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Audit Firm Culture

Report based on qualitative research to explore the drivers and barriers to auditors exercising professional scepticism and effective challenge of audit entity management.

Conducted by BritainThinks on behalf of the Financial Reporting Council (FRC)

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Glossary of terms

Throughout this report, the phrases that follow are used regularly and have the following intended meanings:

Term	How this term should be interpreted
Senior auditor(s)	More experienced auditors in more senior roles, typically at partner, director or senior manager level.
Audit Manager(s)	Auditors with several years of experience in management roles, typically at assistant manager and manager level.
Junior auditor(s)	Less experienced auditors in less senior roles, typically at associate or senior associate level.
Desired auditor behaviours	The specific behaviours of professional scepticism and the effective challenge of the audited entity’s management on which this research is focused. For clarity, the terms ‘desired auditor behaviours’ and ‘the behaviours of professional scepticism and the effective challenge of the audited entity’s management’ are both used interchangeably throughout this report, to balance context, understanding and brevity.
Psychological safety	The belief that an auditor will be heard, respected and not punished or ignored if they speak up with ideas, questions, concerns or mistakes.

1. Executive summary

1.1 Introduction to the research

As part of its responsibility to regulate the audit industry in the UK, the Financial Reporting Council (FRC) has been supervising audit firms' behaviours, values and culture in order to continually improve audit quality. The most significant quality issues identified by the FRC's Audit Quality Review (AQR) team over a number of years involve the lack of professional scepticism and challenge, resulting in the poor application of professional judgement.

Reflecting upon the importance and complexity of this issue, in January 2022 the FRC commissioned independent research agency BritainThinks to conduct research to support its current thematic review on professional scepticism and challenge. This research aims to understand the drivers and barriers to auditors exercising professional scepticism and adequately challenging management so that the FRC can encourage continual improvement by identifying and reinforcing good practice in these areas whilst also encouraging firms to mature their culture frameworks to overcome any perceived barriers.

To do so, BritainThinks employed a qualitative approach to understand this issue in depth. This comprised 21 auditor focus groups with each comprised of individuals from one firm only across the spectrum of seniority (including associates, managers and senior managers / directors) and 21 audit partner in-depth interviews. The research was conducted with an even split across PwC, KPMG, EY, Deloitte, Grant Thornton, Mazars, and BDO, together 'the Tier 1 firms' as defined by the FRC's approach to audit supervision.

1.2 Auditors' starting point in relation to desired auditor behaviours

Auditors are typically highly aware that there has been a heightened focus on audit quality in recent years, and research participants perceived this as a positive and significant cultural shift, particularly senior auditors. Most research participants across all levels of staff sampled have a relatively strong understanding of the need to demonstrate behaviours that are most directly correlated to high quality audit, specifically professional scepticism and effective challenge of management. However, when it comes to putting these behaviours into practice, senior auditors and audit managers (particularly senior managers) tend to have a deeper understanding of what these behaviours actually look like, and how they ladder up to a high-quality audit, compared to junior auditors who have had less experience in their careers to date.

1.3 Common themes within the drivers of, and barriers to, desired auditor behaviours

Throughout this study, we uncovered a significant number of drivers and barriers within the environment of the audit firm that either encourage or inhibit an auditor's ability to show the desired behaviours during their day-to-day work on audit engagements. The full set of

drivers and barriers against different cultural areas are outlined in detail in the tables within sections 3.2 and 3.3 pages 12-18.

Across the cultural aspects explored in depth in this research, there were also a number of key recurring themes in respect of the factors that **encourage** professional scepticism and effective challenge. Importantly, the most powerful drivers are dependent upon the strength of human interactions – how staff and teams are influenced by, and are inspired to emulate, ‘leaders in motion’:

- **Teaching and embedding desired auditor behaviour:** Bringing the specific behaviours linked to high quality audit to life, through the use of case studies, and training calling out these behaviours explicitly and explaining what they mean in practice. Also critical to this is the training in soft skills for example critical thinking and handling difficult conversations. Key to this is having the time and space to coach auditors by working collaboratively with them, sharing feedback and identifying opportunities for them to be exposed to instances of scepticism and challenge in real-time work situations.
- **Consistently communicating and prompting desired audit behaviour:** An ongoing, consistent commitment to scepticism and challenge to ensure that a focus on these desired behaviours is not a one-off exercise but continually communicated and reinforced, through both formal and written informal verbal communications, even during busy periods, through regular ad hoc communication, praise and feedback. This should also be supported by the implementation of an overall culture of continual improvement.
- **Role modelling desired audit behaviour:** Senior auditors (especially partners) acting as leaders in relation to scepticism and challenge, modelling these behaviours themselves and creating opportunities for audit managers and junior level auditors to see them doing so in action and learn ‘by osmosis’, and continually reasserting the behaviours in communications and feedback.

The research also highlighted a number of recurring themes in respect of the factors that can **impede** firms from establishing a culture that encourages auditors to consistently display behaviours linked to high quality audit if they are not in place:

- **Resources to enable desired auditor behaviour:** Time, workload and resourcing pressures are felt to squeeze out the time and space needed for auditors to be able to exercise scepticism and challenge, and apply the critical thinking needed for good judgement. Such pressures act to disincentivise these behaviours for fear of delays and put additional unnecessary stress on auditors, and in aggregate, the audit industry.
- **Workplace environments that support desired auditor behaviour:** Environments that discourage or fail to promote open, collaborative working practices can be damaging to the ability of auditors to show the desired behaviours. Creating the right environment is crucial for establishing effective relationships and psychological safety across all levels, but this can be restricted when cultural hierarchies do not allow manager and junior level auditors to raise challenge upwards. This can be caused by a number of factors, such as; a lack of transparency around the rationale behind decisions and an ineffective feedback processes that does not give audit managers and junior auditors room to grow.

- **Alignment of reward and recognition with, as well as measure to define, desired auditor behaviour:** There are felt to be inconsistencies in the extent to which the behaviours are explicitly linked to remuneration, reward, progression and feedback. This is particularly true for audit managers and junior auditors, who feel there is a lack of clarity on how quality is linked to positive reward at their level.

1.4 How external influences and other stakeholders impact desired auditor behaviours

Looking outside audit firms, at external influences, our research has identified that:

- **The relationship between the audit firm and the audited entity** plays a crucial role in allowing, or preventing, scepticism and challenge. This is felt to work best as an enabler for the desired auditor behaviours when upfront planning sessions that establish ways of working include expectation management, specifically around the application of scepticism and challenge being a central part of the firm's independent role. This should also include senior auditor involvement to show that any challenge is backed by the firm.
- **Audit Committees** can help or hinder scepticism and challenge. Audit Committees are felt to be most effective when they have an up-to-date understanding of the role of audit, and of the audit firm itself, including the requirement to exercise scepticism and challenge as an independent entity in order to achieve a high-quality audit. Research participants also feel that Audit Committees work best when they are made up of committed, engaged members who have sufficient financial literacy and expertise to engage with the detail and interrogate an audit, as well as when they clearly see themselves as independent from the audited entity.

1.5 Further solutions and opportunities that can be employed to strengthen desired auditor behaviour

Alongside these key drivers and barriers, this research has also identified a number of opportunities for audit firms to strengthen professional scepticism and effective challenge, including:

- **Plan effectively for each engagement, factoring in the role of the senior auditors as 'leaders in motion':** Timescales require extra breathing room to be built in specifically for scepticism and challenge. Additionally, senior auditors workloads should factor in their coaching and modelling responsibilities, particularly for those who are new to the senior level and may need time to develop soft skills around feedback and coaching.
- **Embed hybrid working practices effectively:** Central to ensuring new ways of working are effective is utilising virtual channels for informal as well as formal discussion between audit engagement teams. This includes mirroring opportunities for audit managers and junior auditors to attend calls that would be useful to observe in much the same way that they may be pulled into an ad hoc meeting 'on-site', and maximising the use of face-to-face interactions for socialising between all seniority levels.

- **Ensure that remuneration and reward has close links to the desired behaviours:** Building explicit links between specific quality behaviours at all levels, not just partners, would help to evidence the continual importance of delivering high quality audit engagements on a consistent basis. This could be achieved by greater recognition for those with consistently strong feedback on their ability to be sceptical and effectively challenge management, and could be backed by meaningful, firm-wide reward and recognition processes.

2. Background and methodology

2.1 Background to, and objectives for, this research

Following several high-profile business failures, including Carillion, BHS and Patisserie Valerie, audit has come under increasing public, political and regulatory scrutiny in recent years. Several reviews (including Sir John Kingman's Review of the FRC, the Competition and Markets Authority Market Study, the Brydon Review and the Redmond Review) have highlighted a number of concerns with audit.

Alongside its responsibility to set auditing and ethical standards and to monitor and enforce audit quality (in the public and shareholder interests), the FRC has also been working with the audit industry to regulate firms' behaviours, values and governance. This has been achieved through voluntary means, such as through the Audit Firm Governance Code¹, and publishing principles for the operational separation of audit services from broader management consultancy to address potential conflicts of interest and protect the independence of audit.²

Despite the progress firms have been making, the FRC's most recent investigations continue to show that auditors often struggle to challenge audited entity management effectively and to exercise professional scepticism. This is found to be especially true in areas such as the judgements and estimates around long-term contracts, goodwill and impairments, and the valuation of financial instruments. In more than 80% of the audits assessed by the FRC as needing more than minor improvements, ineffective challenge of management was identified as a key contributor. This area was also emphasised in Sir Donald Brydon's Review of the Quality and Effectiveness of Audit.³

Reflecting upon the importance and complexity of this issue, the FRC commissioned independent research agency BritainThinks to conduct qualitative research to augment its current thematic review on scepticism and challenge, in particular focussing on the extent to which the culture operating within the largest audit firms supports these behaviours associated with high quality audit. This research aims to understand the drivers and barriers that either promote or inhibit auditors' ability to exercise professional scepticism and effective challenge of management (i.e. desired auditor behaviour), to enable the FRC to provide guidance to firms that enables them to continuously improve the quality of audits they deliver.

Specifically, the research sought to:

- Understand auditor and partner views on audit firm culture, including their perceptions of which behaviours are desired and promoted by audit firms, which behaviours are happening in practice, and where, if at all, professional scepticism, and effective challenge fits in;

¹ <https://www.frc.org.uk/getattachment/8e2026c0-cac0-4faa-8326-4713511f139a/Audit-Firm-Governance-Code-July-2016.pdf>

² [https://www.frc.org.uk/getattachment/281a7d7e-74fe-43f7-854a-e52158bc6ae2/Operational-separation-principles-published-February-2021-\(005\).pdf](https://www.frc.org.uk/getattachment/281a7d7e-74fe-43f7-854a-e52158bc6ae2/Operational-separation-principles-published-February-2021-(005).pdf)

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852960/brydon-review-final-report.pdf

- Explore the cultural drivers and barriers to auditors and partners being able to effectively exercise professional scepticism and effective challenge in audit across a number of key areas including reward and recognition, training and leadership;
- Explore auditor and partner views on opportunities for improvement in firm culture, including how other stakeholders can support or tackle barriers around exercising professional scepticism and effectively challenge management.

2.2 Research approach

The research took a qualitative approach to reflect the need to understand the drivers and barriers to professional scepticism and effective challenge in depth. Qualitative research methods are valuable in providing a rich understanding of highly complex issues, illuminating the experiences and interpretations of audiences with widely different stakes and roles, giving voice to those whose views are rarely heard, and moving towards explanations. For a fuller discussion of the benefits of these methods this see for example research by Shoshanna Sofaer, an expert in conducting organisational research.⁴ They offer a dynamic approach to research that enables participants to freely disclose their experiences, allowing the researcher the opportunity to follow up on answers given in real time and generating valuable conversation around a subject in a way that is not possible in a structured survey.

For this research supporting the FRC's culture project in particular, a qualitative approach was most appropriate as it allowed a deep exploration of the relatively complex, intangible and interrelated topics of audit firm culture, professional scepticism and effective challenge, which can be difficult for auditors (and indeed any audience) to articulate without active questioning and probing. In particular, it lent itself to building a nuanced understanding of the drivers and inhibitors of behaviours correlated to high quality audit and developing rich case study content to bring these findings to life. It also complemented and contrasted with the more quantitative-led approaches which firms tended to take themselves in examining and measuring culture. Finally, it gave auditors who would not usually be asked to lend their voice to the future of audit discussions the opportunity to contribute their thoughts and experiences to a conversation that is shaping their industry. For these reasons, qualitative methods are becoming increasingly prevalent in research to understand organisational culture.

Within the focus groups, we asked questions that probed an individual's understanding of expected and acceptable behaviour as it was important that we understood the 'why' behind their answers to questions around 'what is happening' and 'what dilemmas auditors face'. We also presented case studies during the sessions that covered hypothetical scenarios in which there were significant barriers to scepticism and challenge to provide a further route to explore auditors' understanding of what could limit the quality of an audit engagement. By using these case studies, rather than asking questions directly, we were able to observe the key barriers that auditors believed to be particularly problematic, comparing and contrasting responses across the junior, manager and senior auditor levels.

⁴ Sofaer, S. Qualitative Methods: What Are They and Why Use Them? HSR: Health Services Research 34:5 Part II (December 1999)
<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1089055/pdf/hsresearch00022-0025.pdf>

All fieldwork was conducted online, or via telephone, to minimise potential disruption to auditor's operational duties. In scheduling our meetings, we were flexible in our approach and mindful of the competing work priorities of research participants. All fieldwork was moderated by trained facilitators from the BritainThinks team, and comprised:

- **21 auditor focus groups**, each lasting 90 minutes and comprising on average 5 auditors (but ranging from 4-6 in each group) to achieve a total sample of 120 auditors below partner level. Groups were split by seniority, with 3 groups per Tier 1 audit firm (as defined above) including:
 - 7 x Associate / Senior Associate focus groups;
 - 7 x Manager / Assistant Manager focus groups;
 - 7 x Senior Manager / Director focus groups.

All auditors were audit engagement facing and were randomly selected from anonymised staff lists provided by the audit firms, with the aim of gaining as representative a picture as possible of auditor experiences (rather than allowing audit firms to nominate potential participants). Due to the randomised selection process, auditor demographics (apart from our stratified seniority bandings) were allowed to fall out naturally. By design, the FRC did not have access to our meeting notes or working papers, and all comments reproduced in this report were anonymised (including any firm-branded initiatives) so that none could be attributable at the individual or firm level.

This group format allowed coverage of a greater number of more junior auditors in the research, and the interactive element enabled auditors to build on thoughts of their colleagues throughout the discussions. Splitting groups by seniority and firm helped to ensure some homogeneity in experiences and fostered a safe environment where auditors felt comfortable being open and honest in their views.

