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Looking to the Future – Moving Forward while Staying on the Right Track

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Speaker: George R. Botic, Board Member

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Remarks as prepared for delivery

Good morning and thank you, Keith [Jones] for the gracious introduction. I am delighted to be with you this morning. I want to gratefully recognize the work of all involved in bringing this event together.

The Deloitte/University of Kansas Auditing Symposium has contributed tremendous value over the years – going back all the way to 1972 – and continues to do so. A famous University of Kansas alumnus, the baseball analytics guru Bill James, whose Sabermetrics led to Moneyball, has said “There will always be people who are ahead of the curve, and people who are behind the curve. But knowledge moves the curve.” The sharing of knowledge that can move the curve is one fair way to characterize what this Symposium is about. It is a privilege to be with you this morning.

Before I continue, I want to note that although I am here today in my official capacity as a PCAOB Board member, the views I express are my own and do not necessarily reflect the views of the full Board, my fellow Board members, or the PCAOB’s dedicated staff.

The theme of this year's Symposium is appropriately "The Future of Auditing." I will do my part this morning by discussing aspects of the future of audit oversight at the PCAOB. But I want to first talk about the PCAOB's mission and how the important contributions of the academic community, including the scholarly research on display during this year's Symposium, benefit the PCAOB.

Nobility of the Financial Statement Auditor

Even before getting to that, though, I feel it is important to say a few words about the role of the financial statement auditor and the accounting profession, of which I am proud to be a part. This profession is vibrant, resilient, and noble. When financial statement auditors fulfill their professional responsibilities, they are serving a greater good. They are an essential component of a healthy capital market that promotes economic stability.

I like to keep in mind the historical perspective that accounting firms emerged by positioning themselves as protection against "opportunists, frauds, and other malefactors who sought to exploit the Industrial Revolution" and as having a role in which they "shared with teachers, doctors, lawyers, and priests responsibility to the wider community."¹ From the beginning, auditors have positioned themselves as "foot soldiers of integrity,"² and that is, in fact, what they are called upon to be.

As a former financial statement auditor, the nobility of the profession and its role in society are both very important to me. It is, indeed, a calling, and the opportunity that it presents to contribute to the public good is richly rewarding. In my view, the auditor who best makes that contribution is the one who, in the words of George O. May from nearly a century ago, never forgets that their "paramount obligation is to the investor," even though the investor is someone with whom the auditor "in the nature of things is not in touch, and who is incapable of presenting arguments counter to those presented on behalf of the banker and the corporation."³

Importance of the PCAOB

Now, it is possible to wholeheartedly believe, as I do, everything I have just said, but nevertheless to recognize, as Congress did in 2002, the value of an audit regulator that is independent of the accounting profession. Congress created the PCAOB as a key part of a legislative response to a startling series of major financial reporting frauds. The revelation of those frauds severely undermined investor confidence in public companies' audited financial statements. Congress assigned to the PCAOB the mission of protecting the interests of

investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports,⁴ and gave the PCAOB tools and authority to pursue that mission meaningfully.

As a threshold matter, the Sarbanes-Oxley Act of 2002 (Act) provides that an accounting firm cannot prepare an audit report for a public company unless the firm is registered with the PCAOB. The Act also shifted from the profession to the PCAOB the authority and responsibility for setting auditing standards, and related rules, that auditors must follow in performing those audits. And the Act empowered and required the PCAOB to perform inspections of public companies' auditors on a regular basis – including annually for firms that regularly provide audit reports for more than 100 public companies. Finally, the Act authorized the PCAOB to impose disciplinary sanctions, including, when the circumstances warrant it, barring an auditor from auditing public companies.

Since its inception, the PCAOB has carried out those responsibilities in a way that has done a great deal to rebuild and maintain investor confidence and trust in our capital markets. Consistent with the intent and design of the Act, the PCAOB has accomplished this largely by making auditors accountable for the quality of their audit work in a way that they previously were not.

In part, the PCAOB has done it through a standard-setting program that carefully considers the input of the accounting profession but does not give it the last word. In part, the PCAOB has done it through rulemaking, such as our Form AP reporting requirement, which provides transparency and ensures that the lead engagement partner signing off on an audit report for a public company will know that their name will be associated with that report as a matter of public record. In part, the PCAOB has done it through the exercise of its authority to impose disciplinary sanctions.

And in very large part, the PCAOB has done it through its inspection program, in two distinct ways. First, the prospect of a PCAOB inspection provides additional incentive for engagement teams to perform high quality audits, an incentive that we know is undergirded by the internal emphasis that firms put on avoiding having inspection findings. Second, the prospect of keeping the PCAOB's criticisms of the firm's quality control nonpublic provides incentive for firms to make meaningful improvements to their systems of quality control, an incentive that, I believe, unquestionably works.

