



CORNERSTONE RESEARCH

Economic and Financial Consulting and Expert Testimony

Public Company Accounting Oversight Board (PCAOB) Enforcement Activity

2023 Year in Review

ANALYSIS AND TRENDS

By Year and Quarter

U.S and Non-U.S. Respondents

Announced Restatements and/or

Material Weaknesses in Internal Control

Number and Type of Respondents

Allegations

Monetary Penalties

Non-Monetary Sanctions

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Executive Summary

The PCAOB finalized 46 enforcement actions during 2023—the highest level since 2017. Actions involving the performance of an audit reached 37, up more than 28% from 2022. After securing the ability to inspect and investigate China-based firms in 2022, the PCAOB finalized four actions involving the performance of an audit by China-based firms during 2023.

Total monetary penalties of \$19.7 million were nearly double the previous record set in 2022. The PCAOB also required two-thirds of firm respondents to undertake remedial actions and barred the vast majority of individual respondents from auditing public companies or broker-dealers on a temporary or permanent basis.

- The PCAOB publicly disclosed 46 enforcement actions (Total Actions) in 2023, including 37 actions related to the performance of an audit (Auditing Actions). (page 2)
- The number of Auditing Actions finalized during the second half of 2023 was equal to the total number of Auditing Actions during all of 2022. (page 3)
- For the second year in a row, Auditing Actions were nearly evenly split between U.S. and non-U.S. respondents. (page 4)
- Firms comprised nearly two-thirds of total respondents in 2023 Auditing Actions—a substantial shift from prior years when the majority were individuals. (page 6)
- In over half of the 2023 Auditing Actions (57%), the PCAOB alleged violations of Quality Control standards. (page 7)
- The PCAOB imposed record monetary penalties of nearly \$19.7 million in 2023. Monetary penalties were imposed on all respondents. (pages 8–9)
- The PCAOB required 15% of firm respondents in 2023 Auditing Actions to retain an independent consultant. (page 10)
- Approximately one in five individual respondents in 2023 Auditing Actions were permanently barred from auditing public companies or broker-dealers. (page 10)

Figure 1: Actions and Monetary Penalties Summary Statistics
(Dollars in thousands)

| | 2018–2022 Average | 2022 | 2023 |
|--|----------------------|----------|----------|
| Number of Total Actions | 27 | 42 | 46 |
| Number of Auditing Actions | 21 | 29 | 37 |
| Respondents in Auditing Actions | | | |
| Number of Individual Respondents | 22 | 26 | 19 |
| Number of Firm Respondents | 13 | 17 | 34 |
| Total Respondents in Auditing Actions | 35 | 43 | 53 |
| Monetary Penalties in Auditing Actions | | | |
| Number of Respondents Fined | 26 | 41 | 53 |
| Percentage of Respondents Fined | 74% | 95% | 100% |
| Total Monetary Penalties in Auditing Actions | \$3,324 | \$10,490 | \$19,735 |

Source: Settled Disciplinary Orders, Adjudicated Disciplinary Orders by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: Terminations of bars are not included. See Research Sample and Data Sources for additional information.

Total Actions By Year

As required by the Sarbanes-Oxley Act (SOX), the PCAOB keeps its investigations and disciplinary proceedings confidential and nonpublic until the matter is settled or otherwise final.¹

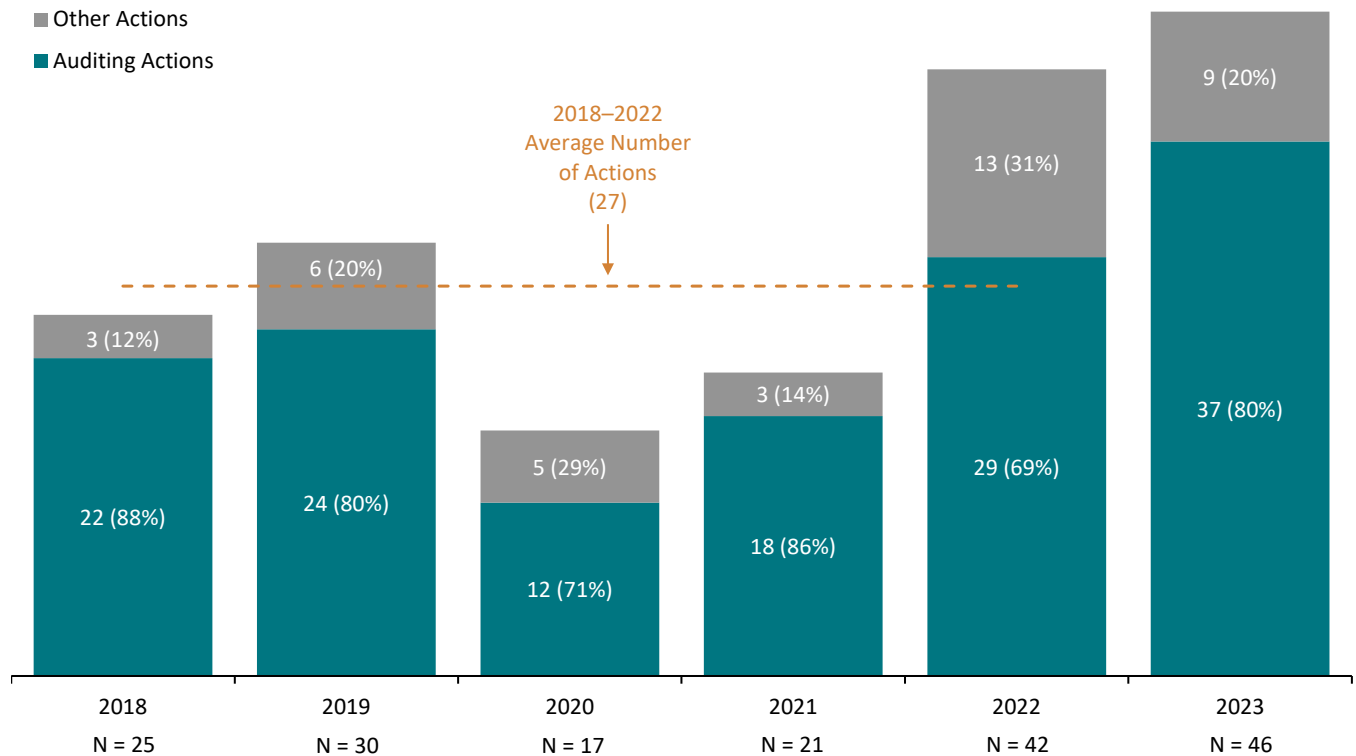
Total Actions include (1) enforcement actions related to the performance of an audit (i.e., Auditing Actions); and (2) actions related to the PCAOB’s oversight, including alleged violations of registration and reporting rules and non-cooperation with a PCAOB inspection or investigation (Other Actions).²

