

## Chapter 9:

# The Heightened Regulatory Scrutiny of Audit Firms and Their Compliance Challenges in 2024

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### ABSTRACT

The heightened regulatory scrutiny of audit firms in 2024 marks a pivotal moment in the evolution of corporate governance and financial transparency. Following a series of high-profile corporate scandals and increasing concerns about financial integrity, regulators worldwide are intensifying their oversight of audit practices to mitigate risks of fraud, misrepresentation, and systemic failures. This article examines the key challenges audit firms face as they navigate the increasingly complex regulatory landscape, including adapting to stricter reporting standards, implementing new technologies for compliance, and addressing ethical dilemmas surrounding audit independence. The impact of these regulations on audit methodologies, firm operations, and overall market trust will be discussed, along with an exploration of the strategies audit firms must employ to meet regulatory demands while maintaining operational efficiency. This article aims to provide a comprehensive analysis of how audit firms can thrive amidst these regulatory pressures and continue to uphold their crucial role in ensuring the accuracy and reliability of financial reporting. As the accounting profession increasingly relies.

**Key Words:** Regulatory Scrutiny, Financial Transparency, Ethical Dilemmas

### 1. INTRODUCTION

Accountants rely significantly on their reputation as competent, security-conscious professionals because people trust them with sensitive information about their business. In 2024, audit firms are facing an increasingly challenging regulatory landscape, with stricter compliance requirements and heightened scrutiny. This shift is driven by several key factors, including growing regulatory expectations, a series of high-profile financial scandals that have shaken public trust, and a stronger demand for transparency in financial reporting. As investors, regulators, and the public call for greater accountability, audit firms are under pressure to reassess how they operate and strengthen their governance structures (PCAOB, 2020; Glover et al., 2023; Lennox & Pittman, 2019).

Regulatory bodies like the Public Company Accounting Oversight Board (PCAOB) and the U.S. Securities and Exchange Commission (SEC) have stepped up their enforcement efforts, launching more investigations and taking action against firms that fail to meet established auditing standards (Williams Marston, 2024). This has significantly raised the stakes, pushing audit firms to place even greater emphasis on integrity, quality control, and compliance.

### 2. LITERATURE REVIEW

The regulatory environment surrounding audit firms has evolved significantly over the past few decades. Scholars such as DeAngelo (1981) highlight the importance of auditor independence, suggesting that regulatory bodies focus on preventing conflicts of interest and ensuring objective audit practices. This emphasis on auditor independence remains central to modern regulation, especially in light of high-profile financial scandals like

Enron and Lehman Brothers, which have led to the strengthening of laws such as the Sarbanes-Oxley Act (SOX) of 2002 (Public Company Accounting Oversight Board [PCAOB], 2020).

Audit regulations have become increasingly complex, with multiple layers of oversight. The PCAOB in the U.S., for example, is tasked with monitoring audit firms and enforcing standards for public company audits. The European Union has similarly developed regulations, such as the Statutory Audit Directive, which mandates audit rotation and auditor reporting on key audit matters (EU, 2021). These regulations not only address independence but also focus on the quality of audit work and the effectiveness of audit firms in detecting financial misreporting and fraud.

The literature suggests that regulatory scrutiny of audit firms has increased in response to rising corporate scandals, as well as growing concerns about market stability and investor protection (Wells, 2005). For instance, the European Union's decision to ban the provision of non-audit services by audit firms to their clients, which took effect in 2016, represents a direct response to concerns about auditors' potential conflicts of interest (EU, 2021). Despite the various reforms, audit firms continue to face compliance challenges, especially when navigating the complex web of national and international regulatory frameworks.

