



[Home](#) > [News & Events](#) > [Speeches and Statements](#)

Audit Quality in a Changing World: Why the PCAOB Must Be a Marketplace of Ideas

Date: Oct. 16, 2025

Speaker: George R. Botic, Acting Chair

Event: OERA Conference on Auditing and Capital Markets

Location: Washington, D.C.

Remarks as prepared for delivery

Good morning and thank you, Mike [Gurbutt] for the warm introduction. It is a privilege to be with you today.

I also want to thank the staff of the Office of Economic and Risk Analysis (OERA) for orchestrating the 2025 Conference on Auditing and Capital Markets. Your efforts and dedication to ensuring the success of this conference are impressive, but the fact that this is the second OERA academic conference in three weeks is simply extraordinary.

I want to also acknowledge and thank the editors of The Accounting Review for their partnership in the pursuit of rigorous scholarship that informs practice and policy.

And to all of you, our audience, thank you all for being here and for presenting your ideas and engaging with us.

I especially want to recognize those who also attended OERA's recent Registered Reports Conference. It was a pleasure to participate in that conference¹ and to engage in a number of discussions with the academics, researchers, and economists who showcased their early-stage ideas and proposals. Academic conferences such as these are vital spaces for debate and reflection.

Before I continue, please know that my remarks this morning are provided in my official capacity as an individual PCAOB Board Member and do not necessarily reflect the views of the full Board, my fellow Board Members, or the PCAOB's dedicated staff.

The academic community does not just study topics of importance in financial reporting, accounting, auditing, and the impact on investors and the capital markets. This community helps to shape how the PCAOB understands and considers the impact of its oversight activities on these topics.

So, it is important for us to be here today to listen and learn from you and to continue the conversation regarding the important and longstanding partnership between academia and the PCAOB.

Your research efforts are in addition to what is arguably your most important endeavor – educating the next generation of accountants and auditors. The auditing profession is only as good as the skills and training of individual auditors.

Those skills depend on you, and I am grateful for all you do to educate, encourage, and most importantly, excite and inspire your students about the dynamic profession they are preparing to enter. The continued nobility of this great profession depends on your success.

And, given the rapid pace of change we are experiencing, your work has never been more challenging and critical. I encourage you to continue this vital undertaking and thank you for your dedication.

I would like to begin our discussion today by sharing a few words from the auditing thought leader and scholar Robert Mautz, who along with Hussein Sharaf, wrote the 1961 treatise titled “The Philosophy of Auditing,” which has been described as the “first conceptual explanation of auditing methodology that, under the pressure of subsequent changes in the auditor’s external environment and public expectations, evolved into the basis of current auditing theory, education, and practice.”²

In their book, Mautz and Sharaf espoused that “Auditing deals with abstract ideas; it has its foundations in the most basic types of learning; it has a rational structure of postulates, concepts, techniques, and precepts; adequately understood, it is a rigorous intellectual study worthy to be called a ‘discipline.’”³

Said differently, financial statement auditing is not simply a “paint by numbers” exercise. Rather, Mautz and Sharaf’s words remind us that the financial statement audit is more than a technical exercise. It is broadly rooted in the auditor’s integrity and ability to exercise sound judgment.

Reflecting on the work of the PCAOB, former Chairman Jim Doty summarized it well when he said, “[W]e’ve been able to create a body like the PCAOB that actually has some ability to reflect back on what it has seen, relate that to what it’s seeing now, and decide what needs to be done to enhance the quality of the audit.”⁴

This flexibility to react and adjust to market activity is one of the hallmarks of the PCAOB. To fulfill our statutory mission, I believe the PCAOB should be open to and actively seek out all ideas and viewpoints, and ultimately, serve as a marketplace of ideas.

By drawing on your scholarly work, rigorous research, and perspectives, the PCAOB builds a reservoir of data-driven insights and perspectives that informs its evidence-based standard-setting and audit oversight activities.