- For the third year in a row, Total Actions increased, reaching 46 in 2023.

In 2023, Auditing Actions increased by 28%, reaching the highest number since 2017.

- The 46 Total Actions and the 37 Auditing Actions in 2023 represent the highest number of such actions since 2017.
- During 2023, 35 Auditing Actions were settled. In addition, two adjudicated actions became effective—the highest number since 2018.

Figure 2: Total Actions by Year 2018–2023



Source: Settled Disciplinary Orders, Adjudicated Disciplinary Orders by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: Terminations of bars are not included. See Research Sample and Data Sources for additional information.

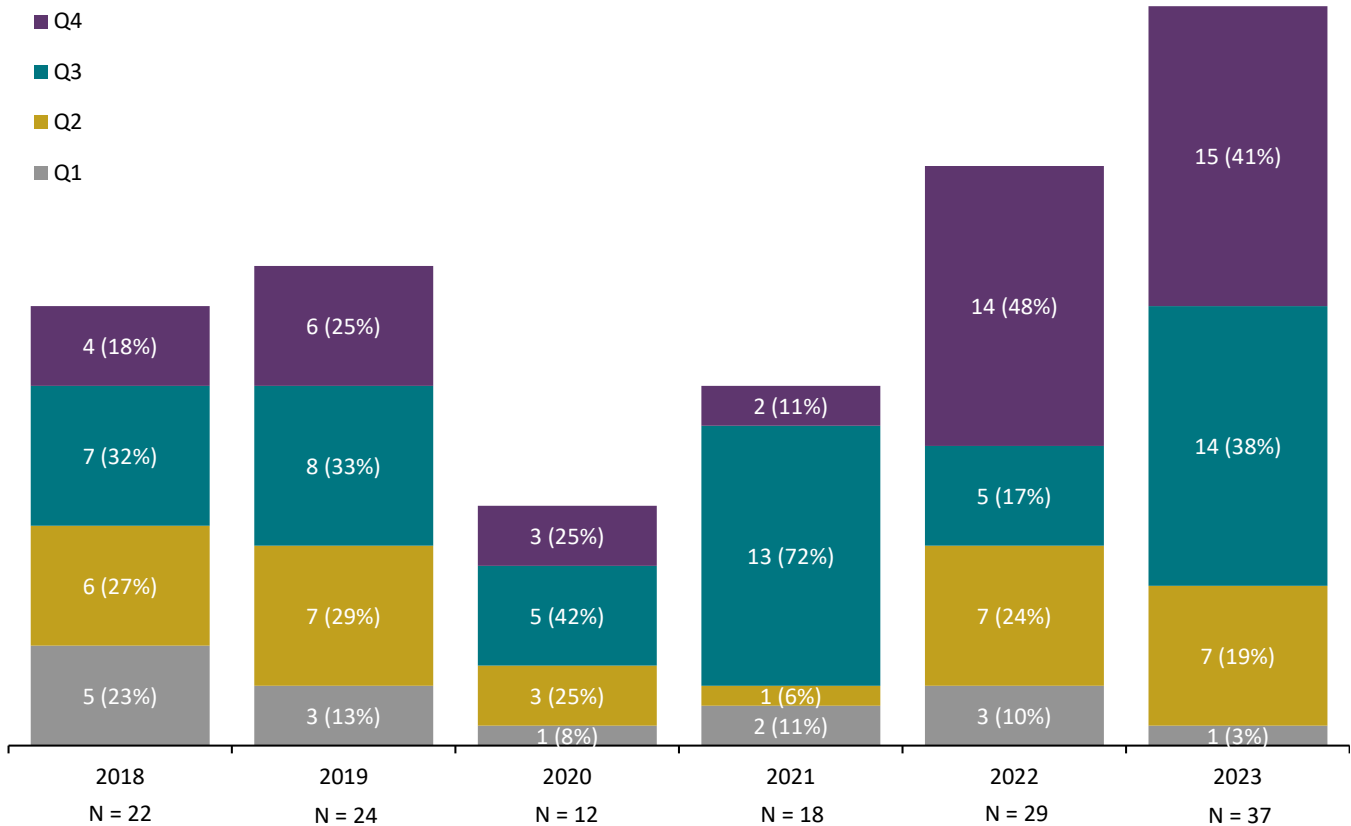
Auditing Actions by Quarter

- During the second half of 2023, 29 Auditing Actions were finalized, matching the total number of Auditing Actions for all of 2022.
- The Auditing Actions finalized during the second half of 2023 were nearly evenly split between the third and fourth quarters.
- The PCAOB finalized only one Auditing Action in the first quarter of 2023 and did so in the last week of March.