### 3. DISCUSSION

#### **Regulatory Compliance**

According to PCAOB (2025) audit firms are currently navigating a highly regulated environment, facing stringent standards imposed by oversight bodies such as the Public Company Accounting Oversight Board (PCAOB) and the U.S. Securities and Exchange Commission (SEC). Non-compliance with these regulations can lead to severe penalties, including significant fines and sanctions, which can have lasting impacts on a firm's reputation and operational viability. In 2024, the PCAOB has ramped up its enforcement actions significantly, initiating 34 actions in just the first half of the year, marking a notable increase compared to previous years 59 actions in 2022 and 60 in 2023 (McCann & D, 2024). For instance, in January 2024, the PCAOB sanctioned several audit firms for failing to comply with its reporting requirements, including Bush & Associates CPA LLC and Barton CPA PLLC, which faced penalties for deficiencies in their audit practices. Other firms like Crowe Hussain Chaudhury & Co., KPMG India, and RSM Brasil Auditores Independentes were also penalized, with civil fines ranging from \$25,000 to \$50,000 and mandates to implement remedial measures aimed at improving compliance.

Additionally, four audit firms were sanctioned for failing to adhere to rules regarding communications with audit committees, resulting in total fines of \$240,000. In a significant case, KPMG Netherlands faced a \$25 million settlement due to alleged violations of quality control standards related to integrity and personnel management (McCan et al., 2024). The PCAOB has reported that approximately 40% of audits reviewed had deficiencies in 2023, prompting further investigations into specific firms and increasing pressure on them to enhance audit quality.

Furthermore, the SEC has intensified scrutiny of independence violations among audit firms; for example, one firm was fined for failing to maintain independence from an audit client due to financial ties between the firm's partners and the client's management team. This environment of heightened regulatory scrutiny necessitates that audit firms take compliance seriously and invest in training and systems that ensure adherence to evolving standards while also improving overall audit quality.

#### **Governance Reforms**

According to Kennedy (2024), the Big Four accounting firms Deloitte, EY, KPMG, and PwC are currently re-evaluating their governance structures to enhance accountability and oversight in light of past governance failures that have drawn significant public and regulatory criticism. This shift is particularly evident at EY, where the U.S. partners voted to implement a new governance system that includes a dedicated board tasked with overseeing management and approving strategic decisions. This decision was prompted by internal dissent following the management team's veto of a plan to spin off EY's global consulting business, which left many partners feeling disenfranchised and concerned about the firm's direction.

In addition to internal reforms, the Big Four are facing external pressures, including a culture review initiated by the U.S. audit regulator aimed at addressing a rise in failed public company audits. This review will investigate whether issues with the "tone at the top" of these firms contributed to audit deficiencies and will scrutinize their organizational structures. The Financial Reporting Council (FRC) in the UK has also recommended introducing independent non-executives from outside the firms for those auditing 20 or more listed companies, further emphasizing the need for enhanced governance (ICAEW Insights, 2024).

KPMG has faced particular challenges, including slow growth in global sales and scrutiny over its audits of several failed U.S. banks, alongside a governance scandal within its Dubai business. In response, KPMG has pledged to invest \$4.2 billion by 2026 to improve its performance and has extended the tenure of its chair and CEO, Bill Thomas, to oversee this investment strategy (KPMG,2023).

Moreover, all four firms have recently completed a three-year transition period during which they implemented significant improvements to their governance structures as part of an operational separation initiative. This initiative involved creating independent audit boards chaired by non-executive directors, enhancing transparency regarding financial transactions between audit and non-audit divisions, and fostering a culture focused on challenge and professional skepticism. The FRC has noted that these changes have led to notable improvements in audit quality across the Big Four (Financial Reporting Council,2024). These governance reforms are essential not only for restoring public trust but also for ensuring that these firms can effectively navigate the complexities of modern auditing and consulting environments while maintaining high standards of integrity and accountability.

