one percent of total company revenue, and total losses (including from frauds not discovered) between two and four percent of revenue. Similarly, institutional investors estimated that the average U.S. publicly traded company loses three percent of revenue each year due to fraud. Majorities of both sets of respondents also think that fraud risk will increase in the future.
2. Audit committees may want to consider how fraud could be affecting their company. Assuming the survey findings are accurate, fraud losses could have a material impact on net income and earnings per share at many companies. It may be worthwhile for the audit committee to initiate a study, perhaps by internal audit, of the amount and likely sources of both known and undiscovered fraud losses at the company. Both surveys found that cyberfraud is the type of fraud most likely to occur and poses the greatest potential risk; in both surveys, fraud by vendors and sellers, and customer payment fraud were the other top three most likely frauds. These areas could be starting points for inquiry.
3. Audit committees may also want to explore whether there are cost-effective steps that could reduce fraud losses. Fraud losses cannot be reduced to zero, and the costs of specific additional actions to deter or prevent fraud need to be balanced against the potential savings. But, in light of these findings, audit committees may want to discuss with management whether any additional cost-effective steps could mitigate fraud risk. In the AFC and CAQ surveys, there was general agreement on actions that could reduce fraud risk. Suggestions included using AI or other technology to monitor transactions; promoting ethical leadership, fraud awareness, and an anti-fraud culture; and better training.

On the Update Radar: Things in Brief

PCAOB Defers New Quality Control Standard for One Year. On August 28, the Public Company Accounting Oversight Board [announced](#) that it was postponing the effective date of its new quality control standard, QC 1000, A Firm’s System of Quality Control. The PCAOB adopted QC 1000 in May 2024 with an effective date of December 15, 2025. The Board’s action extends that date to December 15, 2026. Firms may, however, comply voluntarily with QC 1000 before the effective date.

The PCAOB’s announcement states that the postponement “takes into account information from various sources that some firms have encountered implementation challenges that, as a practical matter, may be insurmountable within the previously established timeframe.” The Center for Audit Quality submitted a [letter to the PCAOB](#) on July 23 requesting at least a one-year delay, along with phased implementation for firms that audit fewer than 100 issuers, implementation guidance addressing interpretive questions, and consideration of the need for amendments to QC 1000.

According to [reporting by Thomson Reuters](#), SEC Chair Paul Atkins and SEC Chief Accountant Kurt Hohl urged the Board to delay QC 1000.

QC 1000 establishes detailed requirements for audit firm quality control (QC) systems. See [PCAOB Adopts Enhanced Quality Control Standard for Audit Firms, May-June 2024 Update](#). Among other things, QC 1000 requires firms to identify their specific risks and design a QC system that includes policies and procedures to guard against those risks. QC 1000 also requires an annual evaluation of the effectiveness of a firm's QC system and reporting of the results to the PCAOB. Firms that annually issue more than 100 public company audit reports must establish an independent QC oversight function composed of one or more persons who are not principals or employees of the firm. PCAOB-registered firms that are not currently issuing audit reports on the financial statements of SEC registrants would be required to design a QC system meeting the requirements of QC 1000 but would not be required to implement the system unless they began auditing an SEC reporting public company or broker-dealer.

The PCAOB's August 28 announcement stresses that the "Board has not made or proposed any changes to the text of the new and amended standards, rules, or forms from the text adopted by the Board." However, in her statement supporting the deadline extension, Board Member Christina Ho said that the extension provides "an opportunity to re-evaluate QC 1000 and related amendments and consider whether there may be a more pragmatic, cost-effective, and principle-based regulatory path." Even if the other Board members don't agree, significant changes in the Board's membership appear to be imminent (see [The SEC Begins to Shake Up the PCAOB, August 2025 Update](#)), and it is possible that new PCAOB leadership will make changes to QC 1000 before it becomes effective.

