MAB MAANDBLAD VOOR ACCOUNTANCY EN BEDRIJFSECONOMIE

Maandblad voor Accountancy en Bedrijfseconomie 98(7) (2024): 459–465
DOI 10.5117/mab.98.141812

Research Article

Auditing and assurance: the role of audit firm culture – FAR Conference 2024

Luc Quadackers

Received 14 November 2024 | **Accepted** 11 December 2024 | **Published** 27 December 2024

Abstract

On June 24 and 25 2024, the annual conference of the Foundation for Auditing Research (FAR) took place, led by conference chair Philip Wallage. This year's conference theme was 'Auditing and Assurance: The Role of Audit Firm Culture.' The focus was on the role of audit firm culture in influencing audit quality, emphasizing the challenges of dissecting, fostering and regulating a positive and productive organizational culture. The paper presentations and discussions emphasized the need for continuous dialogue, collaboration and innovation within audit firms to enhance leadership, manage cultural differences across teams, and integrate technology into auditing practices effectively. The two-day program included an introduction to the conference theme, two lectures, two panel sessions, six research presentations and a wrap-up. This article presents summaries of these sessions.[1]

Keywords

Auditing, FAR conference

1. Introducing the conference theme: lack of cultural knowledge is 'good news'

Nearly 170 people registered for the conference. The distribution of participants was roughly the same as last year: practitioners and academics each made up about 40 percent of the attendees. The rest of the audience consisted of regulators and other stakeholders.

Jere Francis, who served as the FAR Research Chair until May 2024, introduced the conference theme. He emphasized that culture is an important topic among regulators, such as the AFM in the Netherlands and the PCAOB in the United States. Regulators recognize that culture can influence the quality of audits. Their reasoning is that a better culture leads to better audits, but according to Francis, there is still little evidence to support that assumption. He considered this lack of evidence as 'good news' because it allows all stakeholders to think deeply about it. What is culture? How does the link to audit quality work? Can culture be changed? And can the costs and benefits of culture be quantified?

Francis argued that we should not have overly high expectations about cultivating and regulating culture. There are limits to culture as a tool for quality control: 'Despite the firm's culture initiatives, how people behave is driven more by personal, idiosyncratic factors than by the organization's culture.' Francis identified three levels of culture:

(1) culture at the organizational level;
(2) culture within individual audit offices;
(3) culture within audit teams.

Culture at these levels can even vary between ranks and departments, creating various 'microcultures' that are crucial for audit quality but are often difficult to regulate.

Francis concluded with a warning that regulation can increase costs without necessarily improving audit quality.

Amsterdam University Press

2. Keynote speech: More information on quality can lead to the right market incentives

Martin Schmalz (Chief Economist and Director of Economic and Risk Analysis at the Public Company Accounting Oversight Board & Professor of Finance, Economics and Real Estate at the University of Oxford's Saïd Business School) spoke in a personal capacity about the relationship between regulation and welfare. He emphasized the importance of audits for society: if capital markets are crucial to welfare, then high-quality external audits are also essential. Schmalz explained that the free market may not be able to ensure the optimal quality of audits. He argued that mandatory audits are a form of government intervention intended to correct market failures. However, despite this intervention, frictions and problems remain that the market itself cannot fully resolve.

Schmalz described the role of the Public Company Accounting Oversight Board (PCAOB) in regulating audits. He emphasized that, while the PCAOB's resources are limited, their impact on capital markets can be significant. With a budget of merely a fraction of the total market capitalization, they must operate very efficiently. This makes it even more critical to carefully consider how these resources can be best used to improve welfare. Schmalz identified three ways to achieve this: standard setting, monitoring through inspections, and incentivizing compliance (through enforcement or by providing the market with inspection information).

The keynote speech largely focused on a game-theoretic model that Schmalz developed in collaboration with Bill Zame (University of California, Los Angeles). The model analyzes the interactions between audit partners and company managers in relation to the regulator. The model emphasizes that simply imposing stricter standards, inspections, and enforcement does not necessarily lead to better audit quality, as the reactions of other parties in the system can influence the outcome. Schmalz argued that providing more information to investors and other stakeholders can help create adequate market incentives. For example, making inspection reports public can enable investors to make better-informed decisions, increasing the pressure on companies and auditors to deliver high quality.

