**Lost in Translation? An Exploratory Analysis of**

**Auditors' Perceptions of the Firms' Tone at the Top**

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# Abstract

This study examines public accounting firms' "tone at the top" with respect to audit quality initiatives from the perspectives of both firm leaders (those who set the tone) and engagement level auditors. Our primary objective is to investigate whether, and to what extent, the tone at the top from leadership regarding audit quality is internalized by engagement auditors as it filters through the firm and the effectiveness of tone at the top communication in conveying tone throughout the organization. Specifically, we (1) solicit the perceptions of audit firm culture and leadership from the perspectives of audit personnel at the partner and non-partner levels, 2) assess how firm leaders communicate tone at the top through formal and informal communications, (3) examine the firm work environment and its relation to perceived tone at the top.

We employed semi-structured interviews to address our research questions. Participants were from 12 regional and local public accounting firms that audit primarily non-public entities (although some of the firms are also registered with the PCAOB). Each firm provided one audit partner who is considered a firm leader, plus one auditor at rank below partner, for a total of 24 participants. Results indicate that although most firms characterize their tone as being strongly employee- or team-focused (9 of 12 firms in our sample), the way firm leaders communicate with and support employees varies across firms. In addition, firms focus on innovation or other values, such as superior client service. Our results have implications for firms, regulators and academics who are interested in examining the link between tone at the top and audit quality.

Key words: Audit Quality, Tone at the Top, Communication, Firm Culture

# INTRODUCTION

This study examines the nature of public accounting firms' "tone at the top" with respect to audit firm culture and leadership and investigates whether, and to what extent, the firms' tone at the top on audit quality related matters communicated by leadership is assimilated throughout the organization. We define tone at the top as "an entity-wide attitude of integrity and control consciousness, as exhibited by an audit firm's most senior executives" (Reding, Sobel, Anderson, Head, Ramamoorti, Salamasick, and Riddle 2013, 6-18). A public accounting firm's tone at the top, as exhibited by the most senior partners, represents the embodiment of firm culture which impacts the effectiveness of the firm's system of quality control and overall audit quality (Jenkins, Deis, Bedard and Curtis 2008; Bamber and Iyer 2009; Pyzoha, Taylor and Wu 2018; Bamber, Jiang, and Wang 2010; Dyreng, Hanlon, and Maydew 2010; Skaife, Vennman, and Wangerin 2013). It provides an ethical foundation that could influence auditors' ethical judgments and decisions (COSO 2013). Generally, a firm's tone at the top is set by upper management through a firm's policies and procedures, verbal and written communications, and direct actions (AICPA QC10; Pickerd, Summers, and Wood 2015). Since tone at the top is an important component of audit firms' overall system of quality control, it is often the focus of standard-setters and regulators when developing firm level standards and performing periodic firm inspections (PCAOB 2015; IFAC 2007; CAQ 2010; COSO 2013). For example, the American Institute of Certified Public Accountants (AICPA) has introduced an enhanced peer review program that evaluates firms' commitment to audit quality and holds them accountable for quality control programs (AICPA 2014). Through this evaluation, oversight boards and regulators have repeatedly commented that audit firms fail to adequately demonstrate their commitment to tone at the top (International Federation of Accountants [IFAC] 2007). Additionally, both the Center for Audit Quality (CAQ)

and the Public Company Accounting Oversight Board (PCAOB) released documents that explicitly describe audit firm leadership and tone at the top as key audit quality indicators (AQIs) in their proposed audit quality frameworks (CAQ 2014; PCAOB 20151). Further, both the AICPA and PCAOB urge firms to establish and adhere to audit quality control standards and engage in self-evaluation and personnel surveys to gauge the strength of their audit quality culture and environment (AICPA 2014; PCAOB 2015). Similarly, the Financial Reporting Council (FRC) and the International Auditing and Assurance Standards Board (IAASB) have also included leadership tone at the top as key elements of audit quality (IAASB 2014; FRC 2015), and regulators are increasingly focused on audit quality attitudes as well as communication of the importance of audit quality throughout the firm.

We specifically examine tone at the top in the context of firms that are considered non-global network firms (or NGNFs; Witte 2019), since unlike the "Big 4" firms traditionally studied in the accounting literature, firm leaders at NGNFs are more likely to have direct communication with or even be known personally by staff at all levels throughout the firms (Bills, Hayne and Stein 2018; Andiola, Downey, and Westerman 2019; Witte 2019). Therefore, in such firms the tone at the top is likely more salient to lower level employees. Recent research has demonstrated the significance of NGNFs in terms of market share (Defond, Francis and Hallman 2018), and their impact on audit quality (Lawrence, Minutti-Meza, and Zhang 2011; Bills, Hayne and Stein 2018), often through their participation in audit area networks (AANs) (Bills et al. 2018). In addition, the regulatory environment impacting larger network firms (most notably the influence of the PCAOB) is expected to shape the tone at the top and the audit quality messages that firm leaders communicate through findings from the inspection processes (Westermann, Cohen and Trompeter 2019; Defond 2010; Houston and Stefaniak 2015; Lail, MacGregor, Stuebs and Thomasson 2015).

In other words, it is possible that tone at the top and messaging at PCAOB-inspected (more specifically annually-inspected) firms, is heavily influenced by factors that regulators emphasize in firm quality control inspections (Westermann et al. 2019). Therefore, we focus our study to examining NGNF's to capture perceptions of tone at the top at firms that are not heavily influenced by PCAOB oversight.[1]

To address our primary research question, we first obtain an understanding of the NGNF firms' culture and values as articulated by leaders of the firm. We also evaluate leadership's communication of its stated and implicit values to firm personnel. We then examine features of the work environment at the firm and how tone at the top impacts the perceptions of the overall work environment. Lastly, we examine the direct and indirect perceived effects of tone at the top on audit quality. We draw on basic theories of organizational behavior to motivate our research questions.

We conducted interviews with 24 practicing auditors across 12 regional or local public accounting firms. Participants consisted of one partner at a senior/leadership level in each firm ("leader") and one audit practitioner at a rank below partner ("non-leader"). We asked questions designed to elicit auditors' perceptions of the firms' culture and values, and their perceptions of how firm leaders communicate and model this culture and these values throughout the firm on a regular basis. Our results indicate that firms vary in how they characterize firm culture and tone at the top, but the majority of interview participants viewed their firm's culture as positive and

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[1] We concede that firms in our sample are subject to peer review, both internally and through AICPA mandated peer review programs, and we expect that recommendations from these reviews will shape audit quality related messages. However, the negative consequences auditors face from deficiencies uncovered through these reviews does not have the same pervasive impact on auditor behavior as the firm quality control inspection process of the PCAOB (Houston and Stefaniak 2012). The PCAOB is viewed by auditors as very powerful, and auditors or firms may change their behavior or approach simply to avoid inspection findings (Westermann et al. 2019).

people-focused.[2] They also tend to view firm culture as client service-focused as well. Interestingly, participants also felt that these two features (employee focus and client service focus) differentiate their own firms from other firms. Firms vary widely in how they communicate messages to employees as well as whether tone at the top and audit quality messages are explicit or implicit, but there seemed to be strong consensus that modeling of the tone at the top through leaders' actions is a highly effective way to communicate firm culture throughout the organization. Workplace policies and procedures also reflect the tone at the top of the firm, and have adapted over time to allow for more flexibility and more timely feedback. Some participants view these changes as an attempt to cater to a new generation of employees, while other view them as the natural evolution of a more employee-focused culture aimed at retaining employees at all levels. Finally we link tone at the top and audit quality. We find that when firm leaders emphasize and model a desire for high quality audit outcomes in their own work, and provide the necessary resources for employees on engagements, there is a perception among non-leaders that audit quality-increasing efforts will be rewarded.

This study is important to practice and academic research on audit quality. The results of our study can assist firms in proactively evaluating the current state of their audit quality leadership tone at the top and communication effectiveness so that they can identify and implement improvements where necessary to comply with regulatory requirements (e.g., PCAOB, AICPA, IAASB, FRC). We provide insights regarding the impact of tone at the top on audit quality initiatives which firms can use to refine their approach to disseminating tone at the top messages, investigate potential root causes of audit quality deficiencies, and inform training initiatives.

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[2] Any viewpoint congruence among participants at leader and non-leader levels may be due to the nature of the convenience sampling approach firms employed to provide participants for this study thereby potentially underrepresenting perspective variability.

Additionally, our research provides insights into how firm leaders communicate firm-level policies to the new generation of auditors in the workforce. Studies find that communicating and connecting with newer members in the workforce is of critical importance to job performance and requires different approaches.[3] For example the generation known as Millennials are the largest cohort in the workforce since Baby Boomers (KPMG 2014).[4] Whereas non-Millennial managers within firms expect managed information flows, Millennials expect unstructured information flows (KPMG 2014). Academic research also finds generational differences in auditor communication preferences (e.g., Bennet and Hatfield 2018), and how firms communicate with current and prospective Millennial employees (Durocher, Bujaki, and Brouard 2016). These studies highlight the importance of employing a diverse set of strategies to effectively communicate audit quality initiatives and expectations throughout the firm.

In summary, it is essential that firms have a uniform audit quality message consistent with the tone at leadership levels, as well as mechanisms in place to effectively disseminate this tone throughout the firm in order to engage and connect with audit professionals, especially those at the audit execution levels of the organization. The results of this study provide insights to firm professionals and regulators on the effectiveness of current audit quality communication and identify "best practices" for communicating strong tone at the top messages throughout the firms.

