PCAOB Inspection Reports and Information Dissemination*

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Abstract

We investigate the private and public disseminations of PCAOB inspection reports and evaluate their effects on stock prices. We find that equity markets respond positively to audit quality as captured in these reports prior to their publication, with particular significance following the disbursement of draft reports for auditor responses. Using the introduction of Rule 140 as a quasi-exogenous natural experiment, we find that longer private dissemination windows are associated with muted stock reactions during the public dissemination, indicating that the length of the private communication window, on average, shifts some price discovery of audit quality information contained in the PCAOB inspection reports to prior to the reports' publication.

I. Introduction

The Public Company Accounting Oversight Board (PCAOB) was established through the Sarbanes-Oxley Act to oversee the audits of publicly registered companies. To accomplish its investor protection mission, the PCAOB regularly inspects public issuer audits to determine whether auditors comply with its standards and publishes the inspection results in the form of an inspection report. Whether investors respond to the audit quality information contained in the report is an important question, as it assesses how much investors value information about audit quality provided by the regulator. Furthermore, if such investor reactions exist, and are of significant magnitude, it provides evidence for a market-based regulatory regime in which a regulator offers an independent evaluation of audit quality to public companies, which thereon demand high-quality audits based on the information contained in the releases (and on the expectation that audit quality has an impact on their equity prices), and thus discourages auditors from supplying poor quality audits.

Prior research provides evidence that investors respond to information in the regulator's information releases. Acito et al. (2025) examines stock market reactions around the inspection reports' publication events and shows that stock prices react negatively (positively) to the reports of auditor deficiency (non-deficiency), but only when the issuers linked to deficiencies can be, for the most part, identified. In this study, we investigate when inspection information becomes incorporated into equity prices by tracking the timing of public and private disseminations of inspection actions and findings. After completing the inspection fieldwork, the PCAOB privately communicates with auditors regarding the potential audit deficiencies and auditors receive both the initial draft (for their optional response) and the finalized report before it is released to the public. The timing between the end of inspection fieldwork, the private release of the inspection

draft to the auditor for feedback, and the final public disclosure varies significantly and spans almost a year on average.

During that time, audit firms are made aware of the inspection findings and may share this information internally or with their current and potential clients as part of audit quality discussions or to justify changes in audit procedures. Given that the content of inspection reports can be informative to investors, stock prices may have reacted to the news of deficient compliance with audit standards significantly before the final public release. Thus, *when* financial markets react to PCAOB inspection reports is an empirical question based on the private and public dissemination of report findings.

We begin our analysis by first examining the overall market reaction to the information in PCAOB inspection reports based on clients' stock returns across the entirety of the PCAOB inspection drafting process. Using a sample of issuers with triennially inspected auditors,[1] we find that clients of auditors with PCAOB identified deficiencies have an average daily abnormal return of -0.02 percent ($t = 2.16$) relative to clients of non-deficient auditors from the end of the inspection fieldwork to 10 days after the public inspection release, which accumulates (CAR) up to -1.94 percent over the whole time span.[2] Each event, however, covers 349 trading days on average, attenuating the specific content from the inspection reports due to several potential confounding

[1] As discussed in section III, we focus on issuers of triennially inspected firms due to data availability on inspection dates, desirable variability in inspection outcomes (vs. no variability in outcomes for annual audit firms), and because we expect that the incremental impact of inspection findings would matter more for smaller audit firms—where there is greater heterogeneity in the quality of audit engagements—and the audit quality information contained in inspection reports is likely to be marginally more informative to stock prices for clients of smaller firms.

[2] Using the average market capitalization of issuers in our sample, measured on the day before the end of inspection fieldwork, this amounts to an average accumulated dollar value impact of roughly $31.7 million per issuer, with the average issuer having a market capitalization of around $1.6 billion. Over the total market capitalization in our sample (approximately $8.3 trillion), this represents around a $161.8 billion shift in the market value for these issuers.

effects. Nevertheless, the negative average return suggests that PCAOB inspection reports contain information on deficiencies that are important in assessing equity value.

Next, we decompose the whole post-inspection period into three sub-windows: (W1) between the end of inspection fieldwork and the drafting of the inspection report, (W2) between the initial drafting of the inspection report and prior to its public release, and (W3) on and during the 10 trading days after its public release (see Appendix A for a timeline of PCAOB's inspection report release process). We find a negative and statistically significant average stock price reaction—at -0.05 percent ($t = 3.40$) in abnormal returns per trading day—in the public issuers audited by auditors with PCAOB inspection deficiencies during the post-draft report date period (i.e., W2) but not significantly in the pre-draft report date period (i.e., W1) nor during the post-public release period (i.e., W3). This evidence shows that the market reactions occur primarily during the handling of the draft report—when inspection contents are disseminated privately to auditors for their responses.

Given that stock prices respond to PCAOB inspection information specifically during the private circulation of PCAOB drafts to auditors (W2) and not during the public release of reports (W3), we hypothesize that market reactions around their public release are muted specifically because stock prices have already incorporated the report's informational content. We test this hypothesis by using the Securities Exchange Commission's (SEC) implementation of Rule 140 (SEC release no. 34-62575) in 2010. Rule 140 provides audit firms with the opportunity to request a SEC review before an inspection report is released if they disagree with the PCAOB's assessments in the report, creating additional time during which inspection report information could be disseminated to the market prior to its public release.

We find that, following the implementation of Rule 140 in 2010, there is no longer a negative market reaction for clients of deficient auditors in the 10 days following the public release of inspection reports.[3] There is, however, a significantly negative return between the final report date and the (delayed) public release (W2). The negative returns during the delay between final inspection reports and their public release suggest that the market reacted to the private dissemination of inspection report contents. We posit that such market reactions occur as audit firms communicate, either directly or indirectly (e.g., notifying audit committees when seeking to perform additional audit work in remediating deficiencies), their inspection findings to their audit staff and audit committees. As they do so, several potential market participants encounter the information, and the extension of the time between when these various market participants receive the private dissemination of the inspection report and its public release increases the period of opportunities to act upon the information.

Lastly, to evaluate robustness and validity of our findings, we explore whether there is a differential market reaction for PCAOB inspected engagements relative to other engagements of the audit firm. We find some evidence consistent with PCAOB inspected audits with deficiencies having a negative market reaction relative to non-inspected engagements. The market reaction seems to be concentrated around milestones where uncertainty is resolved for the auditor, such as when the draft report is released to the auditor. We also find evidence of a positive market reaction for inspected engagements where the PCAOB does not identify deficiencies (i.e., a clean report),

[3] As previously discussed, consistent with Acito et al. (2025) we continue to find a lack of general evidence for market reactions following the publication of inspection releases, except in the pre-2010 period, whereas Acito et al. (2025) finds evidence of market reactions on publication of the reports only when engagements are potentially identifiable owing to the limited number of issuers audited by an audit firm. As discussed later, we also find some evidence for market reactions immediately preceding the publication, but only when there is high uncertainty regarding the content of the reports. Together these findings suggest that *when* the information in inspection reports is disseminated, along with the degree of informational uncertainty and association with specific issuers, is an important component of the puzzle of market reactions to PCAOB inspection releases.

although the results are weaker and mostly concentrated when resolution of uncertainty occurs, for example shortly after the final report is shared with the audit firm. Moreover, we find stronger results when a deficient PCAOB inspected audit is referenced to in both Part I and Part II of the report. These instances are representative of more pervasive deficiencies where auditors are eager to begin remediation as soon as possible to avoid public disclosure of Part II Findings (e.g., Aobdia, 2018).

Overall, our study contributes to a growing but still limited literature examining how the dissemination of regulatory or auditor-related information affects trading behavior and market outcomes. While prior research and regulatory attention have primarily focused on communication between corporate management and investors, less attention has been given to the informational role of auditors and regulatory bodies. Information about the audit and auditor may be informative for investors, as financial statements and audits are co-products (DeFond & Zhang, 2014).

Several recent studies help motivate our inquiry. Dechow, Lawrence, and Ryans (2016) find that corporate insiders engage in increased selling prior to the public release of SEC comment letters, especially those concerning revenue recognition issues and in firms with high short interest, suggesting that private knowledge of regulatory actions can lead to informed trading. Similarly, Blackburne et al. (2021) find that corporate insiders engage in selling before the public disclosure of SEC investigations, indicating that such investigations are often material non-public events. Additionally, Arif et al. (2022) observe that corporate insiders trade ahead of audit report dates, particularly when the audit opinion is modified.

Our study explores a related question: whether stock prices respond to PCAOB inspection findings before those findings are made public. We observe stock price movements that are consistent with the financial markets incorporating inspection information, during private

circulations of its reports, ahead of their public release. Moreover, our study has implications for audit committees and issuer managements in how they consider the information received from auditors during private dissemination. Because PCAOB inspections are retrospective and are published after a further time lag, audit committees and managements may not consider communications with the auditor about the PCAOB inspection report to be material to their decision making. The results of our study may be useful for audit committees and management when considering the informativeness of the information received from the auditors during private dissemination, which accordingly may prove beneficial to them in designing their internal controls and policies.

The remainder of the study is constructed as follows: in section II we review the institutional background of the PCAOB, its inspections processes, Rule 140, and cover the development of our hypotheses. In section III, we discuss our research design and sample selection followed by a review of our results in sections IV and V. Finally, we conclude with a summary of our findings and implications.

II. Background and Hypothesis Development

Institutional Background

As part of its oversight activities, the PCAOB produces inspection reports which detail their findings from inspecting the work of the auditor. Inspection reports for each auditor are publicly posted on the PCAOB website, but the issuers whose audits are inspected are kept anonymous. There are two types of deficiencies discussed in the reports. Deficiencies in Part I.A of the inspection reports describe deficient audit procedures on individual audits such that the work

performed by the auditor was not sufficient to support the audit opinion.[4] They are publicly released upon publication of the report. Part II deficiencies describe issues with the audit firm's quality controls and are only publicly released if the issues are not addressed to the satisfaction of the PCAOB within one year following the final report date.

Audit firms have access to inspection report information at various points before the report's public distribution. First, PCAOB inspection fieldwork involves direct engagement with the audit office and any identified deficiencies in the audit engagement are typically shared directly at the end of the inspection fieldwork (e.g., CAQ, 2012; Aobdia, 2018, 2019). Second, typically several months after the inspection fieldwork ends, the audit firm receives a draft inspection report. We refer to the date the draft inspection report is distributed by the PCAOB to the auditor as the "draft report date." Third, after the audit firm's optional reply,[5] the PCAOB issues the final report to the audit firm and the SEC, hereafter referred to as the "final report date." Finally, the report is made publicly available on the PCAOB's website. We refer to this date as the "public release date."[6] As the inspection process progresses past these points of communication, uncertainty regarding what information will be included in the publicly released inspection report decreases.

[4] For simplicity, we refer to these deficiencies in the remainder of this paper as Part I Findings but note that the PCAOB has expanded Part I of the report over time to include Part I.B and Part I.C deficiencies. PCAOB reports—for example the PCAOB report for the 2024 inspection of Deloitte—define Part I.B deficiencies as those "that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s)." Similarly, the PCAOB defines Part I.C deficiencies as those "instances of apparent non-compliance with rules related to maintaining independence."

[5] Audit firms have the option to respond to the PCAOB's draft report and the response will be attached to the final report. Recent work by Guillamon-Saorin, Guiral, Minutti-Meza, and Moon (2025) find that smaller audit firms are more likely to contest content in the PCAOB's inspection reports, compared to large audit firms that more often acknowledge the content of the report. They also find that unstructured responses are associated with lower audit quality, but that clients are more likely to retain auditors that issue responses to the PCAOB.

[6] As described in Acito et al. (2025), the date printed on the inspection report occurs before the report is publicly distributed.

PCAOB inspection information may also be disseminated to issuer employees prior to its public release. If PCAOB inspectors interview the audit committee chair of the issuer being inspected, the audit committee (and potentially issuer management) will likely seek the results of the inspection from their auditor (e.g., Aobdia, 2018). Further, issuer employees (such as financial statement preparers) may learn about inspection findings from discussions with the auditor about audit quality or changes in audit procedures.

Rule 140

In 2010, the SEC implemented Rule 140, which had the effect of increasing the number of days between the finalization of PCAOB inspection reports and their public release. The SEC introduced Rule 140 to give audit firms an opportunity to challenge inspection findings by seeking a SEC review, consistent with provision 104(h) of the Sarbanes-Oxley Act of 2002. Inspected auditors have 30 calendar days from receipt of the final PCAOB inspection report to request such a review. If a request is made, the SEC has 30 calendar days to decide whether to grant it, and an additional 75 calendar days to conduct the review. In circumstances where it has good cause, the SEC can extend the review beyond the 75 days. The PCAOB cannot publicly release the final report until the SEC either waives or completes the review.

Hypothesis Development

A priori, PCAOB inspection reports likely contain information relevant to investors. While the reports focus on the adequacy of audit procedures and audit firms' quality control systems, information about audit quality can be indicative of financial reporting quality because financial statements and audits are co-products (DeFond & Zhang, 2014; Gaynor et al., 2016). Prior work

finds that PCAOB inspection deficiencies are associated with lower earnings response coefficients (Gipper, Leuz, & Maffett, 2020) and negative abnormal returns for identifiable issuers following the public release of inspection reports (Acito et al., 2025).