- **21 audit partner in-depth interviews**, each lasting 45 minutes, with a total of three one-on-one interviews per firm. Unlike the auditor focus groups, where participants were randomly selected, partners were specifically selected as demonstrating good quality audit. In-depth interviews offered the best format for partners, as this created opportunities to hear from them both on what makes a good environment for scepticism and challenge, and ways audit firm culture could be improved to ensure consistently high audit quality throughout the firm.

2.3 Limitations of the research approach

This qualitative research approach has two key limitations compared to alternative methods:

1. **By nature, qualitative approaches focus on providing an indicative or reflective picture of an audience or issue, rather than a definitive or representative account of that audience or issue.** A number of steps were taken to counteract this inherent limitation, including:
 - Achieving a relatively large sample size for a qualitative research project, of more than 100 auditors in total across the auditor focus groups and partner interviews.
 - Taking a random sampling approach to recruitment for the auditor focus groups, rather than relying on firms to put forward auditors and risking introducing bias into the sample.

2. **Qualitative approaches can offer less anonymity than quantitative surveys, particularly in group discussions where participants can see and hear the views of other participants in the research, but must still feel comfortable being open and honest.** This is particularly important in the context where views on the topics of firm culture, professional scepticism and effective challenge may be sensitive for some auditors, especially if they feel these are not working effectively. A number of steps were taken to minimise this impact and to ensure that participants felt comfortable sharing their views and that their anonymity would be protected as far as possible, including:
- Emphasising the engagement of an independent research agency (entirely separate to both the FRC and their employer, and bound by professional standards, including the Market Research Society's Code of Conduct, October 2019) in the initial recruitment approach. BritainThinks also took over the recruitment process as early as possible, for example by asking potential participants to 'opt in' to receiving direct contact from BritainThinks.
 - Ensuring each focus group comprised of members from one firm only to protect individual anonymity and mitigate concerns around cross-firm information sharing.
 - Using robust data sharing agreements and consent forms, to ensure that all participants were clear on how their data was going to be used and that they were able to give clear, informed consent prior to taking part in the research.
 - Stressing at the start of each session that the specific contents of that session, and the findings from the research, would be completely anonymised, auditors' individual participation would not be disclosed to the FRC, and that reporting would be taking place at an aggregate level with no firms named in relation to specific findings.
 - Reminding non-partner auditor participants at the start and throughout each research session that they had been selected at random, and inviting all participants to share their views as representatives of auditors more broadly, while encouraging to reflect on, and refer, to specific (anonymised) experiences if they felt comfortable doing so.

3 Overview: the wider context, and drivers and barriers to exercising desired auditor behaviours

3.1 Initial levels of awareness and engagement with the terms ‘professional scepticism’ and ‘effective challenge’.

Auditors in the sample for this research generally had a strong sense that their firms had been putting an intense focus on audit quality in recent years, largely due to the emphasis that they felt the FRC had placed on the importance of embedding this within audit engagements. However, most struggled to pin down a precise time frame for this change in the profession, or to attribute this to specific events or interventions.

For senior auditors, the perceived recent and growing emphasis on audit quality felt like a significant culture shift away from what they saw as a more conciliatory, commercially-focussed relationship with audited entities (still referred to as ‘clients’ by most of the sampled research participants).

“There’s been a big change since I’ve been a partner even. We don’t get asked ‘are you bringing X or Y to the table’ anymore, we get asked ‘are you proud of the work you do’ and ‘what or who might make you leave.’” (Partner)

Typically, those at manager level and above saw audit quality and the specific behaviours of professional scepticism and effective challenge as being clearly and integrally linked – and had a good, shared understanding of these terms – though throughout the research were more likely to talk about quality in general terms than scepticism and challenge specifically.

“Quality is always talked about as being a big focus that we should be thinking about at all times.” (Assistant manager / Manager)

Those at more junior levels also had a good understanding of the term *professional scepticism*, which they defined in terms of ‘stepping back’ and ‘questioning’, but often found it more challenging to explain or give examples for the term *effective challenge*. At this level, there was also less of an understanding of the ways these two behaviours influenced overall audit quality (and how firm values and desired behaviours might correlate with quality).

“We [first year associates] are always being told to ask questions about why things are the way they are, actively looking for support to help the team get to the bottom of issues in the numbers.” (Associate / Senior Associate)

3.2 Key barriers and drivers to exercising desired auditor behaviours within each key cultural aspect

Cultural aspect	Most commonly referenced drivers	Most commonly referenced barriers
Communications	<ul style="list-style-type: none"> ✓ Consistent, frequent messaging around quality from ‘the top’ in formal communications within firms, 	<ul style="list-style-type: none"> • Some messaging around ‘quality’ and ‘values’ currently being received in firms is not seen as sufficiently linked to

Cultural aspect	Most commonly referenced drivers	Most commonly referenced barriers
	<p>which is felt to indicate its importance.</p> <ul style="list-style-type: none"> ✓ Ongoing and specific prompts to enact the behaviours during engagements, such as standard meeting agenda items to re-assess priority risk areas, ‘step back’ meetings to encourage a more critical look at the engagement, and ad hoc conversations with managers and above throughout the life of an engagement. 	<p>specific, actionable behaviours and examples, and can feel vague and challenging to act upon.</p> <ul style="list-style-type: none"> • Embedding hybrid working ineffectively so that it introduces a skew towards email rather than phone or face-to-face contact, which, if not used effectively, can be seen as a less constructive format for challenging and leads to less internal team connection.
<p>Working relationships</p>	<ul style="list-style-type: none"> ✓ Clear support from the top of the firm, for example the Head of Audit attending more challenging meetings with audited entities, which is felt to empower auditors to offer external challenge. ✓ Partners, managers and directors being visible, demonstrating approachability, and building rapport with their teams, which is felt to create more comfort with internal and external challenge. ✓ Mechanisms that encourage inclusion and contribution, for example giving all team members a meeting agenda item on which they can lead, so that all auditors on an engagement feel that they have a voice and can speak up. ✓ Mechanisms that encourage team working, collaboration and discussion, for example on-site team working or roundtable sessions to foster effective working relationships which 	<ul style="list-style-type: none"> • Firms and partners encouraging hierarchical cultures and being less visible, available and engaged with their team, making auditors feel less trusted by their senior colleagues, and less able to approach them. • A lack of transparency in discussion about the reasons behind decisions, particularly where an auditor has raised a challenge internally, but this has not resulted in any action. • Ineffective feedback processes, such as managers ‘fixing’ auditors’ work instead of feeding back, a reliance on review notes over talking through issues, and a lack of feedback about performance and progression overall. • A perceived lack of trust in certain junior team members, for example, overt favouritism to some junior team members over others, meaning that some junior auditors feel less respected and heard, and have less

Cultural aspect	Most commonly referenced drivers	Most commonly referenced barriers
	<p>encourage auditors to feel safe and able to speak up.</p>	<p>exposure and access to senior auditors.</p> <ul style="list-style-type: none"> • Not including junior auditors in senior and external meetings, resulting in difficulties building rapport and effective working relationships, which are felt to foster a culture of openness and challenge.
<p>Reward & recognition</p>	<ul style="list-style-type: none"> ✓ Quality-related consequences and penalties for senior auditors, for example a lack of progression or reputational reprisals for those who do not achieve quality, and by extension, exhibit professional scepticism and effective challenge. (Though some feel these also bring risks, including greater pressure on auditors.) ✓ Steps taken to link remuneration and bonuses to quality for auditors at partner level, through formalised quality aspects of appraisals, which have provided positive motivation. ✓ Ad hoc reward schemes for junior auditors, provided that these are clearly linked to specific behaviours. ✓ ‘Softer’ forms of recognition, such as being called out in a team meeting, or receiving specific one-on-one praise from a partner or director. ✓ Celebrating quality audits at a team or firm level, for example through team activities. 	<ul style="list-style-type: none"> • Outside partner level, a lack of clarity on how quality is linked to positive reward, and the specific behaviours which are key to achieving quality (including professional scepticism and effective challenge) can discourage auditors from actively focusing on quality and quality-related behaviours. • At the associate level in particular, a perceived emphasis on reward and recognition for non-quality related behaviours, such as working long hours or working hard, can de-prioritise quality and related behaviours. • A lack of timely and effective feedback outside annual appraisals and reviews, reducing opportunity for auditor reflection and continuous improvement, both overall and in relation to specific quality-related behaviours. • A lack of emphasis on quality and specific behaviours in appraisals for those below partner level.
<p>Training</p>	<ul style="list-style-type: none"> ✓ Where it happens, on the job coaching and learning, in which more senior auditors are felt to model positive behaviours around effective 	<ul style="list-style-type: none"> • Lack of time to deliver effective coaching and feedback during engagements, largely driven by heavy workloads.

Cultural aspect	Most commonly referenced drivers	Most commonly referenced barriers
	<p>challenge and professional scepticism.</p> <ul style="list-style-type: none"> ✓ Use of case studies and examples on training courses to bring to life the specific behaviours that lead to quality in audit and effective challenge and scepticism in audit firms. ✓ Interactive exercises and roleplays within training sessions to help auditors to practise offering external and internal challenge in a safe environment. ✓ Presence of senior auditors at training sessions to give additional weight to the importance of quality, challenge and scepticism, and to share their experiences and expertise in a relatively informal, safe setting. 	<ul style="list-style-type: none"> • A reliance on partners and directors providing review notes, rather than talking through issues as part of a review or feedback session. • Too much reliance on technical training instead of ‘on the job’ coaching and applied learning where auditors can better understand <i>how</i> to exercise the desired behaviours. • Lack of effective soft skills and personalised training meaning that auditors must learn traits ‘on the job’ that are important to effectively challenging management – such as resilience, influencing and leadership, which may discourage auditors from using them as readily and as confidently, falling back instead on their technical proficiency.
<p>Other</p>	<ul style="list-style-type: none"> ✓ Firms taking a more considered approach to commercial drivers, such as creating resource plans before pitching so that the fees put forward are fully reflective of the level of work involved and avoid the engagement being under-costed or under-resourced. ✓ Firms pushing back to audited entities and delaying delivery, which is felt to be more normalised now than in the past, and to allow more time for scepticism and challenge, and to investigate potential issues. ✓ Industry-wide and firm goals set around audit quality (including FRC-led standards), of which there is generally high awareness 	<ul style="list-style-type: none"> • A culture of treating (some) audited entities as ‘clients’ and in particular reluctance to delay delivery or to raise challenge to larger, FTSE 100 entities or to entities in their first year or two of audit while the stakeholder relationship is being consolidated. • Concerns about potential reputational consequences for audit firms (e.g. from government, media) if there are delays to signing, even if this is related to quality or challenge. • Some audited entities and Audit Committees are felt to lack an up-to-date understanding of audit purposes and processes, meaning they may not recognise scepticism and

Cultural aspect	Most commonly referenced drivers	Most commonly referenced barriers
	among senior auditors, and which are felt to be motivating.	challenge as important, and may misconstrue challenge as unconstructive.

3.3 Underlying themes in the drivers and barriers to exercising desired auditor behaviours.

Across these cultural aspects, there are a number of common underlying themes in the **drivers** for exercising professional scepticism and effective challenge:

Driver	What can drive good audit behaviours?
Showing rather than telling, and bringing positive behaviours to life	<ul style="list-style-type: none"> Formal communications and training courses that contain examples, case studies and explicit links to specific behaviours are more effective in driving quality, professional scepticism and effective challenge, than talking hypothetically or at a more general level. Exposure to partners, directors and managers modelling values and behaviours during audit engagements is critical to auditors learning what quality, challenge and scepticism looks like in practice.
Ongoing prompts and reminders	<ul style="list-style-type: none"> Built-in mechanisms and processes throughout engagements are critical to encouraging and creating a space for scepticism and challenge. These mechanisms prompt stepping back and collective debate, via a combination of formal meetings or informal discussions. Calling out good behaviours and examples as they happen, and giving timely feedback is key for embedding positive behaviours around scepticism and challenge, and addressing instances where these behaviours have not been applied. Regular ‘bite-sized’ formal communications (e.g. regulatory update emails) which emphasise quality and the specific behaviours that ladder up to quality, including scepticism and challenge.
The role of senior auditors (especially partners)	<ul style="list-style-type: none"> Mechanisms that lend themselves to flatter hierarchies and help to create a sense of team culture, such as open plan office spaces, are critical for ensuring that there is rapport. Junior auditors can learn from seeing rather than being told, and feel more compelled to approach their seniors within a culture of psychological safety. Senior auditors communicating the priorities of the audit, from the initial meeting and then throughout (e.g. quality vs. deadlines), is key to audit managers and junior level auditors feeling confident that they should be prioritising quality, challenge and scepticism. Delivering ‘softer’ recognition such as praising junior colleagues directly, or calling them out in team meetings for quality-related

behaviours, can help to reinforce a culture that is focussed on quality, and in which scepticism and challenge is expected and encouraged.

There are also some strong common and underlying themes in the **barriers** to professional scepticism and challenge:

Barrier	What can impede good audit behaviours?
<p>Time and/or lack of resource</p>	<ul style="list-style-type: none"> • Heavy workloads, tight timelines and demanding deadlines reduces the time and space auditors have to ‘step back’ to exercise scepticism and challenge and apply good judgement. It can also lead to reluctance to challenge audited entities, for fear of further pressure, performance reprisals, or delays, and the time senior auditors have to spend with and coach junior colleagues. • Sustained periods of intense working can lead to a vicious cycle of staff churn as auditors get ‘burnt out’, with negative impacts on quality, which many senior auditors feel is exacerbated by lower morale caused by negative media attention placing even more pressure on the industry. This also means that newcomers have less time to ‘bed in’ and get up to speed, meaning that there are gaps in their knowledge that might prevent them from understanding the importance of quality, challenge and scepticism to the firm, or having the time and space to focus on these priorities and behaviours.
<p>Embedding new ways of working</p>	<ul style="list-style-type: none"> • Where hybrid working is felt to have created a skew towards written communication rather than direct contact (e.g. via email or Microsoft Teams rather than face-to-face or telephone interaction), even when colleagues are working together in an office, this can result in less rapport and effective team working. This, in turn, can inhibit quality, challenge and scepticism. • When not embedded effectively, hybrid working is felt to have lessened junior auditors’ exposure to senior colleagues and audited entities (e.g. senior colleagues failing to invite junior auditors to observe calls with the audited entity). This is felt to have reduced opportunities to learn from senior auditors, particularly if they are modelling positive behaviours, and can mean that they have less rapport with audited entities and therefore ability to challenge them. • Where work environments (e.g. remote working or independent partner offices) leads to auditors working more independently and in siloes, this can create fewer opportunities for collaboration and team discussion and debate if auditors do not adapt their working styles and practices accordingly.