3. Panel Discussion: can you regulate culture?

Can you regulate culture? This was the central question debated during the panel discussion led by Robert Knechel (Professor of Accounting at University of Florida and Academic Board member of the FAR). The panelists were Mariska van de Luur (Head of Assurance at KPMG), Martin Schmalz (PCAOB and University of Oxford), and Berry Wammes (Program Director of Culture and Professional Development, NBA).

Knechel opened the discussion by highlighting the challenges of defining and regulating culture. He emphasized that culture is always present and cannot be absent. Understanding culture is the first step toward improving it. Knechel identified a classic accounting problem and related that to culture: the aggregation problem. Culture exists at various levels, such as national, regional, based on ethnicity, family, religion, and within companies. The aggregation of these different levels makes it a complex challenge to regulate culture effectively.

Mariska van de Luur suggested that culture mainly consists of the behavior of individuals within an organization and that these behaviors collectively shape the firm's culture. 'It's what makes us who we are.' She emphasized the importance of gradual changes, noting that culture cannot be changed overnight. The behavior of individuals, teams, and regions within an organization contributes to the overall culture of the company.

Berry Wammes discussed the difficulty of cultural change and cited research showing that most change programs are ineffective. He stressed that cultural change must occur through continuous interaction and dialogue within the organization: 'Change means: talk into existence.' To be effective, change must come from within, involving everyone in the organization. Wammes argued that culture is the key factor between success and failure in an organization.

Martin Schmalz (again speaking in a personal capacity) noted that stories within an organization play a crucial role in shaping culture. Stories about what is valued, what is not, and who the heroes are, contribute to cultural norms and values. He stated that incentives and stories together guide behavior and culture. Schmalz underlined the importance of incentives, not just financial ones but also recognition and penalties, in steering behavior and thus culture. This suggests that organizations should look beyond financial rewards to other forms of recognition and stimulus that drive behavior. Schmalz also emphasized that monitoring alone could influence behavior, as simply knowing that one's actions are being monitored can alter how people behave.

Robert Knechel shared an anecdote about an anthropologist (an expert on cannibalism) who noted that culture is about boundaries and that within closed communities, culture is often regulated by the concept of shame (a type of incentive). Cannibalism, for example, is entirely logical within the boundaries of a group of cannibals, where individuals do not want to feel ashamed in front of their group members. Knechel suggested that this idea of shame as a regulatory mechanism can also be applied in modern organizations, where certain behaviors are discouraged by the fear of social disapproval. Thus, the question of culture is often about the boundaries that fit the level being discussed.

The panel discussion showed that culture is a complex and layered phenomenon, making it inherently difficult to regulate. Therefore, ongoing dialogue, interaction, and awareness of behavior and incentives are essential to fostering a positive culture within organizations.

4. Current culture is mainly focused on collaboration

Lena Pieper (Assistant Professor of Accountancy at the University of Illinois, Urbana-Champaign) presented her paper ‘Understanding Audit Firm Culture Through the Lens of the Competing Values Framework’ (co-authored with Jere Francis, Olof Bik, Murray Barrick and Ann Vanstraelen). The research focuses on culture within audit firms, viewed through the Competing Values Framework, with the aim of better understanding how culture functions in these firms and how it can be improved. Organizational culture consists of shared values and beliefs unique to an organization that influence employees’ thinking and actions. A strong organizational culture can lead to higher satisfaction, better performance, and employee engagement (attraction and retention), positively impacting both individual and organizational outcomes.

According to Pieper, there has been significant attention over the last decade on the audit quality-oriented firm culture as part of the quality control system. The goal of the current research project is to identify the existing culture, how firms try to shape the desired culture, and which embedding mechanisms work best.

The Competing Values Framework consists of two dimensions: internal (internal processes) versus external (market/customer) focus, and structure (structured processes/stability) versus flexibility. These dimensions create four quadrants: collaborate, create, control, and compete. *Collaborate* focuses on internal processes and flexibility; *Create* emphasizes external focus and flexibility, *Control* focuses on internal processes and structure, and *Compete* highlights external focus and structure. Organizations embody a unique combination of these four values, which collectively shape their distinct culture.

