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**Will PCAOB's Access to Auditors of Chinese-Based Firms Reduce the Risk of Fraudulent Activities?**

*D. Larry Crumbley*
*Amanda M. Grossman*
*Steven D. Grossman**

## Introduction

The first decade of the twenty-first century ushered in a significant increase in U.S. market investors' exposure to China-based companies. This exposure stemmed in part from engagements in reverse mergers, wherein a Chinese acquirer company merges with a still-legal defunct shell company in the U.S. and takes over its exchange listing. This technique allows acquiring companies quick entre into the U.S. market and negates the expensive and time-consuming initial public offering (IPO) route. A reverse merger can avoid the cost of more than 10 percent of the money raised from an IPO.

There was a wave of around 150 Chinese reverse mergers in the early 2000s. Around 25 percent of total reverse mergers were Chinese companies, and 17 percent eventually faced fraud allegations from SEC (Securities and Exchange Commission) enforcement actions and shareholder class action lawsuits. The SEC delisted many of these Chinese companies for committing financial fraud costing investors more than \$500 billion between 2009 and 2012 (Sharara, 2020; Wu, 2022). Owing to the apparent uptick in this strategy for foreign private companies to gain access to the U.S. capital markets, a November 2011 SEC regulation was approved with stricter listing requirements, such as a one-year waiting period by trading in an over the counter or other regulated market prior to listing (SEC Press Release 2011–235).

During the second decade of this century, U.S. investors, either through direct investment or index-based investing, continued to increased their exposure to companies based in or with a majority of operations in China, which is the world's second largest economy (Division of Corporate Finance, Securities and Exchange Commission, 2020). As of January 8, 2024, there were 265 Chinese companies listed on the New York Stock Exchange, NASDAQ, and the NYSE American, the three largest U.S. exchanges, with a total capitalization of \$848 billion – down from \$1.03 trillion the previous year (U.S.-China Economic and Security Review Commission, 2023). Given the encroachment of China-based firms into the U.S. markets, the efficacy of their financial information bears further scrutiny. Such is the function of an audit – to provide an independent examination of a publicly traded company's financial information and its adherence to the proper accounting standards; however, given the fraudulent findings mentioned previously, are the auditors fulfilling their duties?

The oversight of those auditors auditing public companies falls within the purview of the Public Company Accounting Oversight Board (PCAOB), a nonprofit corporation established by the U.S. Congress. Two of the PCAOB's primary duties are to inspect registered public accounting firms' audit and quality control systems and investigate and discipline these same audit firms, both domestic and foreign, and their personnel for violations of specific laws, rules, or professional standards. The inspection team reviews the engagement team's workpapers and interviews engagement personnel regarding audit areas. If potential deficiencies are discovered, an inspection report is prepared. For enforcement, the inspection team may refer matters to the PCAOB's Division of Enforcement and Investigation. The team may review the audit work of a foreign firm's operations for those firms listed on a U.S. stock exchange (Olmem, Thomas, and Elder, 2021; PCAOB website, 2024). However, until recently, the Chinese government refused to allow the PCAOB to investigate and discipline U.S. related accounting firms operating in China (PCAOB News Release, 2022a).

This article discusses the circumstances faced by the PCAOB in its negotiations to gain access to auditors of Chinese-based companies listed on the U.S. stock exchanges. Furthermore, the study presents ensuing financial statement fraud, as well as other types of fraudulent activities, currently arising from PCAOB auditor inspections.

The purpose of this article is fourfold: (1) to explain the regulatory environment of the PCAOB immediately preceding the enactment of Holding Foreign Companies Accountable Act HFCAA; (2) to describe the particulars of the HFCAA and its



*The authors are, respectively, Professors of Accounting at Texas A&M University – Corpus Christi and Murray State University, and Associate Professor of Accounting, Texas A&M University.

impact on access to Chinese-based auditing firms; (3) to present the nature of financial statement fraud, as well as other types of fraudulent activities, that were initially uncovered due to granted access; and (4) to articulate, based on China's initial reaction to these events, how the Big Four accounting firms may be affected. As an example, the role PricewaterhouseCoopers (PwC), is considered in light of these fraudulent acts.