This intentional engagement with the academic community strengthens our work, so that audits better protect investors and preserve confidence in the capital markets. PCAOB-sponsored conferences such as this demonstrate our commitment to this ideal.⁵

In my remaining time this morning and in the spirit of a marketplace of ideas, I want to raise three topics where, I believe, your help is needed.

First, defining “audit quality”; second, exploring the potential impact of private equity investments in accounting firms; and third, understanding the rapid advancement of artificial intelligence (AI) and how it will change the future of auditing.

Why a Definition of Audit Quality Matters

In my first speech as a Board Member, I posed the question: who is responsible for audit quality?⁶ To answer that question, one must consider the multiple actors in the financial reporting ecosystem.

- Accounting firms and auditors perform audits.
- Regulators set standards and rules and perform oversight activities.
- Academics measure inputs and outputs such as market and investor reaction to oversight activities, financial statement restatements, partner workload, audit fees, and internal control weaknesses.
- Audit committees serve as the bridge between investors, management, and the auditors. They ask probing questions and ascertain whether the auditor has the scope and resources needed to perform the audit.
- Preparers produce and disclose financial information and engage transparently with auditors so that audits assess accuracy, completeness, and compliance with accounting standards.
- And investors, who in the words of the Sarbanes-Oxley Act's namesake, Senator Paul Sarbanes, are "the ones who make it all work."⁷

Each of these roles views audit quality from a different vantage point.

That leads one to ask why a PCAOB definition of audit quality matters? The answer is actually quite simple: This definition will serve as an anchor and guiding light for all participants in the financial reporting ecosystem.

Audit quality is the foundation of investor confidence.

Without it, capital markets cannot function as engines of growth and opportunity.

And yet, despite decades of modern audit practice, audit quality remains a phrase more invoked than defined.

It is important to note that investors often define it or experience it only in its absence, and as I like to say, audit quality is like oxygen; you do not notice it until it is gone.

Defining Audit Quality

The concept of defining audit quality is not new and has been one of the leading questions and conversations in our profession for decades. One of the first modern definitions of audit quality was developed in 1981 by Linda DeAngelo⁸, and reads: “The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client’s accounting system, and (b) report the breach.”

Today, we would refer to a “breach” as a “misstatement”, and yes, the discovery of a material misstatement should indeed be factored into the definition of audit quality, and, the lack of a discovery of a material misstatement could point to a sign of poor audit quality. However, I believe the ability to detect the presence of a material misstatement cannot be the only factor in determining whether the audit is of good quality.

A 2019 paper titled “The Effect of Audit Culture on Audit Quality” explains, “[O]ne should not focus on a single indicator of audit quality but on a broad array of indicators to get a multi-dimensional picture of audit quality.”⁹

As a starting point, I might offer the following four core concepts for the conversation regarding the definition of audit quality, and I welcome your thoughts on each of these: First, integrity and independence.

Auditors must be free from conflicts of interest and guided by professional skepticism. One could also include firm culture and tone-at-the top within this first category to examine in the definition of audit quality.

This is a topic that our inspection staff explored over the last few years. Those efforts culminated in a PCAOB Spotlight report based on an in-depth review of culture at audit firms, including more than 150 interviews with partners at the largest U.S. audit firms. Overall, the results of these interviews support the idea that integrity and independence, which are heavily influenced by firm culture, can impact audit quality, for better or worse.¹⁰

The second concept of audit quality is technical competence. Auditors must bring a depth of expertise and sound judgment into all they do.

Technical competence of relevant accounting principles and auditing standards is a core input to audit quality. As studies have shown,¹¹ it determines whether auditors can identify the right assertions and risks, design and execute effective

procedures to test those assertions and address those risks, and form an appropriately supported opinion on which users of financial statements can rely.

The third concept to consider while defining audit quality is audit performance, which includes audit execution, due professional care, and skepticism. Audit execution is at the operational heart of audit quality and requires rigorous testing, systematic evidence gathering, and analysis.

Due professional care and skepticism ensure audits are performed competently with the appropriate attitude, including a questioning mind, and that evidence is thoroughly evaluated. Together, these concepts demonstrate how auditors reached their conclusions.