A survey of nearly 2,800 usable responses, supplemented by interviews, revealed that the current culture in audit firms is mainly focused on *collaborate* and *control*, emphasizing internal processes. The importance of control also stems from regulatory requirements and oversight. The study uncovered a perceived discrepancy between the views of partners and other employees regarding the desired culture. Employees perceive a greater emphasis on *control* and *compete* than intended by partners. Within Big Four audit firms, the culture is stronger as compared to other firms, with a greater emphasis on *competition*. Average scores across the cultural dimensions vary by rank, with greater variance observed at lower ranks (except for new employees).

Pieper concluded that it is crucial to continuously monitor and evaluate the current culture, as it is dynamic and constantly evolving. Partners need to listen carefully to employees, as significant differences exist in how culture is perceived across different hierarchical levels. Tailored mechanisms should be used to implement cultural changes, depending on the specific cultural gaps identified. Practicing the organization’s stated values is particularly critical. Failing to do so could lead to negative consequences such as reduced psychological safety and lower satisfaction.

5. Auditors trust technology more than people, even when it is unwarranted

Christian Peters (Assistant Professor in Accounting at Nanyang Business School, Nanyang Technological University) presented his research titled ‘Auditor Automation Usage and Professional Skepticism.’ According to Peters, it is essential for technology and auditors to collaborate, but most problems arise from human implementation rather than from the technology itself. Therefore, Peters studies the behavioral aspects of technology use. He identifies two key behavioral issues that auditors face when using technology: automation bias and algorithm aversion.

Automation bias occurs when auditors are less critical of information stemming from technology compared to that provided by colleagues. *Algorithm aversion* happens when auditors lose confidence in technology after an error, a reaction that is stronger than if a human had made the same mistake. These biases may lead to both over-reliance and under-reliance on technology. This touches on the ‘perfect automation schema,’ which assumes that technology is either nearly flawless or completely unreliable, without the nuance typically applied when judging human performance.

Through an experiment, Peters examined whether auditors are more or less skeptical toward technology compared to their human colleagues. He then explored whether an intervention—prompting auditors to consider counterarguments before making decisions, thus changing their mindset—could enhance their skepticism and thus reduce the likelihood of making incorrect decisions. Finally, Peters studied whether these effects carried over to unrelated tasks (spillover effects).

Peters divided auditors into four groups and assigned them a sheep-counting task, where they were provided with information on the counts. One group was told that the count had been done by an algorithm, while the other was told it was done by a colleague. Participants then completed a second task without automation involved—a goodwill impairment test—to measure spillover effects. Additionally, some participants were asked to complete a counterargument exercise designed to activate a critical mindset.

The results showed that auditors were more likely to accept the outcomes of an algorithm than those from a human colleague. Furthermore, they spent less time on the algorithm’s output, even when the algorithm’s information is incorrect, indicating a pronounced automation bias in auditors. The counterargument mindset intervention was effective in reducing this bias. However, no significant spillover effects were found on unrelated tasks.

Peters stressed the importance for audit firms to develop strategies that mitigate the negative effects of automation on professional skepticism and to effectively integrate human and technological elements in auditing practices.

6. The right mix of virtuality depends on specific circumstances within a team

Iver Wiertz (PhD candidate at Maastricht University) presented a study on virtual teamwork, titled 'Virtual Audit Teamwork: Working, Learning, and Delivering High-Quality Audits Virtually' (co-authored with Wim Gijselaers, Therese Grohnert, Roger Meuwissen and Ann Vanstraelen). He used the processes in the restaurant kitchen of *El Bulli* as an analogy to illustrate the complexity and collaboration within teams and the challenges of working remotely in such settings. He highlighted the impact of the COVID-19 pandemic on professional work methods and learning processes, which led to a shift towards virtual working.

Wiertz's research focuses on two main questions: understanding the impact of virtual teamwork on the auditing profession (based on interviews) and explaining its impact on team performance (by using a survey). The findings suggest that virtual teamwork is seen as a viable and commonly used method of working in audit firms. Despite this shift, most auditors perceived the impact of virtual teamwork on audit quality as minimal, emphasizing that 'an audit remains an audit,' regardless of the work mode. The rules stay the same, and even those critical of virtual work felt that audit quality remained sufficient.

