

Analyzing Trends of the PCAOB Inspection Deficiencies in South Africa and Implications for Audit Quality of the Big Four Firms

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Abstract – Audit quality is the primary element of financial reporting through which the financial statements and related reports are attested to be free from material misstatements, actual or potential (PwC, 2017:5). Financial reporting is about the quality of the audits that auditors perform. In this study, we examine the trends in the inspection findings reported by only the Public Company Accounting Oversight Board (PCAOB) in South Africa's (SA) Big Four audit firms. The study is important to examine the impact of these inspection findings, specifically, PCAOB inspection deficiencies identified in integrated audits (i.e., Financial Statement (SF) and Internal Control Over Financial Reporting (ICFR)) of South Africa's Big Four audit firms identified in audit firms in South Africa on audit quality. This paper is a sequel to the previously published article that used primary data by Badu, & Dubihlela (2024), however, it extends the discourse and findings derived from the research through the analysis of secondary data. The secondary data for this paper was gathered from existing inspection reports sourced from the publicly available PCAOB database for audit firms in SA. The findings of the trend analysis reveal a recurring pattern of integrated audit deficiencies in PCAOB inspections. These deficiencies can impact audit quality within SA audit firms, including those within the Big Four.

Keywords – Audit Quality, Financial Statement Audit, Internal Control Over Financial Reporting Audit, PCAOB Inspection Deficiencies, The South African Big Four Audit firms.

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1 Introduction and Problem Statement

The research article explores the trend analysis of the PCAOB inspection deficiencies identified in SF and ICFR of the South African Big Four audit firms identified in audit firms in South Africa and how these deficiencies can influence audit quality in South African audit firms including the Big Four. Steinbock (2022) underscores the growing importance of data sources in researchers' decision-making frameworks. Thus, obtaining high-quality data and staying away from inaccurate information becomes imperative, especially when using secondary data (Steinbock 2022).

In the research, the researcher utilized publicly available secondary data from inspection reports of PCAOB for the South African Big Four audit firms, obtained through their respective websites. The inspection reports from these sources offered valuable insights, enhancing the overall strength, reliability, and resilience of the research findings and conclusions.

The PCAOB in the United States is an essential regulatory institution that conducts inspections in registered public accounting firms in the United States and more than 50 other countries and is tasked with overseeing the audit profession and ensuring the integrity of financial reporting (PCAOB, 2024 a & b).

Using PCAOB inspection reports as secondary data sources can provide valuable insights into recurring deficiencies and trends within South African Big audit firms, including the Big Four. Analysts and stakeholders can leverage this information to understand areas of weakness in audit practices, identify systemic issues, and implement corrective measures to improve audit quality and financial reporting integrity.

The PCAOB inspection deficiency reports highlight a growing trend of recurring deficiencies in FS and ICFR audits conducted by the South African Big Four audit firms from 2010 to 2021. In South Africa, while there has been notable progress in addressing recurring inspection deficiencies, reflected in a positive trend, audit quality remains a focal point of the PCAOB's strategy and its international counterpart, IRBA in South Africa. This emphasis persists due to the presence of deficiencies observed within audit firms, including those within the Big Four, which continue to impact audit quality (IRBA, 2022, p. 9; 2023, pp. 2-7). Inspection reports by the IRBA in 2022 and 2023 have highlighted an increase in repeated quality deficiencies noted in the first year of the 18th audit inspection cycle. Consequently, the IRBA persisted in escalating audit quality deficiencies identified at the engagement level inspections to a firm level (IRBA, 2022, p. 9; 2023, pp. 2-7).

The IRBA reports highlight the ongoing concern or worry of the regulatory authority at the local level regarding a troubling pattern noticed within certain firms. A substantial portion of engagement files with high levels of risk that were inspected exhibited significant deficiencies in audit quality. In response to this issue, the South African audit regulator has provided advisory instructions to registered auditors (audit firms), as well as external reviewers, urging them to integrate the insights gleaned from the most recent IRBA inspection reports into their audit practices and procedures to mitigate the recurrent of these noted deficiencies (IRBA, 2022, p. 30). This article offers important viewpoints on the persistent pattern of inspection deficiencies noted by

PCAOB, and their impact on the quality and standard of audit services offered by the Big Four audit firms in the country. Furthermore, it proposes strategies and methods to reduce the repetition of these inspection deficiencies.

2 The Basics of PCAOB Inspection Deficiencies in FS and ICFR Audits

According to PCAOB (2021a & b), deficiencies in audits FS and ICFR directly impact audit quality. Auditors are required to handle separate objectives for each audit type. In FS audits, the focus is on identifying risks related to material misstatements, whereas ICFR audits evaluate the efficiency and effectiveness of internal controls. Any deficiencies detected can compromise the effectiveness of ICFR and the overall quality of the audit (PCAOB 2021a & b). Hence, deficiencies in combined or integrated FS and ICFR audits directly affect audit quality. Tables 1 and 2 outline the most common and frequently recurring deficiencies in audits of FS and ICFR as per the firm's inspection report Part I-A. Table 1 illustrates the prevalent and frequently recurring deficiencies in audits of FS and ICFR based on the firm's inspection report Part I-A.