Since these regulatory developments have been enforced within only the last two years, sparse research exists regarding their impact. A further objective of this paper is to provide a context within which future examination may continue, bridging the gap between pre- and post- HFCAA enforcement and anticipated U.S. and Chinese market relations. As the Chinese economy continues to grow and thusly become ever-present as a factor within the U.S. economy, understanding the interplay between the PCAOB, China, and auditors of U.S.-listed Chinese companies is vital.

**Non-Compliance by China and SEC Involvement**

The PCAOB needs sufficient access to conduct inspections of audit firms in China. Such access had not been forthcoming for more than a decade as of the end of 2019. Chinese law prohibited audit firms located in China and Hong Kong to release what government authorities considered to be sensitive documentation without explicit permission from the government (President's Working Group on Financial Markets, 2020), and audit firm representatives could face prison time if they did so. Figure 1 presents a timeline of the unfolding developments with respect to PCAOB-China audit firm interactions.

**Figure 1: Timeline of PCAOB Interactions with Chinese Audit Firms**

| Time period | Event |
|---|---|
| 2000–2012 | Chinese reverse mergers commencing. |
| 2013–2020 | Chinese government continues to deny PCAOB access to inspect Chinese-based audit firms. |
| 2020 | HFCAA passed by the U.S. Congress. President Trump issues Executive Order 13959. |
| 2022 | Five Chinese SOEs announced they are delisting from the NYSE.<br>A statement of Protocol Agreement establishes a framework for the PCAOB to investigate and inspect PCAOB-registered public accounting firms in China and Hong Kong. |
| 2023 | PCAOB uncovers major deficiencies in the audit workpapers of two Chinese firms.<br>PCAOB penalizes two PwC-registered accounting firms and a mainland China-based firm. |
| 2024 | PCOAB sanctions three partners of a mainland China-based firm.<br>CSRC sanctions a PwC firm registered in Shanghai for its role in auditing the country's largest real estate developer. |

After the PCAOB provided an updated 2018 list of jurisdictions in which it was not granted access to inspect non-U.S. registrant auditors, principally Chinese and Hong Kong incorporated firms, the SEC issued a statement emphasizing the challenges associated with these firms. Unlike the PCAOB, the SEC has the authority to revoke an audit firm's registration; therefore, its stance on market reactions to Chinese firm listings is important. In their study of the period from 2018 until 2020 (in advance of newly enacted Congressional legislation), Donley, Legoria, Reichelt, and Walton (2023) found the following:

- The market reacts negatively to cross-listed Chinese firms following PCAOB and SEC statements, and the passage of legislation regarding auditor inspection access.
- Cross-listed Chinese firms with higher audit fees or a Big 4 auditor raise the possibility that higher quality auditors offset the potential audit quality risk posed by lack of PCAOB inspection; however, the response is somewhat mitigated, meaning that investors may not be acting solely on their perceptions of audit quality risk.
- The most negative reaction is to small Chinese firms listing only in the U.S. Small Chinese firms that have fewer or any listing alternatives except for the U.S. showed the strongest negative impact. The negative impact is not observed for Chinese firms with at least one additional market outside the U.S.

China's implacable stance raised concerns that Chinese companies were not reporting accurate financial information, and these suspicions became magnified in 2020, when Luckin Coffee, which was listed on NASDAQ, reported that its sales revenue amounts were not verifiable due to the manipulative actions of several employees; therefore, the financial statements were not reliable. Luckin Coffee's shares had fallen 80 percent when a whistleblower's report indicated that the company overstated its revenues, coupon sales, and redemptions prior to its U.S. IPO. The company had to pay a $180 million penalty to settle the fraud charges. The NASDAQ eventually delisted its shares in July, 2020 (Olmem et al., 2021; SEC Press Release 2020–319); yet the company has already overtaken Starbucks in China.