The benefits and drawbacks of virtual work manifest differently across various levels within the organization. Benefits, like reduced travel times and lower costs, are most apparent at the organizational level (e.g., lower emissions and costs) and individual level (e.g., less travel time). Meanwhile, drawbacks such as decreased contextual understanding and increased exhaustion are often felt at the team level. Moreover, the pros and cons are not the same for all individuals.

Virtuality itself is a multilayered concept: teams can vary in their degree of virtual work depending on geographical and temporal spread and the extent to which technology is used. Effective team learning (i.e., sharing information, challenging each other, and co-creating new knowledge) and leadership that is about 'looking at the people' and goes beyond spreadsheets are crucial. Empowering leadership, which emphasizes shared responsibilities and providing necessary resources, was identified as a key factor for the success of virtual teams.

Wiertz stressed that the optimal mix of virtuality depends on its specific circumstances and the tasks at hand. He recommended ongoing discussions, evaluations, and adjustments to ensure the needs of various stakeholders are met.

7. Keynote speech: Auditing is electric

Christopher Humphrey (Professor of Accounting at Alliance Manchester Business School, University of Manchester) opened the second day of the conference with his keynote speech titled 'Escaping *Groundhog Day*: The Transformative Possibilities of Reconceptualizing Audit.'[2] He argued for the need of the auditing profession to be open to innovation and to rethink the nature of auditing and audit professionalism to remain relevant.

Even though auditing expectations are repeatedly compared and discussed, Humphrey described the current concept of auditing as being stuck in a 'time warp' where much remains unchanged, like the movie 'Groundhog Day.' He emphasized that auditing is a social construct that is not fundamentally fixed or static. In fact, audit can, and must, change to remain relevant in a rapidly changing world.

Humphrey suggested that the pursuit of enhanced levels of audit quality is fundamentally constrained if practice and its reform is centered on just one, restricted characterization of audit. Instead, we have to move beyond the minimalist declaration that 'an audit is an audit.' Innovation in auditing, he suggested, necessitates thinking differently about audit's core conception and the value and vitality of audit professionalism. Humphrey referred to Limperg's notion of the 'free profession' and lamented: 'When I look around and listen, the profession doesn't seem that free anymore.' In reinforcing the importance of discussing what auditing can become, Humphrey expressed concern over how auditing textbooks spanning hundreds of pages typically devote very little time to debating the philosophical foundations of audit.

In making the case for audit's conceptual reconfiguration, Humphrey referred to the 2019 Brydon report in the UK, which states that the purpose of an audit is to help build and maintain 'deserved confidence' in a company, its board, and the information for which they have responsibility to report. This view extends audit beyond its traditional focus on the financial statements to include a broader range of factors and information, with the notion of 'deserved confidence' giving the audit a more visibly moral dimension.

Humphrey criticized the current fixation on regulation and standardization within auditing practice, asking whether this focus has suppressed innovation and unduly constrained the professional autonomy of auditors. In pushing for a more holistic and dynamic approach to auditing, Humphrey pointed out the transformative opportunities of viewing audit itself as an innovation 'ecosystem' (rather than just treating audit as a subsidiary part of another - financial reporting - ecosystem) and positioning auditors as 'ecosystem engineers.' Such a shift in conceptual perspective can enhance the social relevance of auditing and strengthen its public-interest-driven professionalism by moving beyond rigid standardization and allowing audit to embrace its natural functional diversity.

In essence, Humphrey advocated for a shift from thinking differently *about audit* to thinking differently *is audit*. This approach would enable auditors to have a greater impact on the companies they audit and on broader society. He concluded with the statement 'auditing is electric,' drawing an analogy to all the things made possible by electricity, urging the audience to 'think electric' about auditing and all the things that a conceptually reconfigured audit can enable.

8. The manager is the climate engineer of the audit team

Olof Bik (Professor of Auditing and Assurance at University of Groningen) presented his research titled 'Leadership Behaviors of Partners and Managers and the Effects on Audit Teams' (co-authored with Murray Barrick, Jere Francis, Brad Kirkman, Lena Pieper, and Ann Vanstraelen). He summarized two studies from a project on dual leadership of audit teams, which involves both partner *and* manager. The research examined 127 audit teams in the Netherlands, collecting data through surveys directed at partners, managers, and core audit team members to explore leadership styles, team climate, and team performance.