Nearly 80% of 2023 Auditing Actions were finalized in the second half of the year.

- More than one-third of the Auditing Actions finalized during the third quarter of 2023 were part of the PCAOB’s Audit Committee Communications sweep.³

Figure 3: Auditing Actions by Quarter
2018–2023



Source: Settled Disciplinary Orders, Adjudicated Final Board Disciplinary Actions by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: “Quarter” is the calendar quarter corresponding to the Enforcement Effective Date. See Research Sample and Data Sources for additional information. Percentages may not sum to 100% due to rounding.

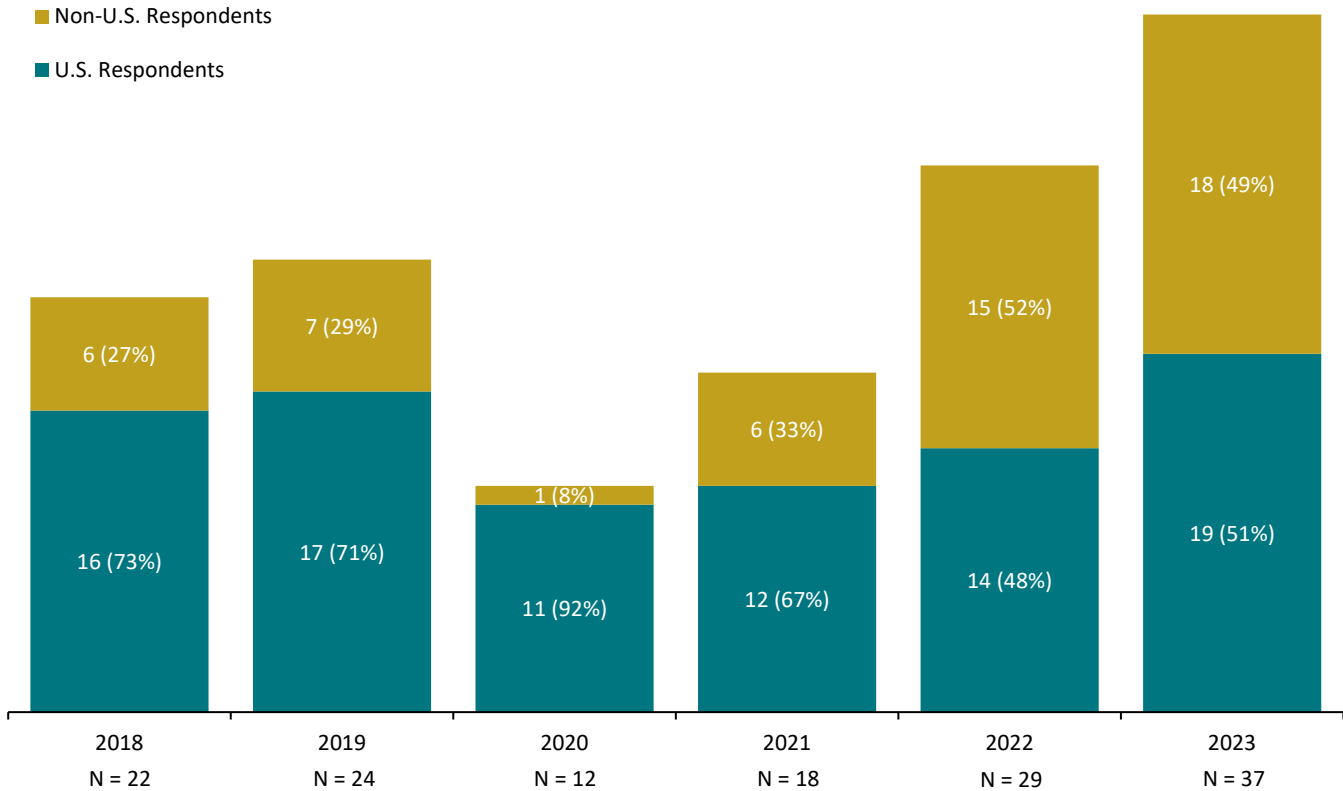
Auditing Actions Involving U.S. and Non-U.S. Respondents

- After securing the ability to inspect and investigate public accounting firms in China in 2022, the PCAOB settled four Auditing Actions involving three China-based firms and four individuals in 2023.⁴
- In addition to China, non-U.S. Auditing Actions in 2023 involved respondents in Argentina, Brazil, Canada, Colombia, Greece, India, Israel, Japan, Luxembourg, Malaysia, Mexico, and Singapore.

For the second year in a row, Auditing Actions were nearly evenly split between U.S. and Non-U.S. respondents.

- In 2023, 17 firms and seven individuals were involved in Auditing Actions with non-U.S. respondents, compared to eight firms and 11 individuals in 2022.