### **Talent Retention & Recruitment**

The audit sector is grappling with significant challenges related to talent retention and recruitment, exacerbated by increasing regulatory pressures and evolving workforce expectations. According to ACCA (2024) a recent report by the Association of Chartered Certified Accountants and Chartered Accountants Australia and New Zealand (CA ANZ), the audit profession is at a critical crossroads in its fight for talent, with insights gathered from over 6,500 finance professionals highlighting persistent difficulties in attracting and retaining skilled professionals. The survey revealed that many individuals within the sector are demanding flexible working arrangements and equitable remuneration, reflecting a broader trend towards prioritizing work-life balance. A key factor contributing to these challenges is the perception of the audit profession as being overworked and underpaid. For instance, at a recent UK audit and assurance conference, 77% of attendees identified talent retention as the biggest practical challenge facing their firms. The long-hours culture prevalent in the industry, especially during peak audit seasons, has led to burnout among staff, prompting many to seek opportunities outside of auditing. Additionally, the personal risks associated with certain audit clients further deter potential entrants into the field.

Firms are also facing a diminishing talent pool, with fewer qualified professionals entering the profession. This situation is compounded by negative narratives surrounding audit work, which often portray it as tedious and lacking in excitement. Consequently, many young professionals are opting for careers in more dynamic fields such as technology or consulting, where they perceive greater opportunities for growth and job satisfaction.

Thus, investing in technology has also emerged as a crucial strategy for retention. By automating routine tasks and reducing the administrative burden on auditors, firms can allow their employees to focus on more engaging and complex aspects of their work. This not only improves job satisfaction but also enhances overall productivity. Furthermore, providing career development opportunities through training programs focused on emerging skills such as data analytics and artificial intelligence can help retain talent by equipping employees with the tools they need to succeed in an evolving industry landscape (ACCA,2024).

### **Technological Adaptation**

The integration of technology into auditing processes is transforming the landscape of the profession, presenting both opportunities and challenges for firms. As advancements such as artificial intelligence (AI), data analytics, and robotic process automation (RPA) become more prevalent, auditors are increasingly leveraging these tools to enhance efficiency and effectiveness in their work. For example, the use of AI enables auditors to analyse large datasets quickly, identifying patterns and anomalies that might indicate risks or areas of non-compliance (King, 2024). This capability allows audit teams to focus on higher-value activities like risk assessment rather than getting bogged down in repetitive manual tasks. A notable case is Oke Data, which implemented advanced data analytics tools that significantly improved audit efficiency by uncovering previously hidden risks and insights, thereby enhancing decision-making and risk management practices.

However, the adoption of these technologies is not without its challenges. Firms must ensure that their technological solutions comply with evolving regulatory requirements while addressing ethical considerations related to data privacy and security. For instance, as auditors increasingly rely on automated tools for continuous monitoring and auditing, they must remain vigilant about potential cybersecurity threats and the integrity of the data being processed. The transition to technology-driven audit approaches requires a cultural shift within firms; auditors must develop new skills to effectively utilize these tools while also fostering an environment that encourages innovation and adaptability (Veltcamp Jagesar, 2021).

Is innovation still a priority for your organization today?						
To what extent was innovation a priority for your organization 6 months ago?	Absolutely, a top priority	Somewhat of a top priority	Neutral, an equal priority to other initiatives	Not really a top priority	Definitely not a top priority	Total
Absolutely, a top priority	33%	3%	1%	0%	0%	37%
Somewhat of a top priority	17%	13%	1%	4%	1%	36%
Neutral, an equal priority to other initiatives	3%	6%	10%	1%	0%	20%
Not really a top priority	3%	1%	1%	2%	0%	6%
Definitely not a top priority	0%	0%	0%	0%	1%	1%
Total	55%	24%	13%	6%	2%	100%

Figure 1.0: Related to opinion to adopt technology innovation in organization (KPMG,2020)

The journey toward integrating technology into auditing can be gradual and complex. For instance, a partner at Garbelman Winslow CPAs described their three-year process of integrating AI into their audit practices, which began with testing the technology with a single client before expanding its use across the firm. This highlights that successful technological adaptation involves not just the implementation of new tools but also a comprehensive re-evaluation of existing processes and risk assessments. As firms continue to embrace digital transformation, they must prioritize ongoing training and skill development to ensure that their staff can maximize the potential of these advancements while navigating the accompanying challenges effectively (Sakson Group, 2023).