Table 1: Deficiencies Related to FS Audits (adapted from various PCAOB inspection reports)

The most frequently recurring deficiencies related to FS Audits
The Auditor did not perform sufficient testing related to an account or a significant portion of an account or address an identified risk. Examples include:
<ul style="list-style-type: none">• The failure to perform sufficient procedures to test the initial valuation and subsequent amortisation of an intangible asset acquired in a business combination.• The failure to perform sufficient procedures to evaluate whether goodwill was impaired (i.e., the Firm failed to comply with the requirement to obtain sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, by applicable accounting principles).• The failure to evaluate the effect of a deficiency in the issuer's process for analysing potential goodwill impairment on the effectiveness of internal control over financial reporting.• The failure to perform sufficient procedures to test the assets acquired and liabilities assumed in an acquisition.• The failure to perform sufficient procedures to test the allocation of depreciation expense.

The most frequently recurring deficiencies related to FS Audits
The Auditor did not perform substantive procedures to obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls). Example(s) include:
<ul style="list-style-type: none"> • The failure to perform sufficient procedures to test the occurrence and completeness of revenue, including the inadequate performance of substantive analytical procedures.
The Auditor did not perform sufficient testing for the sample of transactions selected for testing. Examples include:
<ul style="list-style-type: none"> • The failure to perform sufficient procedures to test the existence of inventory, including the failure to perform procedures to extend the audit conclusions from the date of the Firm's interim testing to year-end. • The failure to perform sufficient procedures to test the existence and valuation of inventory.
Other FS Audits most frequently recurring deficiencies.
Risk Assessment and Revenue (Deficiencies in Testing Revenue). Examples include:
<ul style="list-style-type: none"> • The auditor agreed on the revenue transaction to the company-prepared invoice without testing whether the invoice agreed to the terms of the contractual arrangement and without obtaining evidence that the services or products had been delivered. • Auditors limited their testing to revenue transactions exceeding a certain number of transactions recorded near year-end without considering the need to test the remainder of the population. • In determining revenue based on a transfer of services provided to customers, the auditor did not evaluate whether the service's performance obligation was satisfied before revenue was recognised. • The auditor did not evaluate whether customer contracts met the collectability criteria required to identify a contract with a customer. • The auditor did not identify and test any controls over the accuracy and completeness of data or reports produced by the public company used in the testing. • The auditor did not sufficiently validate the accuracy of information used in analysis using technology-based data analysis tools when auditing revenue.
Accounting Estimates (Allowance for Loan and Lease Losses-ALL). Examples include:
<ul style="list-style-type: none"> • The Auditor did not evaluate the reasonableness of significant assumptions used in determining the allowance for loans and losses of impaired loans individually or collectively.

The most frequently recurring deficiencies related to FS Audits
<ul style="list-style-type: none"> • The Auditor did not sufficiently test specific significant inputs used in developing the allowance for loan and lease losses.

Table 2: Deficiencies Related to ICFR Audits (adapted from various PCAOB inspection reports)

The most common and frequently recurring deficiencies related to ICFR Audits
The auditor did not perform sufficient testing of the design and operating effectiveness of controls selected for testing. Examples include:
<ul style="list-style-type: none"> • The failure, in connection with the Firm's role in an audit of ICFR, to perform procedures to test the design and operating effectiveness of controls over cash and cash equivalents. • The failure, in connection with the Firm's role in an audit of internal control over financial reporting ("ICFR"), to perform sufficient procedures to test the design and operating effectiveness of controls over the occurrence, completeness, and allocation of revenue. • The failure, in an audit of ICFR, to perform sufficient procedures to test the design and operating effectiveness of controls over the valuation of certain long-lived assets. • The failure, in an audit of ICFR, to perform sufficient procedures to test the design and operating effectiveness of controls over the assets acquired and liabilities assumed in an acquisition. • The failure, in an audit of ICFR, to perform sufficient procedures to identify and test controls that address certain risks related to the existence and valuation of inventory. • The failure, in an audit of ICFR, to perform sufficient procedures to identify and test controls that address certain risks related to the allocation of depreciation expense. • The failure, in an audit of ICFR, to perform sufficient procedures to test the design and operating effectiveness of controls over the valuation of vessels, including the failure to evaluate the actions performed by the control owner in the test of a selected control with a review element.
The auditor did not identify and sufficiently test controls over the accuracy and completeness of data or reports. Example(s) include:

The most common and frequently recurring deficiencies related to ICFR Audits

- The failure, in connection with the Firm's role in an audit of ICFR, to perform sufficient procedures to test the operating effectiveness of controls over the occurrence, completeness, and allocation of revenue; the existence, completeness, and valuation of accounts receivable; and the existence and valuation of inventory.

Other ICFR Audits most frequently recurring deficiencies.

- The auditor did not sufficiently evaluate whether controls with review relevant selected for testing operated at a level of precision that would prevent or detect material misstatements.
- The auditor did not identify and test controls that sufficiently addressed the risks of material misstatement related to relevant assertions of certain significant accounts.

A deficiency noted in an inspection report comprises information conveyed by the inspection team to the PCAOB. The PCAOB does not ascertain whether the firm's actions could lead to disciplinary measures (PCAOB, 2021c).

Furthermore, any references in a report to an actual violation of law, regulations, or professional standards do not result from decision-making processes and do not constitute definitive findings or conclusions for imposing legal liability or standards of responsibility (PCAOB, 2021c). A deficiency in an inspection report with a deficiency, except for audits with inaccurate conclusions on the FS and ICFR doesn't always mean a publicly traded company's financial statements are wrong or that its internal controls have serious issues (PCAOB, 2021c).

Also, it's important to note that if a PCAOB inspection identifies a deficiency but doesn't contain wrong opinions on financial statements or deficiencies in reporting material weaknesses, it doesn't necessarily mean the publicly traded company's financial statements are materially misrepresented (PCAOB, 2021c).