Importance of the Academic Community

I want to turn now to the role of the academic community. Almost from the beginning, scholarly research has played an important role in informing PCAOB consideration of how to carry out aspects of its mission. The academic community's work on topics of importance in financial reporting, accounting, and auditing, including consideration of PCAOB processes, helps shape how the Board understands and considers the impact of the PCAOB's oversight activities.

The PCAOB needs rigorous, evidence-based insights to be able to continuously shape, and even reconsider, the requirements we impose, as well as to shape our approach to our processes, perhaps most importantly our inspection process. Although I have not yet read the papers to be presented here today and tomorrow, I can see from the session topics much that may be useful for the PCAOB to consider.

Having in mind my earlier thoughts about the nobility and public value of the financial statement auditor, I am intrigued by the title of Professor Rowley's paper, "Does 'Making a Difference' Make a Difference? How Work Significance Affects Auditors' Quality Enhancing Actions."

Other papers that are focused on audit quality consider, for example, how anticipated staffing continuity affects auditor cognition and skeptical action, and, for another example, the relationship between flexible work arrangement practices and audit quality. Apart from the "audit quality" topic, there is a study on the "Real Effects of PCAOB Inspections: Evidence from Audit Employee Turnover," which I am quite interested to consider.

The agenda also includes research concerning private equity (PE) ownership stakes in accounting firms, such as the work by Ally Zimmerman and her colleagues, and research concerning the impact of artificial intelligence (AI), both of which are of critical, practical importance to the PCAOB. That is a point I have for months been making publicly whenever I have found myself behind a podium. The potentially seismic paradigm shifts that are being ushered in by PE and AI are, in my view, the most consequential issues currently facing the accounting profession. We need rigorous audit-focused academic research on both the risks posed and the opportunities presented by PE and AI.

Academic research helps further the understanding of auditor behavior, which enhances our ability to make meaningful adjustments to rules and standards. When we draft or update auditing standards, we make choices that come with real world costs and benefits. Evidence from scholarly research informs those choices. We need to understand how auditors approach key aspects of the

audit, how public companies respond to the auditors' approach, how investors interpret and use audited financial statements, and how the structure of the audit market shapes incentives. Academic insights help inform auditing standards by providing conceptual and empirical support to compare the expected costs and benefits of the standards.

Academic work also helps us assess the impact of the PCAOB's inspection program. For example, scholarly research studies have addressed how PCAOB inspection access to non-U.S. auditors is associated with audit quality,⁵ and whether initial international inspections improved the audit quality for those auditors' other engagements.⁶ That work informs us when we plan and communicate inspections across jurisdictions.

Charting the PCAOB's Course

Like the accounting profession, the PCAOB is at something of a crossroads. Four of the Board's five members are new this year (including one who has not yet started) and, just coincidentally, this is the year that, in the normal course, the PCAOB would refresh its strategic plan, which was most recently refreshed in 2022.

The PCAOB first adopted a strategic plan in 2007. In what I view as a healthy new addition to the process,⁷ the Board held a public meeting on March 31 at which it discussed and authorized a release soliciting public comment on how the Board should consider its strategic priorities.

As the PCAOB charts its future course, it is worth reflecting on what the historian Simon Winchester has noted about one of the challenges of complex systems: that "their natural tendency is to regress if not constantly monitored – and occasionally even when monitored vigorously."⁸

Winchester's statement resonates in two dimensions – first, as a caution against easing up on our statutorily required monitoring of firms' audits, and second as an admonition to monitor vigorously our own complex system, to understand which elements of our programs have proven effective in bringing about improved audit quality and which are not as effective. As the PCAOB considers strategic priorities, it is important to try to identify and address what we should be doing differently. It is equally important that we not lose sight of the most successful aspects of the PCAOB's work to date, and the practices that have caused that success.

With that in mind, I want to encourage all of you to consider submitting your thoughts on our request for comment on our strategic priorities by the May 15 due date. The questions that the Board has set out are in broad terms relating to

our inspection, standard-setting, and enforcement programs, as well as our use of technology.

For the rest of my time this morning, I want to focus on one of those areas – an area in which input from the academic community could potentially be particularly informative.

PCAOB's Inspection Program

One of the questions on which the Board is seeking input is this: “What changes should the PCAOB make to its inspections program including, but not limited to, changes in light of its new quality control standard (QC 1000, *A Firm's System of Quality Control*)?” At the Board's public meeting announcing the request for comment, I suggested a couple of sub-questions: “What do you see as having been the most positively consequential elements of the PCAOB's inspection program?” and “What do you see as ways the inspection program might be improved?” As I put it in remarks during the recent meeting of the Board's Investor Advisory Group (IAG), I am interested in views on what, if any, changes to our inspection program we should consider - or should avoid - and why.⁹

Before I go further, let me emphasize an important distinction. Our request for comment on strategic priorities also seeks input on our approach to public reporting of the results of our inspections. The PCAOB will benefit tremendously from thoughtful stakeholder input on our public reporting, and I look forward to identifying improvements. But the issue of public reporting can be distinguished and isolated from what I want to explore with you now, which is the conduct of the inspection itself.