Lack of specific connection to behaviours

- **Communications that talk more generally about ‘quality’ or firm values**, but which are not clearly linked to scepticism and challenge, are less effective in driving behaviours (both in terms of creating awareness and in prompting auditors to act).
- Outside of partner level, **the positive link between quality (and therefore the behaviours) and remuneration/bonuses** is not clear and therefore not effectively encouraging scepticism and challenge.
- There is a **lack of consistency in how often and how well auditors receive feedback** on behaviours related to challenge and scepticism specifically (vs. more general feedback or quality scores).

4. Detailed findings on cultural aspects and their impact on the exercising of desired auditor behaviours

4.1. Communication and leadership

4.1.1 Summary

Most auditors within the sample felt that their firms' 'top down' communications have a clear and strong focus on the importance of audit quality, as well as firm values and expected audit behaviours. Managers and above typically saw this focus as representing a shift over recent years, in terms of both the volume and tone of communications about quality. Auditors at every level also felt that conversations about quality are happening frequently on an ad hoc basis between colleagues as well as in more formal meetings and sessions.

However, some formal written communications about quality and values were felt to be vague and lacking specificity, both in terms of the actual behaviours auditors should be exhibiting, and concrete examples of how to enact them in practice. There was also a strong sense that both formal and informal communication can suffer during busy delivery periods when auditors are juggling multiple deadlines, leading to senior auditors prioritising delivery and deadlines over amplification of communication around scepticism and challenge.

4.1.2 What's working well

Firm-wide communication to create a culture focussed on audit quality

Across firms, most auditors were aware of the strong emphasis being placed on audit quality across the industry – driven by their own firms, the regulator, and media scrutiny.

There is a high volume of written internal communications around quality (e.g. in newsletters, weekly digest emails, FRC updates, etc), as well as newer emphasis on audit firm behaviours or values. Combined with the frequency with which auditors hear about quality on a more day-to-day basis within their teams, this drove a clear sense for most that quality is a firm priority. Whilst language within written communications and values was not always felt to link clearly back to specific, actionable behaviours (see next section), some terms (e.g. 'doing the right thing') were felt to go some way to referencing challenge and helping prompt the behaviours.

The way that some partners communicate about audit was also seen to have shifted, with audit managers and some junior level auditors reporting hearing more about quality and 'getting the audit right' in recent years. Many auditors felt one of the strongest examples of this is in briefings at the start of each engagement. Here, the team is encouraged to discuss potential audit and quality risks, with the focus on identifying higher risks to prioritise, in terms of auditor time. Another strong driver was felt to be the way some senior auditors talk about deadlines; whilst meeting deadlines is still stressed as important, several auditors felt partners who emphasise that the audit must be 'right' over the importance of delivering on time at any cost better enables them to enact the more time-intensive behaviours of scepticism and challenge.

“Making people aware of the responsibility they have to challenge the client [is important].” (Assistant manager / Manager)

“That drives a more open culture... if you know from the start that things aren’t going to be perfect, it drives more openness.” (Partner)

Also considered to be effective drivers of scepticism and challenge were audit firm-wide communications which are grounded in specific, real-life examples. Most auditors, particularly at associate and manager level, saw celebrating good quality audits, which successfully exhibit scepticism and challenge, as instructive and motivating. On the other hand, sharing case studies based on audits with lower quality scores was considered to be equally beneficial, particularly where missed opportunities to exhibit or record instances of challenge are noted. Overall, auditors across all levels felt that sharing real-life examples of high quality and more challenging audits is one of the most effective means of identifying potential improvements and lessons, helping auditors understand what went wrong in an audit and where time should be focussed in future.

“Using examples is often the best way for people to learn.” (Senior manager / Director)

Ad hoc communication to embed desired auditor behaviours

Ongoing ad hoc communication about the importance of scepticism and challenge was widely considered highly effective across all levels within a firm, and many auditors pointed to how culture is driving effective communication to support these behaviours. Many auditors referenced partners, directors and senior managers that have clear ‘open door policies’, including formal and informal routes of contact (i.e. direct messages as well as emails), as being the key conduits for how scepticism and challenge are talked about within firms. These colleagues were considered to be largely effective in modelling and communicating the need for auditors to raise questions and be critical of things that don’t feel right at all times, and in ensuring that scepticism and challenge stay at the forefront of professional interactions. In particular, some auditors praised the approachability of partners who go beyond these professional interactions to check in with junior colleagues and establish rapport, to further improve relationships and encourage open communication.

“If a partner makes it crystal clear [they are open to questions], and they hear your opinion then you feel your opinion is valued.” (Assistant manager / Manager)

“[When you ask partners questions] 9 out of 10 times they respond, they are available, and it takes out an unnecessary middleman.” (Senior manager / Director)

Partners were felt by all to have a key role in driving scepticism and challenge in the way that they embed audit firm-wide messages on a day-to-day basis. Most auditors felt they are instrumental to ensuring that quality-based communications at a firm level (which, as below, can feel hypothetical) are translated into action during engagements. They were particularly praised by many for reinforcing the importance of quality alongside profit and emphasising a sense of independence from the audited entity. In particular, they were seen as effectively leading by example to convey that auditors should not be feeling beholden to audited entities, for example by pushing back against an audited entity where needed. Some were also seen as explicitly emphasising the need to show scepticism and challenge over

maintaining relationships where necessary and appropriate (for example reassuring audit teams that it will not reflect negatively on them if they lose a ‘client’ after an audit).

“Being clear with clients and holding them to account [is important].” (Senior manager / Director)

“Making people aware of the responsibility they have to challenge the client” (Assistant manager / Manager)

“Years ago it was about keeping the client happy. [Focusing on getting it right] allows you to carry your own professional pride.” (Senior manager / Director)

Whilst not happening at all firms, auditors at firms which are aiming to establish audit firm-wide shared language and understanding felt this is helping to drive positive behaviours. For example, auditors at one firm reported a focus on standardising and embedding the understanding of the terms ‘professional scepticism’ and ‘effective challenge’ across all levels. At another, some partners reported their focus on reducing the use of the word ‘client’ in relation to audited entities, which they considered a barrier to effective challenge.

“Partners say in meetings ‘if you want to challenge X please do’.” (Assistant manager / Manager)

“Challenge is a term we constantly use in conversations.” (Senior manager / Director)

Case study: a helpline making it easier to get input from senior auditors

One firm has implemented a network of senior auditors (e.g. senior managers, partners etc.) embedded within every business unit to assist with day-to-day audit methodology queries for anyone who needs advice. This was considered an accessible helpline that can provide feedback and encourage scepticism and challenge in daily audit engagement moments, and its uptake has been significant.

4.1.3 What’s working less well

Lack of clarity and consistency in communications around scepticism and challenge, particularly in busy periods

Whilst all auditors were easily able to recall formal written communications from their firms about quality and values, several were unable to remember specific messaging around the terms ‘challenge’ or ‘scepticism’ specifically within these. As a result, there was a sense from some junior auditors (who often have a shallower understanding of the connection between quality and these behaviours) that firm communications can be vague and not as effective in showing them how to enact scepticism and challenge or achieve quality as they are in telling them that quality is important.

“Show don’t tell’ works in audit too.” (Senior manager / Director)

There was also a strong sense from those below partner level, particularly associates/senior associates, that more ad hoc verbal communication within teams about quality and the behaviours can become inconsistent in the face of high workloads and busy periods. For example, auditors reported hearing less about scepticism and challenge from senior colleagues part-way through engagements where there was particular time pressure (e.g.

where delays arose from ineffective project or stakeholder management which had led to more tasks or changes to the timeline). Some auditors felt that some senior auditors can also default to communicating frequently or intensely about the importance of a deadline during busy periods, which can discourage effective challenge and professional scepticism.

However, even when junior auditors felt scepticism and challenge had been verbally emphasised in busy periods, they still often felt that these were in tension with the high levels of pressure being passed down from senior colleagues, reducing the impact of this communication. Additionally, communication about the importance of getting audits right over the importance of deadlines isn't always possible for senior associates and managers to put into practice; auditors at these levels often felt they had already been committed to another engagement and that it was therefore challenging to push back deadlines to enable more scepticism and challenge without making their workload unsustainable in the long run.

“Pushing back on a deadline doesn't always benefit you as the workload catches up on you and you therefore have to “fix” things you can't really.” (Assistant manager / Manager)

Several auditors felt that firm-wide formal communication can also be an ineffective driver and prompt around quality during busy times, as more generic, untailored emails and newsletters get lost or buried in their inboxes amongst priority engagement-related messages, resulting in them going unread.

Ineffective embedding of new ways of working limiting informal communication

New hybrid ways of working following the Covid-19 pandemic, when not embedded properly, were also seen to have introduced several new barriers to effective communication enabling scepticism and challenge across all firms. In particular, there was a sense that where auditors on engagements are less physically visible and accessible to each other, more casual check-ins, questions and prompts are not happening as organically as when in the office. This was seen to reduce opportunities for senior colleagues to encourage scepticism and challenge and for junior colleagues to challenge internally as part of more informal conversations. It should be noted that this barrier was also felt to exist when working in offices where auditors can be physically separated from one another (e.g. partners sitting in isolated offices). Senior auditors were concerned that unless encouraged to do so virtually, junior auditors are less likely to reach out to ask questions or double-check things when working remotely, as it feels more formal and time-consuming compared to informal office-based interactions – and as a result, lack confidence and comfort around challenging more broadly (e.g. to audited entities).

“The senior manager came in right at the end [of the audit], clarified the review...apart from that we didn't see them very much.” (Associate / Senior associate)

“In the office you can ask people faster.” (Senior manager / Director)

Senior auditors also believed that a pre-existing tendency among junior auditors to prefer emailing over making phone calls had been exacerbated by the pandemic, and can hinder effective challenge, for example because emails can be unclear or misconstrued. In particular, senior auditors felt they had seen more examples of ineffective challenge of

audited entities via email (compared to other channels), where management had felt the tone was overly confrontational, and so responded in a defensive or unhelpful way to the engagement.

New partners taking time to establish themselves as leaders

A small number of partners also raised a perception that it is often harder for new partners to drive scepticism and challenge when first establishing themselves, as they are felt to have less influence on junior colleagues, and may be more sensitive to the potential impacts on their reputation by delivering late (and are therefore less likely to challenge audited entities).

4.1.4 Implications: How communication and leadership can drive desired auditor behaviours

By stressing quality, scepticism and challenge in top-down communications (both formal and informal)

Clear and effective communication, both internally between auditors and externally with audited entities, is integral to a high-quality audit. Top-down communication sets the tone for firm quality, values and expected behaviours, explicitly tying scepticism and challenge into firm values and reputation to ensure they are at the forefront of auditors' minds. Within this, it is critical that communications are as specific as possible about the two behaviours, rather than vaguely referencing quality in the round.

Communicating by showing rather than telling is also key in order to go beyond words, and to help auditors to see the behaviours of scepticism and challenge in practice so they can understand how to engage in these behaviours themselves. Senior auditors should lead by example, challenging audited entities where needed and encouraging junior auditors to consider potential issues at the start of audits.

By capitalising on partners as leaders in the business to model and embody the behaviours of scepticism and challenge

Partners play a central role in driving behaviours and are seen as key to firm-wide messages translating into action, by ensuring they are embedded in every interaction on a day-to-day basis through verbal and non-verbal reinforcement and leading by example in their interactions with audited entities. Auditors gaining more exposure to partners as leaders when working remotely and/or in the office (e.g. by being invited to calls or partners approaching or messaging auditors directly).

Via a consistent drumbeat of messaging to keep up a continued focus on scepticism and challenge

It is crucial to ensure that messaging about scepticism and challenge is sustained even in the midst of workload pressures and hybrid working, and that auditors, especially those at junior levels, have the requisite understanding of scepticism and challenge and the guidance to exercise them, for example through real-life case studies.

4.2. Working relationships and establishing psychological safety

4.2.1 Summary

For most auditors in the sample, there was significant overlap in their views of ‘working relationships’ and ‘leadership and communications’, with the way colleagues communicate and interact seen as a key component of relationships. This means that there are some consistent themes between this and the previous chapter. Auditors were also, perhaps unsurprisingly, more likely to talk about psychological safety in terms of its constituent parts, for example in terms of feeling safe, trusted, and ‘backed’ by other team members and able to take risks and offer challenge to them and senior auditors, rather than the overarching term itself.

Across firms and levels, there was a degree of inconsistency in how effectively auditors feel professional relationships are currently working. Many auditors felt there is an underlying openness to, and often encouragement of, internal challenge within both teams and firms, which translates into more effective external challenge of management at audited entities. Additionally, there were numerous reports of auditors at all levels feeling ‘backed’ and supported by their firms and teams, and therefore achieving psychological safety.

However, there was also consensus that, in practice, internal and external challenge can be hindered by a lack of time, which negatively impacts on the way auditors are working together, and specifically reduces the emphasis on collaboration, rapport and coaching which encourages effective scepticism and challenge. Hybrid working was similarly believed to have made collaboration and relationship-building more difficult. Within this, some junior auditors believed that senior auditors and auditor managers could do more in the way they go about their working relationships to ensure that those junior colleagues feel empowered to offer challenge, and that audited entities understand that challenge is a normal part of the process.

4.2.2 What’s working well

Establishing psychological safety by demonstrating support for and backing of colleagues (both overall and in specific instances of challenge)

There was consensus among auditors at all firms that they feel most able to practice scepticism and deliver effective challenge when they feel properly supported, both by their firm (in terms of the way senior leaderships behave in response to the behaviours) and by others in their specific audit engagement teams.

For most senior auditors, the most effective and thorough challenge of management happens when they are certain that their senior leadership (e.g. Head of Audit, Audit leadership) will support them in difficult conversations – in particular, senior leaders offering to attend or attending relevant meetings where a senior auditor was seeking to raise an issue or make an internal or external challenge was felt to be the clearest demonstration of firm-level support for challenge.

Similarly, those below manager level felt most comfortable exhibiting challenge when they felt safe and secure that their contributions would be welcomed and that scepticism and challenge would be heard by the rest of their team. Again, junior auditors felt that offers to

attend or attendance from senior colleagues (managers, senior managers or partners) demonstrated clear backing and support in meetings where they were aiming to make more difficult internal challenges – especially where the senior colleague did not take over leading the meeting but was there as ‘back up’ if needed.

Junior auditors talked about the importance of being trusted and having autonomy from senior colleagues – and several senior auditors raised this as being integral to building the confidence of junior colleagues to exhibit scepticism and challenge. Senior auditors expressed the importance of being clear that they will ‘have junior auditors’ backs’ if any issues arise from challenging management, including being flexible with deadlines as far as possible, and reiterating this throughout the audit.

