

A background image showing two people, a man with glasses and a beard, and a woman, looking at a large document together in an office setting. The image is partially covered by a blue diagonal overlay.

Audit Culture

A first inventory of the audit culture in a selection of PIE audit firms and the measures taken to create an internal culture that has a positive impact on the delivery of consistently high audit quality.

INSPECTIONS AND INVESTIGATIONS GROUP

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The Austrian Audit Oversight Authority (“APAB”) is an independent institution under public law that is not subject to directives and deals with the oversight of auditors and audit firms as well as the conditions under which they are entitled to conduct audits. It is also an administrative penal authority. The main legal bases are the APAG (Auditor Oversight Act) and the Regulation (EU) No. 537/2014 (Auditor Regulation, in short “AP-VO”).

The authority’s areas of responsibilities and powers include:

- ▶ Conducting inspections of statutory auditors and audit firms as well as cooperative auditing associations and the Sparkasse Auditing Association if they audit public interest entities (PIEs);
- ▶ Quality assurance of auditors and related reviews;
- ▶ Maintaining a public register of all statutory auditors and audit firms holding a valid certificate;
- ▶ Oversee the continuing education of statutory auditors;
- ▶ Conducting investigations on an ad hoc basis;
- ▶ Supervision of PIEs with regard to compliance with audit-related obligations if they are not already subject to supervision by the FMA;
- ▶ European and international cooperation with European and other international audit oversight bodies.

1. Executive Summary

1.1. Overview

In order to ensure a uniformly high level of audit quality, the auditing profession has over the years developed increasingly comprehensive auditing standards for conducting audits and ensuring an appropriate quality assurance system. In applying these auditing standards, the auditor has to make a large number of decisions based on professional judgement and a professional skepticism. However, this professional skepticism and the awareness that one's work is in the public interest cannot simply be imposed or ensured by detailed processes, regulations or laws. It is therefore important that audit firms create a quality environment in which high quality audit work is valued and rewarded and in which the importance of "doing the right thing" in the public interest is emphasised. Auditors must see it as their duty to meet the needs of the users of financial statements, not the management of the audited entities, and they must internalise that they are bound by legitimate public expectations.

Therefore, in its work programmes for 2020/2021, the APAB identified the review of the quality environment of the inspected audit firms as an inspection priority.

As the authority responsible for the oversight of auditors in Austria, we use a variety of means at our disposal to support improvements in audit quality. These range from conducting inspections and investigations (including our enforcement power to hold auditors accountable when audit deficiencies have occurred) to conducting thematic surveys (such as this one) to compare and make transparent the activities of different audit firms.

This report presents a snapshot of the actions taken by a sample of PIE audit firms in designing, implementing and monitoring a culture that can help achieve consistently high audit quality. The findings are based on a wide range of information, in particular a review of the documentation provided by the audit firms, a number of interviews with management and other responsible parties, and a survey of the staff of the audit firms.

From the findings of our survey, we identified several approaches to designing, implementing and monitoring a desired culture that we considered either innovative or particularly appropriate. We also identified key areas where audit firms should pay particular attention.

The APAB expects both the audit firms included in this survey and all other audit firms to continue and expand the actions they have taken to date to further improve the design, implementation and monitoring of their audit culture. As part of our role as oversight authority and our ambition to contribute to the improvement of audit quality, we will conduct further or regular surveys on audit culture. This will also serve to stimulate a debate on audit culture and its link to audit quality.

1.2. Key findings

The table below summarises the main findings of our survey. As explained in more detail in section 2, the APAB based its survey on a model according to which a quality-oriented culture consists of 3 different dimensions, namely the “design of the quality-oriented culture of the audit firm”, the “implementation measures of the quality-oriented culture of the audit firm” and the “monitoring of the quality-oriented culture of the audit firm”.

The detailed description of these and other findings can be found in section 3.

Summary of our findings

Dimension Design

All five audit firms developed mission statements, values and promoted behaviours, although at one audit firm the development process was only completed just before the survey date. Therefore, the mission statement, values and promoted behaviours had not yet been communicated and trained across the board in this firm. In the other audit firms, the efforts of the audit firms to make their values and promoted behaviours known were quite successful. Almost all employees (about 94% of all respondents) are aware that their audit firm has defined a mission statement, and just as many employees know the mission statement of their employer at least in broad outline.

Mission statements, values and promoted behaviours were developed by all networks included in the study at the level of the whole company and not at the level of the audit firm. As a result, audit-specific values such as objectivity, independence and professional skepticism are mostly not specifically included in the mission statements. However, all the companies studied have a value of “acting with integrity” or “doing the right thing”, under which the above-mentioned audit-specific values can ultimately be subsumed.

From a survey of the staff of the audit firms it is evident that they are aware that a high-quality audit brings a benefit to society by contributing to the proper functioning of the markets. The employees therefore recognise the purpose of their work. Staff satisfaction with the way in which audit firms contribute to society through their audit work is also quite high. However, it is noticeable that one audit firm clearly stands out positively from the others. This audit firm also stands out positively from the others on a number of issues related to the measures implemented by the audit firms to promote a quality-oriented culture, which may also help to increase staff satisfaction in this context.

Dimension Implementation

All audit firms use a range of communication channels to communicate that the audit firm’s management team places a particularly high value on audit quality and critical thinking. The efforts of the audit

firms seem to be effective, as about 95% of all interviewed staff fully or partially agreed with the statement *“Top management consistently emphasises the central importance of professional skepticism and high audit quality in its internal communication”*. The agreement of the employees surveyed with the statement that they are encouraged by their superiors to critically question audit evidence is also very high, as 93% can fully or partially agree here. In addition, the survey revealed that 96% of staff at manager level and above were aware of initiatives by their audit firms to improve audit quality.

The tone at the top of the audit firms is thus consistently conducive to a quality-oriented culture.

The respondents' agreement with the statement *“I am encouraged by my superiors to perform different audit procedures in successive years”* is lower. Only 74% of respondents fully or partially agreed with this statement. For the audit firm with the lowest level of agreement, only 19% of respondents could fully agree with this statement.

A total of 33% of respondents were able to fully agree with the statement *“The partners in my area are heavily involved in audit execution”*. These results are consistent with the findings of the APAB in its inspections. In a number of inspections, the APAB found that the involvement of the auditors in charge of the engagement was too low. This also applies to the involvement of the engagement quality control reviewers accompanying the engagement.

With regard to the incentives for and the recognition of high-quality audit services, 69% of the respondents (around 34% fully, around 35% partially) agreed with the statement that the incentives set by their employer to promote high-quality audits motivate them to strive for high quality in their audit services. The respondents' agreement is somewhat higher as to whether their managers show recognition for the provision of high audit quality, as around 79% of the respondents could fully (43%) or partially (35%) agree with this statement. However, only 27% of the respondents at the audit firm with the lowest level of agreement fully agreed with the statement.

The APAB also found that the results on whether managers show appreciation for delivering high quality audits correlate very strongly with the results on whether respondents' colleagues are committed to delivering high quality audits. It is therefore reasonable to conclude that showing appreciation for high audit quality has a significant impact on the audit quality delivered by the audit firm.

From the APAB's perspective, it is evident that audit firms are looking for ways to incentivise the delivery of high audit quality. For example, two audit firms provide other financial or non-financial incentives to staff in addition to the traditional appraisal process to encourage high quality audit work. These incentives range from awards and announcements to special bonuses. Two audit firms have already

developed audit quality indicators (AQIs), which are also used in the appraisal, remuneration and promotion of staff, in order to take greater account of quality aspects in staff appraisals.

With regard to the incentives for partners to provide high audit quality, the APAB found that criteria related to quality are used in the partner assessments of all audit firms. In three out of five audit firms, at least 50% of the criteria used to assess partners were related to quality. The most frequent criteria used by the audit firms for the assessment, remuneration and promotion of partners are results from internal and external reviews, compliance with archiving requirements, compliance with requirements in connection with continuous professional education and independence. We also consider the measures of those audit firms to be particularly useful where, among other things, the time involvement of the partners in the context of the engagement is taken as a criterion. This could help to strengthen the rather low involvement of the partners in the performance of the audit.

The inspection of a sample of partner assessments showed that four out of five audit firms implemented a process that provides for a standardised, written assessment and makes the results understandable. However, in one audit company the assessments are only carried out orally and can therefore not be fully comprehended. Based on the quality-related criteria defined by the audit firms, appropriate measures were taken in cases where poor or particularly good performance was identified (e.g. warning, reduction of the variable salary component, withdrawal of initial responsibility for audit mandates; bonuses, promotion to higher partner rank, etc.).

All five audit firms established a sanctions regime that provides for appropriate sanctions in connection with identified quality deficiencies.

Dimension Monitoring

Although the misconduct reporting bodies set up by audit firms are widely known in all audit firms (94% of staff said they were aware of these bodies), some audit firms make little or no use of them. In three of the audited companies there were no reports at all in the last 3 years; on the other hand, another audit company set up a low-threshold internal complaints facility (a complaints tool integrated into the intranet), through which 12 reports were received during the inspection period, which were subsequently followed up appropriately. It also seems to be important in which form the employees can voice their complaints and accusations.