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[3] Millennials refer to the generation of individuals born about between 1980 to 2000 (New York Times: http://www.nytimes.com/2016/05/26/technology/corporate-america-chases-the-mythical-millennial.html?_r=0)
[4] Baby boomers refer to the generation of individuals born about between 1946 to 1964 (http://www.history.com/topics/baby-boomers, retrieved May 26, 2016)

# BACKGROUND

## Literature Review and Research Questions

### *Firm Culture and Leadership*

Standard setters and regulators (e.g., AICPA, CAQ, COSO, IFAC, and PCAOB) emphasize that an organization's tone at the top provides an ethical foundation for employees, influences their attitudes and actions in the workplace, and has a profound impact on audit quality (IFAC 2007; CAQ 2010; COSO 2013; PCAOB 2015). The general expectation is that a firm communicates its tone at the top through policies and procedures, verbal and written, such as those relating to audit quality program directives, behaviors, and actions. Archival research in accounting indicates that a company's tone at the top has important implications for employee behaviors (Bamber et al. 2010; Dyreng et al. 2010; Skaife et al. 2013). Skaife et al. (2013) examine the relationship between internal controls over financial reporting and insider trading in public companies and find that insiders make greater profits and are more likely to act in their own self-interest when there is weak tone at the top. Similarly, Bamber et al. (2010) find that backgrounds and communication styles of executive leaders in an organization significantly influence corporate actions and decisions. Dyreng et al. (2010) find that the tone at the top set by individual leadership members can have significant effects on the tax avoidance strategies adopted by very large organizations. The above studies show that the nature of the messages from firm leadership significantly influences the actions and attitudes assimilated and applied by employees in accounting settings. The current study uses a behavioral approach to provide further insights into the effects of tone at the top on auditors' perception of culture and work environment and their relation to audit quality.

As noted by Jenkins et al. (2008), culture "encapsulates the essence of public accounting firms; however, relatively little empirical evidence exists about cultures within firms" (49; see Andiola, Downey, and Westermann 2019 for a review). We seek to address this gap in the literature by examining culture in accounting firms as it is perceived by both leaders who set the firms' tone at the top, as well as non-leaders who embody the culture through their day-to-day actions. Studies of organizational culture have examined the link between espoused values of organizations and everyday practices (Shapiro and Naughton 2015), drawing upon organizational theories such as Simons' (1995a) framework of organizational control. Simons proposes that organizations have four levers of control; 1) *belief systems* (values, goals), 2) *boundary systems* (rules, procedures, sanctions), 3) *diagnostic control systems* (review processes and feedback), and 4) *interactive control systems* (leaders engaging with non-leaders to communicate data in order to facilitate achievement or organizational objectives).

As organizations develop and become more complex, it becomes increasingly important and challenging to define and communicate a unified belief system that provides purpose, direction, and strategy to the organization. Simons (1995a) explains that core values that are aligned with the organization's mission statement and vision are integral components of the organization's business strategy and form the basis for the organization's belief systems. Belief systems embody the formal and informal values employees draw upon to guide their problem-resolution approach and motivate their information search as they seek solutions that maximize value. A clearly defined and communicated belief system can "attract and unite followers and galvanize them to high levels of effort" (Trice and Beyer 1991, 154).

Boundary systems work synergistically with belief systems to help focus employee information search activities and channel solutions towards appropriate options. Boundary systems

are typically expressed in negative terms and establish limits for employee behavior, for example, an organizational code of conduct. They provide guidance to empowered employees to explore solution sets deemed appropriate by the organization while allowing employees to exercise creativity and personal initiative in the search process. Importantly, boundary systems like codes of conduct can shield employees from pressure to act in a manner contrary to the guidelines set forth therein. However, for these established boundaries to be effective, it is important that sanctions for violations are equally enforced across all levels of the organization to prevent employee resentment and non-conformance. Critical to the implementation of the belief and boundary system levers, Simons (1995a) emphasizes the importance of "theories-in-use" – that is, "what we do" (p. 55). Belief and boundary systems can be rendered ineffective if actions of organization leadership is contrary or inconsistent with the espoused beliefs and boundaries. In these ways, boundary systems enhance the effectiveness of belief systems to facilitate organizational freedom and create a flexible environment where creativity flourishes.

Diagnostic control systems are formal systems and processes used to govern organizational objectives and outcomes. Importantly, diagnostic control systems serve three purposes: 1) measure process outputs; 2) evaluate outputs against a benchmark or standard; and 3) remediate deviations from the standard (Simons 1995a). Simons (1995a) defines the process outputs described in this lever as "key success factors" (p. 63) that are critical to achievement of the organization's strategy. Arguably, in the audit firm context, factors critical to the firm's success in the current environment include engagement management, client service, regulatory conformance, and audit innovation. Audit firms typically incorporate variations of these success factors into the employee performance goals setting and evaluation processes. Effective implementation of diagnostic control systems

requires careful coordination of performance metric definition, incentives and rewards to motivate desired behavior.

The fourth lever Simons (1995a) describes, interactive control systems, is critical to achieving organizational agility and creating an environment where innovation thrives. Interactive control systems consist of formal information systems and channels that leaders use to gather data about designated strategic operations which are subsequently used to personally engage subordinates in decision activities. Unlike diagnostic control systems, interactive control systems gather information on a continual basis. This information is used to channel attention to strategic objectives, and stimulate ongoing analysis and idea generation by employees at all levels of the organization. These analyses become the "catalyst for the continual challenge and debate" of the current state and the subsequent implementation of action plans (Simons 1995a, 97). Interactive control systems are essential to providing guidance to creative information search and bottom-up strategic ideas, and allows leadership to actively monitor activities throughout the organization. The success of interactive control systems requires on an environment that values open communication channels, welcomes constructive challenge and debate, and where the focus is placed on the *process* used to generate the outcome rather than the outcome itself. These control systems pave the way for guided experimentation and learning that fosters innovation and collaboration to achieve desired outcomes.

Overall, the framework Simons (1995a) outlines represent the means by which leaders shape the culture of the firm. The various aspects of this framework can be applied in studying how tone at the top translates into actions of non-leader employees through firm culture.

A related concept to firm culture is firm climate, although as noted by Denison (1996), one main difference between the two is that culture is the "deep structure that is rooted in values,

beliefs, and assumptions, while climate is temporary in nature and subject to change by those with power and influence" (Jenkins et al. 2008, FN4). Many studies of tone at the top in accounting have focused on climate within public accounting firms, particularly ethical climate (e.g., Bobek, Hageman, and Radtke 2010; 2015; Bobek, Dalton, Daugherty, Hageman and Radtke 2017). Ethical climate is related to the integrity component of tone at the top. These studies draw upon organizational theory regarding the effects of ethical climate on employee actions (Victor and Cullen 1988; Martin and Cullen 2006), and have found that perceptions of ethical climate in public accounting vary by level within firms, with partners (leaders) perceiving ethical climates as stronger than lower level employees (non-leaders) (Bobek et al. 2010). These differences are reduced when non-leaders are empowered to shape and maintain the ethical environment (Bobek et al. 2015). A weak ethical climate also encourages auditors to engage in dysfunctional behavior when they perceive that they are being pressured to act unethically (Sweeney, Arnold, and Pierce 2010).

Regarding firm leaders, charismatic or "transformational leadership theory" indicates that charismatic leaders have a profound effect on followers, transforming their needs, values, preferences and aspirations, as well as affecting their cognition, behavior and performance, often at the followers' personal sacrifice (Kelly and Earley 2011; Shamir et al. 1993). This theory suggests firm leaders have the potential to positively impact the attitudes and actions of junior auditors (Kelly and Earley 2011). Schein's (2010) theory of organizational culture acknowledges the influence of firm leaders on culture, noting that leaders are responsible for forming the culture and embedding it throughout the organization (Schein 2010; Kelly and Earley 2009). According to Schein, non-leaders take note of what leaders attend to and control, how they react to crises, how they reward performance, how they model appropriate behavior, how they promote non-

leaders through the firm, and how they allocate resources, rewards, and status (Kelly and Earley 2009).

Our first research question draws upon the theories of organizational culture and leadership discussed above. We seek to determine how leaders and non-leaders perceive the culture within public accounting firms and how they believe the firm leaders embody the firm culture through their attitudes and actions. The research question is as follows:

**RQ1:** How do leaders (non-leaders) characterize the firm's tone at the top in terms of firm culture and leadership?

*Communication Effectiveness*

IFAC (2007) notes that in order to be effective, tone at the top messages must be communicated throughout the firm from leaders to non-leaders (Pyzoha et al. 2018). The report notes:

> The form, content and type of internal communications are dependent on the size of the firm but quality messages can generally be communicated through the performance appraisal system, partner updates, email alerts, office meetings, intranet system, conventions, web updates, and newsletters. (IFAC 2007, 6)

Note that this description includes both indirect channels of communication (e.g., the performance appraisal system) as well as direct channels (e.g., newsletters, partner updates). Dirsmith and Coveleski (1985) also examine informal and nonformal communications within firms as a means for firm leaders to exert control within the organization as well as for non-leaders to be socialized.[5] They note that mentoring within firms plays a prominent role in passing on firm values from leaders to non-leaders, although this only occurs between hierarchical levels in close

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[5] According to Dirsmith and Covelseki (1985) informal communications include all discussions among firm employees about firm matters that are unknown to firm leadership and not necessarily sanctioned by the firm, whereas nonformal communications are generally conducted through the mentoring process, which is sanctioned and encouraged by firm leadership.

proximity to one another (i.e., partner to manager; manager to supervisor), rather than from leaders to the lower levels of the firm. Informal communications can occur more widely among non-leaders, but such information may be rumor-based or inaccurate, and therefore not consistent with the tone at the top of the firm.

Westermann, Bedard, and Earley (2015) found that partners often model their actions to junior level staff through their behavior on audit engagements, and, consistent with the concept of diagnostic controls systems from Simons (1995a; 1995b), they note the role of performance feedback in communicating firm values related to audit quality. They also note that technology has the potential to erode the effectiveness of the review and feedback process, as face-to-face communications and the willingness to provide negative feedback are reduced in computer-mediated performance evaluations.

In addition, due to the nature of auditing, auditors often work remotely from their superiors; junior auditors may see the engagement partner only a few times (if at all) during the engagement as all parties work on multiple, and often different, engagements. This arrangement poses communication challenges and risks as auditors are forced to communicate with each other electronically (Westermann et al. 2015). Research suggests the lack of face-to-face contact may distort the firm's tone at the top messages and affect audit performance (Brazel et al. 2004; Murthy and Kerr 2004). Moreover, ineffective communication can impair and impede the execution of audit quality initiatives (Hinds and Mortensen 2005; Srikanth and Puranam 2011; Downey and Bedard 2019). The results of this research will provide insights into whether the communication strategies employed by the firm in disseminating the tone at the top messages related to audit quality initiatives are effective and consistent throughout the firm, and whether a tone at the bottom exits (Pickerd et al. 2015).