The Division of Corporate Finance (CF) of the SEC, in its *CF Disclosure Guidance* issued in November 2020 (CF Disclosure Guidance: Topic No. 10, 2020), stated the following risks in regard to its ability to promote and enforce high-quality disclosure standards for China-based issuers:

- China has restricted the ability of the PCAOB to inspect audit work and practices of PCAOB-registered public accounting firms in China and Hong Kong.
- Due to state secrecy and national securities law, the ability of U.S. regulators to access information and investigate China-based issuers has often been limited or restricted. Furthermore, no foreign securities regulator is allowed by China securities law to directly conduct investigations or evidence collection activities within China. Also, no Chinese entity or individual is allowed to provide documents and information relating to securities business activities without Chinese government approval to these regulators.
- Foreign investment is prohibited in Chinese companies operating in certain industries, such as telecommunications and educational institutions. To circumvent these restrictions, many China-based issuers formed non-Chinese holding companies that allows the issuer to consolidate the Chinese operating company as a variable interest entity (VIE) in its financial statements. Chinese law determines whether the China-based issuer maintains legal control of the Chinese operating company.
- China's legal system is quite different from the U.S. legal system, resulting in inconsistent and unpredictable interpretation and enforcement of laws, rules, and regulations, which may be quickly evolving.
- Legal claims against China-based issuers may be difficult to pursue in U.S. courts. Even if the investor wins a judgment in the U.S. court, it may be unable to enforce the judgment in China where U.S. judgments may not be recognized.

Given these limitations, the U.S. Congress became compelled to act, and legislation was put forth in an effort to incentivize the Chinese government to allow the PCAOB access to the auditors of Chinese-based firms.

**Holding Foreign Companies Accountable Act**

The HFCAA is an amendment to the Sarbanes-Oxley Act (SOX) of 2002, passed by the Senate on May 20, 2020 and by the House of Representatives on December 2, 2020, which requires the PCAOB to audit the auditors of public companies that sell securities on U.S. stock exchanges, so as to protect the interest of the investors by receiving informative, accurate, and independent audit reports. The HFCAA requires the SEC to identify public company auditors, in foreign jurisdictions, in which the jurisdictional authority is currently disallowing proper PCAOB inspections. If the SEC determines that the company's auditors fail to comply with the PCAOB and therefore have three consecutive non-inspection years, then the company's securities are prohibited from being traded on a national securities exchange or any other SEC-regulated method such as over-the-counter trading (Public Law 116–222).

On November 12, 2020, President Trump issued Executive Order 13959 placing a ban on trading and investing in certain publicly traded securities of Communist Chinese Military Companies (CCMCs). In December 2020, the New York Exchange considered delisting China Mobile, China Telecom, and China Unicom Hong Kong to comply with the Executive Order, but later reversed this plan based upon the Office of Foreign Affairs' FAQ 857 (Bombach, Rossell, and Dohale, 2021; Office of Foreign Assets Control, 2021). These activities presumably then affected China's position regarding state owned enterprises (SOEs), which are entities whose commercial activities are on behalf of the Chinese government. On August 12, 2022, five Chinese SOEs announced that they would voluntarily delist from the New York Stock Exchange. While the SOEs cited low turnover in the U.S. and high administrative burdens and costs as the reasons for delisting, China's Ministry of Finance may have had concerns about shielding information deemed sensitive from U.S. regulators before the upcoming agreement between the U.S. and China (U.S-China Economic and Security Review Commission, 2023).

After the passage of HFCAA, Hoitash, Hoitash, and Krause (2023) find that Chinese issuers that cross-listed on another exchange or had PCAOB-inspected auditors had fewer negative returns. Issuers with greater financial constraints and facing the possibility of a loss of access to U.S. stock markets had more negative returns. The HFCAA and the period of negotiation regarding PCAOB inspections resulted in market uncertainty for Chinese issuers, many of whom dealt with this uncertainty by dual-listing or switching auditors. The negotiation period resulted in an increase in uncertainty fueled by contradicting public statements. U.S. regulators doubted that an agreement would be reached; Chinese regulators and the media were more positive. The market reacted negatively to statements from U.S. regulators, ignored statements made by Chinese regulators (maybe due to mistrust of the source), and reacted positively to statements from the media that generally cited unnamed inside sources. Furthermore, Wei and Ghosh (2024) find that Chinese companies outperformed other Asian companies before the passage of HFCAA, but underperformed other Asian companies from the time the HFCAA bill was introduced until the agreement on inspections was reached on August 26, 2022. Based on mean value, between March 28, 2019 and December 31, 2022, a typical U.S. shareholder lost about 46 percent on Chinese stocks as compared to 61 percent on other Asian companies.