While in the survey 63% of the employees at manager level or above fully agreed with the statement that they would not have to fear any consequences if they found misconduct and reported it, only 40% of the employees below the manager level fully agreed with this state-

ment. It therefore seems sensible for audit firms to look for ways to reassure staff below managerial level that they will not have to fear personal consequences if they report misconduct.

All audit firms carry out root cause analyses, which serve to record errors, determine their causes and subsequently derive measures that contribute to reducing errors in the future. In four of the five audit firms investigated, the involvement of top management in the root cause analysis is at least partially evident, whereas this is only done insufficiently in one audit firm. While four audit firms have guidelines/policies describing how necessary root cause analyses based on results from internal and external reviews (e.g. quality assurance reviews or inspections) are to be carried out, one audit firm has no specific regulations on root cause analyses based on deficiencies identified in external reviews.

At one audit firm, the documentation of all root cause analyses concerning internal and external findings is carried out according to the same principles and at a central location; this is not the case at the four other audit firms.

2. Basics

2.1. Regarding inspections by the APAB

Pursuant to Article 43 of the Auditor Oversight Act (APAG), auditors and audit firms are required to undergo an inspection by the Austrian Audit Oversight Authority (APAB) pursuant to Article 26 of Regulation (EU) No. 537/2014 if they perform statutory audits of public interest entities (PIEs) pursuant to Article 2 (9) APAG.

The objective of such an inspection is to monitor and promote the continuous improvement of audit quality. An inspection covers the appropriateness and effectiveness of all set regulations for quality assurance of the audit operation that are related to audits of financial statements. When conducting inspections, the APAB observes the provisions of the Auditor Oversight Act (APAG), the directives and regulations issued in this regard as well as the Common Audit Inspection Methodology (CAIM) of the Inspections Working Group of the Committee of European Auditing Oversight Bodies (CEAOB). When inspecting the engagement management system, the professional and legal regulations relevant to the audit, in particular the International Standards on Auditing (ISA) as well as the professional opinions of the Chamber of Tax Advisors and Certified Public Accountants (KSW) in the version applicable at the time of the inspected audits, are used to evaluate the audit engagements.

According to Article 5 (1) of the Ordinance of the Chamber of Tax Advisors and Certified Public Accountants on the Performance of Auditing Activities (KSW-PRL), an essential part of the quality assurance system of audit firms is that a quality environment is maintained that attaches decisive importance to the high quality of professional practice as well as compliance with statutory provisions and professional regulations. The APAB is also of the opinion that the provision of consistently high audit quality does not come about by itself, but that it is necessary that a culture prevails in audit firms and that values are lived which place the application of a professional skepticism and the constant achievement of high audit quality — above all other considerations — in the foreground. Therefore, in its work programme for 2020/2021, the APAB identified the review of the quality environment of inspected audit firms as an inspection priority.

2.2. Culture and audit quality

The requirement for companies to be audited by independent auditors was introduced to increase the confidence of users of financial statements that the audited financial statements comply with the law and present a true and fair view of the company's assets, liabilities, financial position and financial performance. This is fundamental to our economic

system as a whole, as audited financial statements are intended to enable users to make informed economic decisions.

A wide range of persons and firms rely on the quality of the auditors' work. In this sense, auditors are not only service providers for the audited company, but also work in the public interest.

In order to enable a uniformly high audit quality, the auditing profession has over the years developed increasingly comprehensive auditing standards for conducting audits and ensuring an appropriate quality assurance system.

The audit of financial statements is carried out by people who have to perform the numerous actions prescribed in the auditing standards and make decisions in the process. The auditing standards stipulate that the auditors must make these decisions according to their professional judgement and by applying a professional skepticism. This is a fundamental requirement for a high quality audit. Without probing questions, without a questioning attitude, the audit becomes a mere courtesy audit, which ultimately only aims at confirming the audited financial statements. Such an activity does not provide any economic added value and brings the audit as a whole into disrepute.

In order to be able to fulfil the auditors' responsibility towards the public and to enable this professional skepticism, auditors are bound by high ethical standards, such as the general professional principles of independence, impartiality and avoidance of bias. In addition, there are numerous detailed legal provisions to ensure the auditor's independence from the audited entity.

However, the professional skepticism and the awareness of acting in the public interest with one's own activity cannot merely be decreed or ensured by detailed processes, regulations or laws. Moreover, the audit is by its very nature judgmental and based on human decisions and actions. There are myriad factors that influence the environment in which auditors make decisions and act. Tensions can arise between these factors and auditors are constantly faced with competing priorities. It is therefore important that audit firms create a quality environment where high quality audit work is valued and rewarded and where the importance of "doing the right thing" in the public interest is emphasised. Auditors must see it as their duty to meet the needs of the users of financial statements, not the management of the audited entities, and they must internalise that they are bound by legitimate public expectations.

Creating a culture that promotes the delivery of consistently high audit quality requires more than professional skepticism and a proper understanding of the importance of one's role. A quality-oriented culture will sometimes only be possible if the audit firm's incentive system for its staff does not contradict this. If, for example, the assessment or bonus of staff or partners is based exclusively on short-term profit contributions, this will not be conducive to a quality-oriented audit culture.

Statutory audits are conducted by people, and people make mistakes. It is important to learn from these mistakes. However, this is only possible if a culture prevails in the audit firm that ensures that, in the event that errors are identified, their causes are identified and measures are derived to prevent the occurrence of these errors in the future.

Due to the importance of a quality-oriented culture in the audit firm, the APAB conducted a survey of efforts to promote such a culture in a sample of five PIE audit firms during its inspections in 2020/2021.

2.3. Objectives of the survey

Inspection focal points are part of the APAB's annual programme and are deliberately designed to take an in-depth look at selected elements of audit firms' quality assurance systems or the statutory audits they conduct.

Both the Ordinance of the Chamber of Tax Advisors and Auditors on the Performance of Auditing Activities (KSW-PRL) applicable in Austria and the International Standard on Quality Control (ISQC 1) emphasise the importance of a culture in the audit firm. Article 5 (1) of the KSW-PRL states: *"A quality environment must be maintained in the audit firm that places critical importance on a high quality of professional practice and compliance with legal requirements and professional regulations."* ISQC 1.18 states: *"The practice shall establish policies and procedures to promote an internal culture that recognises that quality is essential in the performance of the engagement"*.

The objective of this inspection focus was to take stock of the audit culture at PIE audit firms in Austria, to gain an understanding and to make transparent what measures the audit firms are currently taking to establish, promote and embed such a culture. This survey is intended to serve as a stimulus for smaller and medium-sized audit firms that do not audit PIEs but want to work towards establishing a quality-oriented audit culture in a structured manner.

Furthermore, by comparing and contrasting the measures taken by the audit firms included in the survey, they should be encouraged to do more to improve in those areas where they are lagging behind their peers. To this end, individualised reports were prepared for the audit firms included in the survey, from which they could see where they stood in comparison to the other audit firms.

This thematic survey is not an attempt to establish a specific target culture based on APAB expectations, as APAB believes that there is no single culture to which all audit firms should aspire. In addition, it is clear to us that audit firms have embedded aspects of their culture that are different. We consider these differences to be quite desirable as they can create a sense of competition and differentiation in the audit market.

This report has been prepared to assist audit firms in both developing and improving their activities to establish a culture capable of ensuring the delivery of consistently high quality audits. In addition, this report is intended to stimulate discussions around audit culture with all stakeholders.

2.4. Scope and evidence base

The scope of this thematic survey is a sample of 5 Austrian PIE audit firms.

The APAB based its survey on a model according to which a quality-oriented culture consists of 3 different dimensions, namely the "design of the quality-oriented culture of the audit firm", the "implementation measures of the quality-oriented culture of the audit firm" and the "monitoring of the quality-oriented culture of the audit firm". These 3 dimensions have been further subdivided into subsections as shown in the figure below:

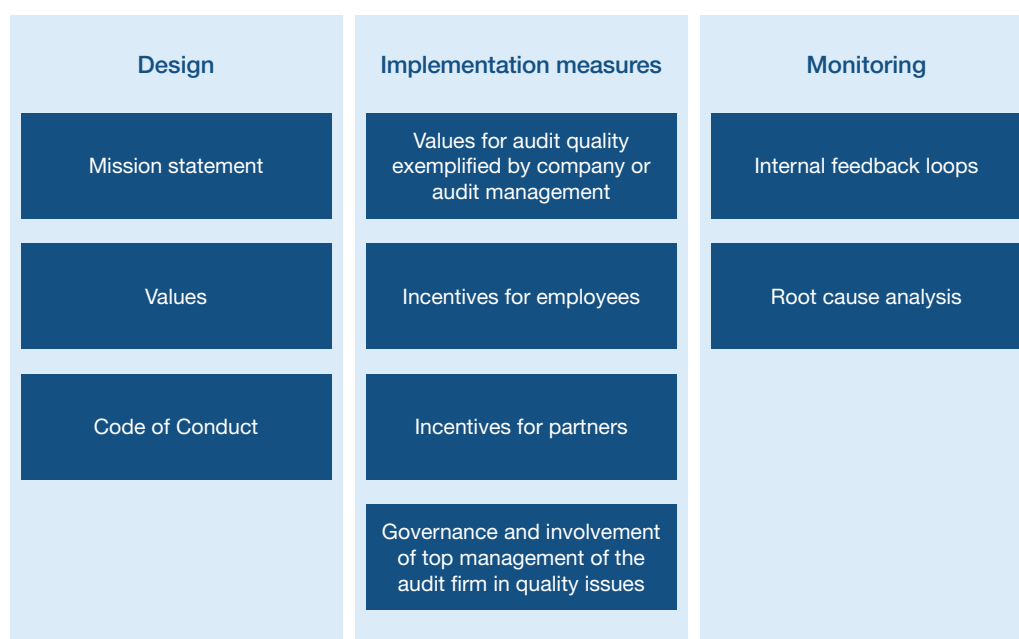


Fig. 1: Dimensions of a quality-oriented culture

Each of these subsections represents an important aspect of the audit firm's culture and has a potential impact on the quality of audit services provided. For each sub-section, the APAB defined expectations, the degree to which they were met was determined based on evidence from the following sources:

- ▶ Documents, both internal and publicly available;
- ▶ Discussions with partners and staff of the audit firms on relevant quality assurance system issues;
- ▶ Discussions with the heads of the audit firm, if applicable also with the heads of the audit department;
- ▶ Written anonymous survey of all staff members of the audit firms, divided into 2 groups (staff members below manager level and staff at manager level and above — except partners).

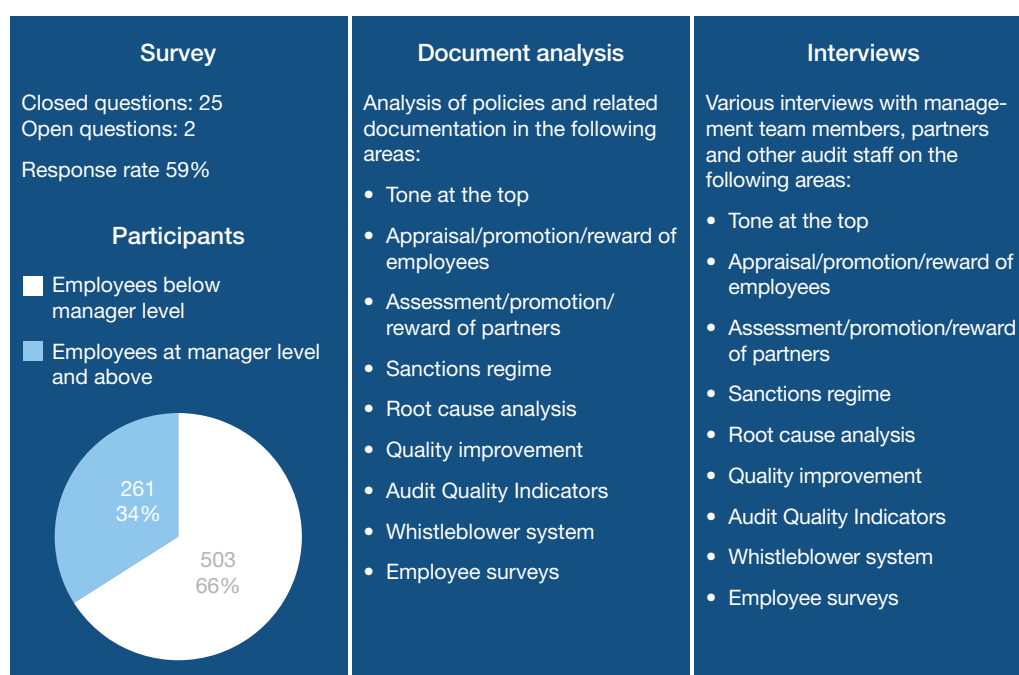


Fig. 2: Survey approach

Within the framework of the evaluation of the questionnaires, both the results of the different audit firms and the distribution of the answers between employees below manager level and at manager level and above (excluding partners) were examined.¹ The results of this investigation are presented in the following section.

1 The Wilcoxon Rank-sum Test (= Mann-Whitney U-Test) was used to assess whether differences between the different audit firms were statistically significant. A p-value at a confidence level of 95% was used to determine whether there were statistically significant differences in the answers between the audit firms and between employees below manager level and at manager level and above.

3. Results

3.1. Introduction

The following section provides an overview of the results of the review of the three dimensions of quality-oriented culture, namely the design of the quality-oriented culture of the audit firm, the implementation measures of the quality-oriented culture of the audit firm and the monitoring of the quality-oriented culture of the audit firm.

3.2. Dimension 1: Design of the quality-oriented culture

The first dimension of the quality-oriented culture model used by APAB is the design of the company culture. For this purpose, the existing mission statements, values and codes of conduct of the audit firms were examined and analysed.

Mission statements, values and codes of conduct are an important building block of company culture. While clear rules and sanctions also have their place, values based on internal company principles can be considered more enduring. The established values should be linked to a set of promoted behaviours that are relevant to audit firms and their staff.

Guiding principles, values and promoted behaviours

Our survey showed that all five audit firms had a defined mission statement, values and promoted behaviours at the time of the survey, with four audit firms having evidence of communicating these to their staff. One audit firm only completed a process for defining values and promoted behaviours shortly before the time of the survey and was therefore only able to start communicating them after the time of the survey.

In all 5 audit companies, the values were developed for the entire multidisciplinary company. The value “acting with integrity” or “doing the right thing” is found in the core values of all five audit firms. Only one audit firm included another audit-specific value regarding objectivity and independence as an independent value in the company-wide mission statement and did not subsume it under the value “acting with integrity”.

Four of the five audit firms were able to prove that their values or the promoted behaviour are communicated to the employees through a whole range of measures, while at one audit firm the communication of the defined values and promoted behaviours was only imminent at the time of the survey. In all four cases, all new staff members are trained in the values and promoted behaviours of the audit firm, whereby in one case the contents are developed in a playful manner through group work and role plays. In addition, staff members are informed through regular information letters or blog and intranet articles. One auditing company should be highlighted, where a confirmation of knowledge of the content of the Code of Conduct must also be provided as part of the annual declarations of independence.

All audit firms defined “acting with integrity”, “doing the right thing” or the like as a value.

Almost all staff members (94%) stated that they were at least roughly familiar with the mission statement of the audit firm.

The survey of the staff shows that the efforts of the audit firms to make their values and their promoted practices known were quite successful: Almost all employees (around 94% of all respondents) are aware that their audit firm has defined a mission statement, and just as many employees — as can be seen in **Fig. 3** — know the mission statement of their employer at least in broad outline. As was to be expected and as can also be seen in **Fig. 3**, employees at manager level and above are more often aware of their employer's mission statement than employees below manager level:

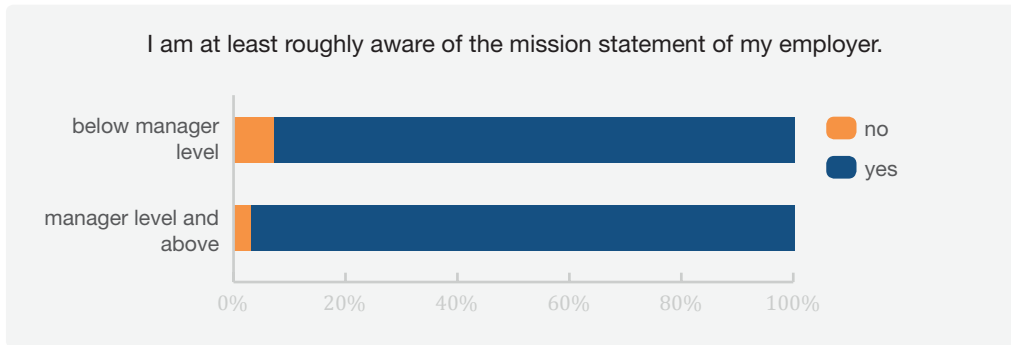


Fig. 3: Awareness of the content of company mission statements

From APAB's perspective, it is important that employees of audit firms are aware that they perform their work in the public interest and that a high quality audit is of great benefit to society. Fortunately, in the staff survey, about 98% of respondents agreed or strongly agreed that a high quality audit provides a benefit to society by contributing to the proper functioning of markets. Employees therefore recognise the purpose of their work.