PCAOB inspection report information may be widely disseminated to audit firm employees and audit committees (and potentially client management) through the course of their duties. For instance, if an audit firm and the PCAOB agree about an audit deficiency, the audit firm will immediately begin addressing the issue. It is likely that it will become known within the audit firm which issuers received deficient audits in the process of developing, distributing, and implementing audit methodology changes. Additionally, audit teams may need to communicate with audit committees to remediate deficient audit testing or work, which could indicate to audit committees whether audit deficiencies were identified.

Audit partners may also want to strategically disclose negative information to audit committees before an inspection report's public release to control the audit quality narrative. It may be especially important for auditors to communicate early with audit committees (and possibly management) whether deficiencies were identified to manage client relationships and set expectations for upcoming audits. Further, changes to audit methodologies in response to deficiencies are likely to cause changes to the audit plan, requiring coordination with both deficient and non-deficient issuers, and again requiring deficiency information to be communicated.

As discussed above, given that many individuals learn about the information contained in inspection reports prior to their public release, it is possible that this information is already reflected in market prices. Any evidence that suggests markets do react to the information contained in the report would imply that investors find the information to be relevant to equity valuations. It is therefore reasonable to assume that issuer management, audit committees, and

boards would likewise view the information as value relevant and would take note of the content of the reports when they are released or even request further information from auditors regarding reports that impact the issuer in order to fully grasp the information being conveyed from their auditors.[7] Thus, we state our hypothesis below in the alternative form:

> ***H1a: Inspection report information on audit deficiencies is reflected in market prices prior to its public release by the PCAOB.***

The null hypothesis is that stock prices do not reflect the privately disseminated information in audit reports in measurable ways, be it because the financial markets are not strong-form efficient, the information is not value relevant to investors, or there are limits to the measurability of a price reaction econometrically.

There are also concerns regarding the impact of prior expectations on the information being released. If the market fully expects the information contained in the report, it may not find that information to be value relevant even if it is ostensibly new. For example, market participants may rationally expect audit firms to have deficiencies owing to the risk-based nature of PCAOB's inspection selection process. If that process properly selects for engagements with significant audit risk, markets may have a more significant reaction if the engagements were found to be clean, and a limited reaction if a deficiency was observed. Participants may also form discrete expectations for particular issuer-audit firm pairs (e.g., an issuer with known low financial reporting quality and an audit firm with known low audit quality) which alters the specific market reaction to that particular engagement. Assuming the PCAOB's risk selection methodology is effective, one could argue that the observed market reactions form a lower bound of the measure of audit quality, as

[7] See PCAOB Release No. 2012-003, for an overview of how audit committees may make use of information contained in the reports and their ability to request such information (https://pcaobus.org/inspections/documents/inspection_information_for_audit_committees.pdf).

the prior expectations would bias our results towards the null (i.e., markets would react less to the revelation of a deficiency if it expected a non-zero probability of a deficiency occurring).

Furthermore, there is a question of how the length of the inspection process affects how much inspection information is reflected in market prices before the reports are publicly released. Over the course of the inspection process, inspection information becomes more widely disseminated and the certainty of what will be included in the publicly released report increases, especially when the draft inspection report is provided. Rule 140 implemented a period of at least 30 days after the PCAOB finalizes the report to allow auditors time to submit an appeal to the SEC. Consistent with previous literature (Callen, Kaniel, & Segal, 2023), we expect that longer publication times lead to lower price reaction during the public release. This leads to our second hypothesis, stated in the alternative form:

H2a: Stock price reaction at the public releases becomes muted with publication delay.

III. Research Design and Sample Selection

Research Design

To examine both **H1** and **H2** we employ the following regression model:

$$\begin{aligned} Abnormal\ Returns \\ &= \beta_0 + \beta_1 Part\text{-}I\ Deficient\ Auditor + \beta_2 Size + \beta_3 Book\text{-}to\text{-}Market \\ &+ \beta_4 Leverage + Year\ Fixed\ Effects + \epsilon \end{aligned} \tag{1}$$

We test **H1** and **H2** by examining the above regression model on different windows defined by the date of fieldwork, draft report date, final report date, and public release date. We measure

abnormal returns using the Fama-Franch 3-factor model.[8] *Abnormal Returns*, the dependent variable, is calculated as either the Cumulative Abnormal Return (*CAR*) or the geometric daily average abnormal return (*Daily Avg. AR*) over the period of interest. Our main variable of interest is *Part-I Deficient Auditor*, which is an indicator variable equal to 1 if the PCAOB identifies at least one deficient audit in the Part I of the report as part of the PCAOB inspection, and 0 otherwise.

Our model controls for several variables related to observed returns. These variables include engagement size (*Size*), book-to-market ratio (*Book-to-Market)*, and leverage (*Leverage*). We also include year fixed effects to control for time trends that might affect our inferences,[9] and, as appropriate, we cluster our standard errors on the month of the event release, or the event date, as well as the audit firm.[10] Finally, when the dependent variable is CAR, we include a control for the length of the return window (*Length*) to account for the possibility that certain engagements may be associated with longer inspection processes and, in turn, lower returns—independent of information.

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[8] We employ the Fama-French 3-factor model as it provides empirical robustness beyond market-adjusted model or the CAPM. Moreover, we find that our results are robust to the choice of factor model, including the market-adjusted model, CAPM, and Fama-French 5-factor, and report the results of the 3-factor model for brevity. To estimate our models, we compute the abnormal returns using a 252-day estimation window ending 50 days before the event date and require a minimum of 252 days in the estimation window. Our analysis is robust to the choice of event date across potential events–that is, if we use the fieldwork date for all events versus other event dates the results still hold. Our results are also robust to other choices of estimation window parameters, for instance, requiring a minimum of 126 days in a 252-day estimation window or a 126-day estimation window. We specifically source data for our factor models from WRDS's Beta Suite, accessed on January 22, 2025.

[9] Most unit-level fixed effects, including auditor-fixed effects, inspection-fixed effects, and firm-fixed effects, absorb the variant of interest in our model. Our results are robust when industry-fixed effects (Fama-French 12) are included.

[10] Because the release of inspection reports occurs simultaneously for groups of issuer-firm pair events in our study, it is important to consider the impact of cross-correlation in the errors. As discussed in Kolari, Pape, and Pynnönen (2018), our use of Cameron, Gelbach, and Miller (2011)'s multi-way clustering should adjust for the cross-correlation impacts given that we have multiple release events (i.e., events occurring on different days) and not all issuers within the sample are impacted during a single event, which otherwise would require Kolari and Pynnönen (2010)'s correction. By comparison, we have a sufficient number of clusters to allow for two-way clustering—for example, our results reported in Table 3 have standard errors adjusted by 142 clusters in the full sample and 131 in the non-missing draft date sample.

Sample Selection

The PCAOB inspects auditors with over 100 issuer engagements annually and other auditors no less frequently than triennially. We focus on triennial inspections in this paper for three reasons. First, triennial inspections have more clearly defined fieldwork dates, whereas the PCAOB inspects a greater number of audits for annually inspected auditors, making it more difficult to determine when fieldwork begins and ends for a particular inspection. Second, almost all inspection reports for annually inspected auditors contain Part I deficiencies, leaving insufficient cross-sectional variation for empirical analysis. Third, the impact of fewer inspections, and the greater heterogeneity of audit quality for engagements of smaller audit firms (compared to large, annually inspected audit firms), likely leads information contained in inspection reports to have a greater marginal impact. This is of particular concern to smaller issuers that traditionally match with smaller audit firms. These issuers are likely less liquid and receive less attention from analysts and other information intermediaries, which could cause the information released in inspection reports to be comparatively more informative for their stock prices.[11]

Table 1 describes the sample which begins in 2006 and ends in 2022 due to the availability of public release dates and completeness of inspection periods. We obtain final report dates from

[11] Our study is subject to a limitation in the choice of this sub-group of audit firms because the issuers within the sample are notably small. These entities are naturally relatively illiquid, which may introduce a pricing factor that we do not observe in the Fama-French 3-factor, or 5-factor, model (Amihud, 2002; Pastor & Stambaugh, 2003), thereon inflating our alpha (i.e., abnormal return) estimates. Although the Fama-French models account for the return premium to small issuers (i.e., SMB), the factors themselves are trained on issuers listed on major exchanges, which are relatively liquid. Because our analysis also relies upon issuers contained in CRSP's repositories (i.e., those traded on major exchanges), the risk of severe illiquidity biasing our results (i.e., as would be observed with issuers quoted on OTC markets) is mitigated. Moreover, our findings, reported later (see Engagement-level analysis), are robust to differentials observed within the cross-section of these illiquid issues (where the impact of inspection reports is likely exogenous to the day-to-day liquidity of the issues, or at the very least, the liquidity is unlikely to be the source of an audit deficiency), suggesting that—while there may be some bias in our calculus owing to liquidity—our results are not primarily driven by this factor.

PCAOB inspection reports. Fieldwork, draft report, and public release dates are obtained from the PCAOB. The availability of draft report dates is limited, especially before 2011. Thus, in the empirical analyses, we focus on two subsamples, one conditioned on the availability of draft report dates, and the other not conditioned on this availability. The longer sample period with limited draft report dates is needed for the Rule 140 analysis in **Panel A** of **Table 4**, which requires observations pre and post 2010.

We use Audit Analytics to identify the issuer clients of each auditor and match those issuers to Compustat to obtain accounting data and to CRSP to obtain stock return information. **Table 1** provides sample selection details. Our overall sample is comprised of 5,186 issuer observations across 1,214 inspection reports, but the sample with draft report dates available is limited to 3,718 issuer observations across 844 inspection reports.

Table 2 provides descriptive statistics for this panel of issuer-inspection report pairs. **Panel A** focuses on the full sample, and **Panel B** on the sample where the draft report date is not missing. In the full sample, 70 percent of issuer-inspection report pairs were associated with at least one Part I Finding at the auditor level. Furthermore, 30 percent of these issuers had an audit that was directly responsible for the Part I Finding. The median issuer in our sample has approximately $400 million in assets at the time of the report, indicating our sample is comprised of smaller issuers because we focus on triennially inspected auditors, who have fewer than 100 public audit clients. All continuous, dependent and independent, variables in our sample are winsorized at the 1 and 99 percent levels.

IV. Analysis and Results

Inspection Report Dissemination Prior to Public Release

We begin our analysis by verifying that PCAOB inspection reports contain information relevant to issuers' market prices. **Table 3**, **Panel A** reports issuers' abnormal market returns from the end of PCAOB inspection fieldwork until 10 days after the public release of the inspection report for the full sample. Over this entire period, we find issuers whose auditors are found to have one or more inspection deficiencies have -4.1 percentage point return relative to issuers whose auditors have clean inspection reports, reported in column (1). In column (2), we also find these issuers have a daily average abnormal return of -0.02 percent. Both results are statistically significant at the 10 percent level. Similar analyses for the sample restricted to observations with a non-missing draft report date are reported in columns (3) and (4) with directionally similar results; however, the results are insignificant in column (3) and significant at five percent in column (4). Note that the period examined is more than a year (348 or 349 trading days) on average, and that—despite a host of potential confounding effects that may attenuate any visible finding—we still observe a negative stock market reaction to deficiencies.

We next divide the return period for the information in the inspection report into segments to determine when, during the inspection process, clients of deficient auditors experience abnormal returns. For those observations where the draft report date is available, we consider the period from the end of inspection fieldwork until the draft report date (i.e., W1), the draft report date to the public release date (i.e., W2), and the 10 trading days after public release date (i.e., W3, see also Appendix A).

Table 3, **Panel B** reports the returns for each of the segments. In column (3), we find a statistically significant -4.6 percent CAR (-0.05 percent daily average AR, in column (4)) between the draft report date and the public release date for issuers whose auditors have deficiencies relative to inspected auditors without deficiencies (for reports with non-missing draft report dates). The

draft report date is notable because it is the first time that the inspected auditor obtains a clear picture of the PCAOB's inspection findings that will ultimately make it to the final report. Prior to this, auditors would have to infer potential findings from discussions with the PCAOB and comment forms issued during the inspection fieldwork. Thus, uncertainty about the inspection findings greatly decreases on the draft report date. Returns during the other segments, including the 10 days after the inspection reports are publicly released (columns (5) to (8)), are insignificant. The lack of returns following the public release of the inspection reports is consistent with this information being impounded into prices prior to the public release date. Overall, the evidence in **Table 3** indicates that information in PCAOB inspection reports is disseminated to market participants prior to its public release, leading us to reject **H1** for its alternative. Furthermore, this evidence suggests value relevance of audit quality information contained in the reports, such that the information is indeed traded on even before its public dissemination, implying that audit committees and managements may also find the audit quality information in reports critical to their decision making given that it impacts equity prices, potentially through a strong-form efficient incorporation of that information.