**An Agreement is Reached and Access is Secured**

In December 2021, the SEC had finalized rules which allowed it to delist foreign companies whose auditors failed to cooperate with U.S. securities rules. However, on August 26, 2022, the PCAOB, the China Securities Regulatory Commission, and the Ministry of Finance of China signed a Statement of Protocol Agreement that establishes a framework for the PCAOB to investigate and inspect PCAOB-registered public accounting firms in China and Hong Kong. The following summary, provided by Best, Kollar, and Olmem (2022), describes PCAOB allowable actions:

- Engagement Selection. The PCAOB has sole discretion to select the PCAOB registered firms and clients it will examine.
- No Redaction. PCAOB inspectors and investigators can see and retain all audit work papers and information it reviews without any redaction.
- Testimony. The PCAOB can interview and obtain testimony from firm personnel in China and Hong Kong.
- Onward Sharing. The PCAOB can transfer information to the U.S. Securities and Exchange Commission (the "SEC") and the SEC can use the information for all SEC purposes, including administrative or civil enforcement actions.

The agreement was a first step to bring PCAOB-registered public accounting firms in China and Hong Kong into compliance with HFCAA. Without this agreement, over $1 trillion of companies with securities listed on U.S. exchanges would have been delisted (Zhang, Parry, and Olmem, 2022). SEC Chair Gary Gensler issued the following statement after the signing of the agreement (Gensler, 2022):

While important, this framework is merely a step in the process. This agreement will be meaningful only if the PCAOB actually can inspect and investigate completely audit firms in China. If it cannot, roughly 200 China-based issuers will face prohibitions on trading of their securities in the US if they continue to use those audit firms.

Striking a positive note, on December 15, 2022, the PCAOB was able to have complete access to inspect and investigate Chinese audit firms. According to PCAOB Chair Erica Y. Williams, "More than 30 PCAOB staff members conducted onsite inspections and investigations in Hong Kong, reviewing thousands of pages of documents, conducting interviews and taking testimony over a nine-week period from September to November" (PCAOB, 2022c). For the first time ever, the PCAOB secured complete access to inspect and investigate Chinese and Hong Kong audit firms. Because of this, the PCAOB voted to vacate the determination that Chinese authorities prevented inspections of auditors based in China and Hong Kong so as to remove about 200 companies from U.S. stock exchanges (Prentice, Yu, and Heavey, 2022).

The PCAOB selected KPMG Huazhen in mainland China and PwC in Hong Kong for inspection. Chinese authorities had no input or influence over the selections. The PCAOB determined the types of audit engagements which the authorities had previously denied access to and chose selections from those audit engagements. The PCAOB initiated three investigations before the agreement in August and later opened additional investigations. The PCAOB was provided, on a timely basis, all audit documentation and other information requested without withholding or redacting. China also provided the witnesses requested without any interference (PCAOB, 2022b).

Notably, the granting of access does not issue a clean bill of health for China and Hong Kong audits. It is more a recognition that full and thorough inspections and investigations were performed to find potential problems. The PCAOB can at any time reassess its determinations if Chinese authorities obstruct such access. The PCAOB did identify numerous potential deficiencies but not anything unexpected for jurisdictions being inspected for the first time (PCAOB, 2022c).