For consistency, it is important that the firm disseminate the same message to all participants. This can be problematic if the partners who are tasked with disseminating the message (i.e., projecting the tone at the top) are themselves unclear on the message's intent and/or the tone the firm would like to cultivate, or act in a manner that is inconsistent with the message. To the extent the firm is attempting to project a positive tone at the top, if it is not effectively communicated (i.e., not received by auditors as intended), it can be detrimental to audit quality. As such, it is important to understand auditors' perceptions related to the communication of tone at the top throughout the firm. Obtaining auditor perceptions will provide insights into how messages are conveyed at partner levels and received at non-partner auditor levels. Hence, we propose the following research question related to communication:

> **RQ2**: How is the firm's tone at the top conveyed throughout the firm through verbal and written communication, policies and procedures, and actions of leaders?

In addition to examining general communication strategies within firms, we also investigate whether firms are changing communication methods specifically to adapt to a younger workforce of auditors (the Millennial generation). As noted above, Westermann et al. (2015) noted that technology impacts the way Millennials receive communications from firm leaders on a day-to-day-basis. Bennet and Hatfield (2013; 2018) note that Millennial auditors prefer to communicate with clients using e-mail more than previous generations. In terms of communicating firm values, Durocher et al. (2016) note that firms use their websites to manage their legitimacy with Millennials (i.e., to portray an image of the firm that is in line with Millennials' values and beliefs). They posit that the communication of various firm initiatives and the emphasis on websites of certain features of the work environment to attract Millennials to firms indicates a bottom-up process of younger employees shaping firm strategy. Therefore, we ask both leaders and non-leaders to reflect on how Millennials may shape the firm's communication of tone at the

top within the firm, and whether there are differences being driven by (or because of) this generation specifically.

*Firms' Work Environments*

In addition to communication of tone at the top messages through words and actions, leaders create a work environment that facilitates the socialization of employees into the firm's culture (Fogarty 1992; Jenkins et al. 2008). We examine features of the work environment, such as how the firm develops its employees, provides community-building social events, adopts flexible work arrangements, evaluates and rewards employees, promotes diverse ways of thinking, and empowers employee autonomy (Hermanson, Houston, Stefaniak, and Wilkins 2016; Bamber and Iyer 2009; Almer and Kaplan 2002; Buchheit, Dalton, Harp, and Hollingsworth 2016). All of these features serve to build a sense of community and engender a common identity among professionals within the firm on an ongoing basis (Trice and Beyer 1993).

Firm tone at the top can have an impact on how employees feel about the firm and the profession as a whole, and this can translate into their attitudes about audit quality (Bamber and Iyer 2009). For example, if the firm leaders convey the message that the firm culture places a high value on people, and the firm implements programs aimed at employee retention (such as the establishment of flexible work arrangements), then employees will experience a higher level of job satisfaction, and reduced levels of burnout and desire to leave the firm (Almer and Kaplan 2002; Buchheit et al. 2016). Similarly, the firms' emphasis on professionalism versus commercialism has the potential to transform the audit workplace in a meaningful way (Buchheit et al. 2009).[6]  Bamber and Iyer (2009) note that since autonomy is a key element of

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[6] Buchheit et al. (2016) also note that although alternative work arrangements exist in both in Big 4 versus non-Big 4 firms (i.e., the NGNF's in our study), auditors at Big 4 firms report less ability to take advantage of such arrangements than auditors at NGNF's, presumably due to a greater focus on commercialism at the larger firms.

professionalism, a tone at the top that encourages autonomy among non-leaders in making tough judgments will support professionalism among employees more than a focus on client satisfaction and efficiency (i.e., a more commercial focus), and that this focus is positively associated with increased audit quality.

As noted above, Durocher et al. (2016) find evidence of a two-way socialization process in firms (in both Big 4 and non-Big 4 firms), where firm work environments have adapted to the values and needs of Millennials, as well as being driven by top down strategies. For example, they find evidence that firms have adapted various aspects of their work environments by emphasizing work that is more varied and stimulating, providing more opportunities for challenge and growth, and focusing more on training, mentoring and feedback. There are more work-life balance initiatives, and promotion of relationships among firm employees and teamwork. Durocher et al. (2016) call for more empirical research in this area to determine if firms actually achieve their objectives of legitimizing themselves with the Millennial generation (i.e., do they "walk the talk?" 16). Interestingly, Fogarty, Reinstein and Heath (2017) note that the needs of the Millennial generation do not differ greatly from previous generations (such as Baby Boomers or Generation X). This implies that firm work environments adapt over time to reflect the values and needs of all employees, not just Millennials. Our study addresses how firm work environments reflect the firms' tone at the top as perceived by both leader and non-leader employees. The related research question is as follows:

**RQ3**: How does the firm's tone at the top impact the overall work environment at the firm?

# METHOD

We interviewed firm personnel at the partnership level (engagement and managing partners) and non-partnership level (managers, supervisors, seniors, junior auditors) from twelve different firms. We developed a pre-interview survey for each participant, which contained demographic information and information about the auditors' experience within the firm. In addition, each firm leader completed firm-level demographic questions designed to capture firm-level variables, such as firm size, number of offices, etc. The firms varied in terms of size, geographic location and firm structure (i.e., multiple offices versus one office; member of audit area network, etc.). The demographic information for each participating firm and participants is provided in Table 1.

The interview questions were developed based on our theoretical constructs and are included in Appendix A.[7] Following best practices for interview-based studies, two of the researchers were present at each interview. The interviews were conducted by phone with each party utilizing dial in numbers administered by AICPA personnel, in order to ensure anonymity. Interviews were recorded. In addition to the pre-interview survey described above, each interviewee was provided with a consent form to sign. The researchers on the call also obtained verbal consent for the recording from the interviewee prior to the start of the interview. Each interview lasted on average one hour.

Recorded interviews were transcribed using a professional transcription service. Two of the researchers then reviewed the transcriptions to determine if there were any errors in transcription. One of the researchers developed an initial coding scheme for the interviews, which was reviewed and refined by the other two researchers, who then coded the responses

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[7] Representatives from the AICPA Assurance Research Group (ARAG) reviewed the pre-interview survey and interview questions and provided comments in early drafts before they were finalized.

independently using NVivo. The third researcher reviewed the coding to identify any discrepancies, which were then reconciled as a team.

INSERT TABLE 1 HERE

**RESULTS**

**RQ1 -Perceptions of Firm Culture and Leadership (Tone at the Top)**

*Firm Culture*

We ask participants to summarize how they would describe the culture of their firm. Participants overwhelmingly express that their firm's culture is employee-focused. More than 80 percent (20) of the participants we interviewed characterized the culture in their firm as being a "family" environment that emphasizes collaborative teamwork that ensures "no one is drowning," and encourages career development and overall wellness. Participants express that an important aspect of the culture they experience in their firm is being able to personally connect and openly communicate with employees at all levels of the firm without fear or restriction. One particularly noteworthy participant expressly notes that his/her firm is committed to protecting a culture of respectful communication among employees and that a "jerk" attitude is not tolerated. Excerpts from participant interviews help to illustrate a culture of valuing people: [8]

> *There is a focus on collaboration and we have a well-known open-door policy from partners to staff so if there's a time where a staff member has a question or wants to get support from another staff member, they're always available to be there.* 10B
>
> *Our culture focuses on people making sure no one is drowning, making sure doors are always open at all levels, which is always nice.* 9B
>
> *I've seen, I'll say, good accountants, fall victim to the 'no jerks' policy because you could be a good accountant, but if you're a jerk, we really don't want you around. It's not going to help us maintain our open-door policies or our continual…relationship with the management and staff of the firm.* 12A

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[8] The identifiers included after each quote indicate the firm (designated "1" through "12"), and the level within the firm, where "A" indicates firm leader and "B" indicates non-leader.

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*As a part of that, a piece of that, I think, is also creating opportunities for our employees and our staff members as we grow and advance together both as a business and as individuals in our careers to facilitate that growth and keep things going in that upward direction.* 2A

*The firm does a lot for mental health and just health in general, which is absolutely great. I think overall, from all levels, I think everybody would agree with me... we work hard, obviously, in this profession, but we also know how to have fun.* 8B

The next most prominent cultural characteristic participants describe is the firms' focus on providing "exceptional" client service. Approximately 30 percent (7) of participants specifically mention that their firm's culture revolves around "unmatched" service to clients as such service sustains the economic viability of the firm. In fact, this focus on the client is an aspect of the firm culture that some employees find attractive. Some participants shared:

*It would be one of work hard, try to support and add to the success of our clients and our client base. It's very client-focused and client-driven. A work hard, focus on client success, and create opportunities for others.* 9A

*From a firm culture, I'd say that more professional outlook on things and then we have an unmatched client service as our known culture, I guess, for how we try and attract clients….* 2B

*I think our culture is focused on client service and it's one the reasons I came here.* 4B

Whereas we find that only two participants (eight percent) emphasize ethics and integrity as a characteristic they would use to summarize the culture of their firm, additional participants express this as an important core value held by their firm (more about this factor under Core Values).

For context, we ask participants how they perceive their firm's culture to be different from that of other firms. Interestingly, participants differentiate their firm's culture to similar extents along the same two cultural characteristics of employee and client importance noted above. Approximately 80 percent (19) of participants overwhelming express that their firm's emphasis on employees is their differentiating cultural factor as other firms lack commitment in this area.

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Participants specifically mention differentiating factors pertaining to maintaining a balance between their work and their personal lives, feeling appreciated for the work they perform, having flexibility around where/when they perform their work, connecting on a personal level with their colleagues, and having more input into the direction of their careers. Similar to results around an "employee-focused" culture, 25 percent (6) of participants express that their firms' commitment to client service is a cultural factor that differentiates their firm from others.