Inspection Release Delay and Muted Public Release Responses

We next turn our attention to our second hypothesis on how publication delay affects public release market reactions. Most of the factors associated with the variation in publication delay are endogenous.[12] For example, disagreements on the inspection findings, additional inspection

[12] Within our sample, the average delay between the end of fieldwork and the publication of the reports, as measured by distinct registered audit firm reports per inspection year, was highest in 2006 at approximately 737 days. This figure declines, on average, to a local minimum in 2014 at 349 days and sits in a low range (350 to 400) through 2018. The delay reaches a new local maximum of 709 days in 2019. From 2019 to 2022, this figure declines to 361 showing a significant improvement from the 2019 high.

activities during PCAOB review, and first-time inspections, may be associated with inspection delays but are also potentially indicative of worse inspection outcomes. Therefore, we leverage Rule 140 in 2010 as a shock to examine the relationship between inspection report delay and information dissemination. This rule delays the release of inspection reports by the PCAOB by at least 30 days to provide auditors with an opportunity to request that their inspection reports are reviewed by the SEC. As shown in Appendix A, after September 7, 2010, inspection reports are no longer publicly released shortly after the PCAOB's final inspection report is sent to the audit firm. Instead, the inspected auditors receive the final inspection report and have 30 days to submit a review request to the SEC. Thus, all inspections after the implementation of Rule 140 are subject to a longer publication period. Appendix B shows that Rule 140 had the effect of delaying the public release of inspection reports starting in 2010.

We examine the abnormal returns 5 (10) days after the public disclosure of inspection reports pre and post Rule 140. **Table 4**, **Panel A** presents the results. In the pre-Rule 140 period, we find that issuers whose auditors have Part I deficiencies have significant returns of approximately -2.5 percent, in column (2), (-2.7 percent, in column (4)) in the 5 (10) days following the public release date. This negative return is consistent with inspection report content bringing new information to the equity market when it is publicly released. In the post-Rule 140 period (columns (5) to (8)), however, we find no evidence of a market reaction when inspection reports are released—indicating that longer windows, where private dissemination could occur, are associated with muted stock reactions to the public release of PCAOB inspection reports.

This lack of market reaction to the public release of PCAOB inspection reports could be evidence that this information has already been impounded into market prices. To investigate this possibility, we examine market returns of issuers whose auditors have inspection deficiencies in

the period after the final report is provided to the audit firm, but prior to its public release. This analysis can only be conducted post-Rule 140 when the final report dates and public release dates differ.

Table 4, **Panel B** presents the results. In the post-Rule 140 period, we find significant returns of approximately -1.75 percent (column (6)) for issuers with deficient auditors following the finalization of the inspection report but before it is publicly released. Combined with the results in **Panel A**, the evidence is consistent with PCAOB inspection information being priced in the market before its public release after Rule 140 effectively delayed the public release dates. Thus, we have evidence to reject **H2** for its alternative.

Graphical Analyses

To better understand the timing of information dissemination of overall inspection findings, we plot the CARs after the draft report and after receiving the final report (the latter for observations post-Rule 140) in **Figure 1**. We plot the CARs for the first five and twenty trading days following the draft report date and the final report date separately for inspected auditors without and with Part I Findings. For deficient auditors (i.e., those with Part I Findings), we find negative CARs as early as five trading days following the releases of the draft and final reports, respectively. When we focus on the twenty trading days, it appears that most of the information is already impounded in these first five trading days. We find a similar pattern for non-deficient auditors, although the return drift appears to be larger after the five trading days following the final report date.

One possible explanation is that the asymmetry between clean and deficient PCAOB inspection reports following the final report date might be driven by the need for deficient auditors

to communicate the information earlier to promptly address the deficiencies raised by PCAOB inspectors and possibly avoid the release of Part II findings, if such findings are included in the inspection reports. The asymmetry may also reflect expectations regarding the baseline quality of the audit engagements in that a lack of deficiencies is the assumed norm (i.e., market participants assume audits are well done, creating an asymmetry to the downside when those expectations are proven false). Similarly, confirmations of those (clean report) expectations may reduce relatively smaller levels of uncertainty regarding the quality of the engagement, resulting in an extended drift of positive returns compared to an immediate negative reaction for deficiencies. It is also conceivable that market participants, and auditors, have formed expectations based on PCAOB's known risk-based selection process, with realized deficiencies confirming the outcome that the engagement was properly selected with significant audit risk. Clean reports, or clean engagements, are therefore possibly met with a degree of continued skepticism and uncertainty. While intriguing, exploring these questions is beyond the aims of this study and we leave it to future research.

V. Additional Analyses

Inspection Finding Uncertainty and the Timing of Information Dissemination

In this subsection, we focus on whether the reaction to PCAOB inspection draft reports and final reports depends on the level of auditor uncertainty about whether these reports will change between their draft version and final version. As discussed above, audit firms can disagree with the content of the PCAOB inspection report and even appeal to the SEC, post-Rule 140, when the disagreement with the PCAOB cannot be resolved. Other factors, such as the PCAOB considering additional deficiencies in between the draft report date and the final report date, could increase auditor uncertainty about whether the final version of the report will differ from its draft version.

To evaluate this, we conduct a set of exploratory analyses to understand the effect of uncertainty on the timing of information dissemination.

To better understand how inspection finding uncertainty affects the timing of dissemination, we partition inspections into two groups by which the uncertainties over the inspection findings are likely to differ after the draft report date. Empirically, we partition the post-Rule 140 inspections by the lengths of (1) the period between the draft and final report date, and (2) the period between final report and the public release date. We define an inspection with either of the two periods over 100 calendar days as inspections with high uncertainty, and all others as inspections with low uncertainty.[13] Inspection reports for which it takes time for the PCAOB to release the next version of the report are likely to have more uncertainty because of potential disagreement between the audit firm and the PCAOB about particular deficiencies, or because the PCAOB considers adding new deficiencies to the inspection report. Regardless of the reason that causes the delay, it is likely that audit firms have more certainty about the final version of the report when the final report is shared earlier with the audit firm and/or disseminated earlier to the public.

Using the two groups of inspections with different uncertainty levels, we apply a model similar to the prior tests and examine abnormal returns of all engagements of the inspected and deficient auditors (1) five trading days after the draft report date, (2) five trading days before the final report date, (3) five trading days after the final report date, and (4) five trading days before the public disclosure of the final inspection report. We focus on five-day trading windows because

[13] Consistent with the implied delay of the rule, we drop instances in the post-Rule 140 period where the difference in time for either partition is less than 30 days, and additionally where the difference in time between the draft report date and the fieldwork end date is less than 22 days. In untabulated analysis, the sample is divided based on other thresholds, including but not limited to (yearly) top quintile, (yearly) top quartile, alternative numbers of calendar days. The results are robust.

of the results of **Figure 1** that show that most of the information is impounded by equity markets within five days of the final report date. Ex ante, for an inspection with low uncertainty, we expect the information dissemination is more likely to occur within five days after the draft report date and final report date. In contrast, when the resolution of uncertainty occurs for inspections with higher uncertainty is unclear. However, it is possible that such resolution occurs shortly before the public release date, in some cases when the PCAOB and SEC conclude on a version of the inspection report for the publication.

We report the results for the low uncertainty group in **Panel A** of **Table 5**. We find market reactions during the five trading days following the draft report date and final report date, consistent with resolution of uncertainty occurring when these documents are shared by the PCAOB with the auditor.

For completeness, we also focus on the high uncertainty group in **Panel B** of **Table 5** but note that several reasons could explain why it takes time for the PCAOB to release the final report following the draft report or share the final report with the public. Thus, the analysis in this table is more exploratory in nature. In contrast with **Panel A**, we do not find evidence to suggest that inspections with deficiencies are associated with abnormal negative returns in the days following the draft report date and the final report date.[14] These results are consistent with more uncertainty about whether the deficiencies included in the PCAOB inspection report will eventually be released to the public or not. In contrast, we find puzzling negative abnormal returns in the five

[14] We perform Chow's f-test on the restricted and unrestricted, sub-sample estimations using the 100-day threshold with the specifications reported in the first columns of Panel A and Panel B of Table 5 and fail to reject the null with a F-statistic of 1.41 ($p = 0.11$), suggesting the threshold may not reflect a true structural break with respect to time delay and its impact on observed market reactions. Additionally, we execute a pooled interaction test, by interacting a low uncertainty indicator against other parameters, and observe that the estimate for the difference in the results is insignificant at -0.5% ($t = -0.63$), suggesting that we may be unable observe statistical differences in the data relative to low and high uncertainty and, as below, we caution the exploratory nature of this analysis.

days *preceding* the public release date of the report (final report date). These negative returns suggest that at least some auditors expect their inspection reports to be shortly released by the PCAOB and information dissemination occurs during this time.[15] This result could be explained by auditors appealing some of the findings to the SEC and hearing that the appeal failed shortly before the public release date of the PCAOB inspection report. While exploring this possibility further is clearly worthwhile, we are precluded from doing so by a lack of data available to us. Similarly, we also find puzzling negative abnormal returns during the five trading days preceding the final report date, significant at five percent, but not as strong as the negative returns during the five days preceding the public release date. We do not have a good explanation for this result and thus caution the reader about this.

Engagement-level analysis

In order to explore the validity and robustness of our prior findings, we examine whether there is a differential market reaction to PCAOB inspections for engagements that are inspected by the PCAOB relative to engagements that are not inspected by the PCAOB, and whether the reaction depends on the PCAOB identifying a Part I Finding on the inspected audit. To provide further analysis on these questions, we use an alternative design based on Blackburne et al. (2021). This approach differs from our prior analysis because the main variables of interest are at the audit-engagement level rather than at the auditor level. We obtain engagement-level inspection information directly from the PCAOB because issuers are kept anonymous in publicly released PCAOB inspection reports.

[15] Additionally, our findings contrast with Guillamon-Saorin, Guiral, Minutti-Meza, and Moon (2025), which reports no evidence of market reactions around the publication of inspection reports based on the existence, or structure, of an audit firm's response.

We examine issuers' daily abnormal returns between fieldwork date and the public release date of the PCAOB inspection report, focusing on those engagements that were inspected by the PCAOB and on whether Part I Findings were identified by the PCAOB.[16] Besides examining the entire window of the inspection process, we also target our investigations to five-day windows surrounding important events such as the release of the draft report date, final report date, and just before the public release date. We focus on five-day windows because of the results in **Figure 1** and **Table 5** that highlight that significant information dissemination occurs during such windows. Similar to **Table 5**, we partition the sample between low and high uncertainty subsamples, because our prior analyses reveal that the timing of market reaction differs across the two sub-groups. Specifically, we use the following model:

$$
\begin{aligned}
&Daily\ Abnormal\ Returns \\
&\quad = \beta_0 + \beta_1 Inspected\ and\ Deficient\ Issuer \\
&\quad + \beta_2 Inspected\ and\ Part\text{-}I\ Nondeficient\ Issuer \\
&\quad + \beta_3 Inspected\ and\ Deficient\ Issuer * Draft\ Report\ Date\ [0,5] \\
&\quad + \beta_4 Inspected\ and\ Part\text{-}I\ Nondeficient\ Issuer * Draft\ Report\ Date\ [0,5] \\
&\quad + \beta_5 Inspected\ and\ Deficient\ Issuer * 5\ Days\ before\ Final\ Report \\
&\quad + \beta_6 Inspected\ and\ Part\text{-}I\ Nondeficient\ Issuer * 5\ Days\ before\ Final\ Report \\
&\quad + \beta_7 Inspected\ and\ Deficient\ Issuer * Final\ Report\ Date\ [0,5] \\
&\quad + \beta_8 Inspected\ and\ Part\text{-}I\ Nondeficient\ Issuer * Final\ Report\ Date\ [0,5] \\
&\quad + \beta_9 Inspected\ and\ Deficient\ Issuer * 5\ Days\ before\ Public\ Release \\
&\quad + \beta_{10} Inspected\ and\ Part\text{-}I\ Nondeficient\ Issuer * 5\ Days\ before\ Public\ Release \\
&\quad + \beta_{11} Size + \beta_{12} Book\text{-}to\text{-}Market + \beta_{13} Leverage + \beta_{14} Total\ Accruals \\
&\quad + \beta_{15} EP\ Ratio + \beta_{16} Sales\ Growth + \beta_{17} Blackout + Inspection\ Fixed\ Effects \\
&\quad + Date\ Fixed\ Effects + \epsilon
\end{aligned}
\tag{2}
$$

[16] Daily observations within five days of issuers' earnings announcement are excluded from our sample.

In all analyses, we include inspection fixed effects, which control for the average daily returns for non-inspected engagements of an inspected auditor. Thus, we aim to understand the differential market reaction of inspected engagements relative to non-inspected engagements of an inspected auditor, conditioning this market reaction depending on whether the inspected audit received a Part I Finding.

Panel A of **Table 6** presents the results for the lower uncertainty sample. We find a negative coefficient on *Inspected and Deficient Issuer*, significant at the five percent level. This result suggests that relative to non-inspected audits of an inspected auditor, an inspected engagement that ultimately receives a Part I Finding experiences negative abnormal stock returns between the fieldwork end date and the public release date, excluding some windows of interest surrounding the draft report date, final report date, and public release date. In contrast, we do not find a significant coefficient during this period for inspected audits that do not receive a Part I Finding. Next, we focus on particular return windows surrounding the draft report date, final report date, and public release dates to understand whether the differential stock market return is greater when arguably more resolution of uncertainty occurs during such windows. We find significant and negative returns in the five days after the draft report date for issuers whose audits are inspected and are found to have Part I deficiencies. We also find positive and significant returns for issuers whose audits are inspected and found to not have deficiencies in the five days following the final report date, but not in the five days following the draft report date. Together, these findings are consistent with negative information from PCAOB inspections being priced earlier than positive information, potentially because audit firms begin taking action on deficient audits immediately after receiving the draft report. Overall, these results suggest that uncertainty about

PCAOB inspection findings resolves earlier for deficient audits relative to clean audits, at least for a sample where the auditor and the PCAOB do not seem to disagree about the content of the report.

