

1-2017


Why Audit Teams Need the Confidence to Speak Up

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Lightle, Susan; Castellano, Joseph F.; and Baker, Bud, "Why Audit Teams Need the Confidence to Speak Up" (2017). *Accounting Faculty Publications*. 72.
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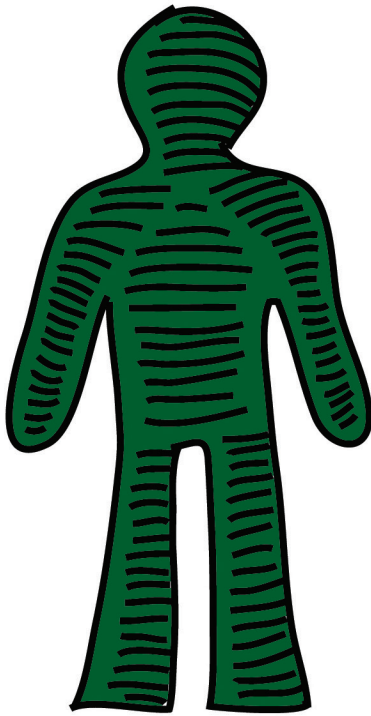
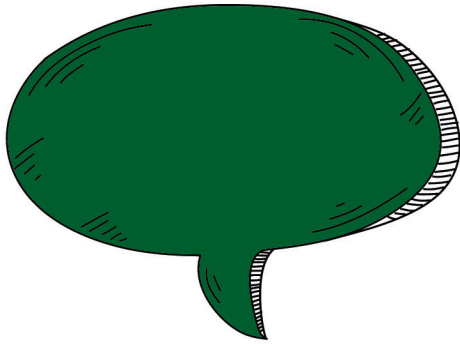


PRACTICE MANAGEMENT

Why audit teams need the confidence to speak up

Audit teams and engagements suffer when members feel unsafe about raising questions or admitting mistakes.

By Susan Lightle, CPA (inactive), Ph.D.; Joseph F. Castellano, Ph.D.; and Bud Baker, Ph.D.



The failure to create a climate of psychological safety among audit team members can have harmful effects on audit quality.

A climate of psychological safety is an important prerequisite for effective interpersonal relationships among audit team members and for audit teams to properly meet their fiduciary responsibilities. Audit processes can be more effective and the quality of audits can be improved if auditors understand the concept of psychological safety and its application for audit teams. The failure to create a climate of psychological safety among audit team members can have harmful effects on audit quality, but fortunately CPA firms can take steps to enhance psychological safety and enable more effective audit processes and audit work.

WHAT IS PSYCHOLOGICAL SAFETY?

In the *International Handbook of Organizational Teamwork and Cooperative Working*, Amy Edmondson describes psychological safety as the perceptions both individuals and teams hold about

the consequences of interpersonal risks in a work environment. The concept encompasses beliefs about how others will respond when an individual assumes the risk in a group environment of asking a question, seeking feedback, offering a new idea, or admitting to a mistake. She believes that individuals in group settings calculate the risks associated with such actions and that those calculations are important factors in assessing their willingness to engage in a behavior.

An action taken in one group—for example, questioning a certain course of action—might be viewed as posing too much interpersonal risk in a different group setting, according to Edmondson. She further defines team psychological safety as a shared belief that within the team it is safe for members to take interpersonal risks.

Edmondson believes that team psychological safety promotes a productive learning environment by enabling a climate that encourages discussion, asking questions, sharing of information, admitting and learning from mistakes, and more effective teamwork. She also notes that while psychological safety and trust have a great deal in common, there are some important differences. Trust, in her view, involves *you* giving others the benefit of the doubt with regard to some action or issue, while psychological safety involves the question of whether *others* will give you the benefit of the doubt, for example, when you make a mistake or disagree with someone's viewpoint. Team psychological safety can vary significantly from one audit team to the next as the team norms, perceptions, and shared experiences differ.

Creating a safe environment within a team is essential for enabling each team member to find his or her voice, willingly share ideas and opinions, ▶

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If audit team members perceive that they face interpersonal risk when they ask questions, they will be less likely to do so.

ask important questions, admit mistakes, seek help, and, just as important, encourage collaboration, respect, and trust among team members. All of these benefits make for better team performance and are essential to learning behavior in teams.