Figure 4: Auditing Actions Involving U.S. and Non-U.S. Respondents 2018–2023



Source: Settled Disciplinary Orders, Adjudicated Final Board Disciplinary Actions by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

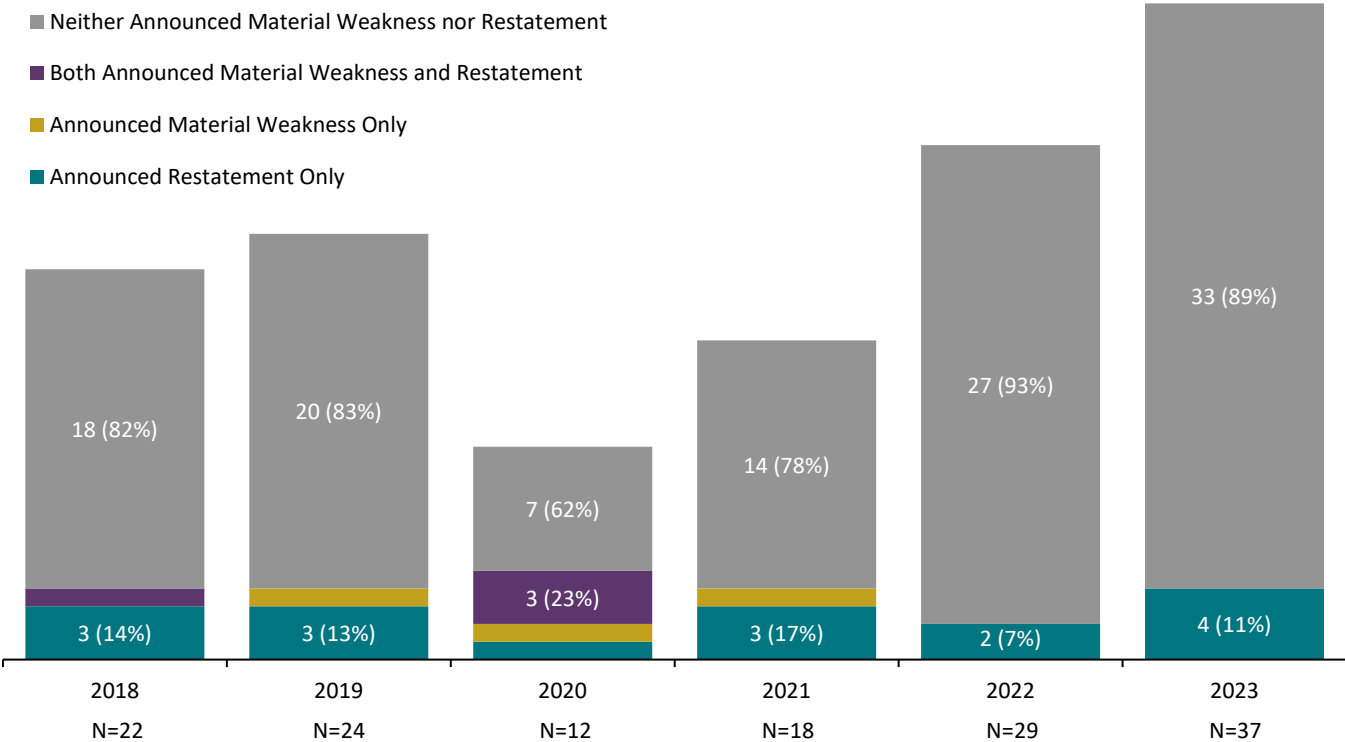
Note: Auditing Actions involving only individual respondents are classified as actions involving non-U.S. respondents if (1) the individuals are licensed or reside outside the U.S., and (2) the alleged violations occurred outside the U.S. Auditing Actions involving firm respondents are classified as actions involving non-U.S. respondents if (1) there is a single firm respondent, and the firm is headquartered outside the U.S.; or (2) there are multiple firm respondents and (a) all of the firm respondents are headquartered outside the U.S., or (b) one or more of the firm respondents are headquartered outside the U.S. and the alleged violations occurred outside the U.S. See Research Sample and Data Sources for additional information.

Auditing Actions Referring to Announced Restatements and/or Material Weaknesses in Internal Control

- In 2023, 11% of Auditing Actions referred to an announced restatement, below the 2018–2022 average of 18%.
- Consistent with prior years, most Auditing Actions did not refer to an announced restatement and/or material weakness in internal control.
- In contrast, Securities and Exchange Commission (SEC) enforcement actions that referred to an announced restatement and/or material weakness in internal control reached their highest levels in recent years.⁵

For the second consecutive year, there were no Auditing Actions that referred to a company’s disclosure of a material weakness in internal control.

Figure 5: Auditing Actions Referring to Announcements of Restatements and/or Internal Control Weaknesses 2018–2023



Source: Settled Disciplinary Orders, Adjudicated Final Board Disciplinary Actions by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: Auditing Actions “referring to announcements of restatements” are actions that refer to an announcement that the company will restate, may restate, or has unreliable financial statements. Auditing Actions “referring to announcements of material weaknesses in internal control” are actions that refer to an announcement that the company has a material weakness in internal control. See Research Sample and Data Sources for additional information.