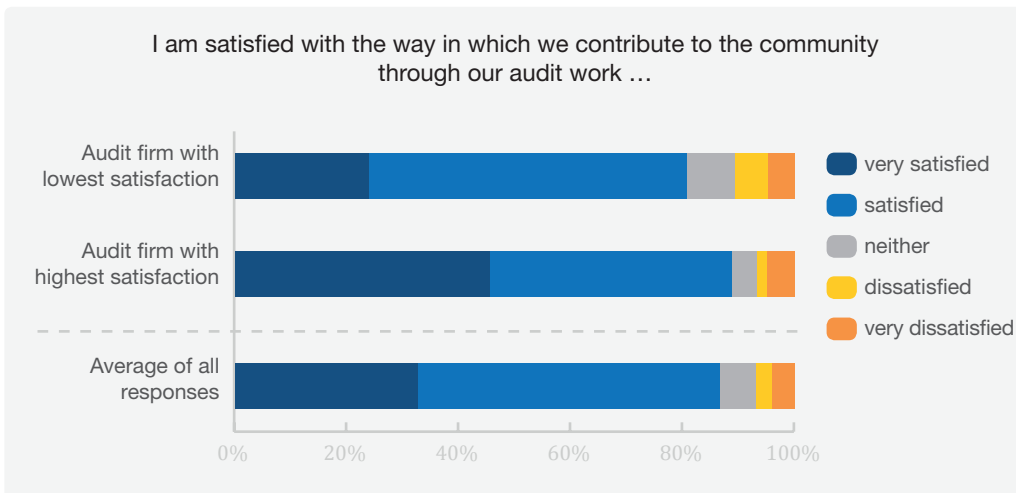


Fig. 4: Satisfaction with audit work in terms of contribution to society

In addition, the survey asked staff to what extent they feel satisfied with the way in which their audit firm contributes to the community through its audit activities. Overall staff satisfaction is quite high, with 86% of all respondents indicating that they were either satisfied or very satisfied, although only about 33% of respondents indicated that they were very satisfied. It is also striking that there are clear differences between the audit companies (see **Fig. 4**). While 46% of the respondents at the audit firm with the highest level of satisfaction are very satisfied, only 24% of the respondents at the audit firm with the lowest level of satisfaction are very satisfied. The audit firm with the highest score on this question also performs statistically significantly better than all other audit firms. This audit firm also stands out positively from the others on a number of questions related to the measures that

Overall, staff satisfaction with the way in which their employers contribute to society through their audit work is quite high; however, there are significant differences between audit firms.

the audit firms have implemented to promote a quality-oriented culture, which may also help to increase staff satisfaction in this context.

3.3. Dimension 2: Implementation measures of the quality-oriented culture

An appropriate design of a quality-oriented culture is important, but not sufficient in itself. In order to have a positive impact on staff behaviour, the values of an audit firm need to be embedded in regular activities.

In the second dimension, the implementation measures of the audit firms were therefore surveyed and the values on audit quality exemplified by the company or audit management, the incentives for staff and partners as well as the governance and involvement of the top management of the audit firms with regard to quality issues were analysed.

3.3.1. Values of audit quality exemplified by firm and audit management (Tone at the Top)

All audit firms use a range of communication channels to convey that the audit firm's management team places a particularly high value on audit quality and professional skepticism. Mail correspondence, training and regular meetings are particularly common and used by all audit firms. The efforts of the audit firms seem to be effective, as about 95% of all employees surveyed fully or rather agree with the statement *"Top management consistently emphasises the central importance of professional skepticism and high audit quality in its internal communication"*, whereby there is a statistically significant difference in the distribution of answers between employees below the manager level as well as manager level and above, according to which the agreement is higher among employees at and above the manager level. In addition, agreement is statistically significantly higher at one audit firm than at all other audit firms. The distribution of agreement with the above statement can be seen in **Fig. 5**.

Almost all employees (95%) stated that the top management of the respective firms consistently emphasises the central importance of audit quality in their internal communication.

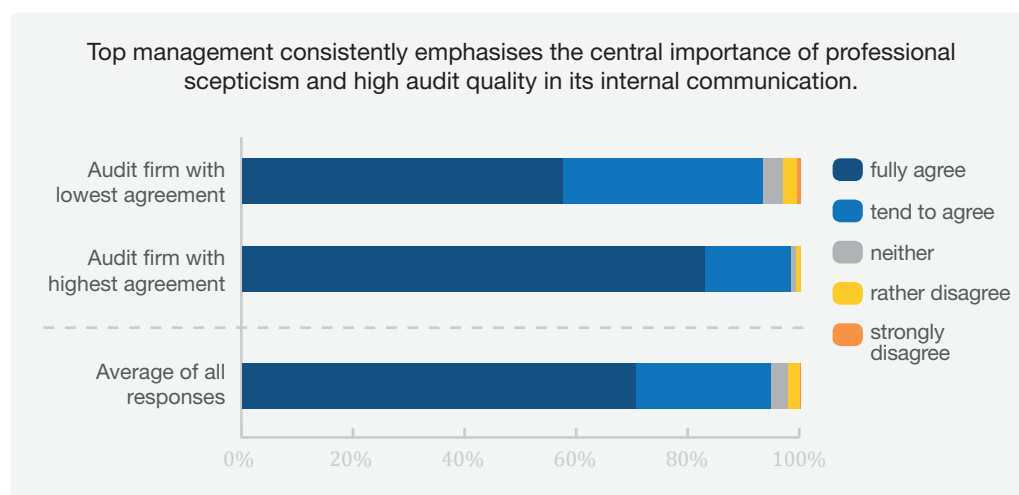


Fig. 5: Communication of professional skepticism and high audit quality

We also asked to what extent the staff of the audit firms perceive that the partners are heavily involved in the audit process. Overall, only 33% of respondents fully agree with the statement *"The partners in my area are heavily involved in the audit process"*. In addition, about 40% somewhat agree with the statement. It is also noticeable — as can be seen in **Figure 6** — that there are again quite clear differences between the individual audit firms. While only 26% of the respondents at the audit firm with the lowest level of agreement fully agree with the statement, 39% of the respondents at the audit firm with the highest level

Only 33% of the respondents stated that the partners in their area are strongly involved in the audit performance.

of agreement fully agree with the statement, which is 50% more than at the audit firm with the lowest level of agreement. The results of the survey are in line with the findings of the APAB in its inspections. In a number of inspections, the APAB found that the involvement of the auditors in charge of the engagement was too low. It should also be noted that there is a statistically significant difference in the distribution of responses between staff below the managerial level and manager level or above. While only 27% of the employees below manager level fully agreed with the statement, 44% of the employees at or above manager level fully agreed with the statement. Presumably, staff at the managerial level and above have a better insight into the activities of the partners, while staff below the managerial level are in many cases mainly guided and supervised by the audit manager.

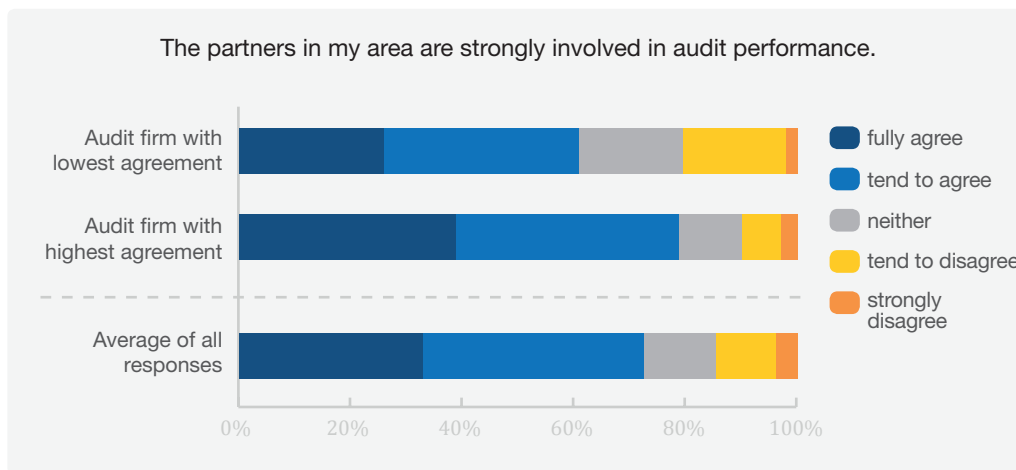


Fig. 6: Involvement of partners in the audit process

Therefore, the staff members below the manager level were asked whether the audit managers in their area ensure the provision of high audit quality through their behaviour. 90% of the respondents were of the opinion that this statement is true, with 49% of the respondents fully agreeing with the statement and 41% partially agreeing with it. Here, too, there is a very wide spread of answers depending on the audit firm. While 59% of the respondents at the audit firm with the highest level of agreement fully agree with the statement, only 34% of the respondents at the audit firm with the lowest level of agreement agree.