> *I'd say other firms may not have as much emphasis on the employee, where maybe they overwork the employees. We tend to try and emphasize work life balance so employees aren't working 12 hours a day, 7 days a week, or something like that. We're good at encouraging people to take vacation after the busy season, spend time with their family, things like that.* 3A

> *I came from a firm in XXX [where] the culture was a little bit more 'just get your work done' and that's it. For me, coming from a firm like that to this firm where it's more ... you truly feel as though the partners appreciate your work and stuff like that, and they actually try to take care of you during those busy months and even in the summer. Also,... I could talk to them about almost anything in ... meaning sports, everything like that. The prior firm was kind of your typical accountants and ... it was very difficult to have normal conversations with them.* 8B

> *In my prior experiences with other firms they usually assign you to what they believe is right for you, and here in our firm they give you leeway in being able to see where you fit in for the first couple of months and you'll be able to go upon that.* 6B

Participants express that their firms' commitment to creative collaboration with clients and working through challenges differentiate them from other firms. Notably, no participants rate ethics and integrity as a cultural factor that differentiates their firm from others. The quotes below illustrate participants' perspectives:

> *...searching for solutions for clients as opposed to really staying very, very true to the principles of accounting. Probably don't mean that like it sounds, but if I were to compare it to what I would call one of the larger firms in the country where your large national offices are there to ensure consistency and really sticking to the letter of the law, I would say the culture here is more search for valid and supportable ways to support the client and the client's inclusions on accounting.* 9A

*We try to do the right thing, but also being nice and supportive, and helpful, working through challenges with the clients together, versus wait for the audit and catching them for findings or deficiencies. We see it more as a partnership or a trusted advisor capacity role, versus just coming in to do the compliance audit.* 10A

*Core Values*

In addition to firm culture, we ask interview participants to articulate their firms' core values. Review of participants' responses reveal firm leadership emphasizes core values around three primary themes closely related to the production of audited financial statements. The first theme is around maintaining ethics and integrity throughout the audit and during client interactions. Two-third of participants (66 percent, 16) indicate that their firm places high emphasis on exercising integrity in all aspects of their work.

*I think they definitely emphasize integrity, team work and taking care of our clients, so focusing on the client, focusing on maintaining team relationships and maintaining integrity at all times.* 1B

*Yeah, that's our fundamental number one, is we have to act with the highest integrity, both internally and externally. Our focus is to provide our clients and our people with the best possible service, both nationally and globally.* 7A

*We want to be upfront and honest with all our people. Compliance is one of them. We want to make sure that we're in full compliance. Ethical. High ethical standards. Trust. We want to make sure, if we don't have our client's trust and our individual's trust, and we don't act with integrity, then everything else goes out the window.* 7B

The second theme we identify is around being attentive to clients and meeting their needs. Fifty-eight percent (14) of participants share that their firm considers the success of their clients and providing clients with the best possible service as an important core value.

*We are a customer service industry and I feel like that gets slipped through the cracks most of the time, especially with the newer people. Don't realize that we are actually providing a service to the client.* 8B

*I would say that our core values is obviously like good client service and high quality work, but at the same time we want to do it while people are having fun and create an enjoyable work environment.* 4A

*Our value is to not just come in, and help a client to the one thing they've asked us to do. To check with A, B, and C, but to come in and really try and help our clients grow, or exceed, or get over tough issues within what's obviously what's allowed. I think that's one of them is more of we just want to.* 9B

The third theme also relates to work performance and centers around promoting high quality audit work. Forty-five percent (11) of participants express their firm stresses the importance of technical knowledge, teamwork, and professional excellence. While participants overwhelmingly express their firm's culture as centered around employees, this may be, in part, an effort to support the firms' focus on client service.

*Quality meaning that I think above all, we have to do a quality [audit], the work has to be done in a quality manner or quality way. It has to be done correctly. It has to be done professionally and if it takes more time to do it that way, we put the time in that needs to be done. The engagement has to be done correctly and appropriately.* 6A

*Knowledge, excellence, teamwork, success. I think those are all things that in order to be successful in a professional firm, you kind of have to have those things. I see it all the time, but it's something that we formally communicate to people.* 3B

*Another core value would be excellence, whether it's auditing a financial statement, or any other service that we're providing to our clients, we want to give them the best product and experience possible.* 11B

Core value themes related to employee well-being and development ranked fourth with 37 percent (9) participants responding that an important core value of the firm centers around employee-related factors.

In response to inquiry about how auditors execute firms' core values on the audit, approximately half of the participants express that core values especially shape their interactions with clients as well as the ethics and integrity they exhibit on the audit. Specifically, participants share that they translate their firm's core values to the service they provide to clients. Auditors report that they execute these values by engendering their client's trust, being responsive to their

inquiries as well as providing customized and innovative solutions to audit and advisory issues. Below are participant comments that characterize these sentiments.

> *The focus that we're helping clients achieve their goals and solve their problems. People know that that's important.* 5A

> *We definitely try and build our client's trust. We want to be a trusted advisor for them. We want them to come to us when they need help, even if it's outside the audit.* 5B

> *We have a policy that you shouldn't let any client's question go unanswered for more than 24 hours. So even if you just shoot them an email, say "I'm working on it, we'll get back to you." So they never feel like we're not available.* 4B

> *Part of that "do what's right for the client" actually means, if we need to deliver bad news or bad information, we do that right away and immediately.* 7A

Consistent with regulatory requirements and established code of conduct for accountants, interview results suggest that participants internalize the ethical focus of their firm's core value messages and indicate they execute this behavior on audit engagements. Auditors indicate that integrity is top of mind during the audit and while they aspire to deliver excellent client service, they remain focused on their ethical responsibility to financial statement users. They express that it was important to demonstrate integrity especially in client interactions, not solely because of the virtue of being ethical, but also because it is fundamental to the auditing profession and there are deleterious consequences to the firm for failure in this regard.

> *I mean audit engagements are all about integrity and basically making sure that we're understanding what the client is all about. And so I think we have a high level of integrity when we go in to an audit engagement understanding what we're there for, what we're trying to do and also just being aware of the risk areas and how we respond to that through our audit planning, through our execution, and through our interactions with the client.* 1A

> *I would say, in terms of honesty and integrity, making sure that I am never compromising what I know is right. Once in a while we get put in client situations where they'll want specific accounting treatment or they'll be pushing for something that we don't know that we can support. I've had a couple of situations where I have to stand up for the proper way of doing something and demonstrate that to my team members. We're all about client*

*service, but there is a line and we're looking out for users of financial statements and we have to maintain our integrity. You can't always do what a client wants*. 4A

*Leadership Styles*

A significant number of participants (45 percent, 11) provided responses that indicate the adoption of a transformational leadership style which is similar to those of the firm's highest leaders. Participants express that firm leadership inspires and motivates employees to enhance their performance by taking a lead-by-example approach whereby they model the behavior they expect from their subordinates. Participants describe firm leadership as demonstrating genuine interest in subordinates, employing a hands-off style that gives employees latitude to develop and grow, as well as encouraging employees to take ownership of their work. Participants use words and phrases such as "respectful to everybody no matter if you're a partner or staff," "flexible," "strategic" and "visionary" to describe similarities between them and the firm's highest leaders. Several lower level participants we interviewed also express that they proliferate the leadership style they experience with auditors senior to them in the firm by adopting and modeling this behavior. Interviewees stated these views in the following quotes:

> *I make connections more on a one on one basis than I do with larger crowds. I'm not going to be one to say, I'm not going to be that leader that some of my peers are or give that speech that's going to get everybody fired up, but I command respect from people just about who I am and how I live and through example*. 4A.

> *I would say for the majority of our highest leaders in our firm, I mean their leadership style is they like to lead by example. They like to be available… The only thing I can think of, and I feel I try to do this the same way as a leader to anyone that works with me, or looks to me is just lead by example*. 9B

> *I think one of the things that I naturally am generally trying to overcome is I am a natural introvert. What I would imagine is probably an issue that lots of accountants might encounter. I'm trying to be more extroverted I think that that's a leadership quality that I see in firm management and it resonates with the people around them*. 10B

While most participants indicate they share many similarities with the firm's highest leaders, some express that their individual style was different from their leaders'. One participant shared that the firm's leadership style may not resonate well with the current generation of auditors employed by the firm. This participant suggests that the current generation prefers approaches that are more flexible and less direct – approaches that are contrary to those exercised by the leadership in that firm.

> *The way that I've been managed may not necessarily resonate with the people that I'm working with and so we're learning to adapt and we've had training on this…..We're learning that, hey, we need to be more flexible. We need to be more, maybe a little less direct in certain situations.* 7B

**RQ2: How Tone is Conveyed Throughout the Firm**

*Conveyance of Culture*

Overall, participants express that the firm culture they experience in their primary office is consistent across offices in their firm. Participants share that their firms' strive for cultural "consistency" across offices in order to ensure that clients "have the same expectation across their entire engagement team" so that "the client experience is seamless" (G1). Most participants (75 percent, 18 participants) share that culture is primarily conveyed throughout the firm in a top-down manner via in-person interactions at firm-sponsored trainings, meetings, and other events (e.g., leadership development training, staff meetings), as well as through other forms of communications (e.g., emails and newsletters).

> *… I think it's easier to integrate and to adopt culture and to share that in everything we do whether it's training or whether it's a partner meeting or whether it's a leadership development training program, I think it gets built in along the way.* 1A

> *When we have town hall meetings, and we have internal email communications, when we talk to different partners, and this stuff is brought up all along.* 7B

Participants express that culture is reinforced through the behaviors that the firm rewards and recognizes. They also share that while it is important for leadership to verbalize cultural expectations, it is also integral that leadership demonstrate the desired culture through their own actions and casual interactions with firm employees. Excerpts from these interviews provide further context:

> *I would say it's [culture] really a more informal message, as well as that that's conveyed through annual reviews, what individuals are compensated for*. 9A

> *I say some of the leaders, some of the partners that are more of the leaders of the firm are definitely ... definitely communicate that even through email or just walking around each of the floor, interacting with everyone, making sure everyone is happy, they're doing okay, they don't need anything*. 1B

> *The tone at the top is very strong for flexibility. I'll tell you, the head of my department...He works in the office from 7 AM to 3:30 PM, then he coaches. He has two daughters and a son. He coaches teams for all of them and is very involved in his community and then will jump back online in the evening and answer emails or catch up on anything else. He's always connected, but very much demonstrating this is flexible. Go do and be what you need to go do and be in order to be happy*. 3B

> *I think it's lead by example in that case. I say pushes down, but I guess it's more tone at the top type of thing...We try to show that we are hard workers, and you want that to flow down, but you also want to show that I might be a hard worker, but, as an example, I was able to go to all my kids' games when they had them, or if they had something special at school. There's flexibility. I think a lot of that shows through to the staff, and some of them look at that and say, "Yeah, I appreciate the opportunity to be able to do that in the future."* 12A

*Modeling Professional Behavior*

Most interviewees indicate that firm leadership models professional behavior primarily through an on-the-job lead-by-example approach that encompasses interactions with the engagement team and the client as well as formal coaching methods. Interviewees collectively express the sentiment that in-person leadership examples are effective ways to demonstrate and set expectations about professional behavior in the firm. These examples are indicated as important not only for setting client-interaction expectations but also with regard to how auditors are

expected to treat their fellow firm colleagues. Participants stress that displays of respectful comportment with the client and within the team lays the ground work for more effective communication as well as audit issue identification and resolution. Results suggest that firm leadership models professional client-facing behavior by including members of the engagement team, particularly lower level auditors in client meetings and conference calls to facilitate the professional development of junior auditors. In-person interaction utilizes a more active-learning approach that better facilitates rounded professional development among more junior auditors. Participants also indicate that firms use formal coaching and evaluation programs as well to augment professional conduct education. Excerpts from our interviews illustrate these findings.