Number and Type of Respondents in Auditing Actions

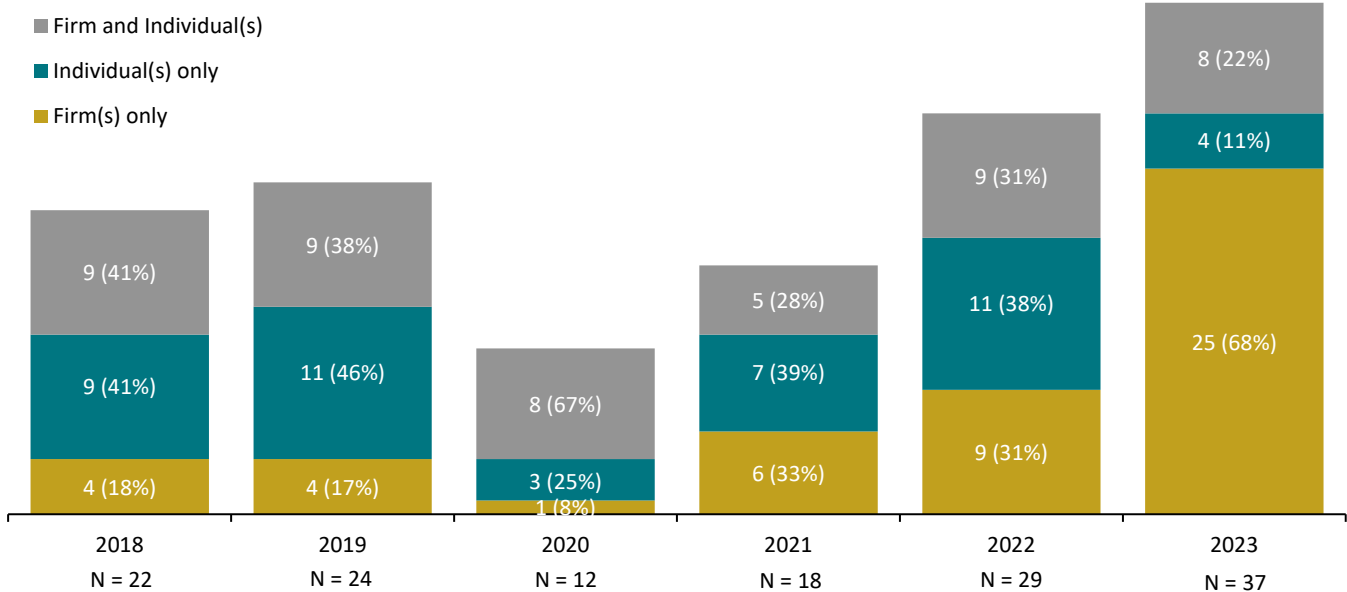
- The total number of respondents in 2023 Auditing Actions (53) increased by 23% from 2022 (see Figure 6a).
- Unlike prior years, the total number of firm respondents in 2023 Auditing Actions (34) exceeded the total number of individual respondents (19) (see Figure 6a).
- The mix of respondents in 2023 shifted, as just over two-thirds of Auditing Actions included only firm respondents, well over the 2018–2022 average (22%) (see Figure 6b).

In 2023 Auditing Actions, firms accounted for nearly two-thirds of total respondents, marking a departure from previous years dominated by individual respondents.

Figure 6a: Total Number of Respondents in Auditing Actions

| | 2018–2022 | | 2022 | | 2023 | |
|------------------------------|-----------|-------------|-----------|-------------|-----------|-------------|
| | Average | Share | Number | Share | Number | Share |
| Number of Respondents | | | | | | |
| Individuals | 22 | 63% | 26 | 60% | 19 | 36% |
| Firms | 13 | 37% | 17 | 40% | 34 | 64% |
| Total | 35 | 100% | 43 | 100% | 53 | 100% |

Figure 6b: Type of Respondents in Auditing Actions



Source: Settled Disciplinary Orders, Adjudicated Final Board Disciplinary Actions by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: See Research Sample and Data Sources for additional information. Percentages may not sum to 100% due to rounding.

Allegations in Auditing Actions

- During 2023, the vast majority of Auditing Actions (79%) alleged violations of Auditing Standards. Of those actions, 60% included additional allegations related to Ethics and Independence Standards, Quality Control Standards, or both.
- Approximately 25% of Auditing Actions during 2023 involved alleged violations of auditor independence—a change from 2022 when none of the Auditing Actions included such allegations.⁶
- Two-thirds of the 2023 Auditing Actions that involved alleged auditor independence violations included additional allegations related to Auditing Standards, Quality Control Standards, or both.

In over half of the 2023 Auditing Actions (57%), the PCAOB alleged violations of Quality Control standards.

- For the first time, the PCAOB included allegations related to Critical Audit Matters (CAMs) in Auditing Actions. Three Auditing Actions in 2023 included such allegations.
- Nearly three-quarters of the non-U.S. Auditing Actions during 2023 involved alleged violations of Auditing and Quality Control Standards; the remainder included additional allegations related to Auditing Standards.

Figure 7: Allegations in Auditing Actions Heat Map™

| | Ethics and Independence Only | Auditing Standards Only | Quality Control Standards Only | Ethics and Independence & Auditing Standards | Ethics and Independence & Quality Control Standards | Auditing & Quality Control Standards | Ethics and Independence & Auditing & Quality Control Standards |
|------|------------------------------|-------------------------|--------------------------------|--|---|--------------------------------------|--|
| 2022 | 0% | 34% | 10% | 10% | 0% | 39% | 7% |
| 2023 | 8% | 32% | 8% | 3% | 5% | 36% | 8% |
| | 0% | 0–5% | 5–15% | 15–25% | 25%+ | | |

Source: Settled Disciplinary Orders, Adjudicated Final Board Disciplinary Actions by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: Alleged violations of Attestation Standards and SOX 105(c)(6) are included in “Auditing Standards.” During 2022, there was one Auditing Action that involved alleged violations of Attestation Standards. There were no Auditing Actions that involved alleged violations of Attestation Standards in 2023. During 2022 and 2023, there were four and one Auditing Actions that involved alleged violations of SOX 105(c)(6), respectively. See Research Sample and Data Sources for additional information.