We also graphically report some of these analyses in **Figure 2**, by focusing on the market reaction following the draft report date and final report date for PCAOB inspected audits in the subsample where there is lower uncertainty. There is a clear negative pattern that begins shortly after both the draft and final dissemination of the reports to auditors for audits that receive Part I Findings. We also find a positive trend for inspected audits that do not receive a Part I Finding, but the pattern generally seems more pronounced for engagements of auditors that do not receive any Part I Finding on their inspected audits. This result is consistent with our prior results that clients of auditors with Part I Findings, including the non-inspected ones, experience negative stock market reactions even prior to the public release date. It also highlights that clients that have no Part I deficiency in inspected engagements are distinguished from clients with deficiencies, underscoring our prior findings suggesting that market participants find the information contained in the inspection reports to be value relevant—owing to their ability to discriminate high- and low-quality engagements. Overall, this graphical analysis provides confirming evidence for the rejection of the nulls of **H1** and **H2** in favor of their alternatives.

For completeness, we also report the result for the high uncertainty subsample in **Panel B** of **Table 6** but again note that the analysis of this subsample is more exploratory in nature, because the underlying reasons for the longer delay between draft report and final report, or final report and public release date, are unknown to us. For this subsample, we again find evidence of greater differential negative returns for PCAOB inspected engagements with Part I Findings shortly before the public release date of the PCAOB inspection report. Again, this result is consistent with a potential appeal made by the audit firm to the SEC, and resolution of this appeal occurring shortly

before the public release date of the report. However, we caveat that in absence of actual information about whether such an appeal occurred, this analysis is more exploratory and speculative at best.

Abnormal Returns Around Key Dates for Inspections with Part I and Part II Findings

In this section, we expand the analysis of **Table 6** to include audit performance Part II inspection findings that are typically tied to specific deficiencies identified during PCAOB inspections of individual audits (for more details, see Aobdia, 2018, 2020). These Part II findings remain non-public if remediated to the satisfaction of the PCAOB within one year following the final report date. We consider whether a PCAOB inspected audit that receives a Part I Finding is also mentioned in Part II of the report and assess whether information is more likely to be reflected into stock prices for such audits. There are good reasons to believe this is the case. Audit firms have strong incentives to communicate the audit performance Part II Findings across a wide range of employees at the audit firm shortly after they receive the PCAOB inspection report in order to begin the remediation process. Anecdotally, engagement teams that received a Part I Finding that is also referenced in Part II of the report are known to take initiative regarding the remediation effort and disseminate their effort to the remainder of the audit firm. We consider the analysis in **Table 6** but, similar to Aobdia (2018), partition the sample of inspected audits on whether they received a Part I Finding or Part II Finding. Four scenarios are possible for an inspected engagement: (1) the engagement is not referred to in either Part I or Part II of the report, (2) it is referred to in Part II of the report only, (3) it is referred to in Part I of the report only, and (4) it is referred to in both Part I and Part II of the report. Because the latter scenario encompasses more pervasive deficiencies within the audit firm, we expect these issues to be disseminated more widely

relative to Part I of the report only or Part II of the report only deficient engagements. We use the following model in the analyses:

$$
\begin{aligned}
&Daily\ Abnormal\ Returns \\
&\quad = \beta_0 + \beta_1 Inspected\ and\ Clean\ Issuer + \beta_2 Inspected\ and\ Part\ I\ Only\ Issuer \\
&\quad + \beta_3 Inspected\ and\ Part\ II\ Only\ Issuer + \beta_4 Inspected\ and\ Part\ I\ \&\ II\ Issuer \\
&\quad + \beta_5 Inspected\ and\ Clean\ Issuer * Draft\ Report\ Date\ [0,5] \\
&\quad + \beta_6 Inspected\ and\ Part\ I\ Only\ Issuer * Draft\ Report\ Date\ [0,5] \\
&\quad + \beta_7 Inspected\ and\ Part\ II\ Only\ Issuer * Draft\ Report\ Date\ [0,5] \\
&\quad + \beta_8 Inspected\ and\ Part\ I\ \&\ II\ Issuer * Draft\ Report\ Date\ [0,5] \\
&\quad + \beta_9 Inspected\ and\ Clean\ Issuer * Final\ Report\ Date\ [0,5] \\
&\quad + \beta_{10} Inspected\ and\ Part\ I\ Only\ Issuer * Final\ Report\ Date\ [0,5] \\
&\quad + \beta_{11} Inspected\ and\ Part\ II\ Only\ Issuer * Final\ Report\ Date\ [0,5] \\
&\quad + \beta_{12} Inspected\ and\ Part\ I\ \&\ II\ Issuer * Final\ Report\ Date\ [0,5] + \beta_{13} Size \\
&\quad + \beta_{14} Book\text{-}to\text{-}Market + \beta_{15} Leverage + \beta_{16} Total\ Accruals + \beta_{17} EP\ Ratio \\
&\quad + \beta_{18} Sales\ Growth + \beta_{19} Blackout + Inspection\ Fixed\ Effects \\
&\quad + Date\ Fixed\ Effects + \epsilon
\end{aligned}
\tag{3}
$$

Table 7 reports the results of this analysis for the subsample of inspected audits where there is less uncertainty. The results suggest that the findings in **Table 6** on inspected engagements with Part I Findings are driven by deficiencies that are referenced in Part II of the report. In contrast, we do not find evidence to suggest that there is an incremental market reaction for engagements that are referred to in Part I of the report but not Part II of the report. These findings are consistent with inspection report information being impounded into stock prices after dates when uncertainty is resolved and where greater dissemination of the issues is expected within the audit firm and

perhaps even for clients. It also underscores the importance of internal controls information contained within the private content of inspection reports. Furthermore, these findings suggest that audit committees and issuer managements may find Part II related content to be value relevant, given that markets react to the dissemination of related information, and that audit committees may have legitimate reasons to request access to this information from the audit firms.

VI. Conclusion

We investigate how stocks respond to information from PCAOB inspection reports prior to their public disclosure, evaluating the integrity of audit oversight and its efficacy to incentivize market-based regulations. Our evidence is consistent with PCAOB inspection information being priced in the market prior to its public release, particularly after 2010 when inspection releases are further delayed by Rule 140. Furthermore, auditors, audit committees, and managements may find our evidence informative in designing their internal controls and policies, as it relates to the implications of the PCAOB inspection reports.

There is also a broader discussion about whether the PCAOB and the SEC should minimize the time between the end of the fieldwork and the public release date. While our analyses suggest limited stock market reactions between the end of fieldwork date and draft report date, the PCAOB has come under criticism in the past for taking too much time to publicly release its inspection reports. While we observe that time lag has recently been shortened over the period of 2019 to 2022, there are likely to be structural and rule-based impediments to more rapid disclosure. Thus, future research may wish to focus more on the influence of delays in public release date on the overall functioning of capital markets.

While our findings contribute to the literature on the impact of PCAOB's inspection findings, the informativeness of those inspection findings, and *when* markets react to the dissemination of audit quality information, these findings should be interpreted in light of several limitations. Firstly, our study's design may not be formally exogenous, as Rule 140 does not remove the option of choice upon the audit firm in challenging the content of PCAOB inspection report findings with the SEC. Additionally, since all firms are given the option, there does not exist a control from which to estimate counterfactual-based inferences. Though, we believe our design in estimating deviations in the market reactions pre and post these events, as well as within cross-sections, serve as informative avenues for our analyses. Second, due to the availability of fieldwork dates, our results focus on triennially inspected audit firms and may not generalize to annually inspected audit firms. Third and finally, our choice of asset pricing models may fail to properly model the return generating process of our sample of issuers.

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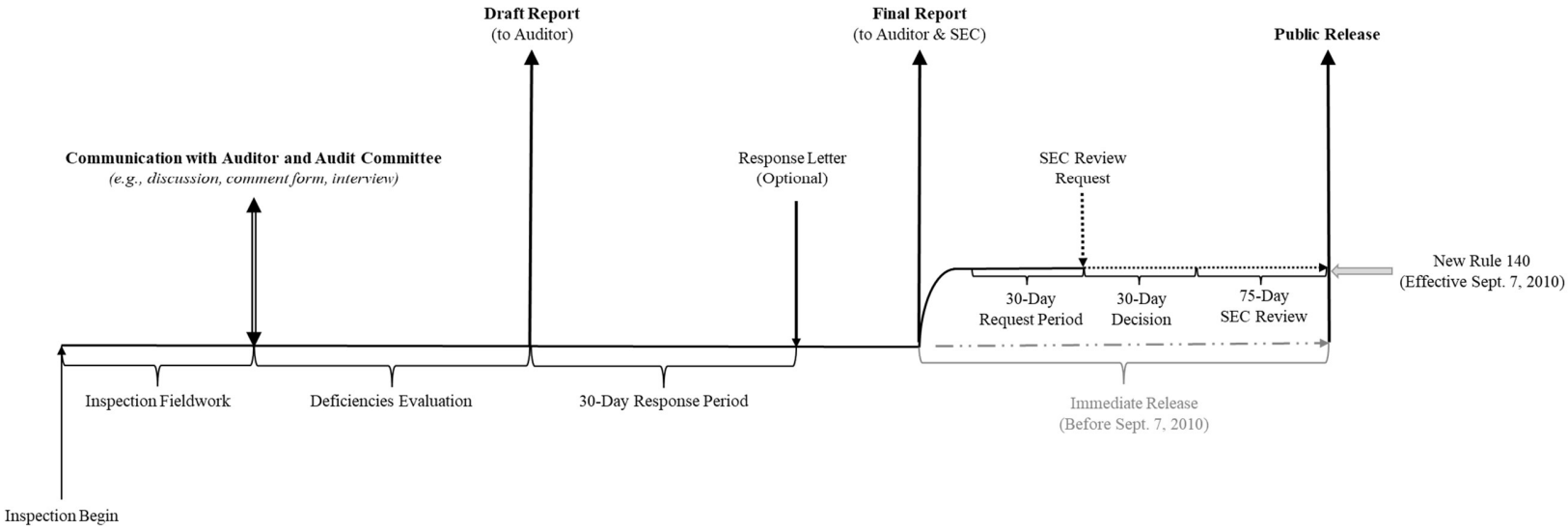
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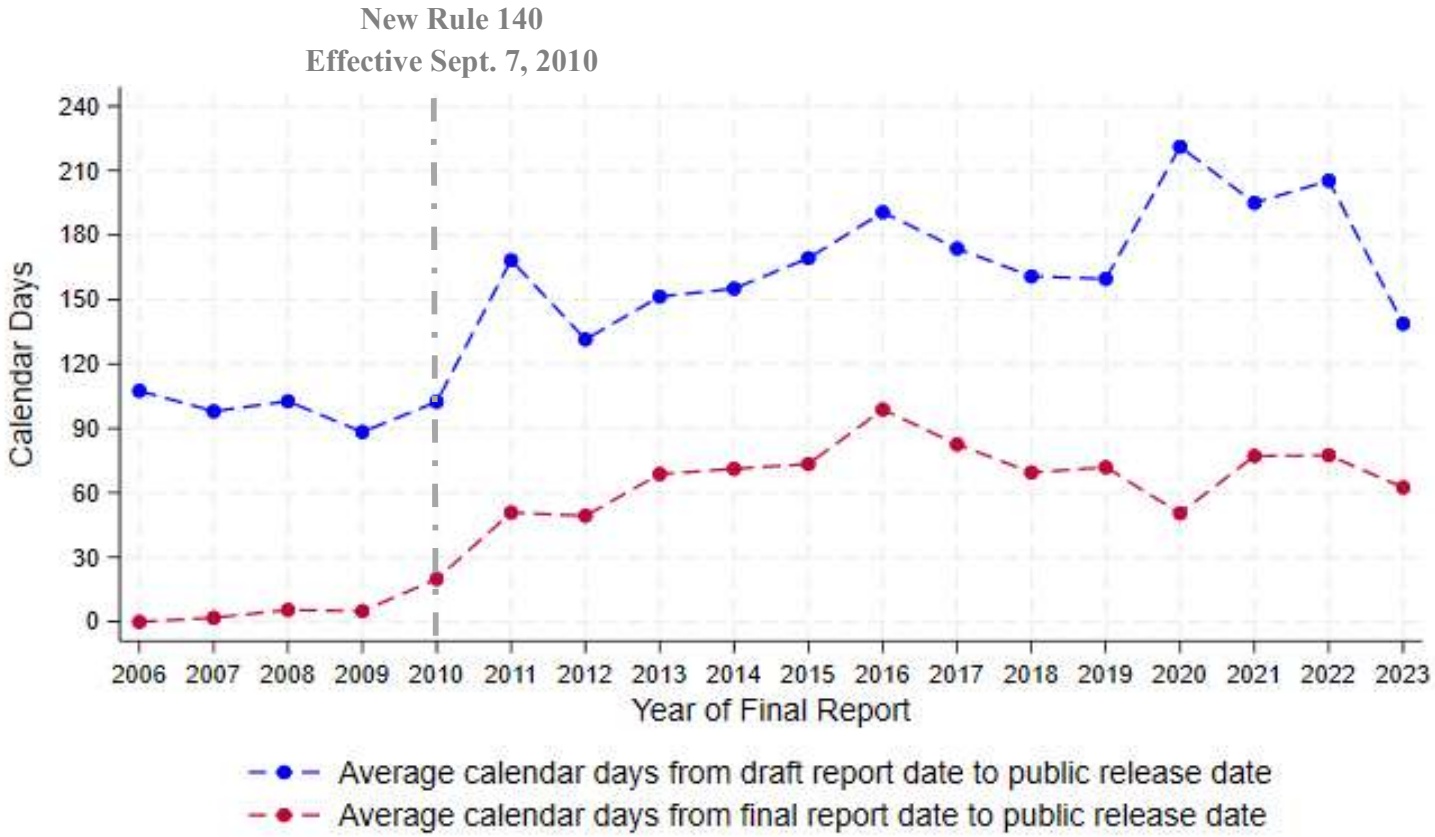
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Appendix A. PCAOB Inspection Timeline



Appendix B. Number of Days Between Draft (Final) Report Date and Public Release Date

This appendix shows the average calendar days between final report date (draft report date) and public release date (public release date) in each year. The data is calculated using all publicly released inspection reports with non-missing draft report dates, including annual and triennial inspections.