I want to focus on an aspect of how PCAOB inspectors conduct an inspection, and how the accounting firm's and the audit engagement team's experience of that process relates to the improvements in audit quality since the PCAOB's inception.

In creating the PCAOB and mandating its inspection program, the Sarbanes-Oxley Act specified the following three distinct things that the Board “shall” do in conducting an inspection, and described each in its own statutory subsection.

First, the Board shall “inspect and review selected audit and review engagements of the firm . . . performed at various offices and by various associated persons of the firm, as selected by the Board.”¹⁰ Second, the Board shall “evaluate the sufficiency of the quality control system of the firm, and the manner of the documentation and communication of that system by the firm.”¹¹ And third, the Board shall “perform such other testing of the audit,

supervisory, and quality control procedures of the firm as are necessary or appropriate in light of the purpose of the inspection and the responsibilities of the Board.”¹²

The Senate Report on the bill that became the Sarbanes-Oxley Act can be understood to amplify an aspect of those provisions. In pertinent part, the Senate Report states:

During an inspection, the Board is to review particular audit engagements (that it selects) of a firm and the firm’s general quality control systems and policies, as well as to perform such other testing of the firm’s audit, supervisory, and quality control procedures as is necessary or appropriate.

....

The scope of each inspection will include both particular audit and review engagements . . . selected solely by the Board, as well as a review of each firm’s quality control system ¹³

One thing that strikes me about these provisions is the nature of the distinction between the mandate for the PCAOB to inspect and review particular audit engagements and the mandate to evaluate a firm’s system of quality control.

Consistent with that distinction, the PCAOB’s approach to each inspection of a registered accounting firm has long been to go into the inspection having selected specific audit engagements to inspect. Our process for selecting audits, based largely on identifiable risks – relating to accounting complexity and audit difficulty and other factors that may indicate increased risk of audit error – has grown more sophisticated over the years.

In each selected audit, we focus our inspection work on certain areas of the audit, based on considerations such as the nature of the public company’s business or identifiably complex aspects of the financial reporting.

Naturally, the PCAOB has always incorporated observations from these audit engagement inspections into the separately required evaluation of the firm’s system of quality control. But those audit inspections have always served a purpose that was not limited to informing a quality control evaluation. They have provided a regular check on the performance of the actual audit work.

I want to submit that a key aspect of the value of that check involves the way that an auditor’s awareness of the potential check affects the auditor’s conduct of the audit. That is, I want to suggest that a significant benefit to audit quality likely flows directly from an engagement team’s awareness of the real possibility that the PCAOB will select the audit for inspection.

I raise these points because, as you may know, consideration is being given to changing the PCAOB's current approach to selecting and inspecting particular audits. One suggestion raised is that the PCAOB should shift its inspection process towards the review of a firm's system of quality management, corroborated by engagement-level reviews targeted for that potentially narrow purpose, with the idea that doing so may provide the PCAOB with more relevant information about audit quality.

I want to emphasize here that I strongly support sharpening our inspection focus on quality control, particularly as our new quality control standard, QC 1000, takes effect. I would hesitate, however, to move away from our established approach to engagement reviews before we have carefully considered whether important things would be sacrificed by doing so.

It is widely accepted that the PCAOB inspection program has been effective at driving auditors to make and sustain improvements in audit quality – to the ultimate benefit of the health and stability of our financial markets.

We need to move forward, but that does not necessarily mean leaving the track we are on, if it appears to be a good track. And the results of our efforts provide ample reason to believe it is a good track.

So before significantly reducing the number of audits we select for review under our current approach, I hope we will take time to thoughtfully consider whether that is the aspect of our inspections that has had the single greatest impact on audit quality.

It may be very hard, perhaps impossible, to tease out data that points to an unequivocal answer to that question. Intuitively, though, thinking about it from the auditor's perspective, the difference between performing an audit while believing there is a real possibility that PCAOB inspectors will review your work and performing an audit while viewing that possibility as remote is a difference that may well affect the conduct of the audit.

We also know that accounting firms are motivated to avoid PCAOB findings in inspected audits and that they try to incentivize their professionals accordingly. Many firms motivate their partners through the prospect of a financial penalty in the event of a PCAOB audit finding.