“Partners that allow for breathing room within deadlines and respect the team are highly valued.” (Associate / Senior associate)

“You need to show people you have their back. I will always say [to my team] ‘I will have your back whatever happens with the client.’” (Partner)

“There’s always guidance there to support your decision making.” (Associate / Senior associate)

“We encourage and give confidence with junior members to go and ask the client. We get the same message from partners to go and challenge them and they reassure you that they will support you.” (Assistant manager / Manager)

Using meetings throughout different stages of an audit engagement to build strong and effective working relationships

Across firms, regular meetings and catch-ups (e.g. weekly meetings) were felt to be one of the most effective drivers of the behaviours, particularly when they are used as an ongoing tool to discuss areas that scepticism and challenge are likely to be required throughout an engagement, and how this can be achieved. Furthermore, as discussed above, the majority of auditors felt that engagements that include effective planning meetings upfront lead to high quality audits more often than not. Here, they appreciate roles being discussed in detail, expected areas of complex risk to be covered thoroughly, and plans put in place for how challenge will happen. Across all firms, this was considered to be one of the most effective ways to consistently drive scepticism and challenge across engagements.

“A good quality audit is a good team. I don’t go in blind saying I think it’s X... I voluntarily arrange risk panels where you get other people with slightly different skills to rally around a topic.” (Partner)

Other mechanisms that were felt to be effective at driving the engagement and collaboration needed for challenge and scepticism included meetings with standing agendas that ensure all team members have the space and opportunity to contribute (e.g. giving everyone an item to ‘own’). ‘Step back’ meetings designed to get teams away from thinking about their individually assigned tasks to thinking about the audit more broadly were also seen to offer opportunities for ongoing reflection, risk re-assessment, critical thinking and collective scepticism and challenge. These types of meetings in particular were felt to make professional scepticism and challenge a collaborative process, as both junior and senior colleagues can come together and discuss any issues they are seeing during the engagement, providing a useful forum for discussion, learnings and to establish what

management may need to be challenged on. They were also seen as building junior auditors' confidence around these behaviours in a relatively 'safe space'.

"[Scepticism and challenge] feels most natural when it's clear who is looking most closely at each of the biggest risk areas (during an engagement) ... Nothing falls through and internal meetings are more focussed." (Assistant manager / Manager)

Partners modelling positive behaviours

Auditors at all levels were positive that challenge is generally being encouraged by senior auditors setting the right examples. In particular, it is noticed that some senior auditors and auditor managers make a point to invite junior colleagues to attend meetings with Audit Committees or the audited entity purely to observe, taking time to talk through questions they may have before or after the meeting. Junior auditors in the sample frequently emphasised the value of this in learning from more experienced colleagues modelling positive behaviours, and of partner presence at meetings with audited entities, which tended to make them feel more confident in raising challenge and discussing complex risks (and even creating a sense of expectation that they would do so).

"Seniors tend to be really supportive and have spoken to the client with me during conversations that I felt less sure about." (Associate / Senior Associate)

For partners, engaging in internal challenge as well as external challenge was felt to be key in demonstrating the importance of being sceptical and willing to challenge to their teams. A strong example of this was felt to be in instances where a partner takes over a relationship with an audited entity who had previously been serviced by a different team within the same firm. By questioning what could be done differently, rather than assuming that their colleagues had used the right methodologies and approaches, partners feel they are setting a precedent for how the rest of the engagement team should act throughout the remainder of the process. For junior auditors, this was considered key to demonstrating that they should not take the results of previous audits at face value, and the importance of exercising scepticism and challenge regardless of the expectations of the audited entity.

"Being visible and doing things yourself is key in order to communicate behaviours to junior staff." (Senior manager / Director)

Using flat structures to create psychological safety

Whilst there was broad agreement that having clear structures and roles on a team (including layers of senior support and escalation) can be effective in driving scepticism and challenge, for many establishing working relationships and a culture that feels non-hierarchical was also seen as important for keeping relationships comfortable and open enough for challenge to be welcomed.

Encouraging collaboration both on and offline was seen as crucial to this across firms, with many describing the positive impact of bringing junior, audit managers and senior auditors together (e.g. in virtual meetings or office spaces) can have on strengthening teams and avoiding a sense of hierarchy. At some firms, senior auditors make use of shared spaces to help engender a less hierarichcical culture within the practice. This includes moving away from partner offices or desks so that they sit with and feel more part of and accessible to

engagement teams, as well as actively taking steps to build rapport, transparency, and honesty into their relationships with their teams even in a hybrid working environment (e.g. holding regular full-team catch ups and sharing reflections on positive and negative past experiences). Partners (and other senior colleagues) being open about mistakes and improvements was also seen as vital to ‘humanising’ them and creating a safer space where mistakes are seen as normal, rather than something to fear.

Junior auditors who work with partners in this way typically felt they were more approachable and had a higher comfort level approaching them with questions, observations, and challenges. Managers and associates noted that casually encountering or working beside partners in open plan offices is conducive to more effective working relationships, as is senior colleagues making time for more social or casual catch-ups, and senior auditors joining internal meetings even if their attendance is not essential, so that they feel part of the engagement team and so that junior auditors can get to know them on an individual level.

“Hot desking is a good methodology. The relationship between partners has changed drastically – you never spoke to them and now they are another member of the team.” (Senior manager / Director)

“[We have] all team catch-ups and all team performance management because everyone learns from everyone.” (Partner)

Formalising peer-to-peer support networks to create additional ‘safe spaces’ beyond engagement teams

At some firms, peer-to-peer support at junior auditor and audit manager levels was also seen as essential for motivation and confidence-building, with auditors expressing the importance of being able to bounce around ideas and issues with colleagues at the same level outside the scope of a specific audit. For associates, this means getting advice from fellow associates on how to approach situations and how to raise issues with managers, while for managers, this means working together to come up with solutions for issues and raising awareness of specific issues with the wider team. This usually takes the form of informal discussions, but there may also be specific, more formalised processes or forums in place to seek unofficial guidance from peers when decision-making.

“It’s quite difficult to challenge a manager [...] it helps when you use colleagues at your level as a sounding board about how to approach situations” (Associate / Senior associate)

Case study: demonstrating firm solidarity

At one firm, a scheme has been put in place to show the partner is supported in their decisions by the firm. The firm uses a colour coded system to make clear to the audited entity when they are close to being removed as a client. It shows a willingness to exit audit engagements if challenge isn’t accepted or the audited entity is uncollaborative, and that the firm is united behind the audit team.

“It focuses the Board’s mind. ‘Our continuance predicates on you doing the right thing. The consequence for repeated issues is that we exit.’” (Partner)

4.2.3 What's working less well

Inconsistent senior communication styles and working habits limiting effective working

There was felt to be some lack of consistency in the ways senior auditors communicate, behave with, and manage colleagues, which impacts how well teams and junior auditors are able to exercise scepticism and challenge. Across all firms, there were a number of examples of some partners and directors taking a more hierarchical approach to leadership, being less likely to actively reach out or take a 'hands-on' role in audits, preferring to be reported to or having a more distant presence in separate offices, and not engaging with the team throughout the process. This was seen to reduce opportunities for collaboration, shared learning, and shared troubleshooting. As well as reducing feelings of effective working relationships within a team, lower visibility of partners and directors to junior team members was also felt to indicate a lack of approachability and availability for questions or support.

Hierarchy and opacity limiting effective working relationships

Further, overly hierarchical cultures experienced in some firms were felt to create pressure around 'chains of command', which reduces the likelihood that junior auditors feel comfortable challenging internally and engenders a fear of 'going over someone's head' when exercising scepticism and challenge, especially if the senior auditors are felt to have a close relationship with the audited entity.

Additionally, some associates felt that some managers can be less proactive or transparent with keeping them updated on decisions that are being made during audit engagements. This was felt to be particularly problematic in instances where decisions were made not to follow up on areas junior auditors had flagged as a potential issue or risk – and led to feelings that challenge was simply being 'shut down', which hinders broader efforts firms are making to encourage challenge. Feeling included in discussions about challenge or getting an explanation of why certain issues might not be prioritised for follow-up was seen as critical for emphasising the importance and value of auditors at all levels taking time to exercise scepticism and challenge.

"Sometimes it's not clear what's happening and why it's happening, like some of the key discussions are happening above you." (Associate / Senior associate)

Similarly, instances of senior and experienced auditor managers being perceived to be 'protective' over work, or not believing in or trusting those at these levels enough to give them autonomy and independence was raised as a demoralising factor likely to negatively impact their likelihood to exhibit scepticism and challenge. In particular, some junior auditors pointed to teams where there were disparities in the tasks allocated and how 'hands-on' senior auditors were with team members. A small number of auditors described feeling partners and directors can have 'favourites' and that their time is sometimes disproportionately spent, with some junior colleagues receiving more time, attention and feedback than others, and therefore inequality in the strength of junior auditors' working relationships with senior staff. This was supported by some partner interviews where junior colleagues were described as being comparatively 'weaker' or 'stronger', with corresponding levels of trust in their abilities.

"[Scepticism and challenge] is based on the attitude of senior members of the team" (Associate / Senior associate)

Embedding new ways of working is limiting informal contact felt to be important to building and improving working relationships

Ineffective embedding of hybrid working since Covid-19 was seen to have exacerbated some of these barriers to effective working relationships, while also creating new challenges. At some firms, there was felt to be little interaction between senior auditors (particularly partners, who have limited time, and responsibilities outside of specific audits), more senior managers, and junior auditors, and a sense that this is made worse when remote working has not been embedded effectively (e.g. partners and directors are not always making the required effort to reach out to junior auditors). However, audit managers themselves also reported fewer opportunities to interact with senior auditors, which in turn impacted on their relationships with them. In addition, there is consensus that scepticism and challenge are best taught via observation, for example by sitting in meetings, and that more could be done to translate this over to the context of hybrid working with the increased number of remote meetings (e.g. audit managers and junior auditors being invited to calls that feel useful for them to observe).

Where remote or hybrid working was not embedded effectively, it was felt to reduce scope for socialising and face-to-face interactions in most firms, including asking informal questions or simply getting to know other auditors and developing positive working relationships.

"Every person learns from the person ahead of them. It's about the time that you spend with the team." (Senior manager / Director)

Time pressures limiting the building and improving of working relationships

As in other areas, such as communication, time and resourcing pressures were cited as a key barrier to building effective working relationships and psychological safety, and auditors' ability to exercise scepticism and challenge as a result. Heightened pressure during an audit has a significant impact on working relationships, leading to negative emotions (e.g. stress, anger, frustration) across all levels, making communication either more strained or colleagues more likely to misinterpret the tone of internal challenge or responses to it, which can impact the perceived openness of colleagues to challenge. There was also particular frustration with senior colleagues being seen to be willing to exert internal pressure on the audit team relating to deadlines, but not on the audited entity.

Some audit managers described finding it challenging to balance the people management and coaching element of their role, including reviewing and feeding back on juniors' work, with their own extensive task-list. There was a feeling it can be harder to make time to connect with and support junior colleagues during busy periods, with some managers resorting to editing and changing work without reviewing or feeding back to save time. In addition to lacking face-to-face feedback, some associates reported feeling they are often under actual or unspoken pressure from senior colleagues to complete as much work as quickly as possible during busy times. Examples included feeling a general tone of stress in verbal and written communications, and team members who might normally be able to support them being increasingly unavailable, leaving them prioritising outputs over taking the

extra time needed to ‘step back’ and exercise scepticism. As a result, some junior colleagues felt they were not always learning how to exercise scepticism and challenge on the job effectively.

High levels of churn in the industry was felt to add to this pressure for senior auditors, leading to inexperienced auditors being hired into roles for which they are not ready for in order to fill urgent gaps. This, in turn, was felt to reduce trust in teams’ skills and abilities and to impair working relationships and the establishing of psychological safety.

“[Pressuring the audit team] creates a panicked situation and undervalues the team.” (Associate / Senior Associate)

“[Managers] don’t have experience in certain high-risk areas / significant judgement areas. You would expect more of someone auditing for 3 years, that’s where the bottom leg is coming in.” (Senior manager / Director)

Lack of confidence among junior auditors preventing them from feeling comfortable offering challenge and scepticism

Some auditors, particularly juniors, reported that they sometimes feel uncomfortable challenging internally and externally, and that they lack the confidence to do so. Often this was due to a fear of confrontation, but in some cases was due to auditors fearing there may be internal repercussions, particularly when dealing with a high-paying or FTSE 100 audited entity. In these cases, there was usually a lack of certainty that other team members, particularly senior auditors, would support their challenge.

In a mirror opposite of what was felt to be working well, where an open or non-hierarchical culture hasn’t been established, particularly where teams have been largely or exclusively working remotely and hybrid working practices have not been effectively embedded, junior auditors were particularly felt to be lacking confidence and to be more deferential. These auditors can fear being seen to ‘go over their managers’ heads’, are less inclined to push back against manager decisions or views, and may see that their challenges are not addressed or escalated. Where there is an absence of challenge at higher levels (e.g. if the senior auditors concur based on corroborating evidence only) this can filter down to junior team members, causing a strain on relationships, hindering open discussion and weakening standards. As a result, some senior auditors felt that junior auditors default to looking for confirmatory evidence only, with a need for partners to express the importance of looking for both contradictory and confirmatory evidence, and to encourage auditors to look at what else is happening in the market.

Similarly, a lack of perceived safe spaces in which to share ideas can further limit confidence in offering challenge and exerting professional scepticism, with some senior auditors acknowledging that junior auditors may be reluctant to do so. This can be due to lack of familiarity with senior auditors due to lack of contact, being new to a firm, or being part of a larger team where they are not able to work closely or directly with senior colleagues. But there is also a sense, noted by auditors from associate to director level, that auditors need to be considered ‘good at their job’, i.e. knowledgeable or respected first, in order to be able to speak up and be heard. This can make junior auditors and some audit managers then reluctant to go to senior auditors, especially partners, with questions, issues and challenges.

“A junior will not raise a challenge to someone more senior, because they just don’t have visibility in larger groups.” (Associate / Senior associate)

4.2.4 Implications: How working relationships and psychological safety can drive desired auditor behaviours

By creating an open and collaborative environment, in which colleagues feel backed and that they can approach others

The creation of an encouraging, open and supportive environment with successful working relationships is paramount to establishing psychological safety, giving opportunities for all team members to speak, building confidence and visibility of all auditors, and encouraging challenge internally as well as externally. Embedding and carrying this over to hybrid working environments is particularly important as firms must adapt to new ways of working.