Appendix C. Variable Definitions

Variable	Definition	Source
Dependent Variables		
Abnormal Return	Market-based dependent variables are measured as Cumulative Abnormal Return (Daily Average Abnormal Return) during the following window: - [End of inspection fieldwork, Public release of final inspection report+10] - [End of inspection fieldwork, Auditor receive draft inspection report -1] - [Auditor receive draft inspection report, Public release of final inspection report-1] - [Public release of final inspection report, Public release of final inspection report+10] - [Auditor receive draft inspection report, Auditor receive final inspection report-1] - [Auditor receive final inspection report, Public release of final inspection report-1] Fama-French 3-factor model is used to calculate the abnormal return.	PCAOB, PCAOB Website, CRSP
InsiderBSI	Daily insider buy-sell imbalance, calculated as the number of shares bought by insiders minus the number of shares sold by insiders divided by insider trading volume.	Thomson Reuters
InsiderSeller	Indicator variable equal to 1 if InsiderBSI is negative, and 0 otherwise.	Thomson Reuters
Independent Variables		
Part-I Deficient Auditor	Indicator variable equal to 1 if the auditor is inspected by the PCAOB and at least one Part I Finding is identified, and 0 otherwise.	PCAOB Website

Inspected Issuer	Indicator variable equal to 1 if the firm's most recent audit engagement is inspected by the PCAOB, and 0 otherwise.	PCAOB
Inspected & Part-I Deficient Issuer	Indicator variable equal to 1 if the firm's most recent audit engagement is inspected by the PCAOB and deemed Part-I deficient, and 0 otherwise.	PCAOB
Inspected and Clean Issuer	Indicator variable equal to 1 if the firm's most recent audit engagement is inspected by the PCAOB and deemed Part-I deficient free, and 0 otherwise.	PCAOB
Inspected and Part-I Only Issuer	Indicator variable equal to 1 if the firm's most recent audit engagement is inspected by the PCAOB and deemed Part-I deficient only, and 0 otherwise.	PCAOB
Inspected and Part-II Only Issuer	Indicator variable equal to 1 if the firm's most recent audit engagement is inspected by the PCAOB and deemed Part-II deficient only, and 0 otherwise.	PCAOB
Inspected and Part-I&II Issuer	Indicator variable equal to 1 if the firm's most recent audit engagement is inspected by the PCAOB and deemed Part-I & Part-II deficient, and 0 otherwise.	PCAOB
Control Variables		
Firm Size	Firm size, measured as the natural logarithm of total assets as of the end of the most recent fiscal quarter.	Compustat
Book-to-Market	Book-to-market ratio, measured as the ratio of the book value of equity to the market value of equity as of the end of the most recent fiscal quarter.	Compustat
Leverage	Leverage ratio, measured as the ratio of the total liabilities to the total assets as of the end of the most recent fiscal quarter.	Compustat

Length	Number of trading days of the period of interest.	CRSP
TACC	Total accruals scaled by average assets as of the end of the most recent fiscal quarter.	Compustat
EP Ratio	Earnings per share divided by stock price as of the end of the most recent fiscal quarter.	Compustat, CRSP
Sales Growth	Sales growth rate over the previous fiscal quarter.	Compustat
Blackout	Indicator variable equal to one if the day falls within [–46, +1] days of the firm's quarterly earnings announcement and zero otherwise.	Compustat, CRSP

Table 1 Sample Selection

This table reports the sample selection procedure in detail. The analyses that require draft report date use the second sample, the full sample is used in other analyses.

Sample selection step	Number of Inspections	Number of Observations
PCAOB Triennial Inspections	3,418	-
Match with Audit Analytics Issuers in the Most Recent Year	(1,311) 2,107	- 14,636
Match with Compustat and CRSP Issuers	(770) 1,337	(8,505) 6,131
With Non-missing Control Variables	(29) 1,308	(220) 5,911
With Non-missing Fieldwork Dates, Final Report Date, and Public Release Date	(94) **1,214**	(725) **5,186**[17]
With Non-missing Draft Report Date	(370) **844**	(1,468) **3,718**[18]

[17] Among 5,186 observations, 810 are pre-Rule 140 and 4,376 are post-Rule 140.

[18] Among 3,718 observations, 228 are pre-Rule 140 and 3,490 are post-Rule 140.

Table 2 Descriptive Statistics

This table presents descriptive statistics. Panel A shows the full sample, and Panel B shows the sample with non-missing draft report dates. Variable definitions are in Appendix C.

Panel A. Full Sample

Variable	N	Mean	p25	p50	p75	SD	Min	Max
Part-I Deficient Auditor	5,186	0.685	0.000	1.000	1.000	0.464	0.000	1.000
Inspected Issuer	5,186	0.298	0.000	0.000	1.000	0.457	0.000	1.000
Inspected & Part-I Deficient Issuer	5,186	0.105	0.000	0.000	0.000	0.307	0.000	1.000
Inspected and Clean Issuer	5,186	0.147	0.000	0.000	0.000	0.354	0.000	1.000
Inspected and Part-I Only Issuer	5,186	0.025	0.000	0.000	0.000	0.155	0.000	1.000
Inspected and Part-II Only Issuer	5,186	0.046	0.000	0.000	0.000	0.209	0.000	1.000
Inspected and Part-I & II Issuer	5,186	0.080	0.000	0.000	0.000	0.272	0.000	1.000
Size	5,186	6.000	4.061	5.861	7.567	2.414	1.759	12.800
Book-to-Market	5,186	0.429	0.086	0.197	0.436	0.742	0.002	5.257
Leverage	5,186	0.528	0.278	0.499	0.810	0.302	0.022	1.415
EP Ratio	5,186	-0.037	-0.029	0.006	0.019	0.157	-1.059	0.165
Total Accruals	5,186	0.000	-0.019	0.002	0.024	0.077	-0.373	0.291
Sales Growth	5,186	0.053	-0.067	0.001	0.091	0.418	-0.877	2.804

Panel B. Non-missing Draft Date

Variable	N	Mean	p25	p50	p75	SD	Min	Max
Part-I Deficient Auditor	3,718	0.727	0.000	1.000	1.000	0.445	0.000	1.000
Inspected Issuer	3,718	0.299	0.000	0.000	1.000	0.458	0.000	1.000
Inspected & Part-I Deficient Issuer	3,718	0.123	0.000	0.000	0.000	0.329	0.000	1.000
Inspected and Clean Issuer	3,718	0.130	0.000	0.000	0.000	0.336	0.000	1.000
Inspected and Part-I Only Issuer	3,718	0.024	0.000	0.000	0.000	0.154	0.000	1.000
Inspected and Part-II Only Issuer	3,718	0.046	0.000	0.000	0.000	0.209	0.000	1.000
Inspected and Part-I & II Issuer	3,718	0.099	0.000	0.000	0.000	0.299	0.000	1.000
Size	3,718	5.951	4.049	5.827	7.476	2.362	1.759	12.800
Book-to-Market	3,718	0.432	0.087	0.199	0.451	0.722	0.002	5.257
Leverage	3,718	0.537	0.277	0.510	0.854	0.309	0.022	1.415
EP Ratio	3,718	-0.040	-0.029	0.006	0.019	0.164	-1.059	0.165
Total Accruals	3,718	0.000	-0.019	0.002	0.024	0.079	-0.373	0.291
Sales Growth	3,718	0.058	-0.059	0.002	0.088	0.423	-0.877	2.804

Table 3 Market Reaction of Overall Inspection Findings: Different Periods

This table presents the regression results of Model (1). Panel A reports the results of full time span (i.e., fieldwork end date to 10 trading days after the public release date), with columns (1) and (2) reflecting the full sample, and columns (3) and (4) excluding missing draft report dates. Panel B reports the sample split across various partitions. Columns (1) and (2) present the results when the period of interest is between the fieldwork end date and one trading day before the draft report date, excluding missing draft report date observations; columns (3) and (4) present the results when the period of interest is between the draft report date and one trading day before the public release date, excluding missing draft report date observations; columns (5) and (6) present the results when the period of interest is 10 trading days after the public release date, including missing draft report date observations; and columns (7) and (8) present the results when the period of interest is 10 trading days after the public release date, excluding missing draft report date observations. The dependent variables are cumulative abnormal return (*CAR*) and geometric daily average abnormal return (*Daily Avg AR*). The variable of interest is *Part-I Deficient Auditor*. T-statistics (in parentheses) are below the coefficients. Standard errors are clustered at the auditor and the month of the event levels. Variable definitions are in Appendix C.

*, **, *** Denote significance levels at 10 percent, 5 percent, and 1 percent, respectively.

Panel A. Full-Time Span

Period	[Fieldwork End, Public Release+10] Full Sample		[Fieldwork End, Public Release+10] Non-Missing Draft Date	
	(1) CAR	(2) Daily Avg AR	(3) CAR	(4) Daily Avg AR
Part-I Deficient Auditor	**-4.063***	**-0.017***	**-1.940**	**-0.022****
	(-1.67)	**(-1.75)**	**(-0.70)**	**(-2.16)**
Length	-0.021***	-	-0.024**	-
	(-2.65)		(-2.22)	
Size	1.006	0.015***	1.091	0.016***
	(1.60)	(5.16)	(1.50)	(4.61)
Book-to-Market	-12.013***	-0.055***	-12.840***	-0.054***
	(-8.95)	(-7.28)	(-7.12)	(-6.83)
Leverage	2.435	-0.012	7.504	0.009
	(0.55)	(-0.62)	(1.48)	(0.43)
Year Fixed Effect	Yes	Yes	Yes	Yes
Missing Draft Report Date	Include	Include	Exclude	Exclude
Average *Length*	348	348	349	349
Observations	5,186	5,186	3,718	3,718
Adj. R2	0.049	0.090	0.044	0.084

Panel B. Event-Time Partitions

Period	[Fieldwork End, Draft Report-1] Non-Missing Draft Date		[Draft Report, Public Release-1] Non-Missing Draft Date		[Public Release, Public Release+10] Full Sample		[Public Release, Public Release+10] Non-Missing Draft Date	
	(1) CAR	(2) Daily Avg AR	(3) CAR	(4) Daily Avg AR	(5) CAR	(6) Daily Avg AR	(7) CAR	(8) Daily Avg AR
Part-I Deficient Auditor	**1.492**	**0.018**	**-4.589*** **	**-0.050*** **	**-0.403**	**-0.037**	**-0.096**	**-0.012**
	(0.61)	**(1.24)**	**(-3.17)**	**(-3.40)**	**(-1.12)**	**(-1.13)**	**(-0.22)**	**(-0.29)**
Length	-0.013	-	-0.021**	-	-	-	-	-
	(-1.37)		(-2.48)					
Size	-0.146	0.013***	0.897**	0.019***	0.096	0.017*	0.117	0.019*
	(-0.27)	(3.52)	(2.21)	(4.60)	(0.93)	(1.78)	(1.02)	(1.81)
Book-to-Market	-8.355***	-0.056***	-4.241***	-0.044***	-0.647*	-0.070**	-0.469*	-0.051*
	(-5.91)	(-5.29)	(-2.87)	(-3.05)	(-1.97)	(-2.26)	(-1.67)	(-1.95)
Leverage	7.880**	0.028	2.460	-0.011	-0.585	-0.061	-0.161	-0.024
	(1.98)	(1.16)	(0.86)	(-0.39)	(-0.61)	(-0.71)	(-0.17)	(-0.28)
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Missing Draft Report Date	Exclude	Exclude	Exclude	Exclude	Include	Include	Exclude	Exclude
Average *Length*	213	213	125	125	-	-	-	-
Observations	3,718	3,718	3,718	3,718	5,186	5,186	3,718	3,718
Adj. R2	0.030	0.038	0.030	0.067	0.007	0.008	0.007	0.009

Table 4 New Rule 140 and Market Reaction to Inspection Report

This table presents the regression results of Model (1). Panel A reports the results of post-public release market reaction, and Panel B reports the results of pre-public release market reaction. In both panels, columns (1) – (4) present the results before Rule 140, columns (5) – (8) present the results after Rule 140. In Panel A, the dependent variables are cumulative abnormal return (*CAR*) 5 or 10 trading days after the public release date; and in Panel B, the dependent variables are cumulative abnormal return (*CAR*) and geometric daily average abnormal return (*Daily Avg AR*) using the period between the final report date and one trading day before the public release date. The variable of interest is *Part-I Deficient Auditor*. T-statistics (in parentheses) are below the coefficients. Standard errors are clustered at the auditor and the month of the event levels. Variable definitions are in Appendix C. *, **, *** Denote significance levels at 10 percent, 5 percent, and 1 percent, respectively.