**Major Deficiencies Uncovered and Fines Levied**

Unfortunately, on May 10, 2023, the PCAOB stated that it uncovered major deficiencies in the audit papers of KPMG Huazhen in mainland China and PwC in Hong Kong. PCAOB Chair Williams stated that the auditors "failed to obtain sufficient appropriate audit evidence to support their work on the public company's financial statements or internal control over financial reporting" at "unacceptable rates." Of the audit reviews undertaken, deficiencies were found in 100 percent of the KPMG Huazhen audits and 75 percent of the PwC Hong Kong audits. Four audits reviewed from each firm were generally for fiscal years ending in 2021. The next step was to hold the accounting firms accountable to remedy the deficiencies. Both firms acknowledged the findings of the PCAOB and indicated that steps would be taken to address the issues (Horowitz, 2023).

The following is reported by Matthew Rogers (2024):

Deficiencies were numerous and found in the financial statement areas of cash, revenue (and related accounts), inventory, other investments, goodwill and intangible assets, long-lived assets, and significant transactions, and involved departures from the following PCAOB rules and standards.

[The author then lists the relevant sections of the PCAOB Auditing Standards (AS) that were violated.]

1. Audit evidence (AS 1105)
2. Audit documentation (AS 1215)
3. Communications with audit committees (AS 1301)
4. Auditing internal control over financial reporting (AS 2201)
5. Responding to the risk of material misstatement (AS 2301)
6. Substance analytical procedures (AS 2305.16)
7. Audit sampling (AS 2315)
8. Consideration of fraud in a financial statement audit (AS 2401.61)
9. Auditing accounting estimates (AS 2501)
10. Auditor reporting on financial statements (AS 3101)
11. Form AP – reporting of certain audit participants (Rule 3211).

To reduce the risk of being delisted in the U.S. stock markets, 24 out of 174 Chinese companies with auditors who required inspection changed auditors between 2022 and May 2023; 15 of those companies switched from auditors in China or Hong Kong to auditors in the U.S. or Singapore (Wong and Kawase, 2023).

On November 30, 2023, the PCAOB imposed a total of $7.9 million in penalties against two PwC-registered public accounting firms for violating PCAOB quality control standards related to integrity and personnel management. Specifically, the firms failed to detect or prevent over a thousand individuals from the PwC Hong Kong firm and hundreds from the PwC China firm from improper answer sharing on mandatory internal training courses related to the firms' U.S. auditing curriculum. Answer sharing was achieved by either providing or receiving access to answers through two unauthorized software applications for online tests. Both firms were censured, with PwC Hong Kong agreeing to pay a $4 million civil money penalty and PwC China agreeing to pay a $3 million civil money penalty (PCAOB, 2023a).

The PCAOB also sanctioned another mainland-China based firm, Shandong Haoxin, with a $750,000 penalty, along with penalties on four individuals amounting to $190,000 (PCAOB, 2023b). The sanctions were levied for falsifying an audit report, failing to maintain independence from their issuer client, and improperly adopting the work of another accounting firm as their own. Before becoming the auditor of China-based data analysis software company Gridsun Holding, Inc., in early 2019, Haoxin indicated that it would issue an unqualified opinion on Gridsun's financial statements for 2015–2017. Haoxin was then hired to replace the recently fired current auditor and issued the clean opinion while relying primarily on the prior auditor's draft work papers while performing little work of its own. The PCAOB order prohibits Haoxin from accepting new clients, bars four of its auditors from participating in the U.S. issuer and registered broker-dealer audits and requires the firm to hire an independent monitor to improve practices and ensure compliance (PCAOB, 2023b). In her statement regarding these historical settlements, PCAOB Chair Williams said, "The days of China-based firms evading accountability are over. The PCAOB is demonstrating that we will take action to protect investors in U.S. markets and impose tough sanctions against anyone who violates PCAOB rules and standards, no matter where they are located" (PCAOB, 2023a).