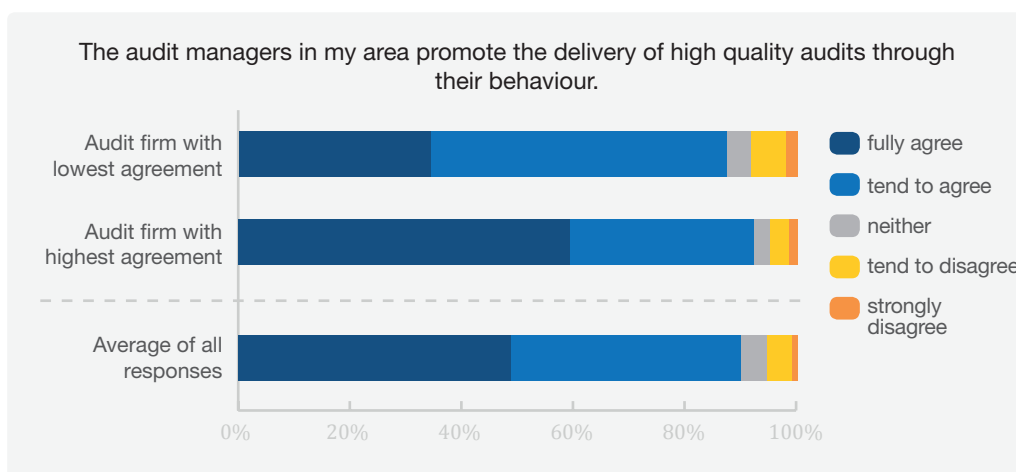


Fig. 7: Promotion of audit quality by audit managers

The agreement of the respondents to the statement *“Professional skepticism is exemplified by my superiors throughout all phases of the audit”* is high. A total of 92% of the respondents fully or somewhat agreed with this statement, whereby the differences between the audit firms are also considerable here, because while 68% of the respondents in the audit firm with the highest level of agreement fully agreed with the statement, only 48% in the audit firm with the lowest level of agreement did so.

A high proportion of respondents (92%) felt that their supervisors exemplified professional skepticism.

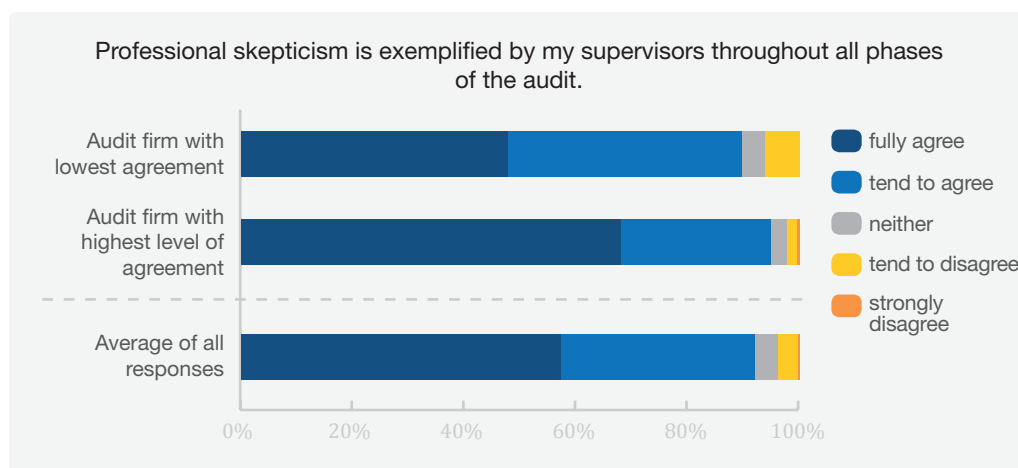


Fig. 8: Supervisors' role models regarding professional skepticism

We also surveyed the extent to which staff at the audit firms believe that they are encouraged by their supervisors to critically question audit evidence, with around 93% of all respondents agreeing or strongly agreeing with this statement (see **Figure 9**).

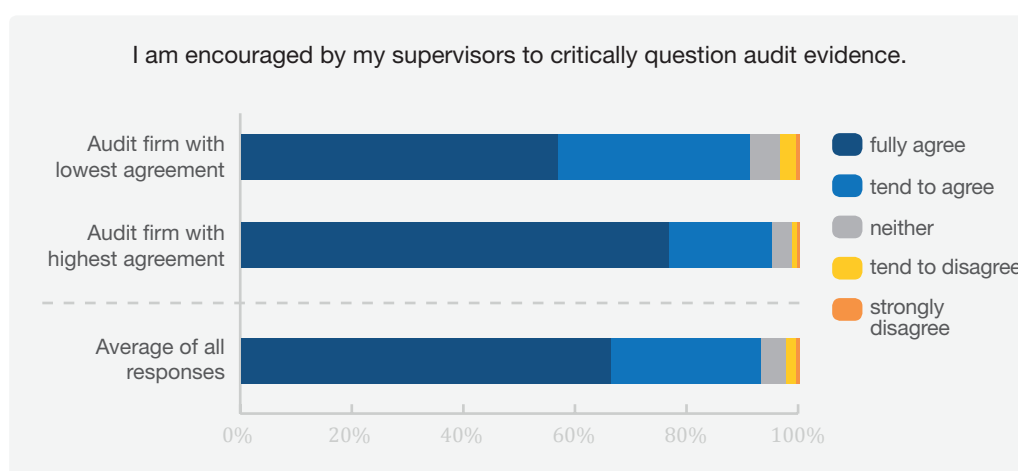


Fig. 9: Encouraging critical questioning of audit evidence

In contrast, as can be seen in **Figure 10**, significantly fewer respondents, namely around 74% of all respondents, fully (33%) or partially (41%) agree with the statement *“I am encouraged by my supervisors to perform different audit procedures in consecutive years”*. It is noticeable that relatively few of the respondents can fully agree: even at the relatively best audit firm, which is also statistically significantly better than all other audit firms, less than half of the staff fully agree with the statement, and at the audit firm with the lowest level of agreement, only 19% of the respondents can fully agree with the statement. From APAB's point of view, it would therefore be desirable if the audit firms made greater efforts to motivate their staff not to perform the same audit procedures every year. This would ensure that the audit work also contains elements of surprise with regard to the type, timing and

33% of respondents fully agree with the statement that they are encouraged by their supervisors to perform different audit procedures in consecutive years.

scope of the audit procedures to be carried out. This inclusion of a surprise element is also a requirement of the auditing standards² and serves, among other things, to detect fraudulent activities.

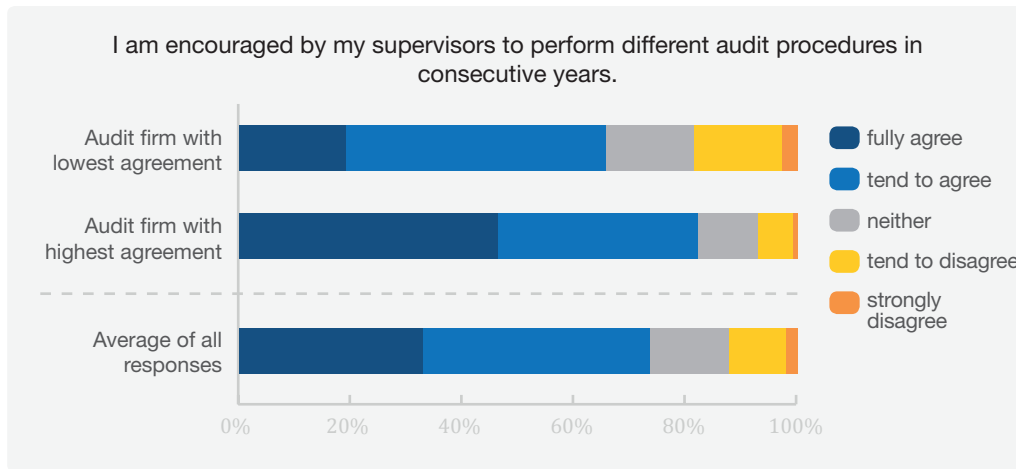


Fig. 9: Encouragement to take different audit procedures

Staff at manager level and above were asked whether they perceived initiatives to increase audit quality in the last 3 years. Fortunately, 96% of the respondents stated that this had been the case. This is also consistent with the APAB's findings from its inspections, which indicate that all audit firms are currently working hard to improve their quality assurance systems.

96% of staff at manager level and above perceived initiatives by their audit firms to increase audit quality.

3.3.2. Staff incentives

There was a lower level of agreement among respondents (around 34% fully, around 35% partially) to the statement that the incentives provided by their employer to promote high quality audits motivate them to strive for high quality in their audit performance. However, one audit firm shows significantly higher agreement values compared to the other audit firms, because 44% of the employees of this audit firm could fully agree with the statement, while 34% of the respondents could do so on average. In contrast, only 29% of the staff at the relatively worst audit firm fully agreed with the statement. All in all, this result should be taken as an opportunity by the audit firms to evaluate how it is possible to incentivise employees for the performance of high-quality audits.