As noted in the May-June 2024 [Update](#), most audit committees are unlikely to see specific changes in their auditor's procedures due to QC 1000, although, to the extent that it improves compliance with professional standards, some companies could face requests for more extensive audit evidence. QC 1000 will involve internal implementation costs for audit firms, and audit committees may encounter audit fee increases as a result. QC 1000 could also cause some smaller audit firms to drop their PCAOB registration, which would reduce competition in the audit market for smaller public companies. For these reasons, notwithstanding the postponement, audit committees may want to discuss with their auditor whether the implementation of QC 1000 is likely to have any effect on the company's audit. Audit committees of companies audited by smaller firms or firms with a limited SEC practice may also want to verify with their auditor that it is not considering dropping its PCAOB registration in response to QC 1000.

For a discussion of the potential impact of QC 1000 on public companies and their audit committees, see Goelzer, [Enhanced Auditor Quality Control: Companies Will Feel the Effects](#) (September 20, 2024) on [The Audit Blog](#).

Springtime in Washington: The SEC's Regulatory Agenda. Autumn leaves are beginning to fall, but, on September 4, the OMB's Office of Information and Regulatory Affairs released the [Spring 2025 Unified Agenda of Regulatory and Deregulatory Actions](#). In a [statement](#), discussing the SEC's contemplated actions included in this agenda, Chair Atkins said that the regulatory agenda "reflects that it *is* a new day at the Securities and Exchange Commission." He noted that the agenda "covers a number of envisioned deregulatory rule proposals to reduce compliance burdens and facilitate capital formation, including by simplifying pathways for raising capital and investor access to private businesses" and "discusses amending existing rules to improve and modernize them as well as address disclosure burdens."

Twice each year, the Office of Management and Budget publishes the [Unified Agenda of Regulatory and Deregulatory Actions](#), a listing of rulemaking activities that federal administrative agencies plan to undertake in the coming months. These listings include a brief description of each proposed action and its timetable, along with other basic information, such as the agency's statutory authority. The SEC's contribution to the [Spring 2025 Unified Agenda](#) consists of 23 items, many of which relate to

cryptocurrency, small company capital formation and private offerings, or securities market mechanics and oversight. Three items, all under the responsibility of the SEC's Division of Corporation Finance (Division), could potentially be of interest to public company audit committees:

- Rationalization of Disclosure Practices. The Division is considering recommending that the Commission propose rule amendments to rationalize disclosure practices to facilitate material disclosure by companies and shareholders' access to that information.
- Shareholder Proposal Modernization. The Division is considering recommending that the Commission propose rule amendments to modernize the requirements of Exchange Act Rule 14a-8 [the rule that sets the parameters under which shareholder proposals must be included in the company's proxy statement] to reduce compliance burdens for registrants and account for developments since the rule was last amended.
- Enhancement of Emerging Growth Company Accommodations and Simplification of Filer Status for Reporting Companies. The Division is considering recommending that the Commission propose rule amendments to expand accommodations that are available for Emerging Growth Companies (defined generally to include new issuers with total annual gross revenues of less than \$1.235 billion) and to rationalize filer statuses to simplify the categorization of registrants and reduce their compliance burdens.

For all three projects, the SEC's anticipated timetable is publication of a proposal by April 2026.

Chair Atkins also observed in his statement that the agenda reflects the withdrawal of "a host of items from the last Administration that do not align with the goal that regulation should be smart, effective, and appropriately tailored within the confines of our statutory authority." In this regard, [What's in Store for the Rest of 2024? SEC Reg Flex Agenda Update, July 2024 Update](#), described four projects of interest to audit committees in the Spring 2024 [Unified Agenda](#), published during the final year of the Biden Administration. These projects were human capital management disclosure, corporate board diversity disclosure, disclosure of payments to resource extraction issuers, and incentive-based compensation arrangements. None of these initiatives appear on the 2025 list, and all have presumably been shelved.

California Climate Disclosure Laws Survive a Challenge. California's climate disclosure requirements have cleared a major hurdle. On August 13, the U.S. District Court for the Central District of California issued [an order](#) declining to grant a preliminary injunction that would have blocked enforcement of Senate Bill 253 and Senate Bill 261. The U.S. Chamber of Commerce and other plaintiffs challenged the validity of these laws and sought a preliminary injunction on First Amendment grounds. The district court held that, while both statutes regulate commercial speech, the plaintiffs had not established that they were likely to succeed in establishing that the laws are unconstitutional. The court has previously ruled against several of the plaintiffs' other arguments. The plaintiffs have appealed the district court's decision to the U.S. Court of Appeals for the Ninth Circuit.

