# Chair Williams to Auditing Profession: “Too Much is At Stake to Let Complacency Win”

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**Speaker:** Erica Y. Williams, Chair

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*Remarks as prepared for delivery*

Thank you, Julie Bell Lindsay. Thank you to the AICPA, the staff here at the Marriott, and everyone who worked so hard to make this conference a success. And thank you to all of you for being here.

Before we begin, I must provide the standard disclaimer that the views that I and my fellow Board Members express today are our own and do not necessarily reflect the views of our fellow Board Members or our talented and dedicated staff.

My path to the PCAOB starts with my grandmother. She and my grandfather were farmers in Alabama. And she quite literally kept what little money she had under her mattress.

She didn’t trust it to a bank, let alone the stock market.

So, when I became the first person in my family to go to law school, I chose to go into securities enforcement to hold wrongdoers accountable, and help bolster the integrity of, and breed confidence in, our capital markets.

Because the problem with money under the mattress is that it doesn't grow. Building wealth requires investing.

But investing requires trust.

And that's where you come in.

The modern auditing profession was born from the need to restore trust following the stock market crash of 1929 and the Great Depression.

Almost a century later, the role of auditors in maintaining trust and confidence in our capital markets is as important as ever.

Investors depend on you to apply due care and skepticism to ensure the financial statements they use to make decisions for their families and their futures are accurate.

And our capital markets depend on investors.

As Sarbanes-Oxley Act author Senator Paul Sarbanes said, "Investors, after all, make the whole thing work. They're the ones who are providing the resources so the entrepreneurial system can move forward, innovate, expand, and contribute to the strength of the economy."

Investor confidence is essential. But it is not inevitable.

Trust must be earned.

And to maintain that trust, auditors' work and investors' expectations must be aligned.

After 20 years of PCAOB inspections and enforcement, it is clear that many of our current standards and rules need to be enhanced.

And the PCAOB is working to do just that.

Nearly all of the standards we are considering updating are so-called 'interim standards,' which the PCAOB first adopted in 2003 based on standards set by the profession on what was intended to be a temporary basis.

Yet, they have not been significantly updated in at least 20 years – and in some cases, even decades longer.

The world has changed dramatically over the last 20 years.

To keep investors protected, we must keep up. And that's exactly what we are working to do.

Last year, we finalized a new standard and related amendments that strengthen requirements that apply to audits involving multiple audit firms.

And we issued proposals on Quality Control and the confirmations process for public comment.

The confirmation process touches nearly every audit, and Quality Control systems lay the very foundation for how firms approach everything they do, including performing audits. It is essential they are fit for purpose in today's world.

This spring, we issued proposed changes to modernize and consolidate a suite of standards that address core auditing principles and responsibilities, including reasonable assurance, professional judgment, due professional care, and professional skepticism—known as AS 1000. Proposed AS 1000 provides a better-organized presentation with relevant language that is more consistent with other PCAOB standards.

As part of our AS 1000 proposal, we also proposed related amendments to other standards.

For example, some of the amendments clarify the extent of the planning, supervisory, review, and documentation activities to be performed by the engagement partner as part of exercising due professional care.

Other amendments would reduce the maximum period of time to assemble a complete and final set of audit documentation from 45 days to 14 days. Such proposed change recognizes advancements in the preparation of electronic audit documentation as the 45-day requirement was established in the early days of the PCAOB.

After 20 years of experience inspecting against the standards covered under this proposal, it is clear improvements could facilitate better investor protection.

This summer, we also proposed amendments to give auditors additional direction addressing specific aspects of designing and performing audit procedures that involve technology-assisted analysis of information in electronic form.

And, as you may have heard, we proposed a new standard on noncompliance with laws and regulations, or NOCLAR.

When auditors fail to identify noncompliance with laws and regulations that have a material impact on a company's financial statements – or fail to take the proper steps to evaluate and communicate that noncompliance – investors pay

the price – retirees, families, hardworking people whose futures and savings are on the line.
Unfortunately, the current standard is 35 years old, and we have seen far too many examples of investors getting hurt due to noncompliance with laws and regulations since it was adopted.

Well-publicized issues relating to Wells Fargo offer just one.

Earlier this year, Wells Fargo agreed to pay $1 billion to settle a class-action lawsuit from investors alleging it made misleading statements about compliance with consent orders imposed by federal regulators.

A lawyer for those investors underscored just who gets hurt when these incidents happen: “state employees, nurses, teachers, police, firefighters and others — whose critical retirement savings were impacted by Wells Fargo's fraudulent business practices."