Examples of learning behaviors involve seeking feedback; sharing information; asking questions; seeking help; admitting mistakes; and being willing to experiment, innovate, and try new ideas and processes. The degree to which these learning behaviors lead to positive outcomes, in our case, more effective audit team processes and quality audits, depends on the audit team members' willingness to assume the interpersonal risks associated with self-image in a team environment. To what degree will audit team members admit mistakes, ask questions, or seek help when doing so may make them feel incompetent and risk their self-image among the team? Clearly teams enjoying higher degrees of psychological safety are more likely to engage in behaviors with more positive outcomes for the individual and the team.

PSYCHOLOGICAL SAFETY ON AUDIT TEAMS

Audit evidence is typically gathered by associates executing procedures defined by their superiors. For example, an associate may be assigned to select a sample of inventory items and verify that the client actually possesses the inventory in the quantity indicated on its inventory listing. The associate documents the results of the audit procedure, and this documentation is reviewed by the senior auditor, who evaluates the thoroughness of the evidence and the reasonableness of the conclusions. At this point the senior auditor may ask for further testing or clarification of the associate's documentation. The audit manager and partner typically perform higher-level reviews of the audit documentation in drawing a conclusion about the financial statements as a whole. There are typically time constraints on the entire process, resulting in pressure on associates to complete audit procedures within predefined time limits.

In the process described above, the associates may be the only team members to see detailed transactions or account balances. If an associate fails to note an unusual item that indicates a misstatement, it may never come to the attention of his or her superiors. Thus, communication among audit team members is critical to audit team effectiveness and audit quality. Superiors must communicate to subordinates clearly defined procedures with specific criteria. Subordinates must communicate to superiors any questions that arise in the execution of the audit program.

Auditing standards require the exercise of professional skepticism, defined as "an attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence" (AICPA *Professional Standards*,

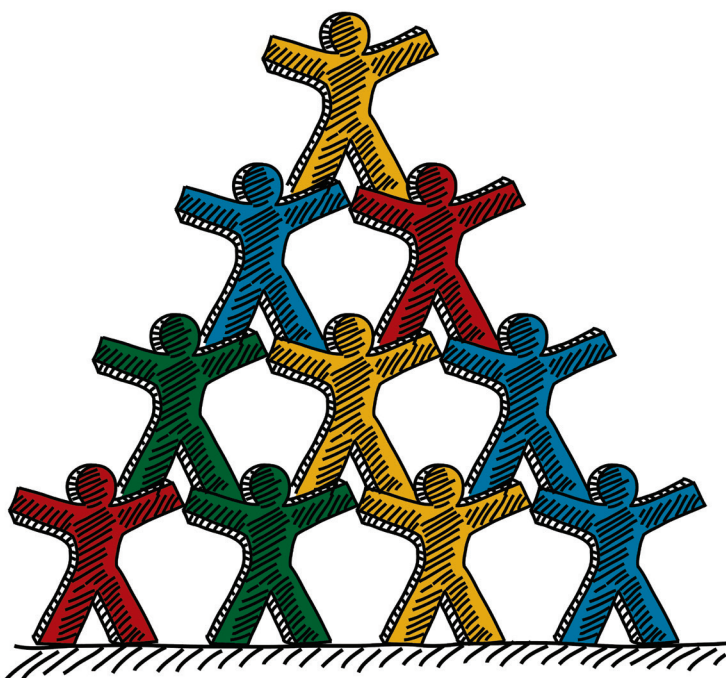
IN BRIEF

- A climate of psychological safety—in which engagement team members feel comfortable raising questions, concerns, and issues—is a prerequisite for effective auditing.
- Audit firm and team leaders need to be aware of the environment they are creating and encourage open communication.
- Leaders can promote psychological safety by setting expectations for open dialogue at the beginning of an audit, training supervisors to encourage communication, and conducting post-audit feedback sessions geared toward making sure team members feel comfortable raising questions.

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AU Section 200.14). If audit team members perceive that they face interpersonal risk when they ask questions or seek feedback, they will be less likely to do so. Facing time pressure, competition among peers, and the incentive to get a good performance evaluation from the audit senior, the associate may perceive that asking questions will bring about negative consequences. For example, the associate may fear being perceived as having inadequate technical skills or poor judgment. He may also fear that the senior, under time pressure himself, will become irritated with “too many” questions. In other words, psychological safety on the audit team may be dangerously low.