Panel A. Post-Release Market Reaction

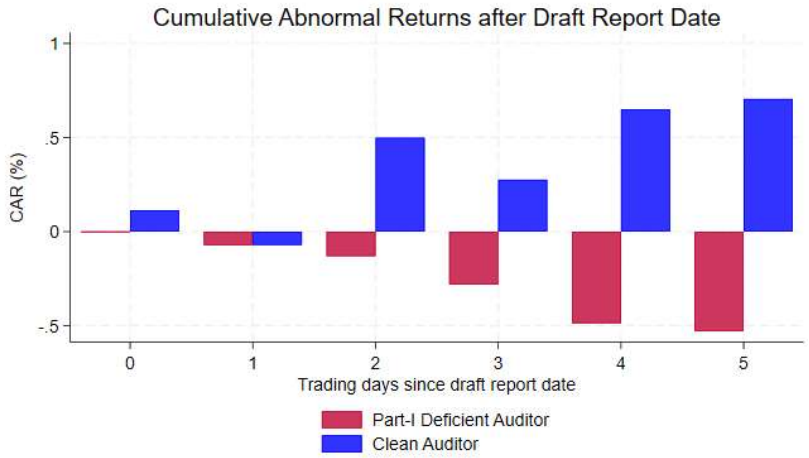
	Pre-Rule 140				**Post-Rule 140**			
Variable	***CAR [0,5]***		***CAR [0,10]***		***CAR [0,5]***		***CAR [0,10]***	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Part-I Deficient Auditor	**-2.402*** (-3.02)**	**-2.472*** (-3.10)**	**-2.729** (-2.34)**	**-2.694** (-2.34)**	**-0.328 (-1.08)**	**-0.328 (-1.08)**	**0.072 (0.21)**	**0.026 (0.08)**
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effect	No	Yes	No	Yes	No	Yes	No	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Missing Draft Report Date	Include	Include	Include	Include	Include	Include	Include	Include
Observations	810	810	810	810	4,376	4,376	4,376	4,376
Adj. R2	0.039	0.039	0.010	0.011	0.009	0.011	0.008	0.013

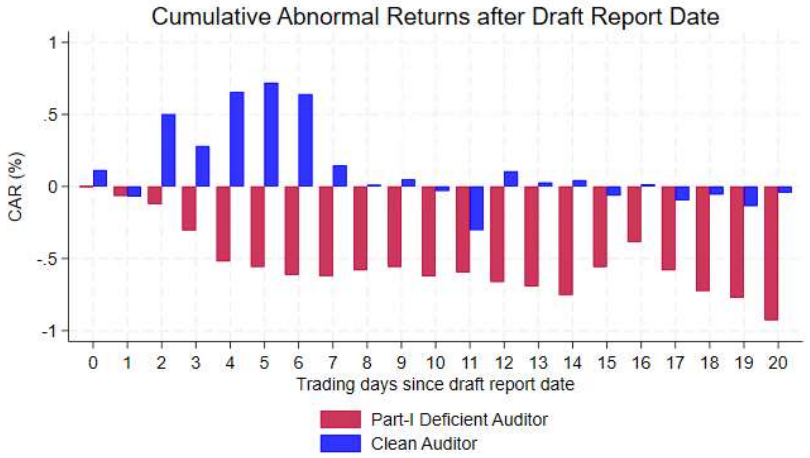
Panel B. Pre-Release Market Reaction

	Pre-Rule 140				**Post-Rule 140**			
Variable	***CAR [Final Report, Public Release-1]***		***Daily Avg. AR [Final Report, Public Release-1]***		***CAR [Final Report, Public Release-1]***		***Daily Avg. AR [Final Report, Public Release-1]***	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Part-I Deficient Auditor	-	-	-	-	**-1.795* (-1.84)**	**-1.745* (-1.93)**	**-0.042** (-2.05)**	**-0.040** (-2.14)**
Length	-	-	-	-	-0.030*** (-2.71)	-0.031*** (-2.87)	-	-
Controls	-	-	-	-	Yes	Yes	Yes	Yes
Industry Fixed Effect	-	-	-	-	No	Yes	No	Yes
Year Fixed Effect	-	-	-	-	Yes	Yes	Yes	Yes
Missing Draft Report Date	-	-	-	-	Include	Include	Include	Include
Average *Length*	-	-	-	-	50	50	50	50
Observations	-	-	-	-	4,376	4,376	4,376	4,376
Adj. R2	-	-	-	-	0.013	0.021	0.016	0.024

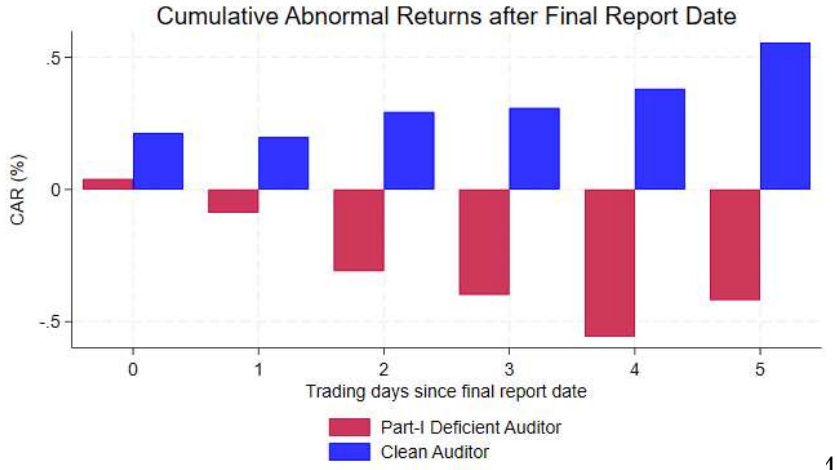
Figure 1 Market Reaction to Overall Inspection Findings

Market Reaction after Draft Report Date





Market Reaction after Final Report Date (After Sept. 7, 2010)



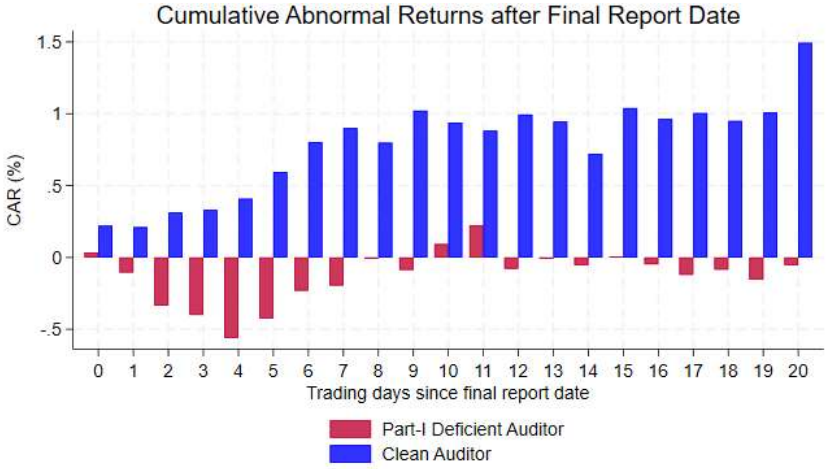


Table 5 Reaction to Overall Inspection Results: Uncertainty and Timing of Private and Public Dissemination

This table presents the regression results of Model (1). Panel A reports the results of the low-uncertainty sample, and Panel B reports the results of the high-uncertainty sample. In both panels, columns (1) and (2) present the results when the period of interest is five trading days after the draft report date; columns (3) and (4) present the results when the period of interest is five trading days before the final report date; columns (5) and (6) present the results when the period of interest is five trading days after the final report date; and columns (7) and (8) present the results when the period of interest is five trading days before the public release date. The dependent variables are cumulative abnormal return (*CAR*). The variable of interest is *Part-I Deficient Auditor*. T-statistics (in parentheses) are below the coefficients. Standard errors are clustered at the auditor and the month of the event levels. Variable definitions are in Appendix C. *, **, *** Denote significance levels at 10 percent, 5 percent, and 1 percent, respectively.

Panel A. Low-Uncertainty Sample

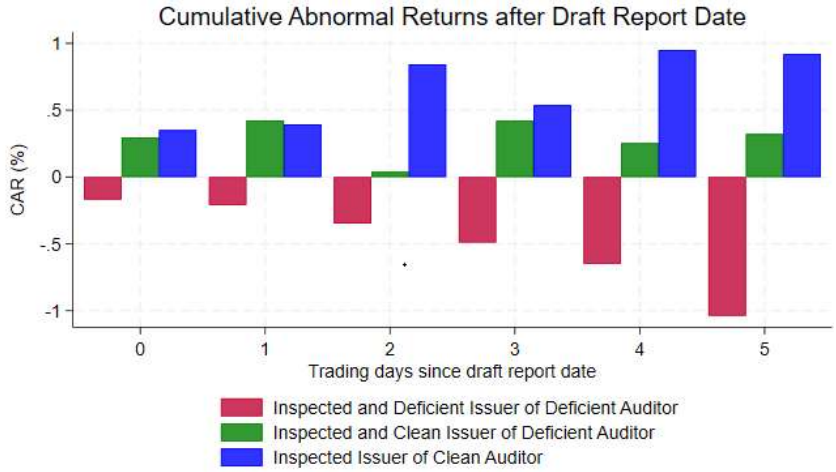
Variable	Cumulative Abnormal Return							
	[Draft Report, Draft Report+5]		[Final Report-5, Final Report-1]		[Final Report, Final Report +5]		[Public Release-5, Public Release-1]	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Part-I Deficient Auditor	**-0.928***	**-0.885***	**-0.717**	**-0.621**	**-1.289****	**-1.267****	**-0.141**	**-0.117**
	(-1.96)	**(-1.93)**	**(-1.65)**	**(-1.48)**	**(-2.05)**	**(-2.09)**	**(-0.55)**	**(-0.45)**
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effect	No	Yes	No	Yes	No	Yes	No	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,037	2,037	2,037	2,037	2,037	2,037	2,037	2,037
Adj. R2	0.009	0.008	0.007	0.016	0.017	0.022	0.004	0.002

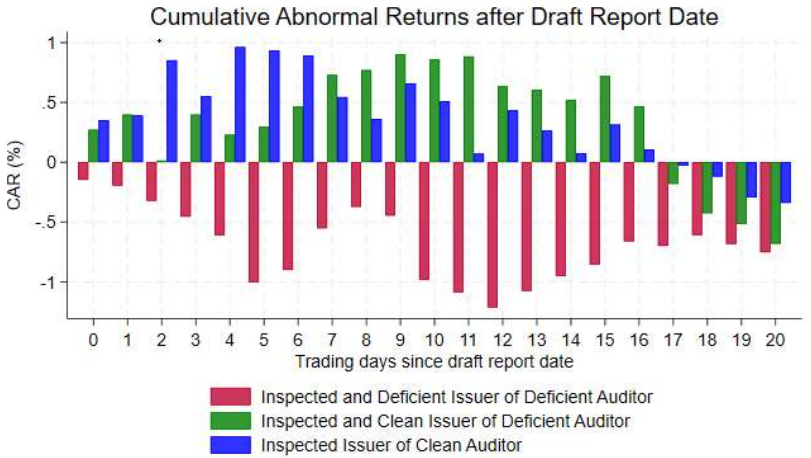
Panel B. High-Uncertainty Sample

Variable	Cumulative Abnormal Return							
	[Draft Report, Draft Report+5]		[Final Report-5, Final Report-1]		[Final Report, Final Report +5]		[Public Release-5, Public Release-1]	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Part-I Deficient Auditor	**-0.424**	**-0.411**	**-0.952****	**-0.944****	**0.290**	**0.268**	**-2.622*****	**-2.574*****
	(-0.74)	**(-0.71)**	**(-2.11)**	**(-2.15)**	**(0.53)**	**(0.47)**	**(-4.56)**	**(-4.57)**
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effect	No	Yes	No	Yes	No	Yes	No	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,453	1,453	1,453	1,453	1,453	1,453	1,453	1,453
Adj. R2	0.000	0.004	0.007	0.003	0.013	0.017	0.019	0.019