Monetary Penalties in Auditing Actions

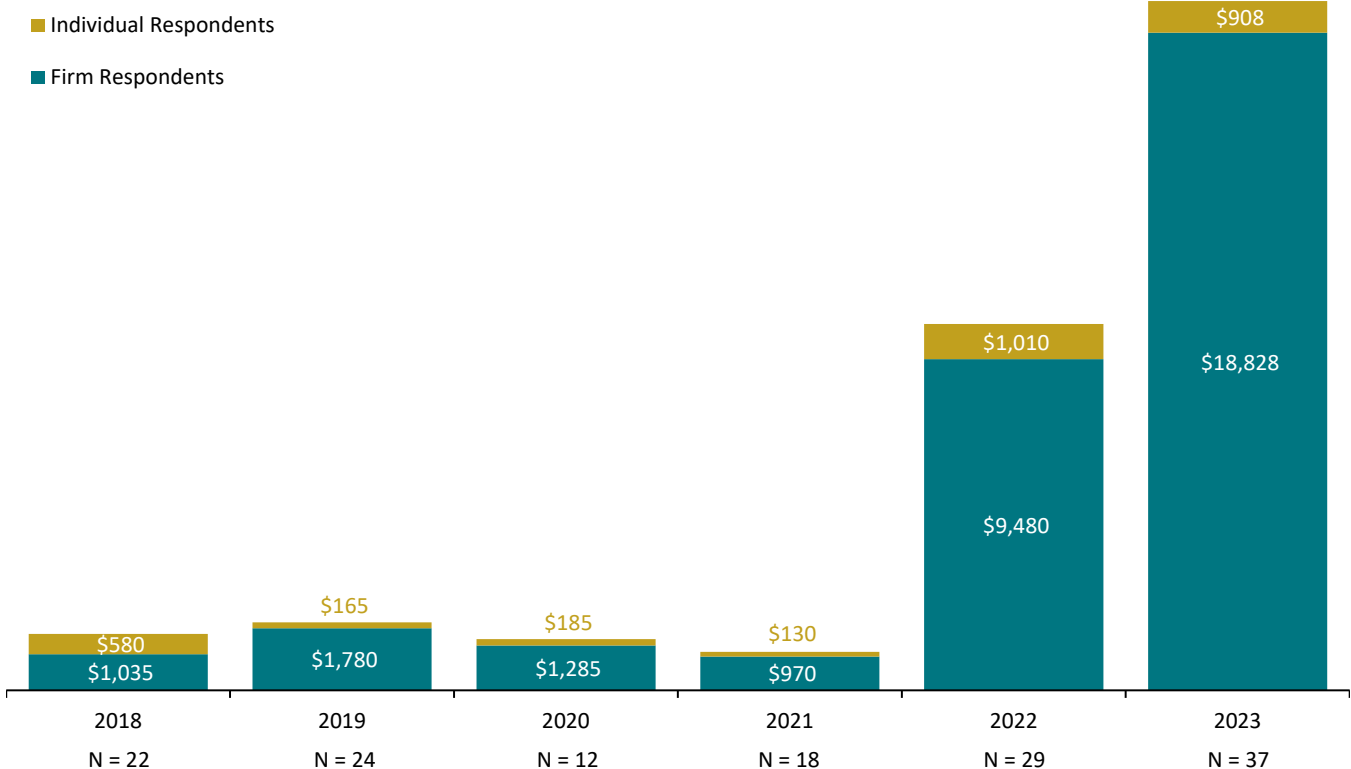
- Monetary penalties imposed on firms in 2023 Auditing Actions totaled \$18.8 million, nearly twice that of 2022.
- Monetary penalties imposed on individuals in 2023 Auditing Actions totaled \$0.9 million, in line with \$1.0 million in 2022.
- Although Auditing Actions involving non-U.S. respondents accounted for approximately half of the total Auditing Actions, they accounted for more than two-thirds of total monetary penalties (\$13.4 million).

In 2023, monetary penalties nearly doubled the previous record set in 2022.

- The PCAOB considered extraordinary cooperation when imposing sanctions on one firm in 2023, compared to four firms in 2022.

Figure 8: Monetary Penalties in Auditing Actions 2018–2023

(Dollars in thousands)



Source: Settled Disciplinary Orders, Adjudicated Final Board Disciplinary Actions by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: Monetary penalties include fines imposed in settled and adjudicated actions. In five 2023 Auditing Actions, the penalties were imposed jointly and severally on individual and firm respondents in the same action. Fines imposed jointly and severally are split equally between the individual and firm respondents. In addition to the penalties presented in Figure 8, the PCAOB imposed monetary penalties of \$310,000 in nine Other Actions in 2023. See Research Sample and Data Sources for additional information.

- The PCAOB imposed monetary penalties against all respondents in 2023, compared to 95% of respondents in 2022.
- The median monetary penalty imposed on firm respondents in 2023 (\$63,000) was nearly 20% higher than the median penalty against firms in 2018–2022 (\$53,000).
- The PCAOB imposed monetary penalties on all 19 individual respondents in Auditing Actions in 2023, up from 92% in 2022 and 73% in 2021.⁷

The PCAOB assessed nearly 80% of the total monetary penalties in 2023 against just six respondents.

