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## 2023 DEVELOPMENTS FOR AUDITOR REGULATION UNDER THE U.S. SECURITIES LAWS

*In this article, the authors discuss the crisis of confidence around the role of auditors in U.S. public reporting and promising signs that securities regulators are looking to restore the quality and integrity of the independent audit. The authors begin by addressing recent public rhetoric about audit enforcement by regulators. They then turn to enforcement actions and other developments indicating that regulators are following through with increased activity. They also note progress on addressing audit quality of China-based audits. Finally, they close by discussing the SEC's recent submission to the Second Circuit Court of Appeals asserting the continued importance of the independent audit to investors.*

By John Rizio-Hamilton, Jesse L. Jensen, and Thomas Sperber \*

For decades, public accounting firms have been enshrined with the essential role in the United States financial markets of performing independent audits of the financial statements required to be filed by public companies. Among other things, the audit reports — which are required to be filed as part of the companies' public financial statements — attest that the financial statements are reasonably free of misstatement and further that the company maintained effective internal controls over financial reporting. If such assurances cannot be provided, the auditor must explain its qualification. Given auditors' extensive and required oversight, investors rely on their involvement as one of the key watchdogs for honest and accurate financial reporting.

In a 2019 paper commissioned by PricewaterhouseCoopers, author Karthik Ramanna, a Professor of Business and Public Policy at the University of Oxford's Blavatnik School of Government, asked

“What can audit firms do to reclaim their position of responsibility in society?”<sup>1</sup> The two major challenges Ramanna identified for the industry to overcome were: (1) “Auditors are no longer perceived as market custodians acting in the public interest but as ordinary counterparties acting by the ‘morals of the marketplace’” and (2) “auditors are too cosy with the managers of companies they audit.”<sup>2</sup> The solution — and the subject of the paper — was for auditing firms to adopt a “culture of challenge,” requiring auditors to hold their clients to account, and “to do their job without fear or favour.”<sup>3</sup>

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<sup>1</sup> Ramanna, K. (September 2019). Building a culture of challenge in audit firms, at 3. <https://www.pwc.co.uk/who-we-are/future-of-audit/building-a-culture-of-challenge-in-audit-firms.pdf>.

<sup>2</sup> *Id.* at 4.

<sup>3</sup> *See generally id.*

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