Conceptual Framework for PCAOB Recurring Trend of Deficiencies and their Impact on Audit Quality

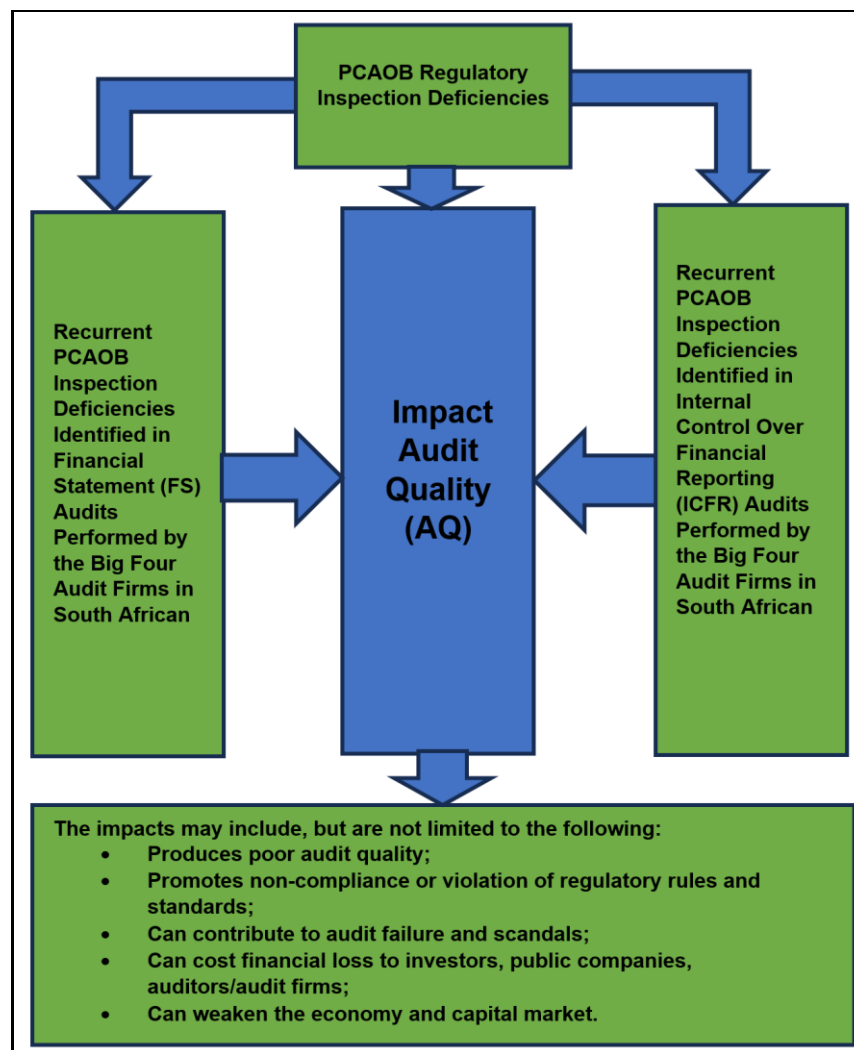
As a result of the recurrent deficiencies described above and their impact on audit quality, the research developed a conceptual framework or model that allows the researcher to clearly define the connections among various components of the phenomenon under investigation, such as the pattern of repeated PCAOB inspection deficiencies and how they influence audit quality.

In essence, a conceptual framework is a written and visual representation that defines and explores a concept under study, offering insight into the researcher's comprehension of the elements examined and their interconnections (Luft et al., 2022, p. 3). Luft et al. (2022, p. 3) elaborate on a conceptual framework as the researcher's understanding of the primary central subject under investigation, involving presumed relationships or connections between

concepts and encompassing essential research themes or subjects identified in the literature review.

The conceptual framework sheds light on the recurring trend of the deficiencies identified by the PCAOB and their influence on audit quality in South African audit firms including the Big Four audit firms. The model is shown in Figure 1.

Figure 1: Conceptual Framework or Model for PCAOB's Recurring Trend of Deficiencies and their Impact on Audit Quality (author's construction)



Dhifi, and Zouari-Hadji, (2024, pp.1-2) have emphasized that several previous studies have demonstrated and confirmed that audit quality as based on audit firm performance significantly impacts financial reporting reliability and overall financial performance, diminishing investors' and stakeholders'

confidence. Some of these previous studies include but are not limited to; Al-Attar (2017) found that audit quality directly impacts firms' stock prices in the Amman stock market. Similarly, the results of Hua et al. (2016) found a positive and significant relationship between audit quality and Malaysian firms' performance.

The subsequent sections¹ of this article are structured as follows: Section 3 presents the research methodology, while Section 4 delves into the research findings and discussions, concentrating on the presentation of secondary data and descriptive analysis. Finally, Section 5 provides research conclusions, limitations, recommendations, suggestions for future research, and the study's contributions, encompassing both practical and theoretical implications.

3 Methodological Approach

3.1 Research Design

This research used secondary data sources for the trend analysis of identified deficiencies in PCAOB inspections for South African audit firms including the Big Four audit firms. The study collected secondary data from publicly available inspection reports from PCAOB in the US, which generally represented a larger population. The PCAOB inspection reports, which included identified deficiencies, were sourced from historical data spanning the past decade (2010-2022) from the PCAOB website. There were no charges or costs associated with collecting this data.

In addition, the researcher derived the secondary data from existing literature, publicly available inspection reports, and newsletters from the PCAOB inspection reports with deficiencies identified in FS and ICFR audits of the Big Four audit firms in South Africa identified ethical and independence requirement deficiencies in IRBA South Africa inspection reports and issued news articles and newsletters issued from IRBA, SA.