> *On an individual, and engagement by engagement basis, I think what's really important is, if a staff has a concern, it could be when you listen to it that they're inexperienced and they really don't know what they're doing. Right? So, you kind of have to balance ... You don't want to just shut them down and say, "Oh, that's crazy, don't worry about that," or, "You're an idiot, just focus on the program." Right? You want to embrace that culture of trying to make them learn.* 8A

> *I'd say partners definitely project their client focus down on their teams and, to do that, they ... they'll invite the staff and the senior out to whatever meeting they might have or even if they ... set up a call to discuss sensitive topic, maybe having the senior or staff in the room so they can witness how to handle such a conversation. They'll invite them to do that or even come and sit on a proposal while the senior might or staff might not have a specific talking point or anything during the proposal, just sitting there and listening to the partner and the client interact.* 1B

> *We have a program where, when you start, we have [coaches] where younger people are kind of helping out the new hires. There's coaches that have been here maybe four to five years all the way on up to partners, where you mentor. You're like a person de facto leader and they come to you with questions and stuff like that.* 2B

However, one participant at the leadership level is concerned that the in-person practice of modeling behavior may be on the decline in firms as communication is increasingly taking place over electronic modes e.g., emails and phone calls (consistent with findings of Westermann et al. 2015):

*In today's evolving audit world of less and less client interactions, more IT-based, more hiding behind the phone, I call it, or texting or emailing rather than going to the client, and the focus on getting it done as fast as possible, not wanting to invest the time in somebody because that's not a productive hour, if you will. I would say that [in-person behavior modeling] is becoming less and less of a habit for our firm. Though I can't tell you for certain, I would say that's probably the profession as a whole.* 9A

*Communication of Engagement Level Feedback*

We also ask participants to describe the feedback process at their firm where auditors can provide feedback on quality control or other tone/ethical messages to firm leaders (from bottom-up). A majority of the participants (70 percent) report that an upward feedback process at their firm is primarily informal comprised of speaking with a superior, the process is best captured by this quote.

> *Informally, I would just go to the head of the audit department. I think everybody is very comfortable with her that if I truly say I was getting pressure, not that this happened, but say I was getting pressure from a partner to push something through that I wasn't comfortable with, first I'd obviously address that partner. If I really had an issue with it that I couldn't address with him, maybe go to her. I think she keeps that open door policy with any issues, come talk to her.* 8B

Some participants (40 percent) describe a more formal process with written policies and procedures through human resources, technical director or performance reviews, similar to these quotes.

> *We have, on our bigger engagements, an audit engagement debrief. Where the engagement team sits down and discusses the good, the bad, what can be done better. We have a differences of opinion document associated with the QC process and through our QC group and our consulting team, all of our auditors have access to pose questions and or challenges to that department, from a feedback perspective.* 7A

> *There's a feedback form providing guidance, or feedback back to our Standards reviewers. We also do feedback templates for our partners to write a review to other partners, related to their roles, industry leaders, and office leaders.* 10A

*Formal/Explicit Firmwide Communications*

To assess the effectiveness of a firm's explicit communication channels, we asked participants a series of five questions on the types of messages, frequency, and methods firms use to communicate with auditors and whether the messages were communicated formally.[9] The majority of participants (71 percent) state that the firms send out messages on audit quality importance and on audit standards methodology equally.  Further, 65 percent note the messages tend to be more informative, with 44 percent emphasizing positive consequences when followed. Most participants (54 percent) claim messages are delivered quite often in a variety of ways (e.g., face-to-face or online: emails, webinars, intranet) and venues (firm-wide meetings, new hire orientation, on engagements, special meetings) and primarily in a group setting. The messages are often communicated in a formal, systematic process through monthly or quarterly newsletters or updates.

*Adapting Communication Mode to Millennial Workers*

We specifically ask whether firms are communicating differently with the newer generation of auditors i.e., Millennials.  We ask participants to describe the efforts (if any) their firm has made or is making to meet communication needs of the new generation of auditors. Participants report that, generally, firms appear to recognize that they need to address the needs of the changing demographics; however, some participants (50 percent) report that their firm is taking an active approach to communicating with Millennials while others (29 percent) find the firm's approach to be more passive.

> *I laughed when I saw this question on your questionnaire because we actually have one of think tanks I mentioned, it's employee engagement and it's really geared towards the millennials because we are all struggling. They have different attitudes towards work I think than past generations, so we're trying to figure out, our common challenge is that we hear 'no' a lot from staff. That 'no they can't do that' but they're not really that busy.* 4B

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[9] Questions 15-19 of the interview instrument (see Appendix A).

*I mean, definitely for sure, I think I already mentioned the CEO talking about his work/life balance. I think that was directly related to knowing that is important to millennials. That we don't want to work until 10:00 p.m. My dad's also in accounting. He told me he used to sit in conference rooms until 11:00 p.m. at night. I'm just like, "I wouldn't. You couldn't pay me to do that." I mean, so I don't know. I think they're very encouraging, especially my partner. He's kind of like, "Yeah, make changes." I will get up, and usually like yesterday I don't usually leave at 5:00, but I was meeting up with some friends, so I left.* 5B

Both the older and younger generation of interviewed participants agree that the increased use of technology-mediated communication, work-life balance, and the need for immediate feedback are the biggest changes observed between the generations that firms are trying to address.

*They [Millennials] do communicate much more electronically than what somebody who, like me has been around over 20 years. I joke with them, because they send me an email with a question. Then, I get up from my desk and I walk down the hall and I go and answer it in person. I go and sit down.* 8A

*I would say they try and cater to the Millennial, you know we're more quick feedback based. Informal, kind of people. So lot of times its informal discussions. Maybe a partner or a manager will stop by unexpectedly and have a discussion with you. I think the social events that they do cater to Millennials a lot more, too. We like to have that interaction and relationship with our peers and those around us. Outside of work, we like to have those relationships.* 11B

One participant points out that the communicating with millennials is also present at the client level.

*It's not just our staff either, it's the clients. We have several clients that are millennials that prefer different communication approaches as well. There's certainly an understanding that it's out there. In fact at our annual conference two weeks ago we had a discussion on millennials and how that impacts the actions and things that we do. It's certainly out there. It's acknowledged. We recognize it. There's no formal documented "here's how to handle it" type approach.* 9A

**RQ3 - Firm Work Environment**

*Career Development/Mentoring of Employees*

A significant number of participants (45 percent, 11) share similar perspectives that their personal attitudes and actions strongly reflected the employee-centric core values of their firms. That is, participants express they are keenly focused on the personal and career development of

colleagues they mentor and interact with. They share how manifestation of the firm's core values, to them, means that they have a responsibility to maintain a pleasant working environment for the team, treat colleagues with respect, provide constructive feedback and development opportunities, and ensure that employees feel engaged, comfortable and supported by the firm. Participants express these sentiments in the following ways:

> *I'm very interested in providing opportunities and helping people to develop in their careers and to reach their goal, whatever they are whether it's the same with the company or whether it's to move out of public accounting to explore other things. I think it's important to help people to get to where they want to be.* 1A

> *Whether it's positive or constructive areas to work on. If somebody is not getting, and it's not getting feedback every five minutes, but I'm very focused and I know our other partners and managers and anybody who's in the supervisory role, it's very important and it's really tone at the top in our firm that we need to make sure to provide timely feedback to people.* 5A

> *Teamwork. Really, it's a core value here. It's a core value in my own personal life to have good communication with those around you to make sure that everybody is on the same page, and build relationships.* 11B

*Flexible Work Arrangements*

We ask participants to describe the work-life balance arrangements at their firm, who generally requests flexible work arrangements and whether the firm leaders encourage or frown upon such requests. The respondents report work-life balance is generally comprised of flexible work arrangements (e.g., shorter workdays on Fridays, part-time employment, working remotely, working "flexible" hours [such as 9am-5pm, then later at night]). One firm offers a monthly fitness reimbursement to encourage healthy lifestyles, or a day off to volunteer at a charity of their choice. Other firms treat their associates with snacks, massages, or gift bags to keep them healthy and well-nourished during busy season. Mostly, participants believe their firm's attitude towards work-life balance arrangements is very encouraging provided the audit work adequately progresses. Some respondents note that flexible work arrangement is no longer only offered to the "single

parent," the request can come from a variety of personnel at various levels. However, the younger

generation tends to request flexible arrangements more often than the older generation. Participants

state that requests for flexible work arrangements vary by office and are often decided on a case-

by-case basis. They all agree that the arrangement must work for the firm, the employee, and the

client. Participants share the following perspectives:

> We do have this work life balance and it not only applies at the staff level but also the partner level. We try and promote that. We also let people do things like telecommuting and we're pretty good about flexible work schedules and even some of the partners have those types of arrangements, as well. 3A

> Are all offices created equal? No. I don't think so but I think having an open discussion and having policies that are being developed and guidelines and the infrastructure around flexible work arrangements and what's acceptable I think has really moved the needle. 1A

> "I guess with the team that I work on, we travel a lot across the country. We're out of the office a lot already. When we are in the office, it's okay if you want to work from home. They expect you to be in the office if you're in town, but nobody's going to ... I guess it's sort of an informal policy that if you want to work at home for a day, that's fine as long as you're still productive. 2B

> I had heard at some point that was going to be a part of their [partners] review, whether or not they maintained a good work/life balance, and actively promoted that to the people below. Personally, my partner does a good job. He doesn't care if I need to leave early, and go do something with my family. Yes, I'm 100% positive that there are partners who don't like the policy. Whether or not they're getting over it, and promoting it, I don't know. I can only speak for what I've seen in my office. It seems like they are doing a decent job of doing that." 5B

Some participants caution that the flexible work-arrangement policy is frowned upon if the firm

believes that it is being abused. This attitude is reflected in the following quotes:

> There's been some hiccups along the way. For the people who have been here for a long time, there's been a little bit of a growing pain for managers who have been doing this for a while who see staff who aren't coming into the office because they wanted to work from home, well your job is to be available for us, so there's kind of that attitude at times. 3B

> To be honest with you, I think the partners are probably more on board than some of the senior managers. We have a group of senior managers that have been at the firm for a very long time. They have no real aspiration to be partner. They're life-long senior managers. Those people may be a little more resistant to change, but they're also being pushed by the

*partners to adapt. They're finding that the staff don't want to work with them as much, so they're gonna have to adapt whether they like it or not. If they don't adapt, then leadership at the firm will force them to.* 7B

A few partner respondents have starkly different perspectives and appeared less tolerant of flexible work arrangements suggesting that the younger generation may not be pulling their weight.