The exercise of professional skepticism implies that the auditor must have a questioning mind *and* be able to respond appropriately to questions. If a staff auditor is alert to “conditions that indicate possible misstatement due to fraud or error” but fails to bring those conditions to the attention of his or her supervisor for fear of being wrong, ▶



Fictitious case study: A dangerous environment

Example shows how failure to encourage questions can lead to audit troubles.

Jack Howard was thrilled to accept a full-time offer from a large CPA firm upon graduation from State University. Jack was an excellent student, but he soon learned that all of the firm’s new hires were excellent students, and each (including Jack) was determined to stand out among his or her peers.

Jack was assigned a mentor on his first day with the firm and sent to firmwide audit training for two weeks. Upon returning to his local office, he was assigned to his first audit. He learned that he would be part of a team of seven people: two first-year associates, two second-year associates, a senior, a manager, and a partner.

At the conclusion of the audit, Jack met with Sharon, the senior on the engagement, to discuss his performance. Jack had learned in training that the firm prided itself on providing timely feedback to audit staff after each engagement. Sharon had a detailed “Engagement Evaluation Form” that was signed by the manager and the partner. The form rated Jack on a number of criteria, using a five-point scale as follows: Needs Improvement, Satisfactory, Good, Superior, and Exceptional. Sharon explained that the individual engagement evaluations were used to make annual promotion and compensation decisions.

Jack was pleased that his overall rating was Superior. In the categories of professionalism and ability to interact appropriately with the client, he received Exceptional ratings. Jack was concerned and a little confused that he was rated only Good on his ability to work independently and on technical knowledge. When he asked Sharon about these ratings, he was told that during the audit he had asked about a particular accounting matter and a few days later asked the same question. She suggested that he take notes when he asked questions, so that he would not waste his supervisors’ time.

After meeting with Sharon, Jack decided to talk to his

mentor, Bob, about the evaluation. Bob told Jack that he should not be too concerned, since his overall rating was Superior. Bob remarked, “Sharon doesn’t like to deal with a lot of questions, so just try to stick to what she tells you, and don’t get bogged down in details.” Bob added, in confidence, that Kelly, the other first-year associate on the engagement, had only received an overall rating of Good. According to Bob, this meant the other managers would want Jack on their jobs. He added, “You don’t want to be the guy sitting around the office unassigned. That’s the fast track to being ‘counseled’ out of the firm.” Jack got the message.

Fear of speaking up may cause stress and frustration, leading to a higher turnover rate and loss of talented employees.

then professional skepticism has not really been exercised. In an environment with high psychological safety, the staff auditor feels free to voice those concerns, and the supervisor can decide whether the matter needs further attention.

The sidebar “Fictitious Case Study: A Dangerous Environment” provides an example of how psychological safety may be undermined on an audit team. Although Jack received a Superior

rating, other more subtle messages were also being conveyed. The senior auditor’s advice to Jack that he avoid asking the same question twice and wasting time—as well as his mentor’s suggestion that he stick to what the senior tells him to do and not get bogged down in a lot of details—sent a message that it is risky to speak up. Jack was also made very aware that the engagement evaluation form played a crucial role in future audit assignments. Clearly Jack now knows the interpersonal risks he faces if he asks too many questions or seeks help on a technical matter. Jack’s sense of psychological safety is low.

CONSEQUENCES FOR AUDIT TEAMS

Low psychological safety on an audit team can negatively affect the effectiveness or quality of a particular audit. It can also cripple the effectiveness of the firm’s audit process in general. Low psychological safety on an audit team may discourage team members, particularly those on the bottom of the hierarchy—that is, associates—from speaking up when they have questions. For example, an associate who performs a review of cash disbursements for unusual items may be unsure of what constitutes

Psychological safety controls

Follow these best practices to put audit team members at ease.