- The median monetary penalty imposed on individual respondents in 2023 (\$40,000) was 60% higher than the median penalty against individuals in 2022 (\$25,000).

Figure 9: Monetary Penalties in Auditing Actions by Respondent

(Dollars in thousands)

| | 2018–2022 Average | | 2022 | | 2023 | |
|---------------------------------|-------------------|--------------|----------------|----------------|-----------------|--------------|
| | Firms | Individuals | Firms | Individuals | Firms | Individuals |
| Total Respondents | 13 | 22 | 17 | 26 | 34 | 19 |
| Respondents Fined | 12 | 14 | 17 | 24 | 34 | 19 |
| Percentage of Respondents Fined | 92% | 64% | 100% | 92% | 100% | 100% |
| Average Penalty | \$201 | \$18 | \$558 | \$39 | \$554 | \$48 |
| Median Penalty | \$53 | \$9 | \$150 | \$25 | \$63 | \$40 |
| Maximum Penalty | \$1,240 | \$95 | \$4,000 | \$150 | \$4,000 | \$100 |
| Total Penalties | \$2,910 | \$414 | \$9,480 | \$1,010 | \$18,828 | \$908 |

Source: Settled Disciplinary Orders, Adjudicated Final Board Disciplinary Actions by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: Monetary penalties include fines imposed in settled and adjudicated actions. In five Auditing Actions disclosed in 2023, the penalties were imposed jointly and severally on the individual and firm respondents in the same action. Fines imposed jointly and severally are split equally between the individual and firm respondents. In addition to the penalties presented in Figure 9, the PCAOB imposed monetary penalties of \$310,000 in nine Other Actions in 2023. See Research Sample and Data Sources for additional information.

Non-Monetary Sanctions in Auditing Actions

The PCAOB may impose non-monetary sanctions on firm and individual respondents, including censures and limitations on a firm’s or an individual’s ability to audit public companies or broker-dealers.⁸

- Two-thirds of firm respondents in 2023 Auditing Actions were required to undertake remedial actions (67%), including actions related to quality control policies and procedures and training.
- Approximately one in five firm respondents in 2023 Auditing Actions had their registration revoked on a temporary (15%) or permanent (6%) basis.
- Temporary revocations of firms’ registrations in 2023 Auditing Actions were for 1.8 years on average, with 75% of such firms required to take remedial actions before applying for reinstatement.

The PCAOB required 15% of firm respondents in 2023 Auditing Actions to retain an independent consultant.

- The proportion of individual respondents in Auditing Actions that were barred increased from 64% in 2022 to 85% in 2023.
- Approximately one in five individual respondents in 2023 Auditing Actions were permanently barred from auditing public companies or broker-dealers.
- Temporary bars imposed on individuals in 2023 Auditing Actions were for 1.8 years on average. Of the individuals temporarily barred, 11% were subject to limitations on their ability to audit public companies or broker-dealers upon reinstatement.

Figure 10: Non-monetary Sanctions in Auditing Actions Heat Map™

Panel A: Firm Respondents

| | Censure Only | Remedial Actions | Independent Consultant | Remedial Actions & Independent Consultant | Suspension | Temporary Revocation | Permanent Revocation |
|------|--------------|------------------|------------------------|---|------------|----------------------|----------------------|
| 2022 | 6% | 52% | 0% | 12% | 6% | 18% | 6% |
| 2023 | 9% | 55% | 3% | 12% | 0% | 15% | 6% |

Panel B: Individual Respondents

| | Censure Only | Limiting Activities | Suspension | Suspension & Limiting Activities | Temporary Bar | Temporary Bar & Limiting Activities | Permanent Bar |
|------|--------------|---------------------|------------|----------------------------------|---------------|-------------------------------------|---------------|
| 2022 | 8% | 12% | 12% | 4% | 48% | 4% | 12% |
| 2023 | 5% | 5% | 0% | 5% | 53% | 11% | 21% |



Source: Settled Disciplinary Orders, Adjudicated Final Board Disciplinary Actions by Enforcement Effective Date, available at <https://pcaobus.org/oversight/enforcement/enforcement-actions>

Note: In addition to imposing the non-monetary sanctions identified in the Heat Maps™, the PCAOB censured all but three firms and all firms in 2022 and 2023 Auditing Actions, respectively. The PCAOB censured half of the individuals and all but two individuals in 2022 and 2023 Auditing Actions, respectively. In 2022, one firm was censured and also withdrew its registration. The PCAOB required one firm and four firms in 2022 and 2023, respectively, to undertake remedial actions prior to applying for reinstatement of their registration. The PCAOB required remedial actions for one suspended firm in 2022 and none in 2023. Six individuals in both 2022 and 2023 were also required to complete additional continuing professional education (CPE). In 2022, the PCAOB imposed Limiting Activities and Censure on one firm respondent, which is included under “Remedial Actions” in Panel A: Firm Respondents.

Research Sample and Data Sources

- “Auditing Actions” include alleged violations of (1) Auditing Standards, (2) Attestation Standards, (3) Ethics and Independence Rules, (4) Quality Control Standards, and (5) SOX 105(c)(6) (i.e., failure to supervise associated persons).
- “Other Actions” include alleged violations of registration and reporting rules and non-cooperation with PCAOB inspections and investigations.
- “Total Actions” include “Auditing Actions” and “Other Actions.” The research sample does not include terminations of bars.
- The data source used in this report comprises Settled Disciplinary Orders and Adjudicated Disciplinary Orders by Enforcement Effective Date, available on the PCAOB’s website at <https://pcaobus.org/oversight/enforcement/enforcement-actions>.