The data collected for the study underwent analysis involving a mixed method approach using both qualitative and quantitative methods to the data in order to reach a reasonable conclusion.

Literal descriptions and numerical data were examined, and various analytical techniques such as frequency distributions, bar and pie charts, and trend analysis were employed to present the findings. According to Coursera (2022), data analysis involves utilizing collected data to extract pertinent information, aiding in making judgments and supporting decisions. Similarly, Taherdoost (2022, pp. 1-2) underscores that data analysis is a straightforward process of transforming collected data into valuable information. Upon identifying the data, the researcher collected, processed, and tabulated it accurately to prepare the dataset for empirical evaluation, aligning with the research objectives and facilitating better decision-making.

¹ Section 2 presents the literature review under "Basics of PCAOB Inspection Deficiencies in FS and ICFR Audits". Summarised under the introduction section.

3.2 Ethical Issues

The study highlights essential research ethical principles, including transparency, confidentiality, anonymity, voluntariness, avoiding harm, and maintaining impartiality, as delineated by Biggam (2017, p. 66-68).

3.3 Research Questions

This study examined the recurrent PCAOB inspection deficiencies of the Big Four Audit firms in South Africa, the trend of the recurrent deficiencies over time, and the impact of the frequent occurrence of the deficiencies on Audit Quality. This research used secondary data to identify deficiencies in PCAOB inspections for the Big Four audit firms in South Africa. The primary objective of this study is to understand the impact of the recurrent of these PCAOB identified deficiencies on audit quality in the Big Four Audit firms in South Africa. For this paper, the research questions include:

1. What are the most frequently recurring PCAOB inspection deficiencies related to Financial Statements (SF) and Internal Control Over Financial Reporting (ICFR) audits?
2. How do these inspection deficiencies impact Audit Quality?
3. What are the observable effects and consequences of impacted Audit Quality?

3.4 Procedures and Methods for Data Analysis

The study collected secondary data from publicly available inspection reports from PCAOB in the US, which generally represented a larger population. The PCAOB inspection reports, which included identified deficiencies, were sourced from historical data spanning the past decade (2010-2022) from the PCAOB website. There were no charges or costs associated with collecting this data. The derived secondary data from the existing publicly available inspection reports provided the researcher with detailed deficiencies identified in FS and ICFR audits and detailed deficiencies in ethical and independence requirements.

The researcher used the secondary data collected from the publicly available data from inspection reports retrieved from the PCAOB's website. Data collected through research were analyzed using the mixed-method approach to both qualitative and quantitative methods of data analysis to arrive at a reasonable conclusion.

Qualitatively, the researcher performed a content analysis on the PCAOB inspection reports with all identified deficiencies in FS and ICFR audits for the Big Four Audit firms in South Africa from 2010 through 2022 to identify common themes and types of deficiencies. In addition, the researcher used a thematic approach in analyzing data quantitatively. Scanning through the dataset compiled from the PCAOB inspection reports helped in detecting themes, patterns, and insights that quantitative measures alone may not (Naeem et al, 2023:1-18)

Quantitatively, various analytical techniques such as frequency distributions, bar and pie charts, and trend analysis were employed to present the findings. According to Coursera (2022), data analysis involves utilizing collected data to extract pertinent information, aiding in making judgments and supporting decisions. Similarly, Taherdoost (2022, pp. 1-2) underscores that data analysis is a straightforward process of transforming collected data into valuable information. Upon identifying the data, the researcher collected, processed, and tabulated it accurately to prepare the dataset for empirical evaluation, aligning with the research objectives and facilitating better decision-making. The collected data were visually presented in pictorial diagrams, tables, pie charts, line charts, and trends using Microsoft Word, Excel, and SPSS 29 Version for Windows.

Overall, the mixed-methods approach with a qualitative emphasis allowed the researcher to take advantage of the strength of the qualitative method in terms of using the adaptations of some positive provisions of the quantitative research techniques in view of relating general overview understanding to the research problem.

4 Results

The PCAOB in the U.S.A., serves as a valuable secondary data source by providing significant insights into recurring inspection deficiencies identified in South African Big Four audit firms. The data source offers comprehensive information on the specific deficiencies identified during inspections conducted by PCAOB for South African Big Four audit firms.

The analysis of the data reveals a trend in the number of deficiencies (i.e., deficiencies in FS and ICFR audits) identified by PCAOB inspections in South African Big Four audit firms. This trend shows an increase, decrease, or fluctuation in inspection deficiencies in FS and ICFR audits over time. The common types of FS and ICFR audit deficiencies include but are not limited to those related to auditing revenue recognition, internal controls, fair value measurements, other accounting estimates, and compliance with auditing standards. Furthermore, the results also indicate variations in the number and types of FS and ICFR audit deficiencies identified among the Big Four audit firms in South Africa. Some firms consistently have more deficiencies, while others indicate improvement over time.

Establishing this trend observation in the context of the impact of deficiencies on audit quality, an increase in deficiencies within these firms might result in potential overall audit quality decrement, thus affecting the audit quality performance of these audit firms negatively. That is, a consistent increase in deficiencies can have adverse effects on stakeholders' perceptions, undermining and diminishing confidence in the auditing procedure and financial reporting accuracy and reliability.

The list of previous studies is mentioned in Figure 1 in section 2. The trend of these inspection deficiencies underscores ongoing difficulties in adhering to auditing standards, including regulatory independence and ethical obligations. Additionally, potential impacts may encompass inadequate

documentation, insufficient evidence collection, failure to effectively address risks, compromised independence, and deficiencies in audit procedure design and implementation.

