

Consequences for Culpable Auditors

What are the labor market and personal consequences for individual auditors in the U.S. who are named in SEC or PCAOB enforcement actions for audit-related misconduct?

This study by Jagan Krishnan and Hyun Jong Park of Temple University's Fox School of Business and coauthored with Meng Li (University of Texas at Arlington) and Mihir Mehta (University of Michigan) presents the first comprehensive analysis of the consequences faced by auditors in the United States who are named in enforcement actions by two regulators, the Securities and Exchange Commission (SEC) or the Public Company Accounting Oversight Board (PCAOB) between 2003 and 2019. The researchers assembled a unique dataset of 465 auditors found responsible for audit-related misconduct and examined the impact of enforcement on their professional careers and personal lives.

They find that a large proportion, ranging from 38% to 73%, leave their firms within one year after the enforcement event, a departure rate three to four times higher than that of auditors with similar positions who were not named in enforcement actions. Among those auditors departing from Big 4 accounting firms, 83% exit the audit profession entirely, while approximately 77% of those leaving non-Big 4 firms remain in public accounting. Regulatory consequences mainly consist of suspensions that limit auditors' ability to serve in audit or accounting roles for entities subject to securities laws. Monetary fines are less commonly imposed and are generally smaller compared to penalties levied on affected audit firms.

Interestingly, analysis of personal real estate transactions before and after enforcement reveals no significant differences between culpable auditors and their non-culpable peers, suggesting that enforcement does not cause marked personal financial distress. The consequences for auditors vary depending on the regulatory agency involved, the size of the audit firm, and the auditor's role within the firm.

These findings provide valuable insights for regulators, audit firms, and audit professionals seeking to better understand how enforcement actions affect individual auditors and contribute to broader discussions about auditor accountability and trust in capital markets.

MAJOR TAKEAWAYS:

- Culpable auditors depart their firms at rates three to four times higher than non-culpable auditors.
- Most auditors leaving Big 4 firms exit public accounting, while most from non-Big 4 firms stay in the profession.
- Regulatory suspensions are common and frequently extend for multiple years; fines are less frequent and smaller than those imposed on affected firms.

WHO NEEDS TO KNOW:

- Audit Professionals
- Policymakers
- Investors

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