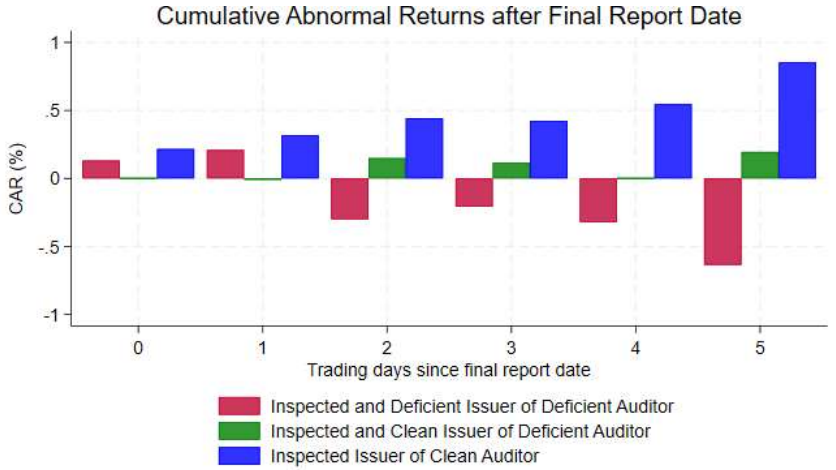
Figure 2 Dissemination of Engagement-Level Findings

Market Reaction after Draft Report Date





Market Reaction after Final Report Date



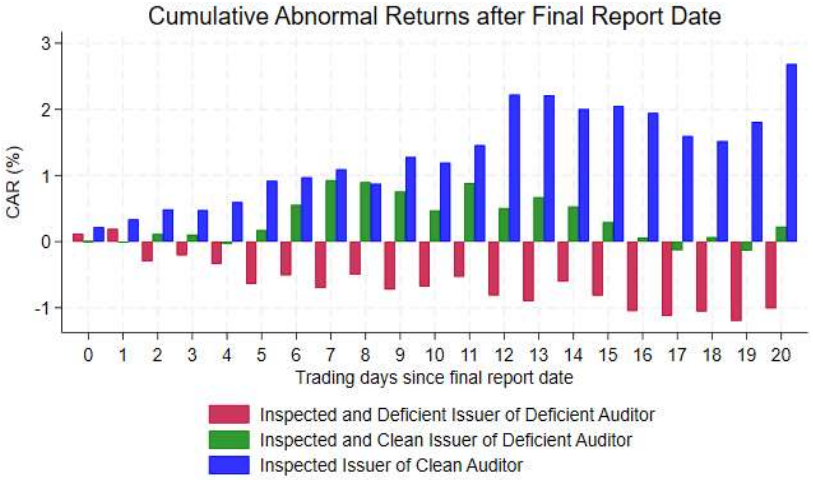


Table 6 Engagement Level Findings Around Key Events

This table presents the regression results of Model (2). Panel A shows the low-uncertainty sample, and Panel B shows the high-uncertainty sample. The dependent variable is Daily Abnormal Return. T-statistics (in parentheses) are below the coefficients. The Wald-tests compare the estimated coefficients on the pair-wise variables of interest. Standard errors are clustered at the firm and the date levels. Variable definitions are in Appendix C.

*, **, *** Denote significance levels at 10 percent, 5 percent, and 1 percent, respectively.

Panel A. Low-Uncertainty Sample

Variable	Daily Abnormal Return			
	(1)	Difference	(2)	Difference
Inspected and Part-I Deficient Issuer	**-0.029****		**-0.030****	
	(-2.33)	**P=0.1566**	**(-2.43)**	**P=0.1524**
Inspected and Part-I Non-deficient Issuer	**-0.008**		**-0.009**	
	(-0.71)		**(-0.76)**	
Inspected and Part-I Deficient Issuer*Draft Report [0, 5]	**-0.142***		**-0.142***	
	(-1.92)	**P=0.0450****	**(-1.91)**	**P=0.0452****
Inspected and Part-I Non-deficient Issuer* Draft Report [0, 5]	**0.049**		**0.049**	
	(0.75)		**(0.75)**	
Inspected and Part-I Deficient Issuer*5 Days before Final Report	**-0.015**		**-0.014**	
	(-0.21)	**P=0.7002**	**(-0.19)**	**P=0.7028**
Inspected and Part-I Non-deficient Issuer*5 Days before Final Report	**0.021**		**0.021**	
	(0.34)		**(0.35)**	
Inspected and Part-I Deficient Issuer*Final Report [0, 5]	**-0.017**		**-0.018**	
	(-0.24)	**P=0.0999***	**(-0.25)**	**P=0.0963***
Inspected and Part-I Non-deficient Issuer* Final Report [0, 5]	**0.126****		**0.127****	
	(2.04)		**(2.06)**	
Inspected and Part-I Deficient Issuer*5 Days before Public Release	**0.102**		**0.103**	
	(1.31)	**P=0.4323**	**(1.32)**	**P=0.4330**
Inspected and Part-I Non-deficient Issuer*5 Days before Public Release	**0.028**		**0.029**	
	(0.49)		**(0.50)**	
Size	-0.001		-0.002	
	(-0.14)		(-0.48)	
Book-to-Market	0.014*		0.013	
	(1.71)		(1.64)	
Leverage	-0.011		-0.017	
	(-0.37)		(-0.56)	
Total Accruals	-0.138*		-0.138*	
	(-1.78)		(-1.80)	
EP Ratio	0.295***		0.285***	
	(4.59)		(4.50)	
Sales Growth	0.025*		0.026*	
	(1.65)		(1.65)	
Blackout	-0.029**		-0.030**	
	(-2.20)		(-2.31)	
Inspection Fixed Effect	Yes		Yes	
Industry Fixed Effect	No		Yes	
Date Fixed Effect	Yes		Yes	
Observations	479,468		479,468	
Adj. R2	0.023		0.023	

Panel B. High-Uncertainty Sample

Variable	Daily Abnormal Return			
	(1)	Difference	(2)	Difference
Inspected and Deficient Issuer	**0.004**		**0.005**	
	(0.25)	**P=0.8221**	**(0.32)**	**P=0.9456**
Inspected and Part-I Non-deficient Issuer	**-0.001**		**0.003**	
	(-0.04)		**(0.18)**	
Inspected and Part-I Deficient Issuer*Draft Report [0, 5]	**0.027**		**0.027**	
	(0.26)	**P=0.2987**	**(0.27)**	**P=0.3014**
Inspected and Part-I Non-deficient Issuer* Draft Report [0, 5]	**-0.096**		**-0.095**	
	(-1.28)		**(-1.27)**	
Inspected and Part-I Deficient Issuer*5 Days before Final Report	**-0.004**		**-0.006**	
	(-0.05)	**P=0.9578**	**(-0.07)**	**P=0.9604**
Inspected and Part-I Non-deficient Issuer*5 Days before Final Report	**-0.010**		**-0.012**	
	(-0.14)		**(-0.16)**	
Inspected and Part-I Deficient Issuer*Final Report [0, 5]	**-0.154***		**-0.155***	
	(-1.86)	**P=0.2793**	**(-1.88)**	**P=0.2812**
Inspected and Part-I Non-deficient Issuer* Final Report [0, 5]	**-0.026**		**-0.028**	
	(-0.28)		**(-0.30)**	
Inspected and Part-I Deficient Issuer*5 Days before Public Release	**-0.204****		**-0.206****	
	(-2.23)	**P=0.0065*****	**(-2.25)**	**P=0.0064*****
Inspected and Part-I Non-deficient Issuer*5 Days before Public Release	**0.165**		**0.163**	
	(1.61)		**(1.59)**	
Size	-0.005		-0.009*	
	(-1.18)		(-1.94)	
Book-to-Market	0.035**		0.036**	
	(2.35)		(2.36)	
Leverage	-0.023		-0.030	
	(-0.99)		(-1.26)	
Total Accruals	-0.173*		-0.168*	
	(-1.84)		(-1.80)	
EP Ratio	0.259***		0.239***	
	(3.61)		(3.34)	
Sales Growth	-0.011		-0.009	
	(-0.87)		(-0.73)	
Blackout	-0.037**		-0.038**	
	(-2.31)		(-2.35)	
Inspection Fixed Effect	Yes		Yes	
Industry Fixed Effect	No		Yes	
Date Fixed Effect	Yes		Yes	
Observations	429,545		429,545	
Adj. R2	0.026		0.026	

Table 7 Part-I and Part-II Findings and Market Reaction Around Key Events

This table presents the regression results of Model (3). The low-uncertainty sample is used in this table. The dependent variable is Daily Abnormal Return. T-statistics (in parentheses) are below the coefficients. The Wald-tests compare the estimated coefficients on the pair-wise variables of interest. Standard errors are clustered at the firm and the date levels. Variable definitions are in Appendix C.

*, **, *** Denote significance levels at 10 percent, 5 percent, and 1 percent, respectively.

Variable	Daily Abnormal Return			
	(1)	Difference	(2)	Difference
Inspected and Clean Issuer	**-0.014**	**-**	**-0.015**	**-**
	(-1.01)		**(-1.11)**	
Inspected and Part-I Only Issuer	**-0.045***	**P=0.2149**	**-0.047***	**P=0.2135**
	(-1.82)		**(-1.87)**	
Inspected and Part-II Only Issuer	**0.010**	**P=0.2490**	**0.010**	**P=0.2189**
	(0.63)		**(0.64)**	
Inspected and Part-I&II Issuer	**-0.022***	**P=0.6527**	**-0.023***	**P=0.6634**
	(-1.71)		**(-1.83)**	
Inspected and Clean Issuer*Draft Report [0, 5]	**0.066**	**-**	**0.066**	**-**
	(0.84)		**(0.84)**	
Inspected and Part-I Only Issuer*Draft Report [0, 5]	**0.005**	**P=0.7100**	**0.004**	**P=0.7064**
	(0.03)		**(0.03)**	
Inspected and Part-II Only Issuer*Draft Report [0, 5]	**0.001**	**P=0.6228**	**0.002**	**P=0.6275**
	(0.01)		**(0.02)**	
Inspected and Part-I&II Issuer*Draft Report [0, 5]	**-0.181****	**P=0.0261****	**-0.181****	**P=0.0266****
	(-2.12)		**(-2.11)**	
Inspected and Clean Issuer*Final Report [0, 5]	**0.133****	**-**	**0.134****	**-**
	(2.01)		**(2.02)**	
Inspected and Part-I Only Issuer*Final Report [0, 5]	**0.105**	**P=0.8121**	**0.105**	**P=0.8074**
	(0.92)		**(0.92)**	
Inspected and Part-II Only Issuer*Final Report [0, 5]	**0.101**	**P=0.8036**	**0.103**	**P=0.8091**
	(0.85)		**(0.86)**	
Inspected and Part-I&II Issuer*Final Report [0, 5]	**-0.057**	**P=0.0592***	**-0.057**	**P=0.0572***
	(-0.69)		**(-0.70)**	
Controls	Yes		Yes	
Inspection Fixed Effect	Yes		Yes	
Industry Fixed Effect	No		Yes	
Date Fixed Effect	Yes		Yes	
Observations	479,468		479,468	
Adj. R2	0.023		0.023	

Supplemental Materials

Table 3A Overall Inspection Findings: Different Periods, Year, & Industry Fixed Effects

This table presents the regression results of Model (1). Compared to Table 3, Industry fixed effects based on Fama-French 12 industries are further included. Panel A reports the results of full-time span (i.e., fieldwork end date to 10 trading days after the public release date), with columns (1) and (2) reflecting the full sample, and columns (3) and (4) excluding missing draft report dates. Panel B reports the sample split across various partitions. Columns (1) and (2) present the results when the period of interest is between the fieldwork end date and one trading day before the draft report date, excluding missing draft report date observations; columns (3) and (4) present the results when the period of interest is between the draft report date and one trading day before the public release date, excluding missing draft report date observations; columns (5) and (6) present the results when the period of interest is 10 trading days after the public release date, including missing draft report date observations; and columns (7) and (8) present the results when the period of interest is 10 trading days after the public release date, excluding missing draft report date observations. The dependent variables are cumulative abnormal return (*CAR*) and geometric daily average abnormal return (*Daily Avg AR*). The variable of interest is *Part-I Deficient Auditor*. T-statistics (in parentheses) are below the coefficients. Standard errors are clustered at the auditor and the month of the event levels. Variable definitions are in Appendix C.

*, **, *** Denote significance levels at 10 percent, 5 percent, and 1 percent, respectively.