Senate Bill 253, the [Climate Corporate Data Accountability Act](#), requires U.S. public or private entities with annual global revenue exceeding \$1 billion that do business in California to report their Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions. See [California Outflanks the SEC on Climate Disclosure, October 2023 Update](#). The first reports, covering Scope 1 and Scope 2 emissions during the reporting entity's 2025 fiscal year, are due in 2026. The California Air Resources Board (CARB) has proposed June 30, 2026, as the deadline for initial Scope 1 and Scope 2 emissions reporting, although it has also announced that it will not take enforcement action against companies that fail to report in 2026, provided they demonstrate good faith efforts to comply. See [California Will Go Easy on Enforcement of GHG Emissions Reporting in 2026, January 2025 Update](#). Senate Bill 253 requires third-party assurance over Scope 1 and Scope 2 reporting on a limited assurance basis beginning in 2026 and on a reasonable assurance basis beginning in 2030. CARB has proposed to

accept assurance provided under certain existing attestation standards, including the International Auditing and Assurance Board's ISSA 5000, General Requirements for Sustainability Assurance Engagements.

Senate Bill 261, the [Climate-Related Financial Risk Act](#), requires U.S. public or private entities with annual global revenue exceeding \$500 million that do business in California to disclose their climate-related financial risks and the measures they are taking to reduce and adapt to those risks. The first reports under this law are due on or before January 1, 2026.

Audit committees of companies that are subject to California's climate disclosure requirements should discuss with management whether it has processes in place to collect the information needed to comply. Necessary steps may include GHG measurement mechanisms, agreements with suppliers to provide GHG information, and controls and procedures to support third-party assurance that GHG disclosures are accurate. Audit committees and managements of companies subject to the GHG emissions disclosure requirement should also consider whether the company can fully report Scope 1 and 2 GHG emissions for FY 2025 and, if not, how it would demonstrate good faith efforts to work toward full compliance. In July, CARB released [California Corporate Greenhouse Gas Reporting and Climate-Related Financial Risk Disclosure Programs: Frequently Asked Questions Related to Regulatory Development and Initial Reports](#) to provide guidance on Senate Bills 253 and 261, and companies should review that paper as they prepare to comply. Audit committees should also be considering who they will engage to provide assurance over the company's GHG reporting in 2026.

The California climate disclosure requirements have broad jurisdictional reach and will affect many public and private U.S. companies. In addition, several other states, including New York, New Jersey, and Illinois, have proposed climate disclosure laws similar to California's. Even companies that are not within the scope of the California requirements could eventually become subject to state climate reporting and should monitor the progress of these bills.

Catnip for the Plaintiffs' Bar: Adverse Disclosures with a Material Price Impact.

Securities Analytics Research (SAR), a data analytics company specializing in securities litigation risk, has published [U.S. Securities Litigation Risk Report – July 2025](#). The report finds that securities litigation risk for listed public companies is growing. SAR's [press release](#) announcing the report quotes Nessim Mezrahi, Co-Founder and CEO of SAR, as stating that "directors and officers of U.S. public companies face a notable increase in securities litigation risk in 2025."

SAR's report measures U.S. public company securities litigation risk based on the frequency of adverse disclosures and the resulting negative material impact on the disclosing company's stock price. During the two years ending June 30, 2025, SAR found that, for companies listed on the New York Stock Exchange or NASDAQ, the average frequency and aggregate severity of market drops following the disclosure of adverse corporate events increased by 2.18 percent and 18.1 percent, respectively, relative to the two years ending December 31, 2024. (Announcements of adverse events attract the interest of the securities class action plaintiffs' bar, and the greater the market drop following such an announcement, the greater the potential damages. Therefore, as adverse event announcement frequency and market impact severity increase, litigation risk increases as well.)