And finally, outcomes and impact. Audits are designed to detect material misstatements caused by error or fraud, and material weaknesses in the company's internal controls over financial reporting.

While empirical evidence shows that (applying audit quality proxies that are widely used in academic literature) the PCAOB's inspection reports have improved audit quality for the U.S. Big Four firms,¹² we still need a standard definition of audit quality.

These four concepts, I believe, are a start to the task of defining audit quality. But there are challenges, including the fact that defining audit quality is not a static measurement.

To refer once again to "The Philosophy of Auditing," "The development of a sound philosophy of auditing is a challenge worthy of the best minds the profession has to offer."¹³

That is where we need your help. We welcome your studies, your insights, and your ideas to move from debating what audit quality means to ensure it is consistently delivered and that a widely accepted definition is then turned from the abstract into practice.

This is an incredibly difficult task and will require much thought and discussion.

So, I would like to pose a couple of questions for you to consider as you reflect upon this topic, and hopefully, join us as we seek to define audit quality.

First, what dimensions of an audit's performance are essential?

And second, should audit quality be assessed based on outcomes or on process?

Ideally, I believe together we can develop a definition of audit quality that can be used as a broad benchmark. While this task is not easy or simple, the outcome will benefit the entire financial reporting landscape.

Private Equity and Accounting Firms

I want to now turn our attention to the rise of alternative financings, including private equity investments and accounting firms operating in an alternative practice structure (or APS) environment.¹⁴

In terms of opportunity, private equity capital can be used to assist firms with succession planning, finance investments in new and advanced technologies such as artificial intelligence, and augment talent recruitment and retention initiatives.

Private equity investments can also accelerate a firm's growth by expanding existing business lines of service, entering into new business areas, and acquiring other firms through individual acquisitions or as roll-up transactions. These opportunities can lead to audit quality enhancements.

But these opportunities may come with various risks to auditor independence, changing incentives structures within a firm, and the possibility of reduced competition and choice of auditors that perform public company audits. Private equity firms are ultimately seeking returns for investors by selling their interests to another buyer in the private or public markets.

To be clear, the concept of seeking returns for investors, in and of itself, is not inherently problematic. However, by their very nature, the interests of private equity investors have the potential to reshape incentives for auditors in a way that prioritizes an accounting firm's profits over audit quality.

Given the important role that financial statement auditors play in the capital markets, there are enough risks and questions around private equity investments that I am concerned.

I have previously discussed the creation of the financial statement audit, its importance to the incredible success of our public markets, and how audit failures have pushed policymakers to act. Before the Enron and WorldCom failures, which resulted in staggering economic harm, there were others: The panic of 1873, the stock market crash of 1929, and the bankruptcy of Penn Central (Pennsylvania Central Transportation Company) in 1970, to name a few. While I do not think that

the vast majority of auditors neglect their obligations to the public, we can see with hindsight how an outsized focus on profits can, over time, compromise auditor independence and judgment.

In a 2003 speech following the passage of the Sarbanes-Oxley Act, Arthur Wyatt, a thought leader in the auditing profession, outlined the effects that a profit focus had on auditors in the lead up to the Enron collapse: “Auditors were more willing to take on additional risk in order to maintain their revenue levels. Many long-standing audit procedures that put audit personnel in touch with recurring transactions were scaled back... Healthy skepticism was replaced by concurrence.”

15
—

The tension that Wyatt described between an auditor's professional obligations and the interest in maximizing profitability has always been with us and likely always will be. It is not a novel new feature brought on by the emergence of private equity in the auditing space.

But that emergence threatens to dramatically increase the pressure on the profitability side of that tension, with the significant risk that the balance will rapidly shift, with tangible adverse consequences for audit quality.

Over time, prioritizing profits can result in reduced audit engagement team staffing levels, the use of fewer firm specialists, and rationalized risk in the client acceptance and retention process.