When these kinds of incidents happen, the question almost inevitably follows, “where was the auditor?’

In fact, our PCAOB advisory groups, made up of investors and other stakeholders, have often pointed to studies that show auditors are currently only finding about 4% of fraud – which is certainly not consistent with what most investors expect.

In the fall, we issued a proposal on a rulemaking project that would hold associated persons accountable when they negligently, directly, and substantially contribute to firms’ violations.

Once again, the proposal is designed to make sure PCAOB rules match what investors already expect: that when an associated person’s negligence directly and substantially contributes to firm violations that can put investors at risk, the PCAOB has the tools to hold them accountable.

Finally, the Board unanimously voted to adopt the new standard and related amendments on the confirmation process I mentioned a moment ago.

The new standard will help auditors detect fraud and better protect investors now and into the future.

Before the year is complete, we expect to issue a proposal for public comment on follow-on disciplinary proceedings.

In total, we have issued six proposals—with one more expected by the end of this year—and adopted two new standards and related amendments since I was sworn in as Chair nearly two years ago.

And our work to modernize our standards and rules continues.

We are committed to getting this agenda done and to getting it done right. The public comment period is absolutely essential to that process, and we carefully read and weigh each and every comment we receive.

Ultimately, having modern, effective standards that live up to the protections investors expect is good for investors, good for our capital markets, and good for the profession.

Of course, standards on paper don't earn trust unless they are followed in practice.

As we meet today, our inspectors are working hard to finalize reports for our 2022 inspections. And deficiency rates are trending in the wrong direction for both domestic and international firms for the second year in a row.

This is unacceptable.

I know the profession can do better. And I acknowledge that many of you have committed to do better.

It will likely take time and persistent focus to turn this trend around. But too much is at stake to let complacency win.

Investors and our capital markets are depending on you.

For our part, the PCAOB is using every tool in our toolbox to protect investors and drive audit quality improvements, including remediation. And I encourage firms to do the same.

As I mentioned, Quality Control systems lay the foundation for quality audits.

If you've ever installed wallpaper, then you know, if you get the first corner right, the rest of the job flows nicely from there. But get the first corner wrong, and the whole thing is a mess.

The remediation process incentivizes firms to figure out where that first corner went wrong and provides an opportunity to get it right.

When PCAOB inspections identify quality control deficiencies, by law we do not make them public in the initial inspection report.

Instead, firms have a year to correct - or remediate - the problems.

Our inspectors watch the firm's progress closely. If the firm doesn't address the deficiencies to the Board's satisfaction in that timeframe, only then do we make the quality control findings public.

Remediation provides firms with a tremendous opportunity not only to improve their quality control systems, but to improve their overall audit quality.

Take full advantage of it.

Finally, the PCAOB will not hesitate to take action to hold those who put investors at risk accountable.

As President George W. Bush said when he signed the law that created the PCAOB, "For the sake of our free economy, those who break the law — break the rules of fairness, those who are dishonest, however wealthy or successful they may be, must pay a price."

We are making sanctions count. We are expanding how we identify cases. And we are expanding the types of cases we are pursuing.

Last year, we imposed the highest penalties in PCAOB history.

This year, we have nearly doubled that record – with more than $20 million in penalties – the highest yearly total ever imposed by the PCAOB.

Removing bad actors from the profession and punishing wrongdoing protects investors, promotes deterrence, and bolsters trust in the vast majority of honest auditors who are working hard to live up to the trust investors have placed in them.

Those who are dishonest – or fail to put the proper guard rails in place to prevent dishonesty – will face consequences.

This year, the PCAOB has announced sanctions related to a number of ethics violations, from failures to detect or prevent rampant improper answer sharing, to failures to maintain independence from issuer clients, to providing improperly altered or backdated information and more.

Few things erode trust like impaired ethics.

When firms' fail to enforce a culture of honesty and integrity, they aren't just risking an enforcement action, they are threatening the investor confidence our system relies on.

As Senator Sarbanes warned, "If you don't protect the interests of the investors, it deals a major blow to the workings of the economic system. The U.S. capital markets have established a reputation for integrity because we have a system designed to screen out people who are trying to cut the corners and rig the system."

You are a critical part of that system.

Your work is what gives people confidence that their money is better off in the market than under the mattress.

And that confidence is what powers our capital markets.

So, choose vigilance over complacency as you stand guard against negligence, recklessness, and fraud that threatens our system and the people who depend on it – people who depend on you.

And never forget that they are why we are here. Quality audits protect people.

Thank you.

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