Senior auditors are felt to have a responsibility to express openness to challenge by reinforcing the importance of this behaviour in all their interactions both in the office and when working remotely, by reaching out and being proactive in building good working relationships with junior auditors, creating space for discussion and collaboration, and taking the time to explain decisions so junior auditors feel heard, included, and better able to model these behaviours.

Through effective meetings and planning

Meetings and catch-ups can raise the visibility of senior, managing and junior team members, and normalise junior staff interacting with senior auditors. Within this, putting in place mechanisms to encourage junior members to speak up (e.g. meetings where each attendee owns an agenda item to ensure that everyone speaks) can further help auditors at all levels to feel confident, supported and respected.

Similarly, effective planning can help to combat some of the barriers to establishing and maintaining psychological safety, including tackling resourcing within engagements to ensure that workloads and downloads are fair, manageable and achievable. Within this, senior auditors being seen to support junior auditors in times of high pressure or difficulty with audited entities, by being tougher on audited entities in terms of deadlines and providing adequate evidence and pushing back where necessary.

By sharing learnings, reflections and feedback

Creating an environment that welcomes scepticism, reflection, and learning from mistakes and past experience, makes auditors more likely to feel empowered to exercise effective challenge. This can be achieved by:

- Managers securing time for reviewing and feeding back on any mistakes, rather than just making corrections or fixes themselves, to talk through what went wrong, and provide solutions going forward.
- Partners and other senior auditors being transparent about their own experiences, owning up to mistakes in a relatable way to normalise failure and to demonstrate how this might have been avoided through effective challenge.

- Delivering feedback face-to-face, and where this is not possible, communicating verbally, for example by phone or videoconference, which is generally felt to be more effective compared to lengthy written review notes and emails.
- Having a robust review process in place with multiple layers to ensure mistakes are picked up on and communicated to the relevant colleagues, and to allow auditors to read comments and go back and make amends.

4.3. Using reward and recognition to embed desired auditor behaviours

4.3.1 Summary

Most senior auditors within this sample felt that more senior promotion is closely linked to quality and related quality behaviours. However, outside of partner level, there was a strong sense the links between achieving and exhibiting quality, scepticism and challenge and promotion and progression are far less clear-cut. Furthermore, many auditors felt that other formalised and ad hoc ways of showing recognition for scepticism and challenge behaviours can remain underutilised within firms.

4.3.2 What's working well

Explicit linking of remuneration and quality assessments for senior auditors

In recent years, senior auditors across all firms felt that the increased focus on audit quality has been reflected in a much clearer and more direct correlation between quality scores and their career development. There was strong awareness that quality scores and progression are now closely linked for partners, directors and some managers, however this is still not necessarily the case for associates and assistant managers. Furthermore, some senior auditors felt the link between quality scores and pay are less clear.

Consequently, most partners felt that, at their level, there has been a positive movement away from linking pay and annual bonuses solely to financial contribution, towards a position where much greater importance is also placed on delivering quality audits. This, combined with the fear of penal repercussions connected to a poor-quality audit outcome from a regulatory review, is felt to be a strong motivator for partners to achieve quality, scepticism and challenge. While they are aware that scepticism and challenge do not need to be judged as empirically as quality in performance reviews, most feel that they are key contributors to achieving high-quality scores overall when properly implemented. They therefore place great importance on modelling scepticism and challenge in their audit teams, ultimately reinforcing these behaviours.

“Previously, reward for us was almost exclusively linked to economic contribution to the firm, but in recent years they have been effective in changing the dial, so it is more focussed on quality, so you really have to think about how scepticism and challenge are being employed on your jobs.” (Partner)

Case study: Putting specific ratings on judgements of quality

One firm has implemented a new rating system that is utilised for pay and bonus reviews for its partners. It consists of a quality metric represented on the Y axis, while the X axis includes other factors (not limited to financial contribution) seen to enhance the audit engagement, including scepticism and challenge. A partner at this firm was particularly positive about the noticeable impact this had on the way that audit engagements are thought about, highlighting that financial contribution and leading initiatives within the firm were no longer all that was required to separate out which were the highest performing and most deserving partners.

Focusing on quality in discussions around progression for senior auditors

Likewise, most of those in manager and more senior positions recognised that expectations around quality are now ingrained into progression and promotion conversations. The impact of this is believed to have been twofold:

- It has made the inclusion of quality assessments in performance reviews far more meaningful, as they are often now the cornerstone of appraisal conversations.
- It has made feedback on desired audit behaviours far more regular. However, it was still felt that these tended to be rolled into general feedback on quality during the appraisal process, aside from a few instances where proactive line managers did push for them to be surfaced more explicitly in these conversations.

Overall, this shift was felt to have been an effective means of driving scepticism and challenge throughout audit engagement teams. In particular, it has ensured that managers and senior managers are aware that they will be judged on consistency of these behaviours, and that they are embedding scepticism and challenge into the foundation of *all* audit engagements on which they are working. Specifically, some auditors feel their firms are particularly strong at rewarding and highlighting *consistency* of quality over a longer period of time in progression conversations. They felt this is an effective way to ensure scepticism and challenge remain at the forefront of all engagements, rather than something that is focussed on purely around the time of appraisals.

“We make sure we reward consistency above all else. Scepticism and challenge are built into objective setting for managers and it’s no good just showing these behaviours around promotion time.” (Partner)

“We know we won’t be considered for promotion unless we have a large and long-term bank of evidence to say that we drive high quality audit. Our firm are really clear about what they want to see and how long we should be showing it for.” (Associate manager / manager)

Praising and highlighting examples of quality and desired auditor behaviours

In terms of other forms of reward and recognition, outside of remuneration and progression, auditors at all levels felt that there has been a similar shift towards recognising quality-based behaviours throughout the audit process, rather than simply at the end of an engagement. Across all firms it has been noticed that partners, directors, and senior managers have

started to encourage staff to ask for feedback on a more consistent basis, which has driven more consistent and regular informal and formal conversations that recognise scepticism and challenge behaviours.

Associates in particular, placed a high value on these more ad hoc and frequent demonstrations of recognition and appreciation that are not necessarily linked to remuneration; times when they have been praised directly for showing scepticism and challenge behaviours are memorable and were seen as highly motivating. What might feel like small gestures, such as actively praising associates during meetings for asking the right questions, were felt to set the right tone and have a significant impact, standing out to this level as one of the most effective ways in which scepticism and challenge can be reinforced day-to-day.

“Being called out for praise during a meeting or just having a partner pull you aside for a quiet word to tell you you’ve done a good job is really motivating and feels like a valuable reward for showing professional scepticism.” (Associate / Senior associate)

Highlighting desired auditor behaviours in award processes

More formalised, audit firm-wide award processes for scepticism and challenge were also thought to be effective, particularly when they have been set up (or at least strongly backed) by senior auditors. Currently, whilst these exist at all firms, in many firms, these awards were felt to be linked to quality and hard work more generally rather than to scepticism and challenge specifically. However, in the few instances where they were more closely aligned to scepticism and challenge, they were felt to positively drive these behaviours in a number of ways, including:

- Active, positive reinforcement of behaviours, particularly for associates and managers.
- Providing tangible examples of scepticism and challenge in practice, giving other colleagues clear behaviours to aim for on a day-to-day basis.
- Showing, and not just saying, that scepticism and challenge are built into the fabric of an audit firm’s culture.
- Proving that behaviours linked to quality are important regardless of level, particularly when audit managers and junior auditors are also encouraged to nominate their senior colleagues.

Having these formalised processes in place that recognise scepticism and challenge was considered to be a strong indicator that a firm has tried to ensure they are using the ‘carrot’ as much as the ‘stick’ in terms of how they ensure these behaviours are driving high quality audit. Currently, some firms are felt to be more consistent and effective than others in ensuring meaningful award processes that are not linked to wages and bonuses are followed through. This was felt to act as a powerful model of positive behaviour for their employees (including around scepticism and challenge), as well as having other benefits around demonstrating to the wider industry that they are investing time and resources in the people side of their businesses.

“For the first time, partners are now being pushed to ask staff for feedback so they can show recognition through vouchers or spotlight awards. It shows that appreciation is more than a tick-box exercise.” (Senior manager / Director)

“From what I’ve heard, other firms seem to be much more generous with the way they reward people that aren’t just paying them more, which shows more care and attention for their people.” (Assistant manager / Manager)

Case study: Utilising tokens within effective reward processes

At one of the firms, if you have performed well on an audit, such as having handled issues well and challenged audited entity assumptions, you are awarded with a token by someone in your team to show their appreciation for your work. After a set period of time, you are then encouraged to pass it on to whomever you think deserves it next, regardless of level. Auditors feel this is non-hierarchical as any level can give and receive it, helping to drive perceptions that recognition is flat and reciprocal. However, it was noted that this has been running for a couple of years and momentum appears to be slowing down, suggesting it may need a refresh in the near future.

At another firm, individuals are awarded tokens by partners and directors that are aligned to displaying quality behaviours, particularly scepticism and challenge, whilst working on audit engagements. These tokens equate to a monetary value and can be collected over a period of time, motivating auditors to continue showing scepticism and challenge to build up their overall total. As this sits outside usual remuneration and bonus schemes, it provides another means of ensuring that auditors feel instantly valued for the hard work they put in.

4.3.3 What’s working less well

Emphasising quality without demonstrating how behaviours can drive this

While in some ways the greater emphasis on quality in the industry was felt to be helpful in driving scepticism and challenge, most auditors across all levels felt that a focus on ‘quality at all costs’ can, in some ways, and somewhat counter-intuitively, lead to efforts to encourage scepticism and challenge via reward and recognition being limited or deprioritised. While partners are being encouraged to be realistic and meticulous about their portfolios, for many, there was a feeling that the recent shift towards prioritising quality has caused the amount of work required per engagement to rise year on year.

This situation, driven by changes in regulatory focus, accountancy standards, overall audit demands, and documentation requirements was often felt to be uncondusive to reinforcing scepticism and challenge because auditors feel under pressure to deliver. Not only did partners and other senior auditors feel that this level of focus on quality is the biggest contributor to burnout, corner-cutting and the loss of good people, they also recognised that it presents a missed opportunity for encouraging, or positively reinforcing, the behaviours of professional scepticism and challenge.

Furthermore, this has led to many auditors feeling that there is an imbalance and contradiction between the importance that is placed on quality and how frequently they are recognised for showing scepticism and challenge behaviours specifically in the pursuit of quality. In particular, some managers and directors were critical that this laser-focus on quality does not always take account of its component parts. For instance, some were critical that quality is spoken about in general terms in the context of discussions about

progression, rather than a specific focus on scepticism and challenge, creating confusion as to how important and valued these behaviours really are.

“There’s eight pillars to focus on, one of which is quality, but it doesn’t directly reward you for being professionally sceptical or challenging management.”
(Assistant manager / Manager)

Relying on the ‘stick’ rather than the ‘carrot’

A significant number of auditors across levels of seniority were also concerned that audit firms still use too much ‘stick’ and not enough ‘carrot’ when it comes to scepticism and challenge. While negative consequences can act as a powerful motivator in terms of instilling and showing these key quality behaviours, many are concerned about the impact on the profession should the potential penalties outweigh positive reinforcement in the long run.

In particular, many auditors were focussed on their fear that a low quality score would directly result in financial penalties, primarily for partners, or slower career progression, particularly for those at manager levels.

“There’s certainly the stick of being held back or a lower bonus, but there’s not enough encouragement outside of bonuses, which are basically considered part of salary by most.” (Partner)

Some senior auditors felt that a heavy reliance on the ‘stick’ by audit firms can in fact lead to auditors trying to cover for issues, becoming paralysed by nervousness around particularly complex issues, and only search for corroborating, and not contradictory, evidence.

“I have a concern that if we are going to [penalise] people if they self-report a mistake they made, will it not encourage people to hide them in the future? That doesn’t feel like it helps the culture of quality and scepticism we are trying to foster.” (Senior manager / Director)

Failing to link remuneration and quality behaviours below the director level

Outside of the partner level, most auditors across firms were less clear that positive rewards are linked to quality. Furthermore, many were unconvinced that remuneration directly correlates to efforts made to ensure a high quality audit engagement through effective scepticism and challenge.

This was particularly true of audit managers, who mostly felt that scepticism and challenge have the biggest impact on their workload without this necessarily being reflected in how they are rewarded. They believed this is largely driven by the fact that they work most closely with more inexperienced junior colleagues, having to resolve situations where associates fail to deliver against expectations. With regards to professional scepticism in particular, this was felt to happen frequently when associates are seen to have only searched for corroborating and not contradictory evidence. Overall, this can weigh heavily on those at the manager level across firms without receiving recognition – financial or otherwise – for taking on extra work to rectify this.

“The long hours we put in don’t get recognised. It feels like there’s an element of ‘hard luck’ with what jobs you’re put on.” (Assistant manager / Manager)

Unlike senior auditors, for associates and senior associates, scepticism and challenge was felt to be largely or even completely unconnected to financial reward and progression. Promotion was mostly seen as linked to exam results, and appraisals are seen to focus more on behaviours associated with being a 'team player' (e.g. picking up additional tasks) and 'working hard' (i.e. long hours), rather than showing quality behaviours. Many associates felt that working hard is often the main determinant in measuring their performance, particularly during busy periods, with the reward for good work generally being allocated to more complex, time-consuming work, without any further recognition. For some this can lead to a negative spiral that they believe damages motivation and their ability to show curiosity, scepticism and challenge during audit engagements.

Senior auditors in particular felt that this lack of correlation between progression and quality at the more junior levels presents a significant missed opportunity to drive home the importance of these behaviours. Furthermore, many associates themselves do not believe that they are always recognised when they do exhibit them. In particular, across all firms there was a belief that bonus schemes at this level are negligible and not linked to the ability to show scepticism and challenge.

“Most juniors get naturally promoted with their pay connected to exams, so it doesn't feel like it's always clear to them what is valued.” (Partner)

Rigid approaches to salary models failing to reward the behaviours

In general, some partners across audit firms were concerned that a lock-step salary model that bases salary upon seniority, combined with internal pressures to promote quickly, poses a barrier to ensuring that scepticism and challenge are at the highest levels they could be, particularly at manager levels. Furthermore, they were concerned that the response to challenges retaining staff at the manager and senior manager levels, exacerbated by the profession becoming less desirable due to increased workloads and a rise in public pressure due to high-profile media scrutiny, has further hindered the linking of pay with quality.

Ultimately, these partners typically wanted to see those at managerial levels receive a remuneration package that is more directly linked to the quality of audit engagements they work on. Not only do they feel this would be a more effective way to properly reward auditors who consistently outperform their peers in the way they show scepticism and challenge, but also that this would provide those performing less well on this front with stronger motivation to improve.