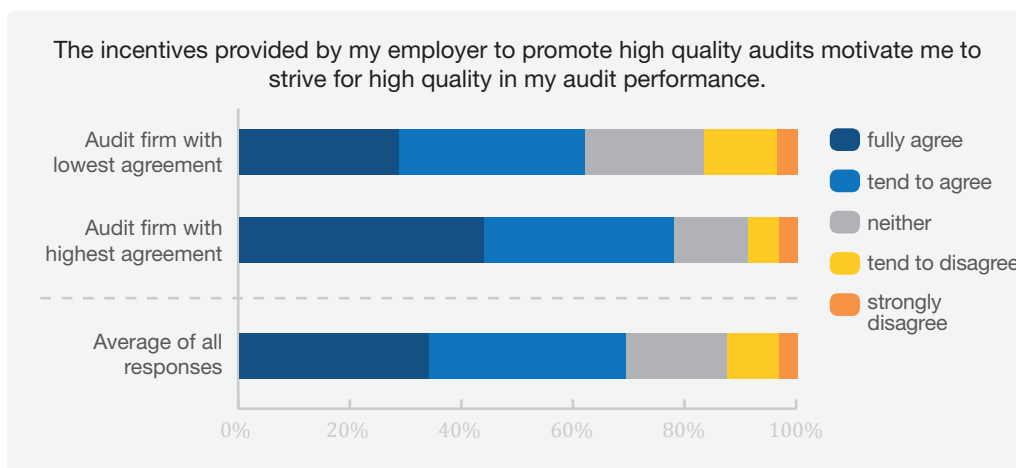


Fig. 11: Incentives to promote high quality audit performance

² ISA 240 in particular, but also ISA 330 and ISA 600.

The analysis of the audit firms' policies on appraisal, remuneration and promotion of their staff and the inspection of a sample of staff appraisals showed that all five audit firms provide for and carry out standardised and documented appraisals and promotions of their staff. At three audit firms, audit quality indicators (AQIs) are currently being developed at the global level, but these have not yet been used in the Austrian audit firms. Two audit firms have already implemented AQIs, which are also used in the context of appraisal, remuneration and promotion of staff. Particularly noteworthy in this context is one audit firm that developed a business intelligence tool for the evaluation of AQIs, which draws relevant information from a wide range of systems and processes it. Indicators that are directly related to the values and behaviours of the audit firms are only used to a limited extent in all audit firms.

In three audit firms, at least 50% of the criteria that flow into the assessment of the employees have a quality reference, whereby in this regard, the compliance with external and internal requirements regarding continuous education, results from internal and external reviews as well as results from assignment-related assessments were named by the audit firms. Such mission-related assessments are mandatory in four out of five audit firms, although these are only actually included in the assessment of staff in three audit firms.

A quarter of all respondents neither agree, tend to disagree or strongly disagree with the statement *"The quality of the work performed in audit engagements plays a significant role in the evaluation and promotion of staff"*, although there is no statistically significant difference in the distribution of responses between staff below manager level and manager level or above in this area. From the point of view of the APAB, it is striking that in the case of the audit company with the lowest level of agreement, only 23% could fully agree with this statement.

25% of respondents could not agree with the statement that the quality of work done on audit engagements plays a significant role in the appraisal or promotion of staff.

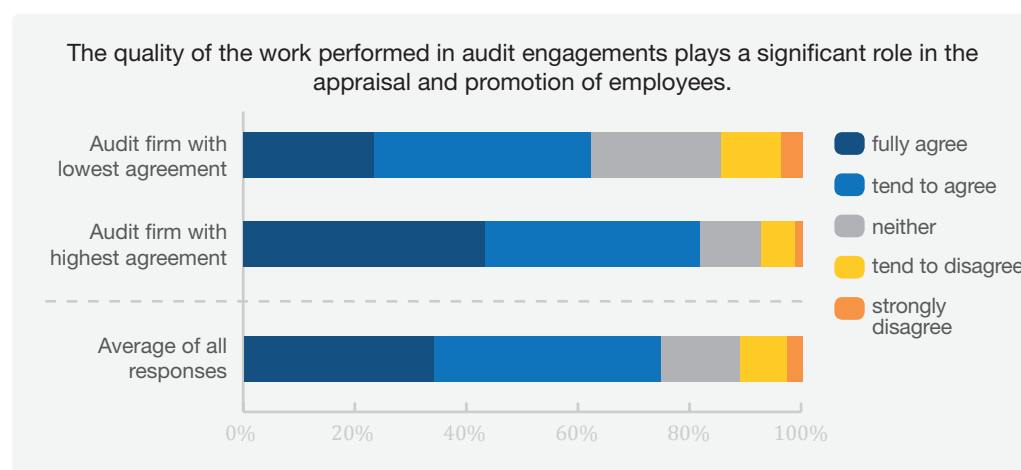


Fig. 12: Role of quality of work in appraisal and promotion

In two audit firms, in addition to the traditional appraisal process, other financial or non-financial incentives are provided to staff to encourage high quality audit work. These incentives range from awards to special bonuses to announcements. We consider such incentives to be particularly positive because they contribute to the fact that quality aspects are not only considered in the corporate culture as a compliance task, the non-fulfilment of which is sanctioned, but that quality also has a positive connotation and can be seen as an opportunity to excel and shine.

In this respect, about 79% of the respondents agree or strongly agree that their managers show appreciation for the provision of high audit quality, whereby no significant difference in the distribution of answers between employees below the manager level and at manager level and above can be ascertained.

It is also evident in this question that there are again considerable differences between the audit firms. For example, while 54% of the respondents at the relatively best audit firm can fully agree with the statement, only 27% of the respondents at the audit firm with the lowest level of agreement can fully agree with the statement, which, in the view of the APAB, should be a trigger for a reflection process among the responsible managers. This is especially true in light of the fact that — as can be seen in **Figures 13** and **14** below — the results on the question of whether managers show appreciation for providing high audit quality correlate very strongly with the results on the question of whether the respondents' colleagues are committed to providing high audit quality.

At the lowest agreeing audit firm, only 27% of staff can fully agree with the statement that their managers show appreciation for delivering high audit quality.

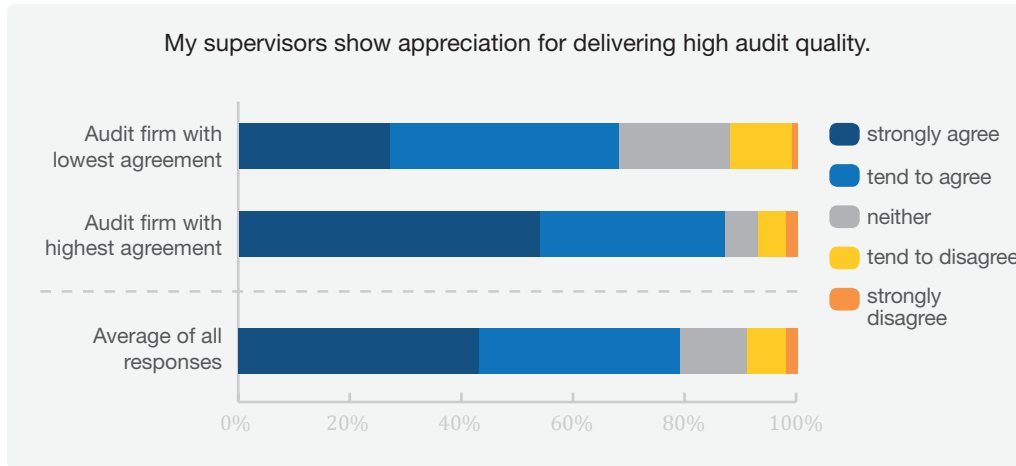


Fig. 13: Management recognition for quality

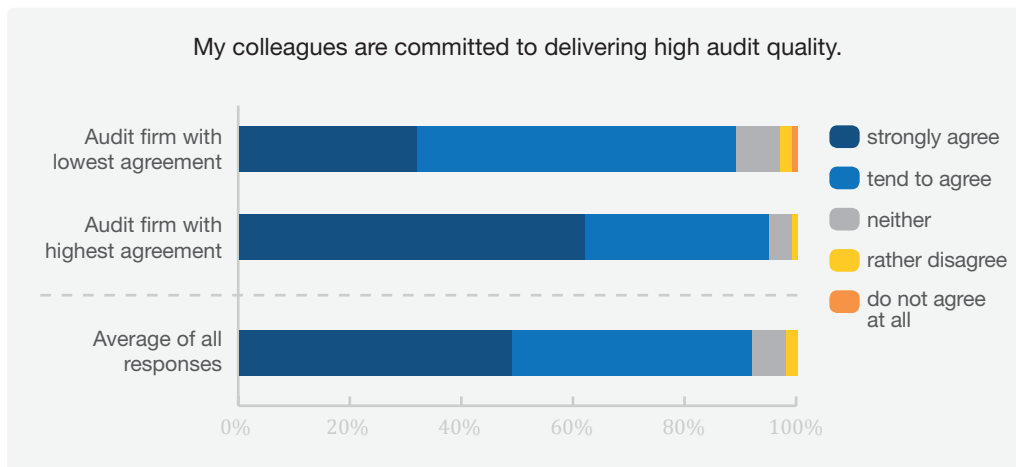


Fig. 14: Colleagues' commitment to audit quality

Encouragingly, 95% of staff (60% strongly agree, 35% somewhat agree) at the manager level and above stated that they had been able to improve audit quality in their area over the last 3 years through various measures (e.g. training, work aids, etc.), although there are differences between audit firms here too. For example, in the audit firm with the lowest level of agreement, only 48% of the respondents fully agree with the statement, while in the audit firm with the highest level of agreement this is the case for 71%.