Subsequently, on March 20, 2024, the PCAOB sanctioned three partners of mainland China-based KPMG Huazhen for violations of audit standards in connection with the firm's audit of the 2017 financial statements of Tarena International, Inc., a China-based education service provider listed in the U.S. In 2019, Tarena restated its 2017 financial statements after the auditors failed to obtain sufficient appropriate audit evidence to support the company's revenue figure, which was overstated, and its net accounts receivable, in which the allowance for doubtful accounts was not reasonable. In addition, the firm's IT professionals failed to identify several deficiencies in the IT procedures. The PCAOB imposed fines totaling $150,000, barred two partners from being associated persons of a registered public accounting firm, limited one partner with responsibility for audit personnel, and required the three partners to complete continuing professional education (PCAOB, 2024a).

Further evidence indicates that the PCAOB censures non-Big Four affiliated CPA firms as well (PCAOB, 2024b). On November 8, 2024, the PCAOB settled a disciplinary order sanctioning JTC Fair Song CPA Firm of Shenzhen for repeated violations of PCAOB rules and for not producing documents and information in response to formal demands. The Chinese firm did not admit or deny the findings while settling with the PCAOB and accepted a censuring and revocation of its registration.

**Repercussions for Big Four Foreign-Based Member Firms**

Most recently, audit deficiencies of Chinese-based auditors have resulted in sanctions taken by the Chinese government. For example, as of September, 2024, the Chinese Securities Regulatory Commission (CSRC) has sanctioned PwC's Zhong Tian LLP, which is registered in Shanghai and is part of PwC's global network. The sanctions consist of a record-breaking $62 million fine and a six-month suspension of the firm from many of its local operations because of its role in auditing China Evergrande Group (Reuters, 2024b), once the country's biggest real estate developer. These actions of the CSRC constitute the most severe penalty, to date, levied against one of the Big Four China-based accounting firms.

After more than ten years as Evergrande's auditor, PwC resigned in January 2023, due to what the developer called audit-related disagreements (Bloomberg, 2024a). Evergrande, in line it says with those of other developers, sold partially built homes during the housing boom with the promise to complete them in a few years. Home buyers paid deposits to the developer and obtained mortgages to buy the properties (Bloomberg, 2024b). Evergrande recognized revenue in 2019–2020 prior to completing and delivering the homes to buyers, thereby also lowering its liabilities and facilitating its sales of domestic and international bonds (The Straits Times, 2024).

The CSRC has been investigating financial fraud involving Evergrande and earlier this year levied a $4.18 billion yuan fine (a little over $575 million) against its main unit, Hengday, for overstating revenue by $78 billion during 2019–2020 (Bloomberg, 2024a). A Hong Kong court ordered Evergrande to be liquidated earlier this year for failure to deliver a debt restructuring plan after defaulting on its offshore note payments (Reuters, 2024a), and as a measure to meet its approximately $300 billion in total liabilities as of January, 2024 (Castagnone, 2024). The founder of Evergrande, Hui Ka Yan, faces a lifetime ban from participating in China's stock market (Foley, Yu, Leng, and Ho-him, 2024). Hexin Hengju Shenzhen Investment Holding Center has demanded that Yan sell his Hong Kong flat to partially pay off the $685 million in debt that was due at the end of 2023 (Castagnone, 2024).

Evergrande inflated revenue for two years before defaulting on its debt in 2021 while PwC was giving the firm a clean audit opinion on its financial statements (Foley et al., 2024). In addition, PwC failed to identify Evergrande's inability to continue operations as a going concern (Bloomberg, 2024b). As anticipated, PwC's fine exceeded the $31 million fine against Deloitte for its deficient audit of China Huarong Asset Management (Foley et al., 2024).

As perhaps an indication of realigning its risk tolerance for audits conducted by overseas network members, PwC has stopped auditing more than a dozen Chinese firms in the last two years. PwC China was the most commonly used among the Big Four accounting firms by Chinese real estate companies listed in Hong Kong. PwC China earned revenue of $1.1 billion in 2022, which was the highest figure among over nine thousand local rivals. PwC has had troubles not only with Hong Kong, but also with Australia due to a question of a serious conflict of interest in leaking government tax plans to its clients, and the United Kingdom for failures in auditing Babcock International Group PLC (Bloomberg, 2024a).