“There's no significant benefits for standing out from your peers. Giving managers a salary based on quality would differentiate the wheat from the chaff.”
(Senior manager / Director)

Insufficient backing of ad hoc and formalised reward processes

Outside of direct remuneration, auditors felt that firms were not always showing a concerted effort to acknowledge scepticism and challenge behaviours in ad hoc ways, particularly at partner level, at which there was felt to be a lack of consistency in praise and recognition given to more junior colleagues. Specific raised issues include:

- A lack of consistency in informal feedback outside of appraisals; whilst some partners and directors are proactive in giving their more junior colleagues feedback

to positively reinforce quality-linked behaviours, some junior auditors and audit managers can feel this is dependent upon them asking for this feedback.

- Little or no time given to highlighting positive instances of scepticism and challenge behaviours, either in smaller team or wider service line meetings.
- A small number of associates also felt that there was a lack of consistency in terms of what behaviours are actually being recognised, with some partners seeming to mostly praise work ethic over scepticism and challenge.

Furthermore, some auditors did not feel that formalised award processes at their firm were sufficiently visible. Whilst they were aware that these do exist (or did in the past), they did not feel that the firm itself is as consistent with this form of recognition as it should be. Amongst some junior auditors and audit managers there was a perception that these processes ‘start with a bang’ but quickly lose momentum, seemingly being forgotten about by the majority of partners after a short period of time. Some placed this in the wider context of proactive recognition generally slipping during Covid-19 and with remote working, but felt there were few signs of these returning thus far at some firms.

4.3.4 Implications: How reward and recognition can drive desired auditor behaviours

By moving beyond lock-step models of remuneration to reward scepticism and challenge, at all levels

Ensuring that financial remuneration is directly and explicitly linked to quality, and ideally within this the specific behaviours of scepticism and challenge, for all levels, not just partners, is critical to ensuring that scepticism and challenge behaviours that drive high quality audits are being universally rewarded. Auditors are looking to be properly compensated for the work they put in, and whilst progression can be harmed by poor quality scores, little appears to be on offer for those that excel consistently.

Flipping this round to offer higher base salaries for those with consistently excellent quality scores or being abundantly clear about the correlation between high scepticism and challenge scores specifically (as key components of quality, rather than focusing on quality in generic terms) in appraisals and bonuses, could provide significant motivation to show these specific behaviours throughout all levels of an audit team.

By maximising opportunities for informal, ad hoc and ongoing feedback to allow for continuous improvement

Whilst putting scepticism and challenge at the heart of progression conversations is a strong indicator that quality-linked behaviours need to be the focal point of an audit engagement, this still needs to be reinforced by other forms of recognition. In particular, verbal, spontaneous praise in group settings helps to foster a culture of positive reinforcement that is considered particularly important for junior auditors.

This should be considered both in terms of ad hoc conversations and more formal, structured settings, such as setting aside time in weekly audit team meetings to praise positive examples of scepticism and challenge behaviours.

On the other hand, mistakes should not be considered a cause for punishment, either financially or in terms of career progression. Instead, auditors should be made to feel that

mistakes provide an opportunity to reflect and improve on their skills, for example through active self-evaluation of scepticism and challenge behaviours during annual reviews.

By using award processes as a means of shining a light on scepticism and challenge, as well as ensuring that staff feel valued

Formalised, audit firm-wide award processes that are focussed on scepticism and challenge specifically, as opposed to wider good working practices in general, can be significant in terms of embedding these behaviours. Not only do they highlight what behaviours a firm really values, but they also give auditors clearly defined goals, behaviours and case studies to emulate in their day-to-day work.

Crucially, these processes need to receive the full backing of leadership and a concerted push to ensure they feel meaningful. Some form of ceremony might help to maximise visibility and give further weight to these processes, while opportunities for, and active encouragement to, nominate colleagues across levels (including more senior colleagues) can help feed a feeling of a non-hierarchical structure.

Furthermore, it should be noted that these award processes and related initiatives can naturally lose momentum and become stale over the course of two or more years, so should be revisited and tweaked or reworked after this time period.

4.4. Teaching desired auditor behaviours via training, coaching, and mentoring

4.4.1 Summary

Coaching was considered the most impactful way to achieve professional scepticism and effective challenge day-to-day. In some firms, frequent and direct communication between the most senior and most junior auditors was seen as crucial to the effectiveness of this, whilst for others, particularly those in more senior roles, ‘learning by osmosis’ was most important. As a secondary driver, formal training was also felt to have a role to play in driving scepticism and challenge, especially where these use case studies and interactive elements to help bring to life these specific behaviours and demonstrate what good looks like.

However, some still felt there is room for improvement. For auditors at manager level and above, longstanding resourcing issues in the audit industry can make the consistent and effective delivery of coaching more challenging as they struggle to find the time alongside heavy workloads. And for many auditors across all grades, Covid-19 has exacerbated these challenges by depleting the opportunity for ad hoc and informal interactions where hybrid working has not been properly embedded. Similarly, many felt that increased use of virtual, lengthy, lecture-style formal training sessions necessitated by the pandemic had led to poor engagement with more formal learning.

4.4.2 What’s working well

Involving colleagues at all levels in informal training

Across all firms, many auditors across levels saw coaching as the best method for teaching audit staff how to effectively exercise scepticism and challenge. This is largely because

auditors feel these behaviours are difficult to learn through purely theory-based training. Real-world experience was highlighted as important for understanding the breadth of instances of where scepticism should be applied, providing tangible examples of doing so, and in helping to build confidence in auditors' ability to challenge management by practising this behaviour.

Some junior auditors mentioned that one-to-one meetings with senior colleagues to work through issues in real time is most effective for helping them learn how to exercise scepticism and challenge. This is because they are provided with live feedback to learn from in future and it gives them an opportunity to be shown where and how best to exercise scepticism as well as what issues might need escalating into a challenge.

As noted in previous chapters of this report, many junior and senior auditors pointed out that coaching scepticism and challenge works best when junior colleagues are brought into meetings (either physically or virtually) with the audited entity to observe challenge taking place. This is because it allows associates to see how these conversations are conducted, as well as feeling that partners are modelling and therefore encouraging these behaviours.

“The best training is done on the job. One thing that's helped me is sitting in on those conversations [with the audited entity]” (Associate/Senior Associate)

“On the job training is the most important bit... embedding that 'coaching culture'... You hear the theory in the classroom, but you actually get to deliver it on the job.” (Assistant manager/manager)

Some directors and partners felt coaching is most effective when senior members of the team 'lead by example' internally as well as externally. In some cases, this is about facilitating internal challenge within audit teams (for example by telling auditors to ask questions of each other) so that junior auditors see this happening around them and feel more empowered to mirror those behaviours.

For several partners, this was felt to work best when auditors are working in the same place or online space. By mixing job grades together in one environment, these partners feel that junior auditors are more likely to 'learn by osmosis', in particular, picking up on communication styles when more senior auditors are discussing challenge internally and when actually challenging clients during meetings.

Case study: Open plan offices encouraging learning by osmosis

A focus group participant from one of the firms spoke positively about the open plan layout of their offices helping to facilitate juniors learning by osmosis as auditors at all levels 'hot desk'. This individual felt that sitting next to senior auditors helped to break down the hierarchical barriers between job grades, building confidence in juniors to communicate and challenge more openly with internal teams as they are more likely to build personal relationships with their seniors. On top of this, this director felt that this layout immersed junior auditors in conversations happening around them, including challenges to the audited entity, and meant they were more likely to ask for advice and support from their colleagues. As a result, there were more opportunities to learn how to practice scepticism and challenge by overhearing and mirroring behaviours of those with more experience.

Using formal training to complement and embed exposure to desired auditor behaviours

Despite this emphasis on informal training, learning on the job, and coaching over more formal means of training, formal training was also felt to have its place. Many junior and senior auditors felt that formal training delivered to associates (often aligned to qualification requirements) and new starters (typically delivered during onboarding) is effective in providing foundational understanding of scepticism and challenge because it:

- Provides a standardised definition that ensures there is shared understanding of both terms across the firm.
- Emphasises the importance of demonstrating these behaviours by illustrating how they ladder up to regulatory compliance and audit quality reviews, with some firms showing well-known stories of where it has not gone well to illustrate the point.

Some senior auditors also felt that scepticism and challenge are better understood throughout firms because formal training is updated in line with the regulator's priority areas, which has meant there has been an increased focus on the behaviours.

“[Formal] training allows staff to have confidence in knowing which areas scepticism should be utilised.” (Associate / Senior associate)

“[Professional scepticism and effective challenge] are included in every training I have done, so you are more focussed on it when you do the work.” (Associate / Senior associate)

Using impactful training techniques to ensure formal training is effective and engaging

A significant number of auditors from associate level upwards pointed to the importance of including techniques that mirror real-life in formal training to effectively demonstrate how auditors can exercise scepticism and challenge on the job. These auditors and partners referenced several different ways this may be delivered, including:

- Scenario-based techniques, for example by encouraging internal colleagues to role play conversations with management so auditors can practice the technical skills required for challenging management and start developing the soft skills needed to tackle more difficult conversations (i.e. confidence and communication).
- Bringing in external actors to help facilitate role play sessions to illustrate both good and bad ways to exercise challenge to management, which can help auditors have examples from which to model their behaviour, though note that this recommendation was restricted to a small number of partners at certain firms.
- Real-life case studies which show auditors tangible examples of scepticism and challenge has been applied and where it has worked well or less well, and providing them with lessons they can apply to similar situations on the job.

Case study: Using role play to help auditors learn how to apply challenge in practice

A junior auditor recalled a memorable training session where the auditors running the session role played a difficult conversation with the audited entity. This including showing

how such a conversation might play out, and the language auditors might use to effectively challenge management. Compared to being shown the theory and definition of effective challenge in a presentation format, this associate felt that the role play technique was more helpful as it meant they were able to visualise what effective challenge might look like in the real world.

“One of the better [training sessions] involved more real-world environments...it made you think of the bigger picture.” (Senior manager / Director)

“[Formal training] gives us real life scenarios, and they ask what judgement/action you would take. It’s a good way to gauge whether your mindset at the time is right or wrong.” (Associate / Senior associate)

Auditors across all levels felt that the presence of senior auditors at formal training is important in providing reassurance and building confidence in junior auditors to exercise scepticism and challenge. In particular, some partners felt their presence helps to build confidence in junior auditors to exercise these behaviours by sharing their experiences, advice, and providing a ‘safe space’ for junior auditors to practise challenging management. Others see their presence important for showing their support of the training content, and reinforcing that these behaviours are expected of all audit staff, not just those in senior grades.

“I’ll go and I haven’t learnt anything new but being there is important for the team. It’s important to have partners there facilitating, role playing and enabling people to practice.” (Partner)

Building on the use of case studies and role play, several associates and partners felt that workshop-style training, where attendees are encouraged to work collaboratively to tackle particularly difficult examples of working papers or practice challenging conversations as a group, are particularly effective for teaching scepticism and challenge. This is because sessions like these are felt to ‘show’ and not just ‘tell’ auditors how to apply scepticism, so they are better able to translate the training into practice. Some also feel that these smaller, interactive sessions can help auditors practice and develop important soft skills such as teamwork, communication, and confidence, which all ladder up to auditors feeling more able and assured in their ability to exercise both behaviours in practice.

A few senior auditors also spoke about the importance of having follow-ups to formal training sessions to encourage better engagement to lead to better understanding of scepticism and challenge. In these instances, testing auditors on training content and/or making it clear that attendance at training is tied to remuneration and promotion considerations as an auditor become more senior works was felt to work well to ensure auditors prioritise attendance at training and absorb the information provided.

“The firms’ systems generate reminders and training attendance is linked to promotion and salary decisions.” (Partner)

4.4.3 What’s working less well

Workload reducing emphasis on informal training and coaching

For many audit managers and junior auditors, the effectiveness of coaching scepticism and challenge was seen as highly dependent on the workload and availability of more senior

colleagues. During the 'busy season' between January and April, it was felt that audit managers and, in particular, senior auditors are less able to prioritise coaching junior auditors as they struggle to balance extremely high workloads and already long hours with coaching responsibilities. This means managers have less time to deliver one-to-one support and feedback, both overall and on where to exercise scepticism or what issues might need escalating specifically.

For a few audit managers, holding coaching responsibilities was seen to worsen already heavy workloads, which was felt to inhibit their own application of scepticism and challenge in their audit engagements. This was felt to be particularly challenging when transitioning into the manager role, when they are required to pick up more audit engagements as well as new coaching responsibilities, so are increasingly pressed for time which can mean their ability to execute scepticism and challenge decreases.

A small number of senior auditors felt that particularly during this busy season, audit managers are having to choose between providing effective coaching and ensuring they complete audit engagements within the timeline. In these cases, they felt managers may choose to complete tasks themselves as they would find it faster than coaching someone more junior through the process. This means that junior auditors can be given less opportunities to learn how to exercise scepticism and challenge during these periods.

"[Coaching] is the cause of a heavy workload. You are trying to do work but also teach the team." (Assistant manager / Manager)

Workload reducing the quality of formal training

Heavy workloads and resourcing issues were also felt to impact the effectiveness of formal training. For several audit managers and above, this feels particularly true as training is not accounted for in workload and capacity discussions. They therefore felt less able to prioritise attendance at training when they are up against tight deadlines or managing multiple engagements at once. If they do decide to attend the training sessions during these busy periods, these auditors felt they are less engaged in the content as they are often completing other work at the same time to ensure they meet their engagement deadlines.

"Senior staff just don't have time to give us the training. They used to have more time two years ago." (Associate / Senior associate)

Some senior auditors also mentioned that there is an imbalance in training on behaviours, with most of the focus on teaching audit managers and junior levels, perhaps because of a perception that senior auditors lack the time and capacity to be engaging in learning and (re-)training. This means that whilst senior auditors are most likely to be enacting behaviours, they are reliant on older training received early on in their careers which can be challenging to recall. In particular, they feel they could benefit from prompts on up-to-date definitions of scepticism and challenge and what best practice looks like in relation to both behaviours.

Ineffective embedding of remote training reducing scope for informal learning

Auditors across all firms and levels felt that firms had not effectively translated the benefits of coaching and other informal training around scepticism and challenge over to new ways of working since Covid-19. Many senior auditors felt that, as a result of poor embedding of remote or hybrid working practices, junior auditors can miss out on important opportunities to

learn from colleagues and experience challenge for themselves. In particular, some auditors said it can feel harder to coach juniors over the phone or on video as they are less able to show them how to approach tasks or apply scepticism. Further, some mentioned that more could be done to involve juniors in ad hoc meetings with the audited entity when working remotely (e.g. inviting them to join meetings remotely), because in some cases juniors were not invited to join meetings as they were not physically available.