But the challenges presented by private equity will require more than the work of the PCAOB to ensure the public good and investors remain at the heart of the auditing profession. This is an area where I encourage the academic community to join us – in the marketplace of ideas – to understand how private capital is reshaping accounting firms, including how complex ownership structures may impact the chain of command at firms and alter long-established incentives and cultures.

I want to briefly acknowledge the scholars who are already studying this issue and who submitted papers for OERA's Registered Reports Conference¹⁶ as well as the individuals who are presenting them directly on the next panel session¹⁷. I am looking forward to learning more about your work.

Artificial Intelligence and the Audit

The third area where we want and need your assistance is the adoption and use of artificial intelligence (AI) in the audit.

AI is on the cusp of transforming financial reporting and the audit. AI tools can scan mountains of data in seconds and flag anomalies or issues that humans may miss. So, it is no wonder that preparers and accounting firms can and should see the potential in AI, especially when it seems every single person on the planet is asking ChatGPT a question at least once a day.

In fact, according to the Financial Times, as of July 2025, more than 18 billion messages were sent to ChatGPT every week by 700 million users.¹⁸

While those statistics are not specific to auditing, it is clear accounting firms do not want to be left behind.¹⁹ As I hear in each meeting I have with firms, they are investing billions of dollars in AI applications.

Without a doubt, this is an exciting time to be in the profession, and the impetus to change and improve audit quality is endless.

But new technology often comes with new risks. AI is no different, and its potential impact on financial statement auditing should be studied.²⁰

As author Margaret Heffernan discussed in her book “Uncharted”: “All technology effectively outsources work from humans to machines, promising purported efficiency gains at the expense of individual knowledge and learning...The automation paradox shows that the less we do something, the worse we get at it.”

²¹

If this is indeed true, it leads one to believe that the more technology is used in performing an audit, the greater chance that the auditor’s professional skepticism and judgment—as I mentioned earlier, the very core element of audit quality—could be at risk.

It is clear we continue to need research in this area so that technology enhances, not replaces, human oversight in auditing. Again, your research will help to expand our thinking and define the way forward.

The Path Forward

Looking ahead, I believe that the PCAOB should take the following steps:

First, the PCAOB should engage with every participant in the financial ecosystem—investors, auditors, audit committee members, academics, and preparers—to create a definition of audit quality. This will, of course, take time. The work of the academic community will lay the foundation for this work.

Second, the PCAOB should act on the recommendation from the Standards and Emerging Issues Advisory Group for the PCAOB, the Securities and Exchange Commission (SEC), and the National Association of State Boards of Accountancy (NASBA)²² to work together on exploring the risks and impact of private equity investments in accounting firms.

Finally, the PCAOB should consider hosting public roundtables, one focused on the impact of private equity investments on independence and audit quality in the near term and long term, and a second focused on how the use of AI will change how audits are conducted in the coming years.

Closing

In closing, we have approached three wide-ranging concepts with consequences for our noble profession of auditing: defining audit quality, exploring private equity investments in accounting firms, and understanding the burgeoning use of AI in the audit.

Mautz and Sharaf remind us that auditing “provides opportunities for, and even demands, strenuous intellectual effort.”²³ That effort is not optional. It is the price of trust.

The PCAOB is committed to this “strenuous intellectual effort”, and we hope you will continue to join us in the marketplace of ideas.

Thank you. I welcome your questions and comments.

¹ George Botic, **The “Custodians of Audit Knowledge”: The Need for Academic Research and The Longstanding Relationship Between the PCAOB and the Academic Community | PCAOB**, Sept. 26, 2025

² Stephen Zeff, Phil D. Wedemeyer, & Martin Persson, *Robert K. Mautz (1915–2002): A Thought Leader in Accounting and Auditing*, 14 Accounting Historians Journal (2025)

³ Robert Mautz and Hussein Sharaf, *The Philosophy of Auditing* (American Accounting Association/ Monograph 1961), at 16

⁴ *The CPA Journal*, (July 2011) at 19

⁵ In addition, the PCAOB has regular interactions with the Investor Advisory Group (IAG) and Standards and Emerging Issues Advisory Group (SEIAG)