Panel A. Full-Time Span

Period	[Fieldwork End, Public Release+10] Full Sample		[Fieldwork End, Public Release+10] Non-Missing Draft Date	
	(1) CAR	(2) Daily Avg AR	(3) CAR	(4) Daily Avg AR
Part-I Deficient Auditor	**-4.029***	**-0.014***	**-1.693**	**-0.017***
	(-1.84)	**(-1.78)**	**(-0.64)**	**(-1.91)**
Length	-0.018**	-	-0.020*	-
	(-2.32)		(-1.76)	
Size	0.156	0.010***	0.054	0.010***
	(0.26)	(4.07)	(0.08)	(3.32)
Book-to-Market	-13.266***	-0.063***	-13.984***	-0.060***
	(-9.38)	(-8.10)	(-7.55)	(-7.65)
Leverage	-5.930	-0.063***	-1.207	-0.044**
	(-1.38)	(-3.82)	(-0.22)	(-2.30)
Year Fixed Effect	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes
Missing Draft Report Date	Include	Include	Exclude	Exclude
Average *Length*	348	348	349	349
Observations	5,186	5,186	3,718	3,718
Adj. R2	0.065	0.128	0.064	0.129

Panel B. Event-Time Partitions

Period	[Fieldwork End, Draft Report-1] Non-Missing Draft Date		[Draft Report, Public Release-1] Non-Missing Draft Date		[Public Release, Public Release+10] Full Sample		[Public Release, Public Release+10] Non-Missing Draft Date	
	(1) CAR	(2) Daily Avg AR	(3) CAR	(4) Daily Avg AR	(5) CAR	(6) Daily Avg AR	(7) CAR	(8) Daily Avg AR
Part-I Deficient Auditor	**1.854**	**0.025***	**-4.343*****	**-0.046*****	**-0.424**	**-0.038**	**-0.109**	**-0.012**
	(0.80)	**(1.82)**	**(-3.18)**	**(-3.46)**	**(-1.20)**	**(-1.20)**	**(-0.25)**	**(-0.29)**
Length	-0.009	-	-0.020**	-	-	-	-	-
	(-1.04)		(-2.34)					
Size	-0.562	0.008***	0.373	0.013***	0.041	0.011	0.075	0.014
	(-1.18)	(2.79)	(0.95)	(3.20)	(0.44)	(1.28)	(0.71)	(1.44)
Book-to-Market	-9.440***	-0.067***	-4.551***	-0.049***	-0.701**	-0.077**	-0.574*	-0.062**
	(-6.49)	(-6.57)	(-3.07)	(-3.37)	(-2.07)	(-2.43)	(-1.90)	(-2.20)
Leverage	2.074	-0.035	-1.011	-0.061**	-0.905	-0.103	-0.418	-0.061
	(0.45)	(-1.36)	(-0.34)	(-2.32)	(-0.82)	(-1.06)	(-0.36)	(-0.59)
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Missing Draft Report Date	Exclude	Exclude	Exclude	Exclude	Include	Include	Exclude	Exclude
Average *Length*	213	213	125	125	-	-	-	-
Observations	3,718	3,718	3,718	3,718	5,186	5,186	3,718	3,718
Adj. R2	0.047	0.070	0.039	0.084	0.010	0.012	0.014	0.016

Table 9A Insider Trading Variables

This table presents the regression results of Model (2). The dependent variables are daily insider buy-sell imbalance (InsiderBSI) and insider seller indicator (InsiderSeller). T-statistics (in parentheses) are below the coefficients. The Wald-tests compare the estimated coefficients on the pair-wise variables of interest. Standard errors are clustered at the firm and the date levels. Variable definitions are in Appendix C.

	Low-Uncertainty Sample				**High-Uncertainty Sample**			
	InsiderBSI		**InsiderSeller**		**InsiderBSI**		**InsiderSeller**	
	(1)	Difference	(2)	Difference	(3)	Difference	(4)	Difference
Inspected and Deficient Issuer	**0.007**		**0.001**		**-0.020*** **		**0.015** **	
	(0.97)		**(0.30)**		**(-3.08)**		**(2.46)**	
Inspected and Part-I Non-deficient Issuer	**-0.015*** **	**P=0.0208** **	**0.011***	**P=0.0922***	**-0.012** **	**P=0.2632**	**0.009** **	**P=0.4162**
	(-2.59)		**(1.96)**		**(-2.34)**		**(2.09)**	
Inspected and Part-I Deficient Issuer*Draft Report [0, 5]	**-0.007**		**0.006**		**-0.003**		**-0.004**	
	(-0.57)		**(0.73)**		**(-0.23)**		**(-0.32)**	
Inspected and Part-I Non-deficient Issuer* Draft Report [0, 5]	**-0.000**	**P=0.7232**	**0.006**	**P=0.9862**	**-0.007**	**P=0.8571**	**0.005**	**P=0.5727**
	(-0.04)		**(0.71)**		**(-0.64)**		**(0.53)**	
Inspected and Part-I Deficient Issuer*5 Days before Final Report	**-0.003**		**-0.006**		**0.008**		**-0.000**	
	(-0.50)		**(-1.25)**		**(0.67)**		**(-0.05)**	
Inspected and Part-I Non-deficient Issuer*5 Days before Final Report	**0.006**	**P=0.4527**	**-0.002**	**P=0.60352**	**0.008**	**P=0.9990**	**-0.004**	**P=0.7698**
	(0.58)		**(-0.26)**		**(0.73)**		**(-0.46)**	
Inspected and Part-I Deficient Issuer*Final Report [0, 5]	**0.009**		**-0.001**		**0.006**		**-0.010**	
	(0.81)		**(-0.23)**		**(0.49)**		**(-0.97)**	
Inspected and Part-I Non-deficient Issuer* Final Report [0, 5]	**0.010**	**P=0.9417**	**-0.008**	**P=0.4337**	**-0.006**	**P=0.4572**	**-0.005**	**P=0.6610**
	(1.20)		**(-1.36)**		**(-0.59)**		**(-0.70)**	
Inspected and Part-I Deficient Issuer*5 Days before Public Release	**-0.018**		**0.003**		**0.007**		**-0.004**	
	(-1.53)		**(0.32)**		**(0.58)**		**(-0.40)**	
Inspected and Part-I Non-deficient Issuer*5 Days before Public Release	**0.011**	**P=0.0399** **	**-0.013** **	**P=0.1534**	**0.002**	**P=0.7355**	**-0.003**	**P=0.9385**
	(1.44)		**(-2.28)**		**(0.21)**		**(-0.46)**	
Inspection Fixed Effect	Yes		Yes		Yes		Yes	
Industry Fixed Effect	Yes		Yes		Yes		Yes	
Date Fixed Effect	Yes		Yes		Yes		Yes	
Observations	262,218		262,218		258,554		258,554	
Adj. R2	0.020		0.021		0.022		0.027	

	All Sample			
	InsiderBSI		**InsiderSeller**	
	(1)	Difference	(2)	Difference
Inspected and Deficient Issuer	**-0.006**		**0.008****	
	(-1.05)	**P=0.3437**	**(2.11)**	**P=0.7116**
Inspected and Part-I Non-deficient Issuer	**-0.012*****		**0.010****	
	(-2.90)		**(2.52)**	
Inspected and Part-I Deficient Issuer*Draft Report [0, 5]	**-0.004**		**0.001**	
	(-0.45)	**P=0.8912**	**(0.19)**	**P=0.6066**
Inspected and Part-I Non-deficient Issuer* Draft Report [0, 5]	**-0.002**		**0.005**	
	(-0.24)		**(0.95)**	
Inspected and Part-I Deficient Issuer*5 Days before Final Report	**0.002**		**-0.002**	
	(0.24)	**P=0.7519**	**(-0.56)**	**P=0.8893**
Inspected and Part-I Non-deficient Issuer*5 Days before Final Report	**0.005**		**-0.001**	
	(0.63)		**(-0.27)**	
Inspected and Part-I Deficient Issuer*Final Report [0, 5]	**0.007**		**-0.005**	
	(0.85)	**P=0.6128**	**(-0.70)**	**P=0.9217**
Inspected and Part-I Non-deficient Issuer* Final Report [0, 5]	**0.002**		**-0.006**	
	(0.28)		**(-1.20)**	
Inspected and Part-I Deficient Issuer*5 Days before Public Release	**-0.006**		**0.001**	
	(-0.81)	**P=0.1813**	**(0.13)**	**P=0.2457**
Inspected and Part-I Non-deficient Issuer*5 Days before Public Release	**0.007**		**-0.008***	
	(1.19)		**(-1.91)**	
Inspection Fixed Effect	Yes		Yes	
Industry Fixed Effect	Yes		Yes	
Date Fixed Effect	Yes		Yes	
Observations	520,772		520,772	
Adj. R2	0.020		0.024	

Table 10A Reactions to Engagement Level Findings around Key Events—Full Sample

This table presents the regression results of Model (2). The full sample is used in this table. The dependent variable is Daily Abnormal Return. T-statistics (in parentheses) are below the coefficients. The Wald-tests compare the estimated coefficients on the pair-wise variables of interest. Standard errors are clustered at the firm and the date levels. Variable definitions are in Appendix C.

*, **, *** Denote significance levels at 10 percent, 5 percent, and 1 percent, respectively.

Variable	Daily Abnormal Return			
	(1)	Difference	(2)	Difference
Inspected and Deficient Issuer	**-0.014**		**-0.015**	
	(-1.32)	**P=0.4502**	**(-1.43)**	**P=0.3757**
Inspected and Part-I Non-deficient Issuer	**-0.005**		**-0.004**	
	(-0.43)		**(-0.37)**	
Inspected and Part-I Deficient Issuer*Draft Report [0, 5]	**-0.084**		**-0.083**	
	(-1.41)	**P=0.2995**	**(-1.39)**	**P=0.3028**
Inspected and Part-I Non-deficient Issuer* Draft Report [0, 5]	**-0.008**		**-0.008**	
	(-0.17)		**(-0.16)**	
Inspected and Part-I Deficient Issuer*5 Days before Final Report	**-0.009**		**-0.009**	
	(-0.16)	**P=0.7683**	**(-0.16)**	**P=0.7672**
Inspected and Part-I Non-deficient Issuer*5 Days before Final Report	**0.012**		**0.012**	
	(0.25)		**(0.25)**	
Inspected and Part-I Deficient Issuer*Final Report [0, 5]	**-0.063**		**-0.063**	
	(-1.17)	**P=0.0511***	**(-1.18)**	**P=0.0504***
Inspected and Part-I Non-deficient Issuer* Final Report [0, 5]	**0.076**		**0.076**	
	(1.48)		**(1.48)**	
Inspected and Part-I Deficient Issuer*5 Days before PCAOB Disclosure	**-0.020**		**-0.020**	
	(-0.35)	**P=0.2204**	**(-0.35)**	**P=0.2200**
Inspected and Part-I Non-deficient Issuer*5 Days before PCAOB Disclosure	**0.075**		**0.075**	
	(1.39)		**(1.39)**	
Size	-0.003		-0.005*	
	(-0.89)		(-1.66)	
Book-to-Market	0.023***		0.023***	
	(2.96)		(2.83)	
Leverage	-0.016		-0.020	
	(-0.77)		(-0.97)	
Total Accruals	-0.155**		-0.151**	
	(-2.43)		(-2.39)	
EP Ratio	0.279***		0.262***	
	(5.34)		(5.08)	
Sales Growth	0.005		0.007	
	(0.51)		(0.62)	
Blackout	-0.033***		-0.034***	
	(-2.76)		(-2.85)	
Inspection Fixed Effect	Yes		Yes	
Industry Fixed Effect	No		Yes	
Date Fixed Effect	Yes		Yes	
Observations	909,013		909,013	
Adj. R2	0.023		0.023	

Table 11A Reaction of Engagement Level Findings—No Interaction

	Low-Uncertainty Sample				High-Uncertainty Sample				Full Sample			
	(1)	Difference	(2)	Difference	(3)	Difference	(4)	Difference	(5)	Difference	(6)	Difference
Inspected and Deficient Issuer	**-0.030** **(-2.49)**	**P=0.0535 ***	**-0.031*** **(-2.60)**	**P=0.0517 ***	**-0.001** **(-0.05)**	**P=0.9836**	**0.000** **(0.00)**	**P=0.8551**	**-0.017** **(-1.62)**	**P=0.2121**	**-0.018*** **(-1.75)**	**P=0.1650**
Inspected and Part-I Non-deficient Issuer	**-0.003** **(-0.30)**		**-0.004** **(-0.36)**		**-0.000** **(-0.02)**		**0.004** **(0.20)**		**-0.002** **(-0.16)**		**-0.001** **(-0.09)**	
Controls	Yes		Yes		Yes		Yes		Yes		Yes	
Inspection Fixed Effect	Yes		Yes		Yes		Yes		Yes		Yes	
Industry Fixed Effect	No		Yes		No		Yes		No		Yes	
Date Fixed Effect	Yes		Yes		Yes		Yes		Yes		Yes	
Observations	479,468		479,468		429,545		429,545		909,013		909,013	
Adj. R2	0.023		0.023		0.026		0.026		0.023		0.023	

Table 12A Determinants of Length of [Draft Report, Public Release]

Variable	Ln(number of days+1)	
	(1)	(2)
Public Disagreement$_{AA}$	0.043**	0.040**
	(2.45)	(2.31)
Part I Def Ratio	0.033**	0.032**
	(2.35)	(2.35)
Part II Def Ratio	0.015	0.006
	(1.17)	(0.49)
Ln(number of issuers+1)	0.001	-0.002
	(0.24)	(-0.36)
Ln(number of drafts within a month+1)	0.032**	-0.007
	(2.44)	(-0.48)
Ln(number of public Board Meeting+1)	-0.001	-0.030*
	(-0.08)	(-1.74)
International Inspection	0.046***	0.037***
	(3.69)	(2.99)
First-Time Inspected	0.022	0.027*
	(1.50)	(1.89)
Year Fixed Effect	Yes	Yes
Month Fixed Effect	No	Yes
Observations	2,008	2,008
Adj. R2	0.517	0.547