#### 4. RECOMMENDATION

The cumulative effect of these challenges necessitates that audit firms adopt a proactive approach to compliance and risk management. Strategies may include:

##### Strengthening Internal Controls

Firms are increasingly encouraged to enhance their internal control systems to ensure adherence to regulatory standards and mitigate risks associated with non-compliance. The importance of robust internal controls has been underscored by recent high-profile corporate failures, which have highlighted the need for effective governance frameworks that can prevent financial mismanagement and fraud. For example, the UK government's consultation on "Restoring Trust in Audit and Corporate Governance" has proposed a strengthened internal controls framework similar to the U.S. Sarbanes-Oxley Act (SOX), which requires directors to attest to the effectiveness of their internal control systems. This proposal aims to enhance accountability and transparency, particularly for public interest entities (Steward, et.al., 2021).

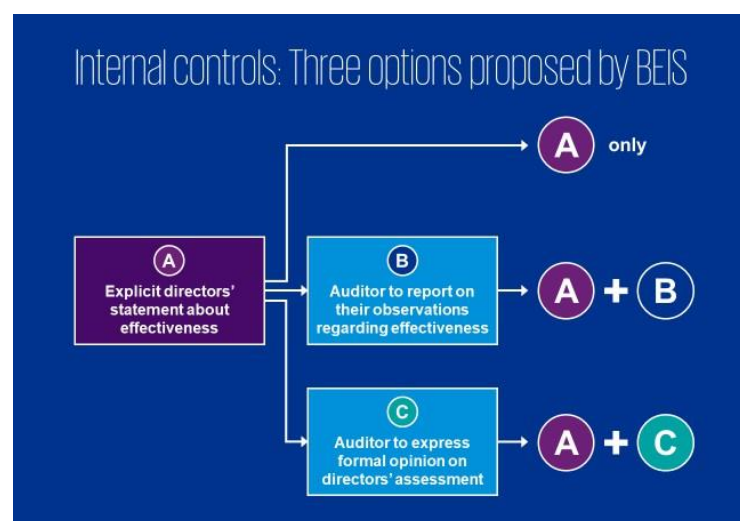


Figure 2.0: UK's internal controls framework

According to Team Z (2024) to strengthen internal controls, organizations are encouraged to adopt a comprehensive framework such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework. This framework comprises five components: control

environment, risk assessment, control activities, information and communication, and monitoring activities. Implementing these components allows firms to create a structured approach to managing risks and ensuring compliance with laws and regulations. For instance, companies can establish preventive controls, such as segregation of duties, which limit the risk of errors or fraud by ensuring that no single individual has control over all aspects of a financial transaction.

Moreover, firms are leveraging technology to enhance their internal control systems. Automation tools can facilitate real-time monitoring of transactions, enabling organizations to detect anomalies and potential compliance breaches more efficiently than manual processes would allow (Vasarhelyi & Chan, 2011). For example, organizations can implement automated workflows that require approvals for certain transactions, thus ensuring that all actions are documented and reviewed according to established protocols. Additionally, regular internal audits play a crucial role in assessing the effectiveness of these controls and identifying areas for improvement.

### **Investing in Training and Development**

Continuous professional development (CPD) for staff in the audit sector is essential for keeping pace with regulatory changes and improving audit quality. As the regulatory landscape evolves, auditors must be equipped with the latest knowledge and skills to navigate complex compliance requirements effectively. For instance, the introduction of new standards and technologies necessitates that auditors engage in ongoing training to stay informed about best practices and emerging trends. A study published by the Malaysian Institute of Accountants emphasizes that continuous improvement of competence is crucial for auditors, highlighting the need for structured training programs that identify learning outcomes and align with industry standards.