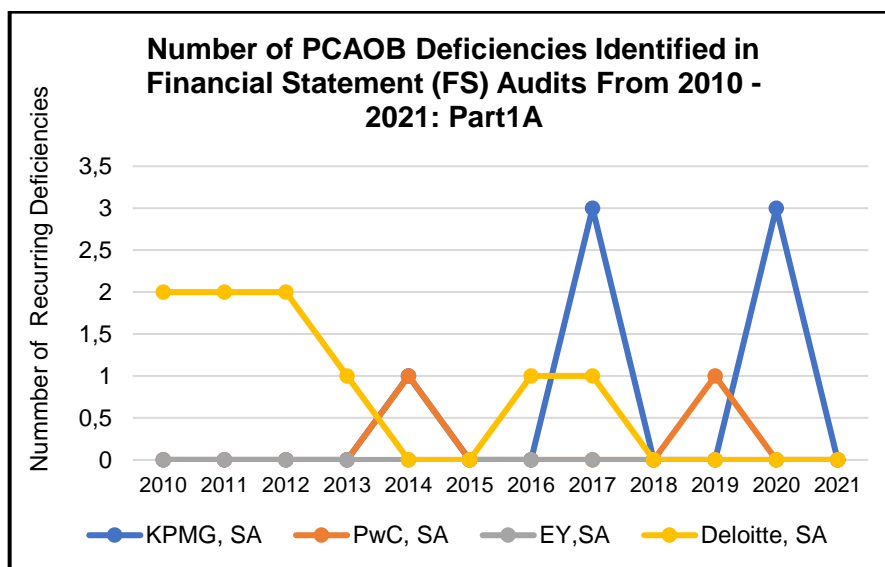
5 Discussions

5.1 Secondary Data Analysis for Number of PCAOB Deficiencies Identified in FS Audits from 2010-2022

Table 3: Number of PCAOB Deficiencies Identified in Financial Statement (FS) Audits From 2010-2021: Part 1A.

Year of Inspection	KPMG, SA	PwC, SA	EY, SA	Deloitte, SA	Totals
2010	0	0	0	2	2
2011	0	0	0	2	2
2012	0	0	0	2	2
2013	0	0	0	1	1
2014	1	1	0	0	2
2015	0	0	0	0	0
2016	0	0	0	1	1
2017	3	0	0	1	4
2018	0	0	0	0	0
2019	0	1	0	0	1
2020	3	0	0	0	3
2021	0	0	0	0	0
Totals	7	2	0	9	18
Percentage	38.89%	11.11%	0.00%	50.00%	

Figure 2: Trend Analysis/Line Chart (Secondary Data Analysed, 2023. Data obtained from PCAOB Inspection Reports).



5.2 Secondary Data Analysis for Number of PCAOB Deficiencies Identified in ICFR Audits from 2010-2022

Table 4: Number of PCAOB Deficiencies Identified in Internal Control Over Financial Reporting (ICFR) Audits From 2010 - 2021: Part1A

Year of Inspection	KPMG, SA	PwC, SA	EY, SA	Deloitte, SA	Totals
2010	0	0	0	1	1
2011	0	0	0	1	1
2012	0	0	0	0	0
2013	0	0	0	0	0
2014	1	1	0	0	2
2015	0	0	0	0	0
2016	0	0	0	1	1
2017	4	2	0	1	7
2018	0	0	0	0	0
2019	0	1	0	0	1
2020	0	0	0	0	0
2021	0	0	0	0	0
Totals	5	4	0	4	13
Percentage	38.46%	30.77%	0.00%	30.77%	

Figure 3: Trend Analysis/Line Char (Secondary Data Analysed, 2023. Data obtained from PCAOB Inspection Reports).

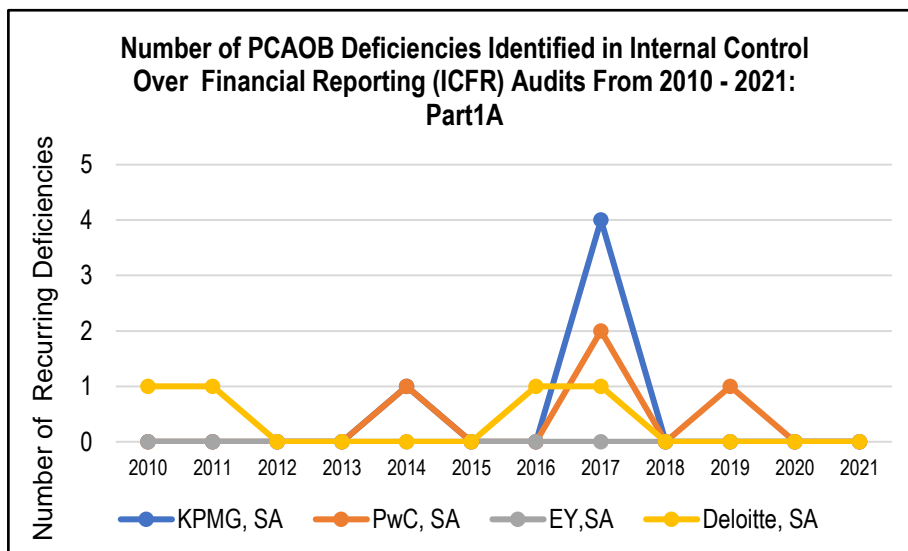
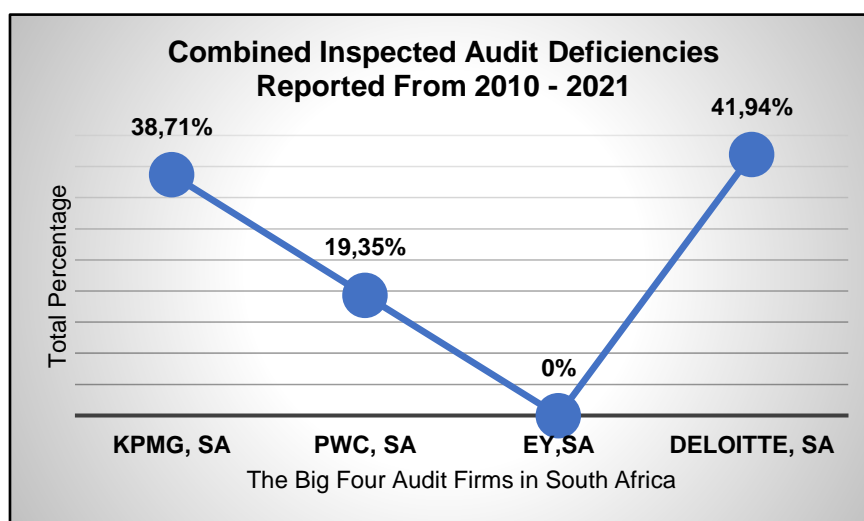


