Do Auditors Make Mistakes?
The Nature of Audit Deficiencies During the Sarbanes Oxley Period

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Auditors have been the subject of much attention in recent years, especially given the accounting scandals leading up to the Sarbanes Oxley Act. This bill was passed in an attempt to restore public confidence in financial reporting, including the audit process. The purpose of our study is to describe the nature of deficiencies made by auditors during their examination of financial statements, as revealed in Securities and Exchange Commission (SEC) Accounting and Auditing Enforcement Releases (AAERs). We examined AAERs from 1996 – 2007 to capture the years preceding and following passage of the Sarbanes Oxley Act in 2002. We also compared our findings with previous research to determine if the nature of deficiencies has changed over a longer time period.

Our study reveals heightened SEC activity from 2002-2004. Substantially all of these SEC actions relate to financial statements for years preceding 2002. The most prevalent deficiencies relate to exercising due professional care, over-relying on client representations, developing audit programs, confirming amounts, preparing workpapers, ignoring red flags, and assessing audit risk. While most of these deficiencies had been noted by previous researchers, some of these appear to be more prevalent in recent years. By revealing the areas where auditors make mistakes, we hope our study benefits the auditing profession in their attempt to improve the audit process. We also hope that our study provides useful information to accounting students so that they can avoid some of these pitfalls when they enter the auditing profession.