*If I found that there is a staff who could handle it, I'd support it, but I haven't seen that yet on the younger staff. That's part of the problem is you work your 60 hours or your 55 hours, and we've actually even gotten away with telling them how many hours they work. It's up to them. As long as they're over the base hours, we're fine with that. Then that is a matter of are you getting any work done and are you meeting your annual billable budget? If you're not getting any work done, you're not meeting your annual billable budget ... Not getting your work done means ... And you've got some issues, you have to look at the security of your job. If you're not meeting your billable budget, then don't expect the bonus because a bonus is based on exceeding your budget, it's not based on meeting your budget.* 12A

*Level of Empowerment*

We ask participants whether they feel empowered by their superiors and whether the degree of empowerment varied by demographic factors. Overwhelmingly, participants state that they feel empowered by their firm leaders, but noted the empowerment varies with experience and performance. This view is expressed by leaders and non-leaders.

*I think we really ... I mean we do that especially with our interns. They're not filing. They're doing stuff that our staff people are doing. They're learning actual accounting. I say we empower them to handle what they can, but not leave them on their own to struggle and not have anybody to help them as well. That's a balance in the idea of empowering them.* 4A

*Yeah, I'm definitely empowered based on ... or at least I feel I'm empowered. I haven't ever been told no, or scolded for doing something, or saying something, or doing something. I would say, I definitely feel empowered by my supervisors up to a limit, a reasonable limit. I would say other than experience based on certain client types, there's not really any demographics that would maybe reduce that for an individual.* 9B

To gain insight into factors firms emphasize, we asked participants to describe how auditors' performance is evaluated, whether there are real or perceived pressures from superiors regarding performance, what measures are used, including billable hours, to evaluate audit effort,

and whether auditors feel accountable for their work. Most participants (85 percent) state that their firms' measure of audit effort is quality-focused, followed by employee-focused (39 percent) and profit-focused (31 percent), suggesting that firms value quality over profits when serving audit clients. Interestingly, the auditors interviewed state that they do not feel pressured by their superiors to perform. On the contrary, they describe a very supportive environment but acknowledge that the nature of the job itself is high pressured due to financial reporting deadlines. All participants claim they feel accountable for their work, indicating that the nature of the profession has many layers of review, so it is difficult not to feel accountable.

> *Yeah, so those would be in the ... considered in the individual job by job evaluations. Those are all categories that, were you able to identify issues, research them, bring them to the manager's attention. All of that kind of stuff is part of the job by job evaluation. How well you utilized the software all that sort of stuff.* 4A

> *An example of employee focus looks like this, There's an unspoken rule or general understanding that if it's very much heavily-weighted on the bad versus the good, you have a lot of improvements to be made, then that's when you don't push the submit button. You print out a draft and have a face-to-face or telephone conversation to make sure nobody's surprised when this evaluation comes out. That's the last thing you need the team to do. It's demoralizing to the team member to have an evaluation that they're not expecting to be bad come out and be bad without an opportunity to talk it through.* 2A

> *Yeah, so we have three levels of review, I guess, within our firm. We have our own internal inspection program and then we have an AICPA peer review, and then we have a PCAOB review, so we do have those additional reviews, and I think that that does cause some additional, I don't know what the best word would be, concern or something by the people that are subject to those reviews.* 3A

*Time Management*

We asked participants to describe the firm's emphasis on time management. For example, how does the firm address the tradeoff between budgeted hours and audit quality and whether they ever feel pressure to skip procedures due to time constraints. The majority of participants respond that while the goal is to stay within budget, they believe their firm values audit quality over meeting budget. A majority (86 percent) of participants report that they experience a greater display of

quality focus attitude from their firm and they do not feel pressured to skip procedures. Non-leader respondents report that when an audit goes over budget, partners review the overage to improve the process or to aide in employee training and development.  Some participants acknowledge that "eating time" occurs, especially earlier in one's career, but firms continue to try to manage its occurrence and consequences.

> *Yeah, I mean I think it [pressure] is something that everyone feels in public accounting. We get concerned when people, what we call, "Eat time," which means they work the time but they don't put it into the billing system. I don't think a lot of that happens at our firm, but I'm sure some of it does. So we try and encourage people not to eat time.* 3A

In contrast, other participants insist that "eating time" does not occur on their engagements.

> *Not on my team. I haven't heard of that. I can't speak for the whole firm. Definitely not on my team. We'll accept a lower realization as long as we're doing a quality audit.* 5B

> *I don't believe that that's the way that people here handle those things. Obviously people are going to make mistakes as they go along, but that's why we review things internally, so hopefully ... Ultimately as managers and partners reviewing the work, we should be comfortable when we're done that when peer review comes in, there aren't going to be any issues.* 11A

*Promotion of Accomplishments*

All participants indicate that their firms publicly recognize individual auditor accomplishments through a variety of means. Auditors are recognized for many reasons such as "going above and beyond" on engagements either related directly to execution of the audit or more related to client interactions, passing the CPA examination, demonstrating core values of the firm, as well as attaining committee appointments. Recognition ranges from in-person presentation at office or firm level meetings to blast emails that are sent firm-wide or to specific offices or teams. Some firms also post recognition recipients on internal firm websites or newsletters. In addition to public recognition, some firms offer monetary awards (for non-promotion related accomplishments) as well as sponsor happy hour or special dinner events to commemorate the

accomplishments. Interestingly, one partner we interviewed shared that over the past few years, there has been an increase in employee demand for public recognition so his/her firm has increasingly engaged in these activities to appease this apparent shift in employee preference. Interviewees note the following:

> *We have a reward program where if anyone does something very positive on an individual basis, and it's recognized by someone else in the firm, they can nominate that person for an internal award. We also have a parking spot. So someone that does something really above and beyond gets recognized with a parking spot every month.* 7B

> *In the last few years as the work course has changed a little bit, there's been an influx of workers, an influx of employees and staff members and team members that are craving recognition for things. They want that recognition timely and want other people to know they've been recognized. That type of thing. We've had to make some changes as to where individual accomplishments, individual shining moments are acknowledged and recognized.* 2A

> *The offices really operate as a mini firm, if you will, if that makes sense. The individual partners within those offices work together and I think celebrate the accomplishments together. Most accomplishments are viewed as an office accomplishment and an individual within that office's accomplishment, not so much a firm-wide accomplishment. I'll give you an example. If a large client was ... If there was a large new client that's selected our firm, that would be viewed as the office did a great job obtaining that large new client.* 9A

*Out of the Box Thinking*

Interview results suggest that firms actively encourage auditors to be innovative in their approach to audit execution. In some cases, firms sponsor formal initiatives and assemble committees to collectively think about different approaches and uses of technology in the audit process. In most other cases, such efforts are less formal and are on an engagement-by-engagement basis where energy towards audit innovation is expended during routine brainstorming sessions when planning the audit.

> *The managing partner of my specific office as well as direct supervisors are constantly encouraging team members to think outside of the box. They are always sponsoring initiatives for people and teams to think differently and come up with different auditing approaches or different testing ideas.* 1B

*We constantly tell our people, especially our younger people, that when you're going through, don't just follow what was done the prior year, just blindly follow that and do the same thing. If you come across something and you think there's a better way to do it, or maybe it doesn't even make sense that we're doing what we're doing or what we did in the past, certainly bring that up. You may have better ideas on how to do this, maybe we can do it more efficiently. We constantly promote that.* 11A

However, one participant expresses that although there may be active discussion about innovation and encouragement of "out-of-the-box-thinking," there is limited follow-through on those ideas into formalized changes to the audit process. Quotes below express these perspectives:

*I'm just looking at your word "promote." Do we promote it? Yes. Do we tell individuals that we want you to come up with ideas? Do we have an innovation submission box? We do. We have that stuff. We would tell somebody, "Yes, we want your ideas. We want you to come up with ideas." If you're looking at that as promoting it, the answer is yes. But, in actions and in developing a methodology and in executing an individual audit, generally speaking I would say no.* 9A

*Colleagues Who Most Influence Non-Leaders*

Participants at non-partner levels indicated that they are equally influenced by their direct supervisors and their peers. Participants express being more influenced by their peers regarding their day-to-day decisions, interactions and attitudes on engagements. At the same time, participants share they are also influenced by their direct supervisors regarding their audit competence as well as their career and professional goals. The following quotes summarize these sentiments.

*Definitely the peers. Yeah, it's competitive to move up with your peers and stuff like that, but at the same time, the first people I come to if I'm having trouble with a technical accounting issue or anything like that is usually the other supervisors. We have a pretty good relationship where we try to help each other out. We know who's good at what, so we know who to go to for certain questions. Yeah, I would say I rely most on the people at my same level.* 8B

*I would say it's a combination mainly of my peers. Again, we're a pretty close group, so it's a lot of interaction with my peers, seeing what they're doing, getting advice, giving advice. I'd say I'm influenced by them. A lot of it, it's not necessarily day to day, because I'm not interacting day to day with the partners, but a lot of the partners I interact with, and go*

*out on presentations with, I'm influenced by them, and their ... knowledge, their interaction, their professionalism. That influences me on how I want to act, and how I want to continue to develop in my own career.* 9B

*I think in certain situations, we have, our senior managers are all very close. We, in our office, in our audit group office, we definitely bounce ideas off each other all the time. I have a great relationship with the audit partners that I work with. I'm never afraid to go to them, if I have an issue I'm working through. And sometimes, if there is an issue with an audit partner, then I'll go to my peers and talk through them to how to address the issue.* 7B

*Code of Ethics*

The majority of participants (87 percent or 21 participants) indicate that their firms have a formal code of ethics. The formats of the code range from being contained within a broader firm policy manual, a stand-alone document, or in an electronic format that is posted on an internal website.  In some firms, employee receipt and familiarly with the code of ethics is documented by the employee's signature upon initial hire as well as being updated and re-acknowledged by employees at regular subsequent intervals (e.g., annually). In other firms, there is no subsequent reference or acknowledgement after that required at initial hire.