Table 5: Combined Inspected Audit Deficiencies (FS) and (ICFR) in Part1A Reported for South African Big Four Audit Firms (2010 – 2021)

Year of Inspection	KPMG, SA	PwC, SA	EY, SA	Deloitte, SA	Totals
2010 - 2021	12	6	0	13	31
Percentage	38.71%	19.35%	0.00%	41.94%	

Figure 4: Trend Analysis/Line Chart for Combined Inspected Audit Deficiencies (FS) and (ICFR) in Part 1A (2010-2021) Reported for SA Big Four Audit Firms (Secondary Data Analysed, 2023. Data obtained from PCAOB Inspection Reports).



5.3 Summary and Discussions

Table 3 and Figure 2 illustrate the occurrences of PCAOB deficiencies identified in Financial Statement Audits from 2010 to 2021, focusing on Part 1A of the inspection report. Deloitte, SA, encountered two (2) deficiencies between 2010 and 2012. Subsequently, there was a significant decrease in deficiencies from 2012 to 2014, reaching zero (0). This trend persisted until 2016 and 2017, with one (1) deficiency recorded. Notably, no deficiencies were documented from 2018 to 2021 because PCAOB has not published its inspection report for South African Big Four audit firms since 2018.

Table 4 and Figure 3 depict the number of PCAOB deficiencies identified in ICFR audits from 2010 to 2021 in Part 1A. Analyzing the data, it is evident that Deloitte, SA, reported one deficiency each in 2010 and 2011. Subsequently, no deficiencies were reported until 2016 and 2017, with one deficiency recorded each year.

Contrastingly, EY, SA, did not have any reported deficiencies from 2010 to 2021. PwC, SA, encountered three deficiencies, with one deficiency recorded in 2014, two in 2017, and another in 2019. As for KPMG, SA, no deficiencies were reported until a significant spike in 2017, where the number of deficiencies recorded reached four (4). These findings offer insights into the occurrence of PCAOB deficiencies in ICFR audits for Deloitte, SA, EY, SA, PwC, SA, and KPMG, SA, during the study period.

Table 5 and Figure 4 showcase the combined number of inspection deficiencies in FS and ICFR audits, based on the PCAOB inspection report from 2010 to 2021, as presented in Part I (A) - Inspection Observations. The

findings reveal that Deloitte, SA, had the highest recorded deficiencies, with a total of 13, representing approximately 42% of both the total count and percentage. Following closely is KPMG, SA, with 12 deficiencies, accounting for approximately 39% of the total count.

PwC, SA, encountered six deficiencies, constituting approximately 19% of the total count. Conversely, no FS and ICFR audit deficiencies were identified for EY, SA, during the specified period. These results provide an overview of the distribution of inspection deficiencies among Deloitte, SA, KPMG, SA, PwC, SA, and EY, SA, regarding the total count and percentage for FS and ICFR audits based on the PCAOB inspection report.

This research acknowledges that its findings may not directly translate to other global Big Four audit firms, but it underscores the worldwide importance of recurring inspection deficiencies and their effect on maintaining audit quality. Moreover, the availability of inspection reports, particularly from the PCAOB, is limited due in part to the fact that many international inspections are conducted on a triennial basis, occurring once every three years.

Acknowledging a scarcity of previous research on PCAOB inspection deficiencies and their effects on South African Big Four audit firms due to limited contextual information, the study suggests expanding the scope to include cross-country and cross-firm comparisons to address this gap. Despite these limitations, the study aimed to maintain validity and reliability to provide valuable insights into the research area.

5.4 Comparative Analysis of PCAOB Inspection Deficiencies in South African Big Four Audit Firms and Four Audit Firms in Other Countries

The analysis provides potential reasons for any observed differences in inspection deficiencies between South African Big Four audit firms and Big Four audit firms in other parts of the world, considering factors such as regulatory environments or frameworks, common deficiencies, cultural and market influences, public perception and transparency, regulatory oversight effectiveness, remedial actions and responses, and global standards alignments.