Employees below the manager level were asked whether they receive adequate on-the-job training to improve their performance and audit quality. Overall, the level of agreement is quite high, with 87% of respondents agreeing partially (38%) or fully (49%) with the statement. While the level of agreement is quite high across all audit firms, there are differences in the level of agreement, as with most of the previous questions.

While 66% of the respondents at the audit firm with the highest level of agreement fully agreed with the statement, only 27% at the relatively worst audit firm could do so. But since 53% of the respondents of the audit firm with the lowest agreement can rather agree with the statement, the overall agreement is reasonably high even for this audit firm.

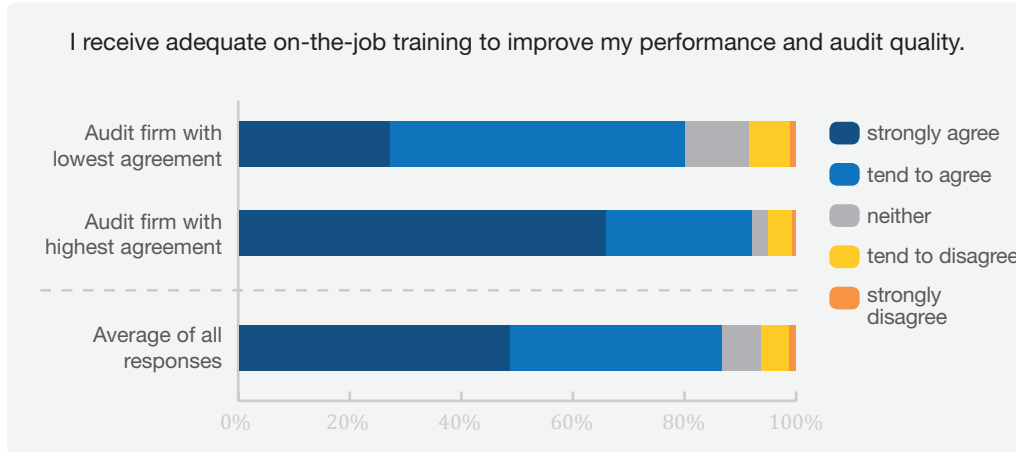
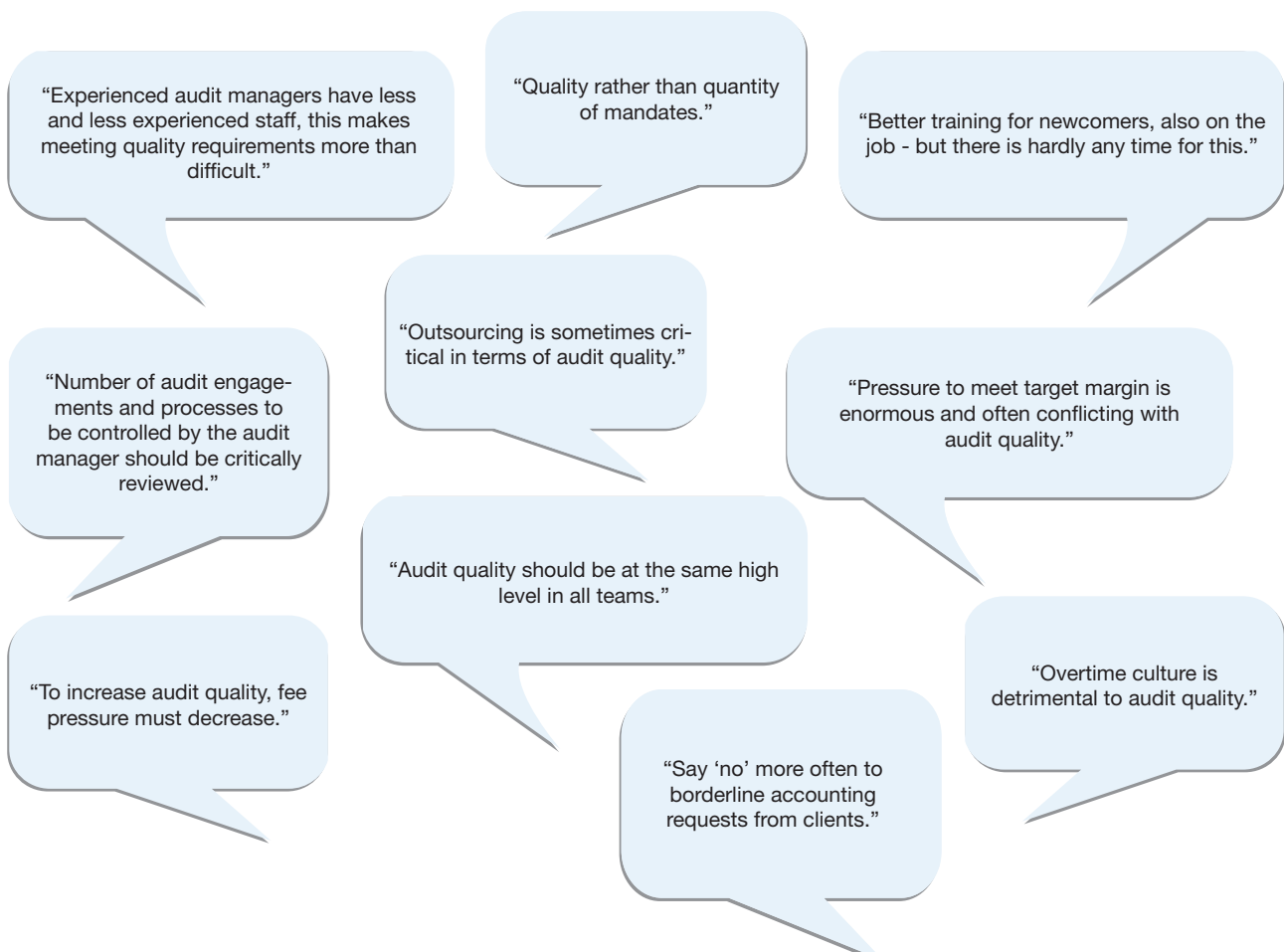


Fig. 15: Adequacy of on-the-job training

The APAB also gave respondents the opportunity to answer an open-ended question in a free text field about what comments or suggestions they had for improvement regarding the quality of audits at their audit firms. Below is a selection of the answers, which is quite suitable to illustrate that it is always a tightrope walk for audit firms to consistently provide the high audit quality expected by the public and all stakeholders in all audit engagements on the one hand and to be economically successful on the other hand.



3.3.3. Incentives for partners

With regard to incentives for partners, the extent to which audit firm policies provide for audit quality to be taken into account in the assessment, remuneration and promotion of partners was surveyed. In this respect, the guidelines for the assessment, remuneration and promotion of partners, the key figures on audit quality, a sample of partner assessments as well as the sanction regimes including sanctions implemented with regard to quality deficiencies of the audit firms were analysed.

The most frequent criteria used by the audit firms for the assessment, remuneration and promotion of partners are the results of internal and external reviews, compliance with archiving requirements, compliance with requirements in connection with continuous professional education and independence, although only in a few cases are these criteria weighted. We also consider the measures of those audit firms to be particularly meaningful where, among other things, the time involvement of the partners in the context of the engagement is also taken into account as a criterion. After all, the APAB repeatedly finds in its inspections that the involvement of partners in the performance of audits is sometimes too low.

In three out of five audit companies, at least 50% of the criteria used to assess partners are related to quality.

The inspection of a sample of partner assessments showed that four out of five audit firms implemented a process that provides for a standardised, written assessment. In one audit firm, the assessments are made verbally and therefore cannot be traced. The inspection of a sample of the assessments documented in writing showed that the results are comprehensible and consistent. Based on the quality-related criteria defined by the audit firms, appropriate measures were taken in those cases where poor or particularly good performance was identified (e.g. warning, reduction of the variable salary component, withdrawal of initial responsibility for audit mandates, bonuses, promotion to higher partner rank, etc.). In this context, we also find interesting the requirement at one audit firm that in the event of a poor assessment of a partner due to quality deficiencies, a consequence for the head of the audit firm is also applied.

All five audit firms set up a sanctions regime that provides for appropriate sanctions in connection with identified quality deficiencies.

The partner promotion process in all five audit firms provides for strict assessment criteria and procedures, which also place a significant emphasis on the assessment of the quality of the candidates' work, although the documentation for this can be classified as more comprehensible and transparent in three audit firms than in the two other audit firms.

3.3.4. Governance and involvement of top management of audit firms in quality issues

At four audit firms, a unit is defined within the organisational structure that deals with the continuous improvement of audit quality and that has adequate human, professional and material resources. The overall responsibility for this area is regulated in the respective organisational charts. The percentage involvement of those responsible varies, but is reported to be at least 50% in all four audit firms. There are also differences in the staffing of this office. For example, one audit firm has additional positions in this department that are staffed with employees who spend 100% of their working time in this area. The other audit firms do not have any additional 100% positions in this area, but use staff members with a certain percentage of their time in this area or call on staff members of the audit firm from other areas in case of need. One audit firm did not define such a position in the organisation

chart, as it is located at a higher level. The persons responsible for this area are partners and managing directors of the respective audit firm.