The first study examined the effects of task-oriented leadership ('initiating structure') and team-oriented leadership ('individualized consideration') on the effectiveness, performance, and viability of audit teams, with viability referred to by Bik as 'team love.' Task-oriented leadership focuses on planning, coordinating, and executing tasks within the audit team, while team-oriented leadership is concerned with caring for team members, their development, and fostering a positive team atmosphere.

The common assumption is that the partner acts as the task-oriented leader, while the manager acts as the team-oriented leader, but the study's results show that the dynamics are more complex. The best outcomes occur when partners exhibit both task-oriented and team-oriented leadership, creating a 'super partner' who significantly enhances team effectiveness and performance. Team effectiveness is highest when both the partner and manager display high levels of team-oriented behavior, in combination with at least one of them showing task-oriented behavior, a phenomenon Bik calls 'the power of consideration.'

Managers play a crucial role in the day-to-day leadership of the team, and their team-oriented behavior strongly positively influences the team climate. Therefore, managers should primarily focus on team-oriented leadership to improve team effectiveness and performance.

The second study investigated how managers' and partners' role-modeling behaviors related to voicing (i.e. encouraging speaking up) influence the psychological safety of audit team members and their willingness to speak up on important matters. It also examined how mixed messages from leaders could undermine the positive effects of such role-modeling behavior. The results showed that *managers'* role-modeling behavior had a stronger impact on psychological safety and team members' willingness to voice their opinions than that of *partners*. However, if managers are caught cheating or cutting corners, all positive effects of their role-modeling behavior are entirely negated.

Bik concluded that audit firms must carefully consider how to best balance the roles of partners and managers to achieve the optimal leadership mix. He emphasized that the 'tone from the middle,' set by the manager, is crucial, with the manager serving as the 'climate engineer' of the audit team.

9. BusySeasonTalks Session: 'Culture is long term, audit focus often short term'

The Busy Season Talks panel session, moderated by Arthur Jager (Lead Digital Transformation at Baker Tilly), focused on the culture within the auditing sector. Panelists included Espérance Blaauw (Team lead Cultural and Behavioural Change Assurance at PwC), Seren Güven (Manager Audit FSO at EY), Lotte van Mierlo (CR Reporting Specialist at PostNL), and Lisa Schaller (A&A Lead Culture & Communications at Deloitte). The discussion covered various aspects of culture and the challenges facing the sector.

Arthur Jager opened the discussion with findings from the NBA's recent culture study, which examined 65 reports and articles, gathered feedback from 17,000 members and trainees, and conducted 18 roundtable discussions with stakeholders. Key takeaways from the study included core values such as integrity, quality, and objectivity, but also showed challenges like increasing regulations and balancing commercial and societal interests.

Seren Güven discussed the perceived tension between client satisfaction and serving the public interest. She emphasized that these interests are not necessarily at odds, and that collaboration with clients often help auditors achieve both goals. Güven stressed that both auditors and clients share the same societal responsibilities.

Both Lisa Schaller and Espérance Blaauw underscored the importance of innovation and teamwork. Schaller mentioned the need to view culture more broadly than just in relation to audit quality, seeing it as an enabler of strategic goals. Blaauw discussed PwC's 'Happy and High-Performing Teams' model, which focuses on team behaviors, structural clarity, and purposefulness to foster an effective team culture, illustrated by quotes like 'slowing down before we speed up' and 'culture is long term, audit is often focused on short term.'

From her experience at PostNL, Lotte van Mierlo emphasized how the role of auditors is evolving with new regulations like CSRD (Corporate Sustainability Reporting Directive). She explained how these changes enable auditors to play a greater societal role and offer more transparency, positively impacting the sector's culture. Espérance Blaauw stressed the importance of taking time to reflect and connect within teams.

The panel concluded with a consensus that culture within the auditing sector is continuously evolving and that ongoing efforts are necessary to promote a positive, inclusive, and innovative work culture.

10. Local cultures within audit firm offices are most important for audit quality

Tjibbe Bosman (PhD candidate at University of Amsterdam[3]) presented research exploring the role of culture within audit firms and how it influences audit quality. Auditors regularly make decisions under uncertainty and ambiguity, where standards are often not clear-cut. The quality of their work is not directly observable (therefore auditing is a so-called 'credence good'), which makes measuring performance challenging. Because markets are not perfect and bureaucratic controls are not always sufficient, firm culture (social norms) can provide an effective form of control.