It therefore seems to me that there is ample reason to suspect that a meaningful prospect of PCAOB review of an audit likely leads to better audit quality in the face of business pressures that might otherwise marginalize the good intentions of honest, capable auditors and compromise audit quality. It may well be that the prospect of a PCAOB inspection of the audit, under our current approach, has been an effective counterweight to those pressures.

I see some evidence of this in the nature of a criticism of the inspection process that comes from certain quarters. We hear, including earlier this week in a meeting of our Standards and Emerging Issues Advisory Group (SEIAG), complaints that audit partners have so much anxiety about the possibility of a PCAOB inspection finding that they react with over-auditing rooted in their concerns about the consequences of a finding.¹⁴

We need to be, and I always am, willing to consider thoughtful criticism and suggestions, and we need continuously to work to wring out of the inspection program any flaws or excesses. But in the face of such validation that the current approach to inspecting audits does in fact affect audit partner behavior – which is precisely one of the key goals of the program (although not to extremes suggested by some anecdotes) – we need to be cautious that we do not over-correct.

The Act requires us to inspect and review selected audits, separate from our evaluation of the quality control system. It is understandable, and we should not be surprised, that people whose work is selected for that required inspection and review would wish that it were otherwise. We should not, however, treat that as a reason to significantly modify a successful element of our implementation of that provision of the Act.

Again, I want to encourage you to explore aspects of this question with us. When it comes to teasing out relevant details and data, and testing hypotheses, your skills could help us at least to ask the right questions and, with any luck, get to the right answers.

If you do have thoughts, or if you are aware of any research that might be relevant I invite you to reach out to me. I also encourage you to address the question in a written comment on the PCAOB's strategic priorities. The comment period is open for one more week, to May 15.

I want to mention an additional opportunity where your participation is encouraged. At this week's SEIAG meeting, Chairman Logothetis announced the PCAOB will soon form an inspections task force. A solicitation is expected in the coming weeks, and, again, I would encourage you to consider applying.

Conclusion

As I conclude, I would like to go back to the Simon Winchester insight that I mentioned earlier: that the “natural tendency” of complex systems “is to regress if not constantly monitored – and occasionally even when monitored vigorously.”

¹⁵ We have come a long way since Congress created the PCAOB. An entire generation of auditors who were not around for the shocks that led Congress to

do so are now more than 20 years into an auditing career during which PCAOB inspections have always been there. The constant PCAOB monitoring of audit engagements may seem to some like something that could be scaled back without any meaningful loss. I would be concerned, however, that, with any significant scaling back, we might find that audit quality has a “natural tendency” to regress.

None of that is to suggest that the PCAOB should be complacent about its inspection program. We should be thinking creatively about ways to improve our inspection program, and we should always be moving forward. Because even though I believe that our inspection program has always been evolving and is generally on the right track, I try to keep in mind a bit of wisdom that I have seen attributed to Will Rogers: “Even if you're on the right track, you'll get run over if you just sit there.”

Thank you. I welcome your questions and comments.

¹ Ian D. Gow and Stuart Kells, *The Big Four: The Curious Past and Perilous Future of the Global Accounting Monopoly* (Berrett-Koehler Publishers, 2018), at 36.

² *Id.*

³ George O. May, “The Ethical Problems of Modern Accountancy” (Lecture given at Northwestern University, January 11, 1932) at 10.

⁴ See section 101(a) of the **Sarbanes-Oxley Act of 2002** .

⁵ Phillip T. Lamoreaux, “Does PCAOB Inspection Access Improve Audit Quality? An Examination of Foreign Firms Listed in the United States,” 61 *Journal of Accounting and Economics* 313 (2016).

⁶ Simon Yu Kit Fung, K. K. Raman, and Xindong (Kevin) Zhu, “Does the PCAOB International Inspection Program Improve Audit Quality for Non-US-Listed Foreign Clients?,” 64 *Journal of Accounting and Economics* 15 (2017).

⁷ See Botic, **Statement in Support of Request for Public Comment on PCAOB Strategic Priorities** (March 31, 2026).

⁸ Simon Winchester, *The Perfectionists - How Precision Engineers Created the Modern World* (2018) at 212.

⁹ Botic, **The Importance of the Investor Advisory Group’s Input as the PCAOB Charts Its Course** (April 29, 2026). A video recording of the full IAG meeting is available for streaming **here**.

¹⁰ Section 105(d)(1) of the Act.

¹¹ Section 105(d)(2) of the Act.

¹² Section 105(d)(3) of the Act.

¹³ **S. Rep. No. 107-205, 107th Congress, 2d Session** (July 3, 2002) at 9, 47.

¹⁴ A video recording of the full SEIAG meeting is available for streaming **here**.

¹⁵ Simon Winchester, *The Perfectionists - How Precision Engineers Created the Modern World* (2018) at 212.



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