Audits are most effective when all members of the engagement team feel comfortable bringing concerns, issues, and questions to the team’s attention. The following steps can help enable a feeling of security among team members that will lead to better audits:

- Hold engagement team meetings at the beginning of each audit. In these meetings, the audit partner should emphasize the need for open communication among team members and a “no questions are stupid” policy. (This meeting could be part of the fraud risk assessment process.)
- Hold periodic team meetings during the audit to inquire about concerns related to accounting or audit matters that have arisen.
- Provide midaudit feedback from seniors to staff auditors (particularly on longer audits) designed to communicate to staff whether they are meeting expectations and to reduce uncertainty regarding those expectations.
- Conduct post-audit feedback sessions with partners or managers and associates in which the associates on the audit team have an opportunity to express any concerns they have regarding the ability to voice questions or obtain feedback. In these sessions, suggestions for improvement in the audit process, particularly those related to communication among team members, should be specifically elicited. A formal, transparent process should be established to consider suggestions.
- Hold mandatory training of all individuals who have been promoted to a supervisory role on audit teams. This training should specifically address interpersonal communication skills and the importance of creating an environment of psychological safety.
- Periodically review performance evaluation criteria to identify and modify those that place too much emphasis on meeting time constraints at the expense of audit quality.
- Implement specific mentoring objectives explicitly designed to identify concerns of associates related to their perceptions of interpersonal risks on the audit team or in the firm in general, with follow-up to address such concerns.

“unusual” in this context. If he brings an item to the senior’s attention and asks for feedback on whether the item is a potential problem, and the senior reacts with annoyance or sarcasm, the associate will be less likely to bring up another questionable item. Consequently, a significant transaction that may represent a material departure from GAAP may never be brought to the attention of the senior, manager, or partner, and an inappropriate audit report may be issued.

Low psychological safety also has an impact on the audit process in general. If the associate fails to ask a question, she will not receive feedback that would help her develop professional judgment. This will affect the present audit engagement and the team member’s effectiveness on all future audits. In other words, it is a lost opportunity for improvement. Furthermore, if associates do not voice their questions and concerns, the firm will lose an opportunity to reexamine internal guidance and training regarding the matter in question (or rather that would have been in question). Thus the firm’s audit process in general is suboptimized.

Beyond the impact on the effectiveness of a particular audit engagement or the audit process in general, low psychological safety may affect an associate’s job satisfaction. Fear of speaking up may cause stress and frustration, leading to a higher turnover rate and loss of talented employees.

LESSONS FOR CPA FIRMS

Psychological safety research makes it clear that team members are aware of the environment created by the leader and the impact that this environment can have on members’ perception of appropriate and safe behaviors. It is important that CPA firms recognize the possibility of low psychological safety among audit team members and take steps to address it. In particular, training of those who will assume supervisory roles on audit teams (seniors) should emphasize three important aspects of leader behavior that will be important in promoting psychological safety: being available and

approachable, encouraging input and feedback, and being an example of openness and fallibility.

Team leader accessibility involves being present, available, and approachable. Making the time to interact with the team and being willing to serve as a coach, guide, and mentor are essential aspects of creating an open and inviting team atmosphere. Inviting feedback and encouraging team members to find their voice by speaking up, offering suggestions for improvement, and participating in discussions are also essential to promoting psychological safety. It is equally important for team leaders to find their voice by being willing to be vulnerable with team members. Leaders who can admit that they do not have all the answers and who are willing to admit when they have made mistakes are more likely to create the kind of environment wherein team members feel safe to ask for help, admit mistakes, and offer suggestions.

The AICPA’s quality-control standards include a requirement that CPA firms establish controls designed to assure effective engagement performance: “The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements and that the firm issues reports that are appropriate in the circumstances” (AICPA *Professional Standards*, QC Section 10.35). This requirement specifically includes supervision responsibilities. The sidebar “Psychological Safety Controls” provides examples of CPA firm policies and procedures designed to assure psychological safety on audit teams.

To meet quality-control standards, CPA firms should implement engagement performance controls that include policies, procedures, and training designed to provide reasonable assurance that audit team members are working in a psychologically safe environment. Such controls will improve the effectiveness, learning, and cultural climate of audit teams while helping ensure a more robust and effective audit engagement. ■

AICPA RESOURCES

Articles

“The Psychology Behind Good Judgment,” *JofA*, June 2016, tinyurl.com/j7mxh46

“I’m Not Biased, Am I?” *JofA*, Feb. 2015, tinyurl.com/qgkd976