In the area of quality improvement, all audit firms mainly apply global guidelines that contain detailed specifications regarding quality improvements based on findings from internal reviews or network reviews. Not all audit firms made corresponding local additions to these guidelines, which also include procedures for quality improvements based on findings from external reviews (quality assurance audits and inspections; investigations, if applicable). At four audit firms, regular reporting on quality improvement issues is made to the audit firm's management, although in most cases this is done informally. Only at one audit firm is a formal involvement of the audit firm's management evident on the basis of monthly minutes. In one audit firm, there has been no reported use of quality improvement to date.

3.4. Dimension 3: Monitoring the quality-oriented culture

Measuring and monitoring intangibles such as behaviour or culture is inherently difficult, but it is necessary to ascertain whether the desired culture is actually being lived. In the third dimension, the monitoring of the quality-oriented culture of the audit firms was therefore examined, and for this purpose the areas of "internal feedback loops" and "root cause analysis" were analysed.

a) Internal feedback loops

In the area of "internal feedback loops", it was ascertained, among other things, whether staff members are regularly and documentedly questioned on topics of audit quality, tone at the top, etc. This is the case at four audit firms where regular, documented surveys of staff take place and are reported to the management level, whereby these are mainly controlled by their networks.

A survey was also conducted to find out to what extent the employees of the audit firms are encouraged to communicate suggestions for improvements in the performance of audits to suitable contact persons. A remarkable 88% of the employees agreed with the statement *"I am encouraged to communicate suggestions for improvements in audit performance to appropriate contact persons"*. As can be seen from the two graphs attached, there is a statistically significant difference in the distribution of answers between employees below manager level and at manager level or above. Employees at manager level and above feel even more encouraged to make suggestions for improvement; there, the figure is as high as 95%.

88% of all respondents believe that they are encouraged to communicate suggestions for improvements in audit performance to appropriate contacts.

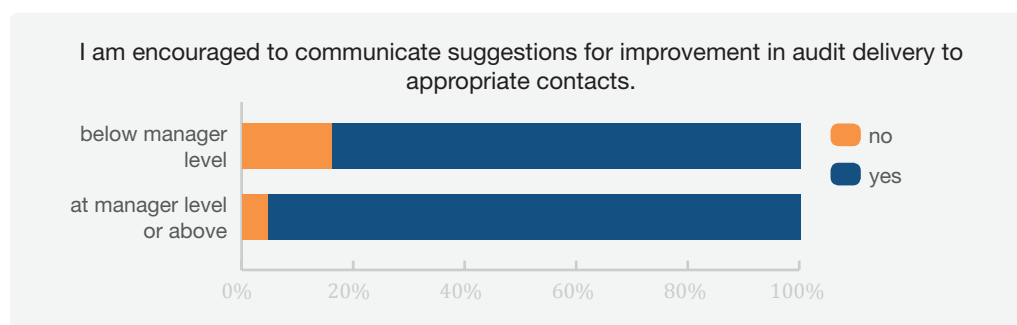


Fig. 16: Encouragement to make suggestions for improvement

In the course of the survey, it was also found that in all audit firms exit interviews are held with HR staff on the one hand and the employees leaving on the other. Among other things, these discussions also attempt to identify issues that could jeopardise quality.

In addition, it was ascertained whether the audit firms make it possible for their employees to report anonymously if they notice behaviour that is a threat to quality or contrary to the values of the audit firm, and whether this is also encouraged accordingly. All audit firms have the corresponding bodies in place, which are obligatory under § 15 of the KSW-PRL. This fact is also known to 94 % of the employees, whereby - not surprisingly - there is a statistically significant difference in the distribution of the answers between employees below manager level and manager level and above, with the result that the employees below manager level are less aware of the established positions. However, in some audit firms, the established posts are only used to a small extent or not at all. In 3 of the companies examined, there were no reports at all in the last 3 years; on the other hand, another audit company set up a low-threshold internal complaints facility (button on the intranet), through which 12 reports were received during the inspection period, which were appropriately followed up. It therefore seems to be important in which form the employees can voice their complaints and accusations.

About 80% of the employees of all audit firms fully or rather agree with the statement that they do not have to fear any consequences if they detect and report misconduct, whereby a statistically significant difference in the distribution of answers between employees below the manager level and at manager level and above can be found here as well, as can be seen in the following chart. While 63% of the employees at manager level and above can fully agree with the statement, this is only the case for 40% of the employees below manager level. The audit firms should therefore do more to give employees below the manager level the assurance that they do not have to fear any personal consequences if they report misconduct.

Only 40% of employees below the manager level can fully agree with the statement that they do not have to fear any consequences if they find misconduct.

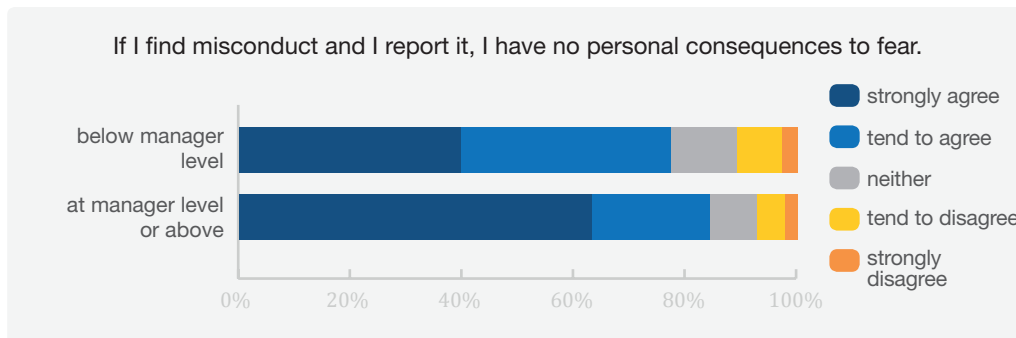


Fig. 17: Fear of consequences for reporting misconduct

There is a significant difference between the audit firms in terms of the expectation of staff that such reports will be taken seriously and that appropriate action will be taken if necessary, with 67% of the audit firm with the highest level of agreement fully agreeing with the statement, compared to 55% of respondents overall and only 40% of the audit firm with the lowest level of agreement.

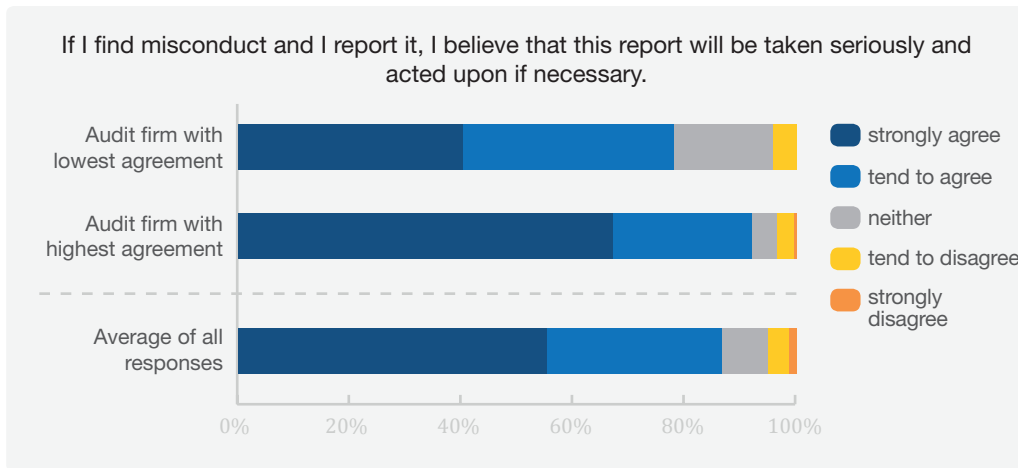


Fig. 18: Assessment of the seriousness of the treatment of reports by the audit firms

b) Root cause analysis

Root cause analyses are used to record errors, determine their causes and subsequently derive measures that contribute to reducing errors in the future.

In assessing the procedures of the audit firms in the area of root cause analysis, the relevant processes of the audit firms were analysed and compared. The root cause analyses of the audit firms largely take into account staff errors as well as system/process errors and, in the view of the APAB, are generally capable of initiating quality improvement. In all audit firms, in addition to the partner responsible for the engagement and the audit manager, other members of the audit team are also involved as needed. Differences were found with regard to the documented involvement of the top management level in the root cause analysis as well as with regard to the documentation of the root cause analysis in relation to findings resulting from external reviews of the audit firms.

At one audit firm, a corresponding involvement of the top management level is directly evident in the root cause analysis system. At three audit firms, the involvement of the top management level is at least partially documented by means of meeting minutes. At one audit firm, however, there is no documented involvement of the top management level in the root cause analysis.

While four audit firms have guidelines/policies describing how necessary root cause analyses based on results from internal and external reviews (e.g. quality assurance audits or inspections) are to be carried out, one audit firm has no specific regulations on root cause analyses based on deficiencies from external reviews.

At one audit firm, all root cause analyses for internal and external findings are documented according to the same principles and at a central location; this is not the case at the other four audit firms.

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