*So included in our personnel manual, we review it every year, essentially, where you have to sign off on it. That is the official communication. I think it's emphasized all year long, as well. It's discussed at our office meetings and back to that firm conference where we celebrate, but it's also a refresher.* 10A

*I'm pretty sure that I probably had to sign something when I started.* 2A

*I'm sure it's in the employees' staff handbook. To be honest I haven't really looked at that in a number of years. But whenever there's revisions that's sent out to everybody so you're aware of that.* 12B

At a few firms, participants indicate that while they are not aware of a formal code of ethics, there is an informal code that everyone follows. Often, components of this informal code are incorporated into trainings and firm meetings and shared through leadership communications. One participant notes:

*There is an informal code of ethics. We don't really have a formal code of ethics. A lot of this is done, we have a separate area in our firm related to quality control and I think, and also I think the partners set a lot of the formal code of ethics, but it does permeate from the managing partner and goes down through the practice group leaders and the different partners that we have in our firm.* 3A

*Mechanisms to Report Ethical Violations*

Participants primarily indicate that ethical violations would be communicated through informal hierarchical reporting processes. For example, reports are made to a superior who would then escalate the issue through other hierarchical channels as appropriate. Even in the instances where participants report having formal mechanisms in place (e.g., hotlines), they suggest preference for a hierarchical reporting format. Participants seem to rely on strong relationships of trust and a high level of comfort between superiors and their subordinates to facilitate the reporting process.

> *I don't believe that there's a formalized process to report violations of the code of ethics, up through a chain. Depending on the type of issues that identified, I would think that there's a couple different ways that it occurs, is one going up through engagement teams, to a partner who takes it to group leadership or executive leadership, HR related matters are always immediately communicated to the HR department, there's no formal process that says, "Here's an issue and here's the person that I have to go to."* 7A

> *I think there is somebody that everyone would be comfortable going to. A manager may be in charge of five staff. They meet with them on a regular basis, keep in contact with them continually about work problems they might have, personal problems, any issues they have. Those people then report up to other people or whatever. I think we do a pretty good job even though we're big, having somebody who is keeping a pulse on each person. I would say that's probably how it would be found out by leadership that there's an issue. That somebody would say something to their team manager who would tell someone else.* 4A

> *Then, we also make sure people feel like they have an opportunity to call the head audit department people, or the CEO, or anybody like that if they have an issue. Then, if none of that stuff works ... And we bring this up at least twice a year, and it's on our portal ... We have a hotline number that people can call and report any kind of concerns that they may have to a 1-800 anonymous, whistle-blower type line.* 8A

***Additional Observations: Links to Audit Quality***

In addition to the main research questions, we also examine perceptions of audit quality-related initiatives at each firm. We examine how audit quality issues are communicated through the firm hierarchy and the process for resolving such issues as well as examining how the firms' tone at the top drives the emphasis on quality-increasing behaviors, such as ensuring that audit work is performed thoroughly and with the appropriate level of professional skepticism (Nelson 2009: Hurtt, Brown-Liburd, Earley, and Krishnamoorthy 2013).

*Practical Solutions on the Audit*

Auditors indicate that they primarily use a consultative approach to address audit quality challenges that arise during the audit. More than 75 percent (19) of participants similarly describe how they use an escalation process to engage more senior auditors in the firm hierarchy to resolve audit issues. We observe variations in the structure of these consultation processes. In some firms, this process is unstructured and consists of informal communication with auditors in the firm's hierarchy. Whereas in other firms, the escalation process is more structured with formalized documentation about the issue and the consultation. In firms where there is more structure around the escalation, participants indicate that consultation would involve a dedicated technical resource or expert within the firm. Interestingly, only 20 percent (5) of participants note that they would advocate or turn to the use of decision aids as their first resolution option and, this option would be most often used by more senior auditors to research issues. Exemplar quotations below provide context to these sentiments.

> *There's not a straightforward way that you always have to go, but if there's quality questions or something, if it's a staff, you go to your in-charge and ask how things should be treated. If you're at the in-charge level, you're talking to your director or your partner. If nobody can answer the question, our Audit and Assurance Director is pretty much the go-to person to get things like that answered.* 2B

*We have a formal consultation structure that's in place where if an engagement team has issues, they work through that consultation process. There's probably four to five layers of individuals that our team can go to work through those issues. You're filtering throughout what we'll call "technical experts" in a local office first, then experts in our national office, which would generally be the second or third layer of consultation. That's where most would be resolved. If for whatever reason, and this happens extremely rarely, but if the engagement team or client disagrees with the national office resolution to the issue, then it would go to our executive committee who ultimately decides the firm's position. The client may not agree with it, and if not then they would have to go through the proper channels for that.* 9A

*Audit Matter Disagreements*

Half of our interviewees indicate that their firm has a formal process to raise audit disagreements. In most cases, these processes involve hierarchical escalation that involve specialized audit professionals outside of the engagement team. For example, interviewees indicate that audit issues may be escalated to industry specialists, practice leaders, quality review/control teams, national office, or even the firm CEO. These avenues are generally accessible to auditors of all ranks with disagreements with an auditor of any other level – from subordinates to superiors. The following quotes highlight these processes:

*Generally they're [audit disagreements] handled with in person discussions if we have significant issues or concerns, we utilize our internal consulting team for audit matters. Who will come in and help consult on what the appropriate response is, or what the correct response is and when there's areas where it's gray, we'll pull in our QC [quality control] review team or the audit department leader to kind of work towards a final resolution. If a matter is such that there is a difference of opinion, we have a formal process for engagement team member to document their difference of opinion, for the audit file and why that is. That's signed off by the engagement team members. That happens in very rare instances, because of the volume of support that we can provide to engagement team members. We can typically get to a resolution by working with the consulting team that we believe is the correct interpretation or whatever the correct response would be.* 7A

*This probably works both ways, if a junior is having a disagreement with me, and my response and thought process doesn't convince them, or they're convinced they're still right, we'll move it on up to the shareholder. If we're still split, or something like that, I mean there's no issue with taking this to one of the national level, or one of the people at the national level that will ultimately settle it for you one way or the other. I think it works either way.* 9B

Outside of these formal processes, results from our interviews suggest other firms take an informal escalation approach to resolve differences of opinions on the engagement team. Common in these approaches, team members engage in research to support their respective perspectives and then engage in team discussions to hash through the viewpoints with the partner providing the final decision. Exemplar quotes express this approach:

*I would say ultimately the partner would make the call. They would engage the rest of the team in terms of explaining why they went the route they did and making sure they are comfortable with it. I'm sure if somebody didn't ultimately agree with the partner's decision then they would go through the technical director with it and say, "I think they're wrong and this is why". I don't know if that's happened. I haven't been part of a communication where there was a disagreement with the partner's ultimate decision.* 4A

*My partner calls it passionate about something, sometimes I can get heated. I think for the most part, it's generally going to be a discussion. I've never had something where we couldn't come to a conclusion on it. I mean, typically with audit, I think we're lucky in that there is typically a right answer. Most of the time those people are not going to be right. So you might have to do more research. You might have to dig deeper into explaining your point of view if you think you're right.* 5B

**CONCLUSION**

We provide insights into how auditors perceive the tone at the top of NGNF audit firms and how this tone is conveyed throughout the firm to ultimately impact day-to-day audits and audit quality. Respondents have no difficulty articulating firm culture and values. The majority indicate that their firm culture is employee-focused, and many also characterized their culture as client-focused. Interestingly, respondents also feel that their own firm's culture can be differentiated from other firms on these two dimensions. Firm values center around integrity, client service, and audit quality. Note that responses regarding firm culture and values place emphasis on professionalism over commercialism, with both firm leaders and non-leaders failing to provide responses that characterized their firms as solely profit-driven or high pressure (Suddaby, Gendron, and Lam 2009).

Regarding firm leadership, participants describe leaders as flexible, strategic, and visionary (characteristics of transformational leaders). They emphasize the importance of leading by example, and it is clear that leaders' actions make a strong impression both on non-leaders as well as other (peer) leaders in the firm. Firm example, if leaders demonstrate a commitment to work life balance in their own behaviors, by prioritizing certain family events or health and wellness, non-leaders feel more comfortable doing the same. This goes for modeling commitment to integrity and ethics as well as audit quality. This modeling behavior ("walking the talk") is related to how culture is conveyed throughout the organization, with many respondents emphasizing that modeling behaviors by partners at the engagement level is also important.

In response to questions about communication to Millennials specifically, respondents acknowledge that communication methods and styles have changed, but there is not consensus regarding whether this is specifically geared toward the Millennial generation. Both leaders and non-leaders note that communications are more flexible and feedback is given more frequently than in the past, which research has shown is preferred among Millennial workers (Durocher et al. 2016). However, firms differ in whether they approach this as a deliberate strategy to attract and retain a younger generation of talent, or whether they view this as a natural evolution of the workplace.

We found evidence that tone at the top is ingrained in the day-to-day work environment of the firm. Respondents acknowledge that creating an atmosphere of flexibility, respect, and autonomy goes hand-in-hand with a tone at the top that is employee-focused. However, some caution that flexible work arrangements can be frowned upon if abused or if junior auditors are not viewed as pulling their weight. The majority of respondents note that performance is evaluated on the quality of work and teamwork, but a third of respondents acknowledge that profit-oriented criteria still play a role. In keeping with the emphasis on quality over profits, the majority of

respondents indicate that they feel empowered in their decision making and do not feel pressured to engage in dysfunctional behaviors, such as "eating time" or cutting corners. Non-leaders are most heavily influenced by their peers on day-to-day engagements, but influenced by firm leaders in achieving their longer term professional goals. Regarding innovation, most respondents note that their firms actively encourage "out of the box" thinking, although how this thinking is captured varies among firms, with some developing formal and deliberate processes around innovation, and others rewarding it, but not in a systematic way.