Despite these seemingly wide-spread audit issues, Big Four network audit members still appear to be in high demand. Notwithstanding its highly publicized missteps with Evergrande, Jahwa United, China's largest homegrown cosmetic brand, hired PwC Zhong Tian as the firm's auditor on June 6, 2024. Negotiating a fee of approximately $552,000, the cosmetics company apparently indicated that it chose the firm because of its competence, integrity, and independence (Shicong, 2024). These developments signify the need for the Big Four accounting firms to be aware of the possible repercussions of the newly enacted HFCAA on foreign-based member firms.

## Conclusion

For the first couple of decades after the turn of the twenty-first century, U.S. based inspectors from the PCAOB were restricted from access to investigate China-based audits of Chinese companies trading in U.S. markets, increasing the risks to stakeholders. The prevailing reason for this obstruction was China's contention that the audit workpapers would reveal sensitive governmental information. With the continual emergence of China-based issuers proliferating within the U.S. markets, such a situation was considered untenable, as the quality of their audits, and by extension, the financial information the auditors examined may be viewed as unreliable. As a measure to obtain China's cooperation in allowing PCAOB inspections, in 2020, the U.S. Congress enacted the HFCAA, which empowered the SEC to revoke stock market listings of Chinese companies using noncompliant Chinese-based auditors. By the end of 2022, China and U.S. regulators reached an agreement, which ushered in ostensibly full PCAOB access to inspect the audits of Chinese-based issuer auditors.

In the aftermath of the passage and enforcement of the HFCAA, several fraudulent activities were revealed from the inspection of several China and Hong Kong based auditors. Without the existence of this legislation, it is doubtful as to whether these fraudulent acts would have been uncovered and remedial measures imposed. The prominent example provided in this article is the 2023 sanction of PwC China and Hong Kong for a substantial sum of $7.9 million for PCAOB standards violations. Undeniably, unfettered PCAOB access to Chinese-based auditors should improve the quality of the audits conducted.

Interestingly, however, Big Four network member firms in China may be facing not only stricter oversight from the PCAOB, but also the Chinese government as well. In the wake of the Evergrande sanctions, China's vice-finance minister cautions PwC to adhere to the country's laws and regulations, lest the accounting firm be shunned from the country's market (*South China Morning Post*, 2024). Yet another unfortunate consequence of PwC's role in the Evergrande fiasco, PwC has ceased its construction of a "lavish" Chinese campus, whose purpose was to be a training facility (Olcott, Foley, and Ho-him, 2024). The facility was to be located on the tropical island of Hainan, as part of a Reimagine Park complex; however, it appears that funding has halted, along with collaborative plans with educational institutions.

In conjunction with staffing cuts and clients abandoning the firm, PwC China has ceased to offer its services to several Chinese firms. Is such a decision possibly in reaction to the increased pressures created by the convergence of oversight authority, and will such a trend continue? Or will the reputation of Big Four audits supersede the risk of subpar audit quality exposure in foreign jurisdictions? Perhaps the developments described in this paper shed light on possible unanticipated ramifications, or retaliation, by the Chinese government against Big Four accounting firms. The PCAOB has successfully instituted oversight of Chinese-based auditing firms, which may well curb the incidence of fraudulent activities; however, its actions may lead to stricter oversight by the CSRC, culminating in the inability, or unwillingness, of the Chinese-based Big Four firms to effectively operate.

The implications raised in this study contribute to the current understanding of the global economy's fraud landscape and the role that legislative enforcement brings. Whiie only in the initial stages of the PCAOB's unfettered inspection process for Chinese-based auditors, only a handful of PCAOB inspection reports are available; however, as these inspections continue and a more robust set of evidence becomes available, it may be of interest for future research to examine the impact of the inspection processes on certain outcomes. For instance, what will be the change in the magnitude and pervasiveness of uncovered fraudulent activities over time? Will the PCAOB inspections alter the clientele of Big Four Chinese-based auditors, or perhaps drive Chinese-based firms away from U.S. markets? Moreover, will the magnitude and frequency by which the CSRC sanctions Big Four Chinese-based auditors alter their operations? The substantiveness of these effects has yet to be quantified.

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