To illustrate this necessity, many firms are investing in tailored training programs designed to address specific needs within their organizations. For example, HQAI offers customized internal auditor training based on ISO 9001 and 19011 standards, focusing on evaluating the effectiveness of internal controls and promoting quality management systems (HQAI, 2025). This type of training not only enhances the technical skills of auditors but also fosters a culture of accountability and continuous improvement within organizations.

Moreover, firms are increasingly utilizing online learning platforms to provide flexible training options for their staff. This approach allows auditors to access resources at their convenience, ensuring that they can integrate learning into their busy schedules. Programs such as the Research, Audit, and Quality Improvement initiative provide healthcare professionals with relevant training in audit processes, emphasizing the importance of practical involvement alongside theoretical knowledge.

The impact of effective training on audit quality is significant. Research indicates that organizations that prioritize CPD experience improved audit outcomes, as staff are better prepared to identify risks and ensure compliance with regulatory standards. For example, a 2021 report from the Royal College of Radiologists highlighted how structured audit cycles led to measurable improvements in healthcare quality by enabling professionals to assess their practices against established benchmarks (Veltcamp & Jagesar, 2021).

By providing targeted training opportunities and fostering a culture of lifelong learning, organizations can ensure that their staff remain competent and confident in their roles, ultimately leading to more effective audits and greater accountability in financial reporting.

### **Enhancing Transparency**

Firms are increasingly recognizing the importance of enhancing transparency in their compliance efforts and governance structures to rebuild trust among stakeholders. Transparent communication is essential for fostering credibility and confidence in an organization's operations and financial reporting. (Schnackenberg & Tomlinson, 2016). This involves establishing clear communication channels that allow stakeholders including investors, regulators, and the public to access relevant information regarding audit processes and outcomes. For instance, organizations can implement standardized auditing procedures that ensure consistency in how audits are conducted, making it easier for stakeholders to understand and compare results over time.

One effective strategy for enhancing transparency is the thorough documentation of audit processes, findings, and recommendations (Certa, 2024). This creates a clear trail of evidence that stakeholders can review, thereby reinforcing trust in the integrity of the audit. Additionally, firms should develop a comprehensive communication strategy that specifies what information will be shared, through which mediums, and at what times. This strategy should aim to ensure that all communications are clear, concise, and readily accessible to the intended audience. Utilizing multiple channels such as formal reports, meetings, online portals, and emails can further enhance the dissemination of information.

Moreover, regulatory bodies like the Public Company Accounting Oversight Board (PCAOB, 2025) have proposed measures to enhance transparency within audit firms. These proposals include requiring firms to disclose specific metrics related to audit quality and governance structures, which would provide stakeholders with valuable insights into the performance and accountability of audit firms. Such disclosures could help investors make informed decisions regarding auditor selection and ratification processes.

A practical example of enhanced transparency can be seen in the implementation of Audit Quality Indicators (AQIs, 2009), which some jurisdictions require firms to disclose in their annual reports. These indicators provide measurable data on various aspects of audit quality, allowing stakeholders to assess and compare the effectiveness of different audit firms. By committing to ethical corporate practices and promptly addressing any discrepancies found during audits, organizations demonstrate their dedication to transparency.

## 5. CONCLUSION

The heightened regulatory scrutiny of audit firms in 2024 reflects the increasing importance of audit quality and financial reporting in maintaining the stability of financial markets. Audit firms face numerous compliance challenges, including adapting to technological advancements, meeting stricter transparency requirements, and navigating complex global regulatory landscapes. By investing in technology, strengthening internal controls, collaborating with regulators, enhancing global frameworks, and promoting transparency, audit firms can successfully navigate this complex environment and continue to fulfil their vital role in ensuring the integrity of financial reporting.

Improving audit quality is critical, with firms investing in staff training and integrating AI and data analytics to boost efficiency and accuracy. By prioritizing compliance, governance reform, and innovation, audit firms can rebuild trust and position themselves as strategic partners in risk management and decision-making, ensuring long-term sustainability in a rapidly changing environment (Auditproo, 2024).

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