Bosman's study measured four dimensions of culture: (1) error climate (how errors are being treated and discussed); (2) voicing climate (the willingness of team members to voice concerns and raise issues); (3) leadership quality (perceptions of leadership regarding quality orientation and ethics); and (4) social pressure (e.g., perceived pressure to skip procedures or work extra hours). These dimensions were measured using validated scales, and the scores were used to form a culture score.

The study, which surveyed 1,137 respondents from 37 audit firms in the Netherlands, focused on auditors' perceptions of their workplace. The results show that an open error climate, a stimulating voicing climate, high leadership quality, and lower social pressure are associated with a higher likelihood of modified audit opinions in more complex audits. A similar conclusion applies to the effect of these culture dimensions on going concern decisions. However, there was no significant relationship between these dimensions and accrual-based earnings management (discretionary accruals), except for the voicing climate.

The study found a stronger clustering of culture at the office level than at the firm level, indicating that local cultures within offices are more important for audit quality. Overall, the findings suggest that culture and social norms play a crucial role in promoting high-quality audits.

11. Silence is not golden

Evelien Reusen (Associate Professor in Management Accounting at Rotterdam School of Management, Erasmus University) and Eddy Cardinaels (Professor of Accounting at Tilburg University) presented their research on the impact of team consensus and an inclusive work environment on the conformity behavior and risk assessment sharing of junior auditors. In their study, they focused on how junior auditors respond when their observations, particularly in areas like fraud, conflict with the majority opinion of the audit team. This is important because auditors often hold key information that is not immediately visible to the entire team.

The authors conducted an experiment involving 127 junior auditors from two major audit firms in the Netherlands. Auditors were presented with a hypothetical fraud case in which they gained private information suggesting a potential presence of fraud. They were first asked to make an initial risk assessment. Following this, they were exposed to different scenarios of team consensus (opinions from junior or senior team members) and work climates (authenticity versus belonging). They then had to make another risk assessment, from which their tendency to conform was inferred. Participants were also asked how willing they were to share their own risk assessment.

The findings revealed that junior auditors were more likely to conform to the opinions of senior team members than to those of other junior auditors. This confirms the influence of authority, status, and experience, where juniors defer to seniors. This conformity led to lower fraud risk assessments. The tendency to conform was stronger in a work climate that emphasized authenticity, where individuals are encouraged to present their true selves, compared to a work climate that underscores belonging, where fitting in with the group is emphasized. This indicates a paradoxical effect where emphasizing authenticity without sufficient focus on belonging can potentially increase conformity.

The study highlights the psychological dynamics that shape junior auditors' behavior in team settings. The researchers suggest that audit firms should first foster a sense of belonging before emphasizing authenticity to mitigate the unwanted effects of conformity. This approach could enhance information sharing and lead to more accurate fraud risk assessments in the audit process.

Wrap-up: Innovation and collaboration are needed

In the conference wrap-up, Jere Francis, past FAR Research Chair, concluded the conference with reflections and challenges for various stakeholders, including regulators, companies, and academics. Francis challenged audit firms to ensure leadership behaviors that have proven effective in individual teams are consistently implemented across the entire organization. He highlighted the need for new ways of thinking to improve audits, noting that regulation is insufficient on its own. He emphasized that innovation and collaboration are essential to breaking free from old patterns and addressing current and future challenges in auditing. This need for new ways of thinking was a central theme throughout the conference, underlining the importance of evolving the profession to meet contemporary demands.

■ **Dr. L. Quadackers – Luc** is a writer, business journalist and researcher at Margila.

Notes

1. Parts of the live streams of the conference can be found via the YouTube account of the Foundation for Auditing Research (https://www.youtube.com/@foundationforauditingresea8303).
2. Humphrey's speech is based on the following paper, which is available through open access: Humphrey C, O'Dwyer B and Martinoff M (2024) Escaping 'Groundhog Day:' The transformative possibilities of reconceptualising audit, *Accounting and Business Research*, https://doi.org/10.1080/00014788.2024.2375713.
3. Since September 2024, Tjibbe Bosman is an Assistant Professor of Auditing at the Vrije Universiteit Amsterdam.