SAR categorizes adverse corporate events (ACEs) into three groups – Type I, Type II, and High-Risk. High-Risk ACEs involve a statistically significant stock price decline and both a company public statement and an SEC filing concerning the ACE. Using this categorization system, SAR analyzes litigation risk for eleven industry sectors. An appendix to the report provides a risk breakdown by industry sector, constituent industries, and sub-industries. Sector level highlights include:

- The sectors with the highest average number of High-Risk ACEs were Industrials (2.70 events per company), Consumer Discretionary (2.67 events per company), and Information Technology (2.58 events per company). The sectors with the lowest average number of High-

Risk ACEs were Real Estate (1.60 events per company), Financials (1.81 events per company), and Energy (1.84 events per company).

- The sectors with the highest average market capitalization losses per High-Risk ACE were Information Technology (\$2.21 billion per High-Risk ACE), Communications Services (\$1.95 billion per High-Risk ACE), and Consumer Staples (roughly \$135 per High-Risk ACE). The sectors with the lowest average market capitalization losses per High-Risk ACEs were Real Estate (\$300 million per High-Risk ACE), Materials (\$490 million per High-Risk ACE), and Industrials (roughly \$650 million per High-Risk ACE).
- Overall, the sector with the highest litigation risk is Health Care, followed by Industrials and Consumer Discretionary. The sector with the lowest litigation risk is Utilities, followed by Energy and Materials.

SAR states that its report helps identify “corporate disclosure trends that increase the likelihood of private securities-fraud litigation or enforcement actions brought by the Securities and Exchange Commission (“SEC”) against directors and officers of companies listed on the NYSE or NASDAQ.” While the report is aimed at investors, audit committee members and company management may also want to consider the level of risk that the company and its officers and directors face, based on the industry in which the company operates and its market capitalization. A sophisticated approach to disclosure should help to reduce the number of adverse corporate event announcements that surprise the market.

Going Concern Opinions Neared Record Low in 2024. The number of companies that received a going concern opinion for fiscal year 2024 fell to the second-lowest level in the past 20 years. That is the headline finding of [Going concerns: a 20-year review](#), Ideagen Audit Analytics's annual analysis of trends in going concern opinions. In 2024, 1,375 companies (20.4 percent) received an audit opinion that included a going concern paragraph, a decrease of approximately 16 percent from 2023. The lowest number of going concern opinions was issued in fiscal year 2020 when 1,322 companies (slightly under 20 percent) received such an opinion. Total going concern opinions peaked at 2,853 in FY2008 during the financial crisis. Ideagen's analysis is based on companies that file annual reports with the SEC (e.g., Form 10-K and Form 20-F filers), excluding registered investment companies.

The auditor is required to evaluate whether there is substantial doubt about the company's ability to continue as a going concern for a reasonable period, not to exceed one year after the date of the financial statements. If the auditor believes there is such doubt, he or she should obtain information about management's plans to mitigate this risk and assess the likelihood that management can effectively implement these plans. If, after evaluating the evidence, the auditor continues to have substantial doubt about a company's ability to continue as a going concern, the audit report must include a paragraph explaining why substantial doubt exists about the company's ability to continue in business.

Highlights of Ideagen's 2025 report include:

- The frequency of going concern opinions varies by company size. Non-accelerated filers had a going concern rate of 38.4 percent in FY2024, down four percent from FY2023. Large accelerated filers had a 0.3 percent rate, with only seven companies receiving going concern opinions. The rate for accelerated filers was 3.5 percent.
- Domestic companies have higher going concern rates than foreign private issuers (FPIs), although FPI rates are rising. Domestic filers' going concern rate was 20.7 percent in FY2024, down 3.3 percent. In contrast, FPIs hit a record high going concern rate of 18.8 percent. FPI going concern opinions constituted 16.7 percent of all such opinions in FY2024, the highest proportion in 20 years.

- Companies with previous going concern opinions account for a significant portion of going concern opinions in any given year. In FY2024, 76 percent of companies that received going concern opinions also had such an opinion in FY2023. Over the past 20 years, repeat going concern filers have represented at least 57 percent of these opinions.
- The frequency of going concern opinions varies widely by industry sector. Life Sciences had the highest going concern rate (37 percent) in FY2024, while Finance had the lowest rate (three percent). The Real Estate and Construction sector experienced a significant decline in going concern opinions, falling to 23.5 percent, down from a peak of 42.5 percent in FY2022.
- Special purpose acquisition companies (SPACs) significantly influenced the frequency of going concern opinions. In FY2024, 133 SPACs received going concern opinions, and constituted ten percent of total going concern opinions. The going concern rate for SPACs was 76 percent.