Table 6: Similarities and Differences in Identified Inspection Deficiencies between the Big Four audit firms in South Africa and Other Parts of the World

Themes	Similarities in Identified Deficiencies
Regulatory Environment or Framework	In South Africa, the regulatory environment is governed by the Independent Regulatory Board for Auditors. It sets its standards and inspection protocols; it is also subject to joint inspection with PCAOB internationally. It is PCAOB in the United States and similar bodies elsewhere that oversee audit quality with their own standards and inspection regimes—for instance, the Financial Reporting Council in the UK and ASIC in Australia.
	Some of the most common inspection deficiencies in Big Four audit firms within South Africa relate to independence, documentation, or

Common Identified Deficiencies	professional scepticism, while others may pertain to specific regulatory requirements relevant only to the South African market. On the other hand, inspection deficiencies in other countries could vary but are focused on particular regulatory attention and the nature and complexity of audit engagements performed by Big Four firms.
Cultural and Market Influences	What could, therefore, be expected is a combination of cultural factors and market dynamics peculiar to South Africa that could influence audit practices and the kinds of deficiencies observed, with different market conditions in other countries, along with dissimilar regulatory expectations and client industries, that may lead to a varied set of audit-related challenges and deficiencies.
Public Perception and Transparency	In South Africa, it can be expected that public and stakeholder perceptions of audit quality and transparency of reporting deficiencies may influence regulatory responses. In other countries, however, public scrutiny and similar claims to transparency in matters of audit quality may lead to regulatory actions and reforms.
Regulatory Oversight Effectiveness	In South Africa, it is the effectiveness of IRBA (a local regulatory agency), in monitoring and enforcement that is likely to reduce deficiencies, while in other countries, it is the PCAOB's role in oversight that will make a difference in improving audit quality across the global networks of Big Four firms.
Remedial Actions and Responses	IRBA interventions, firm-specific remedial actions, and changes in auditing practices are the forms of responses to inspection deficiencies taken in South Africa. Usually, after inspections in other jurisdictions, PCAOB and other regulatory bodies elsewhere normally issue inspection reports and require remedial actions, with some having even had sanctions or fines levied against them for non-compliance.

Table 6 summaries below focus on a comparative analysis of the inspection deficiencies identified by PCAOB in South African Big Four audit firms and Big Four audit firms in other parts of the world.

By comparing and contrasting the deficiencies identified by PCAOB it becomes clear that while there are common areas of concern, the specific focus and nature of deficiencies can vary significantly based on regulatory and market contexts. Addressing these deficiencies requires a nuanced understanding of both global audit standards and local regulatory requirements, emphasizing the importance of adaptability and continuous improvement in audit practices.

These differences in deficiency types can occur, as PCAOB has shown, due to differences in the regulatory and economic environments and market context within which the Big Four audit firms operate. The diversity in this regard calls for, either way, translational research with more meaningful and applicable results on how and why deficiencies vary between provinces within a country or between countries around the world to help develop evidence-based policies and strategies that will enable audit firms to fight deficiencies and achieve high audit quality.

Likewise, these insights can target substance-over-form violations, which hinder auditors from detecting fraud, and strengthen regulators' oversight and auditors' monitoring of auditor independence issues such as non-audit

services/fees, industry expertise, close client-auditor relationships, and the 'Big Four effect'. Overall, the audit deficiency data revealed notable differences in the prevalence of various audit deficiency types.

Based on the analysis of the secondary data obtained from PCAOB and IRBA inspection reports spanning over ten years (2010-2022), it can be concluded that there is a consistent trend of recurring inspected audit deficiencies. In addition, it can be concluded that while South African Big Four audit firms and their counterparts in other countries face common challenges in audit quality, the specifics of PCAOB inspection deficiencies reflect unique regulatory landscapes, market conditions, and cultural influences. Comparative analysis helps identify best practices and areas for improvement in audit quality globally.

These findings align with the study's problem statement, highlighting the ongoing issue of deficiencies in audit engagements over the years. The data from the inspection reports from PCAOB serve as a reliable secondary source, providing valuable insights into the persistence of these inspected audit deficiencies and reinforcing the need for further investigation and improvement in audit quality and audit practices in the Big Four audit firms in South Africa.

In conclusion, the utilization of secondary data, such as inspection reports and relevant literature, offers a broader context and background information on the identified deficiencies. By cross-referencing and comparing the findings from the data source, the researcher can verify the consistency and accuracy of the identified trends (Sürücü & Maslakçı, 2020, p. 2723).

6 Conclusion

The recurrent trend of PCAOB inspection deficiencies in FS and ICFR audits on audit quality in the Big Four Firms in South Africa can significantly impact audit quality. The study's findings suggest that deficiencies identified by the PCAOB can have a detrimental effect on audit quality, particularly among South African Big Four audit firms.

The Big Four audit firms in South Africa must take proactive measures to address deficiencies, ensuring continuous improvement and fostering stakeholder trust. Addressing these recurring deficiencies necessitates a collaborative effort from audit firms. This includes investing in training programs, implementing robust quality control systems, fostering a culture of professional scepticism, and ensuring strict compliance with auditing standards and regulatory requirements. By prioritizing these measures, audit firms can enhance audit quality, bolster stakeholder confidence, and uphold the integrity of financial reporting processes.