Endnotes

- ¹ See PCAOB, “Enforcement,” <https://pcaobus.org/oversight/enforcement> (“As required by the Sarbanes-Oxley Act, PCAOB investigations and disciplinary proceedings are confidential and nonpublic.”). The PCAOB reports enforcement actions by “Enforcement Effective Date” and by “Board Action Year.” The “Enforcement Effective Date” may be later than the “Board Action Year” if a respondent in an adjudicated action petitions for SEC review or if the SEC elects to review the Board-imposed sanction. The “Enforcement Effective Date” is used in this research because Board-imposed sanctions are not final until that date. See PCAOB, “Enforcement Actions,” <https://pcaobus.org/oversight/enforcement/enforcement-actions>.
- ² The research sample includes enforcement actions related to the performance of an audit (“Auditing Actions”) and enforcement actions related to the PCAOB’s oversight (“Other Actions”). “Auditing Actions” include alleged violations of (1) Auditing Standards, (2) Attestation Standards, (3) Ethics and Independence Rules, (4) Quality Control Standards, and (5) SOX 105(c)(6) (i.e., failure to supervise associated persons). “Other Actions” include alleged violations of registration and reporting rules and non-cooperation with a PCAOB inspection or investigation. “Total Actions” include “Auditing Actions” and “Other Actions.” The research sample does not include termination of bars. See PCAOB, “Standards,” <https://pcaobus.org/oversight/standards>; PCAOB, “PCAOB Issues Release on Failure to Supervise,” August 5, 2010, https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-issues-release-on-failure-to-supervise_301; PCAOB, “Enforcement,” <https://pcaobus.org/oversight/enforcement>.
- ³ See PCAOB, “Following Sweep, PCAOB Sanctions Five Firms for Violating PCAOB Rules and Standards Related to Audit Committee Communications,” July 18, 2023, <https://pcaobus.org/news-events/news-releases/news-release-detail/following-sweep-pcaob-sanctions-five-firms-for-violating-pcaob-rules-and-standards-related-to-audit-committee-communications>.
- ⁴ On November 30, 2023, the PCAOB “announced three settled disciplinary orders sanctioning three China-based firms and four individuals for violations of the U.S. securities laws and PCAOB rules and standards. These are the first enforcement settlements with mainland Chinese and Hong Kong firms since the PCAOB secured historic access to inspect and investigate firms headquartered in China and Hong Kong in 2022. The sanctions include the highest civil money penalty the Board has imposed against a China-based firm and one of the highest penalties the Board has imposed against any firm. The sanctions also include a requirement – for the first time ever in a Board disciplinary order – that a China-based firm retain an independent monitor [emphasis omitted].” See PCAOB, “Imposing \$7.9 Million in Total Fines, PCAOB Sanctions Three China-Based Firms and Four Individuals in Historic Settlements,” November 30, 2023, <https://pcaobus.org/news-events/news-releases/news-release-detail/imposing-7-9-million-in-total-fines-pcaob-sanctions-three-china-based-firms-and-four-individuals-in-historic-settlements>.
- ⁵ As reported in *SEC Accounting and Auditing Enforcement Activity—Year in Review: FY 2023*, there were 41 SEC enforcement actions that referred to announced restatements and/or material weaknesses in internal control during FY 2022 and FY 2023—the highest number in recent years. See Cornerstone Research, *SEC Accounting and Auditing Enforcement Activity—Year in Review: FY 2023*, p. 5, <https://www.cornerstone.com/wp-content/uploads/2024/02/SEC-Accounting-and-Auditing-Enforcement-Activity-FY-2023.pdf>.
- ⁶ The PCAOB staff has stated that it focuses its work on failures relating to auditor independence. See, e.g., PCAOB, “Enforcement,” <https://pcaobus.org/oversight/enforcement>.
- ⁷ For the two individual respondents who were not fined in 2022, their respective settled disciplinary orders indicate that, based on the respondents’ conduct, the PCAOB would have imposed penalties of \$25,000 each if it had not taken the respondents’ financial resources into consideration.
- ⁸ According to the PCAOB, “When violations are found, the PCAOB may impose sanctions, including censures, monetary penalties, and limitations on a firm’s or an individual’s ability to audit public companies or broker-dealers.” See PCAOB, “Enforcement,” <https://pcaobus.org/oversight/enforcement>.

About the Authors

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Elaine Harwood is a senior vice president in Cornerstone Research’s Los Angeles office. She consults to clients and works with experts on litigation, complex enforcement matters brought by the SEC and PCAOB, and corporate investigations. She is an expert on financial accounting, financial reporting, and auditing. Dr. Harwood has served for more than 23 years as a consultant and expert on a wide range of liability and damages issues. She is a certified public accountant (CPA) and is certified in financial forensics (CFF) by the AICPA. In 2023, she was one of just four women named to *Who’s Who Legal’s (WWL’s)* inaugural list of Thought Leaders USA – Investigations Forensic Accountants. *WWL* has also recognized her in the legal investigations space as a Global Leader Consulting Expert – Forensic Accountants. In addition, Women We Admire named Dr. Harwood to its list of the Top 50 Women Leaders of Los Angeles for 2023.

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The views expressed herein are solely those of the authors and do not necessarily represent the views of Cornerstone Research.

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