⁶ George R. Botic, “**Who is Responsible for Audit Quality? | PCAOB**”, Nov. 28, 2023

⁷ **Sarbanes-Oxley Act Revisited: An Interview with Sen. Paul S. Sarbanes**, FRAUD, March 1, 2007

⁸ Linda Elizabeth DeAngelo, *Auditor Size and Audit Quality*, 183-199 The Journal of Accounting and Economics, Volume 3, Issue 3 (1981)

⁹ Jasmijn Bol, Isabella Grabner, Katlijn Haesebrouck, & Mark E. Peecher, M.E., *The Effect of Audit Culture on Audit Quality*, 2 The Foundation for Auditing Research (2019)

¹⁰ See **PCAOB Spotlight “Insights on Culture and Audit Quality** at 16

¹¹ Brant E. Christensen, Steven M. Glover, Thomas C. Omer, & Marjorie K. Shelley, *Understanding Audit Quality: Insights from Audit Professionals and Investors* 53 Contemporary Accounting Research (2015)

¹² Inder K. Khurana, Nathan G. Lundstrom, and K.K. Raman, *PCAOB Inspections and the Differential Audit Quality Effect for Big 4 and Non-Big 4 US Auditors** Contemporary Account Research (2021)

¹³ Mautz and Sharaf, *The Philosophy of Auditing* (1961) at 16

¹⁴ **Exclusive | The Accounting Firm Weighing Private-Equity Ownership After Years of Ignoring Calls - WSJ**, Wall Street Journal, Oct. 9, 2025

¹⁵ Arthur Wyatt’s Speech to the American Accounting Association, **Accounting Professionalism—They Just Don’t Get It!**, 2003

¹⁶ Tuan Doan, Steven Utke, Ying Zhou, Youli Zou, *The Consequences of Private Equity Investment in Accounting Firms* 2025

¹⁷ Nicole Donahoo, Christy Nielson, and Jeff Pickerd, *It’s Complicated: Private Equity’s Relationship Status with the Attest Industry*, 2025, and Vivian Yinqing Mao, Miguel Minutti-Meza, Zeyu Ou, and Aleksandra “Ally” B. Zimmerman, *A Primer for Understanding and Researching Private Equity Investment in the Accounting Industry*, 2025

¹⁸ **How AI became our personal assistant**, The Financial Times, October 6, 2025

¹⁹ **Big Four Firms Roll Out AI That Can Handle Routine Tasks Solo**, Bloomberg Law, March 24, 2025

²⁰ George R. Botic, **Board Member Botic to Accounting Students: “The DNA of a Financial Statement Auditor” | PCAOB**, Mar. 20, 2024

²¹ Heffernan, Margaret, *Uncharted: How to Navigate the Future*, (Simon and Schuster 2020) at 51

²² See **the Standards and Emerging Issues Advisory Group (SEIAG) Meeting** from May 22, 2025

²³ Mautz and Sharaf, *The Philosophy of Auditing* (1961) at 16



[About](#)

[Submit a Tip](#)

[Oversight](#)

[Comment Now](#)

[Resources](#)

[AuditorSearch](#)

[News](#)

[Register](#)

[Contact the PCAOB](#)

[Firm Filings](#)

[PCAOB Careers](#)

Subscribe to our Newsletter

* indicates required

Email*

Email

I identify myself as a(n):*

Select One

PCAOB Subscriptions*

- ☐ All PCAOB Updates
- ☐ Communications to Academics
- ☐ Communications to Audit Committee Members
- ☐ Communications to Auditors
- ☐ Communications to Investors
- ☐ Communications to Small Audit Firm Practitioners
- ☐ Inspection Reports
- ☐ Enforcement Orders
- ☐ News Releases, Speeches, and Statements

protected by reCAPTCHA

[Privacy](#) - [Terms](#)

Submit

Copyright © 2003-2025 Public Company Accounting Oversight Board. All rights reserved. | [Privacy Policy and Terms of Use](#) | [Sitemap](#)