Regarding the link between tone at the top and audit quality, as noted above, many respondents noted that their firm values emphasized audit quality, and this emphasis was reflected in day-to-day audit engagements. For example, many respondents noted that "getting it right" was emphasized in performance evaluations over meeting time budgets. In addition, firms have processes for escalating audit issues and disagreements over audit matters through the firm hierarchy (although few acknowledged ever encountering such disagreements personally, which also goes for ethical issues).

Although we provide interesting insights into how tone at the top translates to audit quality throughout public accounting firms, we acknowledge that we cannot generalize to all firms from the limited sample in this study. Future research can extend this work by examining tone at the top in Big 4 firms, or in other countries outside the U.S. While we found a high degree of agreement between leader and non-leaders perspectives, future research can expand the sample of lower level non-leaders in the firm to examine whether the firm's tone at the top extensively filters down and is internalized by employees at lower levels in the firm's hierarchy.

In summary, we expect that our insights regarding firms' tone at the top of both leaders and non-leaders will be useful to audit firms, regulators, and standard setters as they consider issues of

firm environment and its relationship to audit quality. Our findings indicate that tone at the top has a strong influence in shaping the firm, and a positive tone, *modeled by leaders of the firm*, not only results in greater employee satisfaction, but serves to increase quality-increasing behaviors and reduce dysfunctional behaviors on audits.

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**TABLE 1**
**Phase I Participants' Demographic Information**

**Panel A: Firm Demographic (n=12)**

|  |  | Number | Percent |
|---|---|---|---|
| Accounting Firm Type[1]: | National | 3 | 25 |
|  | Regional | 9 | 75 |
|  |  |  |  |
| Types of Services[3]: | Audit |  | 34.17 |
| (average percent of time) | Tax |  | 31.42 |
|  | Consulting |  | 9.87 |
|  | Other[2] |  | 27.10 |

[1] All firms have 200+ employees and are part of a network structure.
[2] Internal audit (4.2%), internal controls (1.6%), compliance (2.1%), reviews (5.6%), compilation (2.7%), preparation (2.0%), miscellaneous (8.9%).
[3] Total percent may aggregate to more than 100% as participants choose more than 1 area.

**Panel B: Interviewee Demographic & Background (n=24)**

|  |  | Number | Percent |
|---|---|---|---|
| Job Title: | Partner or Equivalent | 11 | 45.80 |
|  | Manager | 8 | 33.40 |
|  | Supervisor and below | 5 | 20.80 |
|  |  |  |  |
| Gender: | Male | 14 | 58.30 |
|  | Female | 9 | 37.50 |
|  | Unanswered | 1 | 4.20 |
|  |  |  |  |
| Age (in years): | 25 – 34 | 12 | 50.00 |
|  | 34+ | 12 | 50.00 |

100% of participants are CPA and belong to two or more professional associations (including AICPA and state's CPA society).

**Panel C: Interviewee Experience (n=24)**

|  |  | Number | Percent |
|---|---|---|---|
| Audit Experience: | More than 10 years | 13 | 54.2 |
| (in years) | 7 to 10 years | 4 | 16.7 |
|  | 5 to 6 years | 2 | 8.3 |
|  | Less than 5 years | 5 | 20.8 |
|  |  |  |  |
| Current Firm | More than 10 years | 11 | 45.8 |
| Experience: | 7 to 10 years | 6 | 25.0 |
| (in years) | 5 to 6 years | 2 | 8.3 |
|  | Less than 5 years | 5 | 20.8 |

|  |  | **Number** | **Percent** |
|---|---|---|---|
| Industry Experience: | Employee-Benefit Plans | 19 | 79.2 |
|  | Not for Profit Entities | 16 | 66.6 |
|  | Health Care | 9 | 37.5 |
|  | Construction | 9 | 37.5 |
|  | Investment Companies | 9 | 37.5 |
|  | State and Local Governments | 8 | 33.3 |
|  | Broker-Dealer | 6 | 25.0 |
|  | Banking | 4 | 16.6 |

Total percent may aggregate to more than 100% as participants choose more than 1 area.

**Panel D: Audit Engagement Experience (n=23)***

|  |  | **Overall Experience** | **Primary Expertise** |
|---|---|---|---|
| Audit Experience: | Public | 50.0 | 33.3 |
| (in percent by type of | Private | 83.3 | 66.7 |
| entity) | Not for Profit | 58.3 | 33.3 |
|  | Government | 29.2 | 4.2 |
|  | International | 16.7 | 0 |
|  | Employee Benefit Plans | 79.2 | 25.0 |

*Total percent may aggregate to more than 100% as participants choose more than 1 area.

**APPENDIX A**

 **Interview Questions**

*Thank you for taking the time to meet with us. My name is _____ and I will lead the interview today. Also on the call is (are) my co-researcher(s) _____ and _____.*

*Before we start, we want to remind you that anything you say to us during this interview is anonymous and confidential. We do not know yours or your firm's true identity. Additionally, your responses will not be provided to your firm, there are no repercussions from speaking openly and objectively during this interview, and we hope you will.  All responses will be reported in the aggregate – no individual person will be named in the report.  Are you okay with this? Are you willing to participate in the study?*

**For the record, can you state your:**

*Participant ID: _____          and your Job Title/Level:_____*

***Definition of Tone at the Top (also referred to as "tone")*:** Borrowing from Reding et al. (2013), COSO 2013, and the AICPA QC10, we define Tone at the Top (Tone) as "entity wide attitudes of integrity and control consciousness," as exhibited by an audit firm's most senior executives that impacts the effectiveness of the firm's system of quality control and overall audit quality.  Generally, a firm's tone is set by upper management through a firm's policy and procedures, verbal and written communications, and direct actions.

## FIRM CULTURE AND LEADERSHIP

*Culture*
1. **How would you describe the "culture" of the firm (office) where you work?**
   a. How would you differentiate your firm's unique and identifiable culture from that of other firms?
   b. In what ways is the firm culture conveyed throughout the firm (office)? Is there evidence of (in) consistency in the culture?
   c. Does the firm culture encourage a different degree of professional behavior when auditors are at a client versus when they are in the office? How so? Provide an example or describe.

2. **In your opinion, what are the firm's core values?**
   a. In what ways do your personal attitudes/actions reflect these core values?

   b. How should/do the firm's core values translate to execution on an audit engagement?

3. **How is professional behavior modeled throughout the firm (e.g., attitude, competence, client interactions, and team interactions)?** Provide examples.
   a. How does your firm help staff develop their professional skills?
   b. Are auditors provided with practical solutions / implementations to address audit quality challenges?

4. **Does your firm celebrate and promote the accomplishments of individual leaders within the firm, or do they view these accomplishments as firm-level accomplishments?**

*Leadership*
5. **In what ways is your individual leadership style similar to, or different from, that of the firm's highest leaders? Example?**
   a. [nonleader] In what ways is your direct superior's leadership style similar to, or different from, that of the firm's highest leaders?

6. **Is there a code of ethics (formal or informal) that has been established by firm leadership?**
   a. What are the mechanisms to identify violations of the code? How are violations handled/addressed?

7. **Does leadership of the firm actively promote "out of the box" thinking among its employees?**

8. **How do you handle audit matter disagreements with your (i) superior (ii) junior (iii) firm?**
   a. Does the firm have an official policy for handling disagreements among employees? Do you know what it is? Example?

9. **[non-leader] Who are you most influenced by (e.g., peers, direct supervisor, audit partner)?**

## WORK ETHICS, ATTITUDES AND SOCIALIZATION

*Work ethic and Attitude*
10. **How would you describe the work-life balance at your firm?**
   a. Are time-off/personal time/flexible work arrangements often requested by staff?
   b. How does firm leadership view such requests? Encouraged? Frowned upon?

11. **[non-leader] Do you feel empowered by your superiors? Do you believe the degree of empowerment is dependent on demographic factors of the superior (or the staff) e.g., male vs. female, age, experience, educational / professional background?**

12. **How are auditors' performance evaluated (e.g., billable hours; what are other measures)?**
    a. Are there perceived / real performance pressures (or support) from superiors?
    b. How does the firm measure / evaluate audit effort?

13. **Describe the emphasis on time management within the firm. How does the firm address the tradeoffs between budgeted hours and audit quality?**
    a. Have you ever felt pressure to skip procedures due to time constraints?
    b. What happens if the engagement team goes significantly over the budgeted hours for the engagement?

*Socialization*
14. **How often does your firm sponsor social after-work events? Is attendance mandatory or optional?**
    a. Do you feel pressure (implicit or explicit) to attend these social gatherings?
    b. Provide an example(s) of when you did not attend. What were the consequences for not attending?

## COMMUNICATION EFFECTIVENESS

15. **What are the different audit quality related messages that are communicated throughout the firm? (e.g., leadership culture, importance of audit quality, professional standards, leadership accountability for a system of quality control).**

16. **How would you describe the style used to communicate leadership's expectations of auditor conduct (e.g., persuasive, informative, emphasis on positive or negative consequences if followed or not followed)?**

17. **How and through whom do firm leaders primarily communicate the firm's ethical expectations to you (e.g., written, in person, effects of technology, peers, upper level, regulators etc.)?**
    a. How often are these messages communicated?
    b. [Leader] Do the messages differ depending on who they are targeted towards within the firm?

18. **How does the firm communicate messages during various firm events?**
    a. New hire orientation; promotional (next level) orientation
    b. CPE Training sessions
    c. Engagement related meetings
    d. Specifically, convened meetings

19. **Is there formal, systematic communication of messages (e.g., audit quality policies and procedures) during the year (i.e., monthly or quarterly update or newsletter)?**

**20. What different approaches (if any) are used to communicate with employees of changing demographics (e.g., Millennial generation)? [10]**

      a.  Do you believe the new generation of auditors (Millennials) need to be communicated with differently than the prior generation of auditors? If so, what efforts have your firm made to explicitly meet the communication needs of Millennials?

**21. Describe the process in place for auditors to provide feedback on quality control or other tone/ethical messages?**

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[10] Millennials refer to the generation of individuals born about between 1980 to 2000 (New York Times: http://www.nytimes.com/2016/05/26/technology/corporate-america-chases-the-mythical-millennial.html?_r=0)