“I won't send them a meeting invite but if they are in the room and look like they are showing willingness to be involved [I will invite a first-year associate].”
(Associate / Senior associate)

“Remote working makes it harder to share real-life experiences which are the ones people really remember.” (Partner)

Some auditors also felt that poor embedding of remote or hybrid working practices can mean that junior auditors develop fewer soft skills which they felt are essential to effective scepticism and challenge, such as developing personal relationships, communication, listening, teamwork, and confidence, where they are increasingly isolated or working more independently. One example of this, as referenced in an earlier chapter, is juniors being more likely to email rather than pick up the phone, demonstrating a perceived lack of confidence in communicating.

In addition, poor embedding of new, hybrid ways of working was also felt to have changed the way in which more junior auditors work, in turn impairing their ability to learn on the job. For instance, some pointed out that junior auditors are less able to learn ‘by osmosis’ because they have been physically removed from their colleagues due to remote or hybrid working and are less tuned into the benefit of overhearing internal and external engagements from which they might learn. A small number also felt that junior colleagues were less familiar with working collaboratively and as part of a team, which had led to them checking in or raising questions with their senior colleagues less frequently.

“Learning by osmosis has depleted [...] Many of the benefits to on site, boardroom or contact with team learning [have been lost].” (Senior manager / Director)

“Getting back into the office more will help. At the moment they have to ring and ask questions, so they ask questions less and leave them until later in the day.” (Assistant manager / Manager)

The shift towards virtual training impacting on the quality of formal training

Several junior auditors felt that more could be done to make training on scepticism and challenge more effective and engaging. There was a feeling that delivering virtual training sessions in lengthy, lecture-style formats can be ineffective as auditors struggle to maintain attention and admit to disengaging by turning off their webcams to carry out other work at the same time. This is perceived to be particularly common during busy periods when auditors feel most under pressure.

“Two hours or more for training in one sitting is ineffective because of brain capacity. It's difficult to complete e-learning remotely because you can zone out.” (Assistant manager / Manager)

In particular, for a small number of new starters remote training delivered in this way felt particularly hard to engage with. This is caused by new auditors being faced with high

volumes of onboarding training that is either pre-recorded, meaning they are not interactive, or delivered in lengthy presentation-style sessions. The volume of videos to get through as part of the onboarding process make training on scepticism and challenge feel like one of many, so these auditors see them as more of a ‘tick box’ exercise. As a result, auditors are often powering through training related to scepticism and challenge so are less able to interact, engage and practise exercising either behaviour than during more interactive sessions that use real-life scenarios or case studies, whether delivered virtually or in-person.

However, when virtual training is delivered using techniques outlined earlier in this report, such as through making them interactive or using case studies, auditors do feel that they can be as effective as in-person learning.

4.4.4 Implications: How training, coaching, and mentoring can drive desired auditor behaviours

By factoring coaching responsibilities into the workload of senior auditors

To be most effective, audit managers and above should have coaching factored into their job to ensure they can take the time to support and coach junior auditors. Likewise, those in more senior roles should try to involve junior colleagues wherever possible to encourage learning on the job, even if speaking to clients virtually (e.g. inviting associates to join client calls when working from home).

By encouraging and facilitating more interaction between junior and senior auditors day-to-day

Coaching works best when the team structure and audit engagement structure encourage a two-way dialogue and effective relationship-building between junior and senior auditors (e.g. regular team meetings, managers sitting next to junior auditors during the day). This can help to create less of a hierarchy between levels, encouraging junior auditors to ask questions and approach senior colleagues for advice. This also helps junior auditors develop soft skills and confidence.

By delivering interactive formal training

Auditors are most likely to engage and learn from formal training when it is designed to be interactive, whether on- or offline, for example including role play or breakout discussions. Interactive formats can also help to maximise engagement in the sessions, even if delivered virtually, and reduce the risk of auditors completing other tasks when they should be engaging in training. This may be enhanced by keeping training sessions succinct and ‘bitesize’ during busy periods, so that auditors feel more able to attend.

By putting tangible, real-life examples at the heart of formal training

The most effective formal training helps auditors to translate theory into practice. As above, using role play techniques and working through real case studies of prior audit engagements are both effective ways to help auditors understand how to apply scepticism and challenge as part of their roles.

Involving senior auditors in these sessions, either by asking them to facilitate or simply to attend to help to field questions, reasserts to junior auditors that scepticism and challenge are positive behaviours supported and expected by the firm. Senior participation is

particularly valuable where seniors auditors share personal experiences and specific examples of where they have applied scepticism and challenge.

By tailoring soft skills training

Soft skills training is important for enabling auditors to develop skills in scepticism and learning how to convert this into effective challenge. However, the emphasis on different soft skills, and the skills required to exhibit the behaviours, evolves as auditors progress in their careers, meaning there is opportunity to further tailor training.

For junior auditors, a focus on building skills in verbal communication, teamwork and confidence in challenging is important for building foundational soft skills. For audit managers, training on leadership and modelling is important to ensure they are able to communicate how to exercise scepticism and challenge to junior auditors.

By refreshing and (re-)training

It is also important to ensure that training designed to encourage scepticism and challenge does not stop once auditors become more senior, for example through providing reminder or refresher sessions so auditors at all levels are prompted to continue practising both behaviours. This is also important for ensuring more experienced auditors are kept abreast of updates or developments to terminology and definitions, and that they are equipped with up-to-date tangible examples they can use in their own coaching.

5. Outside influences and the role of other stakeholders on desired auditor behaviours

5.1. Relationship with the audited entity

5.1.1 Summary

Many auditors have noted a shift in the relationship with audited entities in recent years. They felt there has been a move away from prioritising profit, which has facilitated greater application of professional scepticism and effective challenge as firms are more supportive of behaviours that lead to high quality audits. Many also feel that good relationship management between the audited entity and audit firm has helped to ensure audit staff feel comfortable raising issues and challenging management, as the engagement lead is less likely to view challenge as confrontational.

However, there was felt to be room for further improvement where some auditors felt that there was still a pressure to protect the firms' commercial interests and therefore downplay potential issues or challenges to maintain a 'smooth' relationship with the audited entity. Across firms, there was also concern about audited entities being seen to be defensive when engaging with auditors, making it more difficult to exercise scepticism and challenge, often due to delivery of poor quality or delayed documentation, or the audited entity lacking knowledge of updated audit regulations.

5.1.2 What's working well

Rebalancing the relationship with the audited entity

Many auditors, noted that as the audit practice has become increasingly independent from the wider firm, the relationship with the audited entity has changed. They felt there has been a shift away from primarily focusing on retention of the audited entity and commercial targets, and a shift towards an emphasis on audit quality, which in turn has encouraged greater practice of scepticism and challenge. In particular, many partners and auditors felt more empowered to challenge the audited entity as they experience less pressure to appease them, or shy away from having more difficult conversations in a bid to retain their business and avoid impacting the audited entity's commercial value to the wider firm.

"My mindset over the last few years is if they don't like me as much, it's fine because I'm making sure they are compliant." (Partner)

For several partners at some firms, this rebalanced relationship with the audited entity was felt to be demonstrated by the firm encouraging and supporting challenge if the engagement team identified an issue. In particular, where the Head of Audit had been willing to join meetings with the audited entity when difficult conversations were required, partners felt more empowered to exercise both behaviours as they felt reassured that they had the audit firm's support.

A few partners also noted that audit firms appeared more willing to drop audited entities that are repeatedly resistant or unhelpful during engagements (e.g. by providing poor quality data on their accounts or being defensive when challenged) regardless of their commercial value

to the wider firm. This was felt to further instil confidence in the partner that they were doing the right thing by practising both behaviours.

"Firms are standing up for these behaviours. Partners are more willing to engage in a sceptical way and empower their teams to do it." (Partner)

Case study: A system using signals to ensure the audited entity are accountable

A partner spoke about a system that their firm had implemented to signal to audited entities when they were close to being removed as a client. He felt this demonstrated a huge shift in the firm's approach to the audited entity and made him feel supported by the firm when challenging management. He felt this gave the audited entity a chance to address the issues and was a signal to the Board that if this continued, the audit firm would no longer represent them. The firm were clear that if the issues were left unaddressed then they would be exiting the audit engagement. This partner felt that since this system has been put in place, audit partners were more empowered to exit audit engagements as they would be supported by the firm for taking quality seriously. As a result, he felt that he was more willing and able to apply scepticism and challenge.

For many auditors, this rebalanced relationship, along with assurance that scepticism and challenge should be applied, was felt to be best communicated from the top down. They felt that partners showing and telling audit managers and junior auditors that they will support them if they feel they need to challenge audited entities is effective in empowering them to do so. Examples of positive practice include partners offering to join calls with audited entities when needed, or agreeing to push back deadlines to allow sufficient time for the audit team to properly investigate a potential issue and raise this with the audited entity.

Managing relationships with audited entities effectively

Some auditors, particularly those at manager level, felt that good relationship management with the audited entity is crucial to their team feeling able to exercise scepticism and challenge. A 'good' relationship is seen to be best achieved by the audit team lead finding a 'middle ground' when engaging with the engagement lead by not being too informal (i.e. being overly friendly or familiar), nor too far removed or unfriendly (i.e. by appearing distant or intimidating). Where this 'middle ground' is struck, auditors felt they are more able to challenge audited entities as they feel assured that there is a mutual level of respect between the two organisations, and that the audited entity is less likely to see challenge as confrontational.

"We have regular progress calls [...] when you have less communication, it comes as more of a shock and then you get pushback." (Assistant manager / Manager)

"You need a good working relationship [with the audited entity]. It's important that there is a mutual respect and understanding of the role auditors play. We are working for the public interest and reporting to shareholders. In my experience, you can have a more open discussion where there is mutual respect." (Partner)

Auditors raised a number of examples as to how this might be achieved including effective meetings at the start of an engagement, and communicating with the audited entity frequently once the engagement is underway. By outlining the timeline and key deadlines at the start of the engagement, then regularly checking in with the engagement lead (e.g. by

scheduling weekly calls and sending regular email updates), not only does this create space for a strong rapport to develop and help the auditor appear less distant or intimidating, but it also means the audit team are able to raise any potential issues as early as possible. This helps avoid last minute delays which may otherwise feel like a ‘surprise’ to the audited entity and be met with greater resistance, making it more difficult to apply scepticism throughout the whole audit lifecycle and effectively challenge management.

5.1.3 What’s working less well

Prioritisation of commercial interests over desired auditor behaviours

Some audit managers and junior auditors felt that their firm is not rebalancing the relationship with the audited entity, and commercial interests are still being prioritised for audited entities, in particular those for whom they have recently been awarded contracts, or large audited entities who are paying a significant fee. Auditors who raise this therefore felt less able to exercise scepticism and were less willing to challenge management as they felt a pressure to keep the audited entities ‘on the books’ and protect the commercial interests of the firm. This pressure can be relayed in a number of different ways, including the following:

- Junior auditors being told by directors and partners to deliver the audit with limited issues to ensure they are keeping the audited entity ‘happy’.
- Audit managers not escalating issues raised by associates; directors and partners dismissing issues without further explanation; an unwillingness to shift the deadline if an issue is raised close to the end date; documentation being amended to keep the audited entity on side.

Resistance from the audited entity

Across all firms, several partners and other auditors also raised that it can be more difficult to exercise professional scepticism and effective challenge when they perceive the audited entity to be resistant to the auditor’s presence and role. This plays out in various ways:

- Generally, auditors and partners felt that audited entities lack knowledge and understanding of updated audit regulations and requirements. This can make them less likely to expect, and more resistant to, challenge from an audit firm.
- Several audit managers and junior auditors felt there is often an expectation by second year audited entities, or audited entities that have moved to a new audit firm, that audit processes and results will remain the same as prior years and are therefore less open to auditors raising what are perceived to be ‘new’ issues or challenges.
- A few senior auditors felt that for listed and public audited entities, where timelines are felt to be less flexible due to reputational concerns, government fines associated with delaying the audit results and pressure from stakeholders to publish the findings, auditors can feel less able to apply scepticism and challenge as they approach the deadline, for fear of creating delays.
- A small number of audit managers mentioned that smaller audited entities who are paying a smaller sum for the audit are less open to potential deadline extensions as paying the extension fee is a larger proportion of their overall fee.

Many auditors and partners across Tier 1 firms felt that audited entities frequently delivering documentation late, or documentation that is poorly formatted or contains poor quality data, is a significant barrier to consistent application of scepticism and challenge. Where the audited entity still expects the audit to be completed to the original timeline, despite delays from their side, auditors feel they must prioritise audit completion over quality. This means sacrificing thorough application of professional scepticism and that they are less willing to raise issues or challenges that may cause further delays.

The impact of solely virtual working on good relationship management

A small number of audit managers felt these challenges had been exacerbated by solely working remotely as it felt more challenging to build a rapport with the audited entity, given auditors are not on or are spending less time on site and therefore miss out on opportunities for informal communication. By comparison, solely communicating online or over the phone was felt to increase the distance between the audit firm and audited entity and there was a sense that as firms adopt hybrid working practices, a balance between and combination of virtual and in-person interactions could be most effective. Solely communicating online or over the phone can mean the audited entity is less forgiving and accommodating of the auditors' role and more defensive to challenge and/or that there is greater opportunity for miscommunication (e.g. the tone of emails being misinterpreted) or simply a lack of communication overall.

“It’s so important to have visibility. [When I was an associate] I’d spend 95% of my time away from the office and with clients. You have juniors who have been at the firm for two years and have never been to the client...Talking face-to-face with the management you are challenging is such an important learning process. Being comfortable challenging the clients if you’re not meeting them can be tricky. Once you get to know them as a person, they are more willing to provide things...[and] are more opening to receiving the challenge.”
(Assistant manager / Manager)

5.1.4 Implications: How relationships with the audited entity can drive desired auditor behaviour

Via effective relationship management

It is important for the audit firm and audited entity to have a mutual understanding and respect for each other's role and function. When this is achieved, it helps drive scepticism and challenge as the auditor feels more comfortable and confident in their role, and the audited entity is less likely to view challenge as confrontation. Good relationship management is achieved by:

- Involving the audited entity and partners in the forward planning of the audit engagement so that risk areas are identified, and deadlines and ways of working are outlined and mutually agreed.
- Scheduling regular meetings with the audited entity to help build relationships, and so the auditor can raise potential issues sooner rather than later.
- Communicating with the audited entity regularly either in person or over the phone outside of scheduled calls to provide ad hoc updates and help build rapport.