Understanding the frequency of going concern opinions and the types of companies most affected can help audit committees benchmark their own company's risk profile, ask informed questions of management and the auditor, and increase the likelihood that potential going concern challenges are identified and addressed as early as possible.

Is Public Company Sustainability Reporting in Decline or Just Delayed? In [What Backlash? ESG Reporting Continues to Grow, September-October 2024 Update](#), the [Update](#) observed that, based on reporting during 2024, U.S. public company sustainability reporting “has moved from a niche activity to standard practice for large public companies.” The story may be different in 2025.

The Conference Board (TCB) has found that, between January 1 and June 30, 2025, only 432 Russell 3000 companies released a sustainability report, compared to 831 during the same period in 2024 – a 48 percent decline. See [Why Fewer Companies Are Publishing Sustainability Reports in 2025](#). While this is a significant change, it is unclear to what extent it merely reflects the timing of sustainability report issuance and to what extent it reflects a trend away from standalone sustainability reporting. TCB researcher Andrew Jones asserts that “This drop-off reflects not a retreat from ESG, but a strategic recalibration in response to shifting regulatory, political, and investor dynamics.” Dr. Jones cites several reasons why companies are delaying their 2025 sustainability reports:

- Many firms are preparing for mandatory disclosures under the EU's Corporate Sustainability Reporting Directive (CSRD) and California's climate disclosure laws. See [E.U. is Dialing Back Sustainability Reporting and Due Diligence, March-April 2025 Update](#), and [California Climate Disclosure Law Survives a Challenge](#) in this [Update](#). According to Dr. Jones, “Regulatory uncertainty—especially in the EU, where a CSRD ‘omnibus’ revision is underway—is also prompting companies to delay decisions until final requirements are clearer.”
- Changes in U.S. policy on sustainability are also a factor. “Companies, particularly in politically sensitive sectors or regions, are applying more rigorous legal, compliance, and reputational review to ESG disclosures. Many are delaying publication, scaling back content, or shifting to more neutral, risk-based framing while they monitor the evolving federal environment.”

Most companies that released sustainability reports in 2024 may eventually report in 2025. However, the decrease in sustainability report issuance during the first half of 2025 may in some cases be the result of decisions to move away from sustainability reporting as an exercise separate from other aspects of corporate disclosure. Dr. Jones states that “[s]ome companies are reassessing whether and how to publish stand-alone sustainability reports” and “streamlining disclosures, focusing on financially material issues, and integrating ESG data into 10-Ks, investor decks, or earnings calls.” If

they have not done so already, audit committees may want to discuss with management whether the company should rethink its approach to sustainability reporting.

The Audit Blog

[The Audit Blog](#) provides commentary on developments in auditing and financial reporting, auditor oversight and regulation, and sustainability disclosure. You can follow @BlogAuditor on X or [@the-audit-blog](#) on medium.com.

For further information, please contact:

Daniel L. Goelzer
dangoelzer@gmail.com

The Update's website is www.auditupdate.com.

Receipt of the Update by email distribution is free of charge. If you would like to be added to the distribution, please email me at the address above. Readers are also free to recirculate the Update.

Update Nos. 99-present (March-April 2025 to present) and summaries are available [here](#). Update Nos. 89-98 (March 2024 to February 2025) and summaries are available [here](#). Update Nos. 76-88 (August 2022 to February 2024) and summaries are available [here](#). Update Nos. 60-75 (June 2020 to July 2022) are available [here](#). Update Nos. 49-59 (January 2019 to May 2020) are available [here](#). Updates prior to No. 49 are available on request.

An index to titles and topics in the Update beginning with No. 39 (July 2017) is available [here](#).

The Update seeks to provide general information of interest to audit committees, auditors, and their professional advisors, but it is not a comprehensive analysis of the matters discussed. The Update is not intended as, and should not be relied on as, legal or accounting advice.