6.1 Research Recommendations

The research findings suggest that the recurrent trend in PCAOB inspection deficiencies in FS and ICFR audits of South African Big Four Audit firms can negatively impact audit quality. Recommendations to improve audit quality

and address recurring deficiencies in South African Big Four audit firms after PCAOB inspections include:

1. Enhanced Training Programs where audit firms should invest in comprehensive and ongoing training programs for auditors to ensure they stay updated with the latest auditing standards and techniques,
2. Implement robust quality control systems for improvement within audit firms to enhance oversight and ensure compliance with auditing standards. This includes regular review processes and mechanisms for addressing identified deficiencies promptly,
3. Audit firms should enhance their audit documentation practices and procedures to improve transparency and facilitate review processes,
4. Audit firms should emphasize and reinforce the importance of independence in both appearance and fact, ensuring auditors maintain objectivity and impartiality in their audit engagements,
5. Audit firms need to improve their communication with audit clients to ensure a clear understanding of audit expectations, requirements, and findings facilitating a collaborative approach to addressing recurrent deficiencies,
6. Audit firms should implement a risk-based approach to audit planning and execution, ensuring that audit procedures are tailored to address the specific risks associated with each engagement, and
7. The regulatory board (i.e., the PCAOB) in partnership with the local regulatory agency (i.e., the IRBA) should play a crucial role in monitoring and enforcing audit quality standards to protect the interests of investors and stakeholders in the financial reporting process.

By implementing these recommendations, audit firms can strengthen their audit quality processes, enhance compliance with regulatory requirements, and ultimately improve the reliability and integrity of financial reporting in South Africa.

6.2 Suggestions for Future Research

The study proposes further exploration and research to address limitations of the research only to South African jurisdiction and this could delve into exploring the situation within the United States Big Four audit firms.

Furthermore, for future research, it is recommended to extend the scope of the trend analysis of PCAOB inspection deficiencies in Big Four integrated audits to focus on several areas such as:

1. Conduct a comparative analysis between PCAOB and IRBA inspection deficiencies to identify similarities, differences, and potential underlying causes in audit practices and regulatory environments in South Africa or the US,
2. Undertake a longitudinal study to track the evolution of inspection deficiencies over time, examining trends, patterns, and changes in audit quality and regulatory compliance within South African audit firms, including the Big Four,
3. Explore the root causes of recurrent deficiencies identified by PCAOB and IRBA inspections, including factors related to audit methodology,

firm culture, regulatory oversight, client characteristics, and external market dynamics,

4. Evaluate the impact of inspection deficiencies on audit quality, financial reporting reliability, investor confidence, and overall market perceptions of South African audit firms and their clients,
5. Investigate the effectiveness of regulatory responses and remediation efforts in addressing identified deficiencies, assessing the extent to which regulatory interventions contribute to improvements in audit quality and regulatory compliance,
6. Conduct qualitative research, such as interviews or focus groups with audit professionals, regulators, and other stakeholders, to gain deeper insights into the underlying factors influencing audit quality and regulatory compliance in South Africa,
7. Identify and disseminate best practices for addressing audit deficiencies, enhancing audit quality, and improving regulatory oversight, drawing on successful strategies implemented by audit firms and regulators in other jurisdictions,

Engaging in research within these areas, scholars and practitioners can advance their understanding of audit quality trends, inform regulatory policy-making, and contribute to ongoing efforts to enhance audit quality and regulatory effectiveness in South Africa and beyond.

6.3 Contribution of the Study

This study has made significant contributions to both practical and theoretical understanding by uncovering the effects of the recurring trend of PCAOB inspection deficiencies in FS and ICFR audits on Audit Quality within South Africa's Big Four firms. Overall, the study's findings can serve as a roadmap for audit firms to create awareness and help improve audit quality, enhance regulatory compliance, and strengthen stakeholder confidence in the auditing profession in South Africa.

The practical implications of this study include:

1. Audit firms or auditors can use the findings to tailor training programs for their auditors, focusing on areas identified as deficient in PCAOB inspections. This ensures that auditors have the necessary skills and knowledge to perform high-quality audits,
2. Audit firms can ensure compliance with PCAOB or IRBA standards by addressing deficiencies identified in the study. This may involve updating internal policies and procedures to align with regulatory requirements and providing additional guidance to auditors, and
3. The study can foster a culture of continuous improvement within audit firms by highlighting areas for enhancement and encouraging ongoing evaluation and refinement of audit practices.
4. The real cases and examples presented in the study provide a practice-based platform for teaching students on audit quality, regulatory oversight, and professional standards. This research will hence form the basis for the exploration of related topics on higher learning institutions and universities in areas such as the efficacy of regulatory

interventions, audit quality and deficiency, and consequences on financial markets, and comparative analyses across different regions or countries.

Theoretical implications of this research on the trend analysis of PCAOB inspection deficiencies in Big Four integrated audits include:

1. The study can contribute to the development of theoretical frameworks for understanding audit quality by identifying specific areas of deficiency and their impact on audit quality within the context of PCAOB inspections,
2. Since the research sheds light on the effectiveness of regulatory oversight mechanisms, such as PCAOB inspections, in ensuring audit quality, this can inform theoretical discussions on the role of regulators in maintaining the integrity of financial reporting and transparency in PCAOB inspections,
3. The research contributes to organizational learning theory by exploring how audit firms can leverage insights from deficiency trends to improve audit quality over time. This involves adapting audit methodologies, enhancing training programs, and implementing quality control measures based on lessons learned from past deficiencies, and
4. The study addresses the interests and concerns of various stakeholders, including investors, regulators, and the public, regarding audit quality. Theoretical discussions on stakeholder theory can incorporate insights from the study to understand how deficiencies in audit quality affect stakeholder perceptions and confidence.

In summary, this research advances theoretical understanding in several areas related to audit quality, regulatory oversight, professional scepticism, organizational learning, and stakeholder theory, providing valuable insights for scholars and practitioners in the field of auditing and corporate governance.

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