Via involvement of senior auditors

It is also important that staff in senior positions (i.e. directors and partners) support challenges to the audited entity to give these challenges weight, and reassert to audit staff that the firm views scepticism and challenge as positive and expected audit behaviours. This support is best demonstrated through a mixture of actions and verbal reassurance, including:

- Involving the partner during the planning phase of the audit to identify risks early on, and then in ongoing meetings to troubleshoot risks as they come up and provide support in adjusting plans to account for any unexpected events.
- Partners and directors offering to join calls with the manager and audited entity to support in any particularly difficult conversations.
- The firm showing support for the audit engagement team by involving the Head of Audit in key meetings with the audited entity.
- Audit managers and above acknowledging and escalating issues raised by junior auditors.

Via continual education and reminders of the role of the audit firm

As some audited entities lack understanding of updated audit regulations and requirements, the engagement team should establish upfront the role of the firm, their independence, and the behaviours that might come from this (including scepticism and challenge). In addition, when the firm does raise challenge, it is crucial that this is evidence-led (for example supported with relevant documentation) to avoid perceptions that the audit firm is being difficult or confrontational.

5.2. The role of the Audit Committee

5.2.1 Summary

Within the majority of the sample, auditors felt their experiences of working with Audit Committees had been mixed. At their best, they were considered to be effective in facilitating scepticism and challenge by acting as a fully impartial, highly engaged body that understands risk from the perspective of both the auditor and the audited entity. However, the majority of auditors have also had negative experiences with committees that they felt were out-of-touch and less capable of engaging in the granularity of an engagement, ultimately creating further barriers to challenge and scepticism rather than facilitating them.

5.2.2 What's working well

Committees with strong financial and audit literacy helping to hold management at audited entities to account

Many auditors felt that a key driver of high quality audit engagement is having a strong, experienced Audit Committee. Whilst the majority of the sample had had more negative than positive experiences, when they work well, Audit Committees were considered to facilitate

an effective relationship between auditor and audited entity and ensure the timely delivery of documentation by the audited entity. Auditors that were positive about this relationship particularly pointed to committees whose members have strong financial literacy (e.g. those with experience as a Financial Director or Chief Financial Officer) who they felt are able to grasp the key details and actively engage in granular conversations with all parties.

Whilst the quality and capability of an Audit Committee was considered to be highly variable, most of the auditors that run the day-to-day processes of an audit engagement appreciated the role that they play. They were considered to be the most effective way to hold entities' Financial Director and Chief Financial Officers accountable, backing up the audit team where relations are liable to turn frosty. Some auditors felt that they tend to act as a truly impartial body, and that this is particularly important when working with large or newly listed clients as they are able to foster healthy discussion about risks. As a result, these auditors were generally positive about the open channels that a Committee can create to ensure scepticism and challenge is viewed as a necessity rather than an annoyance.

“When picking up a new client, the Audit Committee plays a hugely important role. There can be a tonne of risk that you have to work through, and the committee helps the client understand why you’re asking the questions that you are.” (Senior manager / Director)

Committees opening up discussions about risk, scepticism and challenge

Furthermore, some senior auditors have had positive experiences with engaged Audit Committees that have been very open about risk in initial conversations before choosing an auditing firm. These Committees had often asked probing questions around risk assessment, execution and reporting, that shows strong awareness about the process and the need for scepticism and challenge within this.

Some auditors within the sample were also positive about the role the Committee can play in holding auditors to account, in terms of their frequency and level of challenge across the lifespan of an engagement. Committees with a strong understanding of the process and the need for challenge were felt to properly interrogate reports delivered to them by the firm and engage with any challenges within them, or identify the absence of challenge.

Committees fostering effective working relationships more broadly

Setting clear boundaries, expectations and channels of communication tended to be at the root of what auditors felt makes for a positive working relationship with an Audit Committee, which in turn was felt to increase the likelihood of professional scepticism and effective challenge. Whilst most auditors felt that they have had at least some positive experience of this, it was usually felt to be large private sector clients who take the financial and audit literacy of their committees more seriously.

“From my perspective, there’s a fundamental difference between a private sector Audit Committee and a public sector Audit Committee, and you get a lot more informed challenge from the former.” (Senior manager / Director)

Case study: The benefits of selecting a committee on the basis of skills and merit

A senior auditor at one firm had experienced a particularly stark difference between working with private and public sector Audit Committees during his time in audit. This person felt strongly that those on public sector Committees, particularly at the level of local government, represent willing rather than highly skilled members, which can result in receiving no questions at all, or questions that have nothing to do with the audit process. Whilst they were sympathetic that this can be down to fear of challenging an audit partner or Financial Director, due to a lack of audit experience, they were still critical that this means that the Committee's contribution to the quality of an audit engagement is therefore negligible.

On the other hand, their experience with Audit Committees associated of private sector clients has been that they are typically more likely to ask challenging and probing questions. Ultimately, they felt this ensures that they land the importance of being sceptical and challenging management during the audit engagement, for fear that they will be pulled apart by the Committee if they do not do so.

5.2.3 What's working less well

Inexperienced or partial Audit Committees lacking the skills to encourage desired auditor behaviour

As a result of the perceived variable quality and capability of an Audit Committee, a significant number of auditors in the sample felt that they have experienced engagements where a lower quality Committee has been a barrier to achieving a high quality audit and to ensuring that effective challenge and professional scepticism has been exercised.

While most linked this to quality and experience, some senior auditors felt that they have been undermined when trying to challenge management by a Committee that lacks impartiality, either due to overly close ties with the Financial Director or Chief Financial Officer, or through limited knowledge of the audit process.

Ultimately, a Committee that is less capable or less engaged with the purpose of audit and its methodology was considered by many auditors to be less supportive of ensuring quality throughout the engagement. They were perceived to be less likely to scrutinise the choice of auditing firm, more likely to give the audited entity leeway in terms of documentation delivery, and less likely to be supportive of challenge during the engagement.

"You shouldn't be having a fee discussion where the Committee turns to the CFO and says, 'If you're happy, I'm happy', which does happen." (Partner)

Moreover, some senior auditors felt that Audit Committees can sometimes feel like out-of-date bodies made up of individuals seeking a part-time or retirement role, rather than viewing it as a career choice and being truly invested in the work of the Committee itself. Some within the sample have had experience working with Committee members that they felt lacked motivation to engage with the granularity required during an audit, evidenced by a lack of questions during meetings and an absence of scrutiny shown towards auditor reports. Ultimately, this lack of motivation to actively engage was felt to stymie conversations

and challenge during the audit engagement, giving rise to the concern that Committees often give the audited entity an ‘easy ride’.

“It feels like the Committees that don’t challenge are the ones that don’t have the drive. It’s almost like it’s a retirement move, rather than a position you work towards because you’re good.” (Senior manager / Director)

Poor understanding of the purpose of the Audit Committee and its role in relation to desired auditor behaviours

A small number in the sample had experience working with Committees that they felt were actively showing an interest in maintaining the reputation and profits of management (rather than high quality audit, scepticism and challenge) by asking auditors to write reports that downplay risks, though these types of experiences were rare.

Auditors also felt there is a significant lack of consistency in terms of financial literacy and awareness of changes to audit standards and regulations within Committees. In particular, these auditors felt that some Committees have a much less clear idea of the overall purpose behind an audit, which creates barriers to understanding why scepticism and challenge are more important now than previously in the industry.

“You question if they [Audit Committee members] know why they’re even there, what their role is and what they should be looking to do.” (Partner)

5.2.4 Implications: How Audit Committees can drive desired auditor behaviours

Via high quality, expert and engaged Committee membership

Serving on a Audit Committee should be stressed as an important role, and Committees should seek members that have both the capability and motivation to focus on quality in the audit process, and who understand the need for an auditor to show scepticism and challenge. In particular, ensuring that Committees have membership with strong financial literacy is important for ensuring that they are sufficiently able to engage with the detail of an audit to identify where scepticism or challenge may be missing, and encourage firms in this.

By positioning itself clearly as an independent middleperson

Audit Committees are felt to work best when the Committee feels genuinely independent from both the audited entity and the audit firm, and sees its role as about holding both parties to account to achieve the best possible outcome, and an environment in which challenge is welcomed. Further actions that Committees can take to achieve valuable independence between the audited entity and audit firm – which can in turn create space for scepticism and challenge – include the Committee selecting the auditing firm.

5.3. The role of the regulator

5.3.1 Summary

Across most firms and levels, auditors noted that their firm's focus on scepticism and challenge often mirror the emphasis the regulator (i.e. the FRC) has put on scepticism and challenge, which has led to some effective formalised integration of both behaviours into the audit process.

However, for auditors at manager level and above in particular, there was a feeling the regulator could do more. This relates particularly to the perceived need for greater clarification around how the FRC wants audit firms to document scepticism and challenge, as well as support in educating the audited entity on updated audit requirements and ensuring they are held accountable for their role on audits rated as poor quality.

5.3.2 What's working well

Absorbing FRC communications into firm-wide practices

Auditors and partners felt that communication from the FRC has helped to drive the importance of applying scepticism and challenge when conducting audits. Many associated this communication most explicitly with Audit Quality Reviews, where firms have highlighted that the FRC are calling out areas where scepticism and challenge are not fully applied, leading to poor quality audits.

"I think people [used to think] professional scepticism fell into something confrontational but it's about doing your job now ... [there's] more willingness from staff to ask the questions in the first place... [in the] last four to five years, the FRC have been clear that auditors should be engaging in a way to evidence good professional scepticism." (Partner)

Many auditors felt that expectations from the FRC have meant that firms are more explicitly building scepticism and challenge into the audit practice (e.g. by updating annual training sessions in line with FRC findings) and the audit process (e.g. by building a 'scepticism template' for auditors to fill out when completing their workpapers). For a number of associates in particular, this explicit focus was seen to encourage them to apply scepticism from an early stage in their career, and to sustain this during busier periods, as they are forced to justify and explain their actions on working papers which helps them to develop a questioning mind.

"Documentation is something that is really helping... [The scepticism template] makes you justify things you either haven't done previously and now need to start doing – even if its immaterial, now you're having to fill out a whole template on the estimate or assumption." (Associate / Senior associate)

Publishing audits

A small number of partners mentioned that the heightened focus on scepticism and challenge impacts them most directly given their name is published on the audit. If their audit is rated as poor quality due to a lack of scepticism and challenge, their reputation, salary, bonus, and wider career progression is put at risk and therefore, they feel more driven to ensure both behaviours are applied in practice.

"Another thing I've heard is because your name is on the audit opinion, if you have a bad quality report, you become unusable. If you go for a new client, if

they answer that you got a bad quality score, it shortens your career or inhibits you.” (Partner)

5.3.3 What’s working less well

Increased and unclear documentation demands

Many senior auditors and partners across firms felt demands around documenting scepticism and challenge from the FRC are increasing, in some cases unsustainably, impacting their ability to effectively exercise these behaviours. These auditors felt there is a lack of clarity around how the FRC expects audit staff to complete documents in a way that demonstrates how they applied scepticism and challenge, as well as what they should be focusing on when completing them. When working on these against tight timelines in particular, they felt they have to choose between completing everything to a lower standard so it is done on time or prioritise elements which may not align with the FRC’s priority areas, which means the audit ends up being marked as poor quality anyway.

“Everything that comes from the regulator is incremental, which means that the bar is constantly being raised but it is always making audit bigger, more complex, and harder. We do quite well at implementing changes, but sometimes too much change can be needed at once, so having a steer on what the top, short-term priorities vs. the long-term goals in how we change our practices would make things much easier.” (Partner)

Perceived increased documentation demands and lack of clarity over what to prioritise was felt to add another layer of pressure on some senior auditors, on top of what is already felt to be a growing number of tasks to be completed on any given audit within the same timeframe. This can mean that scepticism and challenge are not applied properly due to limited time or auditors feeling tired and overworked.

“It’s busy the whole year [...] with the [focus on the] quality side has come this huge pressure. More forms, more procedures, more people to review your work. Recruitment is a challenge, head count is low...if we get [documents from the audited entity] late, we fall into the trap of thinking it’s too late to make a challenge.” (Senior manager / Director)

Limited repercussions for the audited entity

Many auditors and partners also felt that the audited entity is not sufficiently reprimanded or implicated when an audit is rated as poor quality by the FRC. This is felt to perpetuate the cycle of audited entities delivering late or poor-quality documents, auditors’ workloads increasing within the same timelines, auditors feeling pressure and ultimately either rushing tasks or working long hours which in turn means that scepticism and challenge are more likely to be sacrificed.

5.3.4 Implications: How the regulator can drive professional scepticism and effective challenge

Via greater direction and clarity around what the FRC expect out of documentation

Clearer guidance on documentation requirements around scepticism and challenge, including highlighting how documents should be completed as well as what areas auditors should be prioritising and focusing on, would help auditors complete them to a higher standard.

Within this, the use of examples and case studies would be most useful, demonstrating to auditors and partners what the FRC would expect out of real-world scenarios, so they feel more able to apply this in their own work.

By recognising the role of the audited entity during audit quality reviews

When conducting auditor quality reviews, the FRC could include reflections on what part, if any, the audited entity might have played in leading to a poor-quality audit (e.g. delivering late documentation). This could help take some onus away from the auditor and relieve some pressure and scrutiny on firms, and help audited entities to better understand the role they need to play in ensuring high quality audit.

By educating the audited entity in updated regulatory requirements and the role of the auditor

The FRC could also help auditors ensure audited entities are kept up-to-date with any changes to regulations and how contemporary auditors work to facilitate stronger working relationships and less resistance from the audited entity to change or challenge. To do so, the FRC could either communicate directly to audited entities, or provide audit firms with the tools to do so themselves, such as reports or packs around what they are required to do as an auditor.

6. Solutions and opportunities to strengthen the environment for applying desired auditor behaviours

This research has highlighted a number of opportunities for audit firms to strengthen professional scepticism and effective challenge, and specific examples of where this is working well in audit firms at present (see previous chapters). To summarise, the key solutions and opportunities within these are as follows:

Cultural aspect	How to strengthen professional scepticism and effective challenge in this area
Communication and leadership	<ul style="list-style-type: none"> • Set the right tone within firms by ensuring there is clear, consistent top-down communication about the importance of scepticism and challenge – even during the busiest periods. Firms should explicitly tie both of these specific behaviours into firm-wide values and behaviours to ensure they are at the forefront of auditors’ minds. • Capitalise on partners’ leadership and influence by ensuring they are providing both explicit and indirect reinforcement of scepticism and challenge on a day-to-day basis, and modelling and leading by example in interactions with audited entities.
Working relationships & psychological safety	<ul style="list-style-type: none"> • Ensure that audit teams are establishing an open, collaborative environment that creates space for discussion and for auditors at all levels to speak up and to raise questions and issues. Specific mechanisms include meetings where each member owns an agenda item to ensure they are heard by colleagues. • Plan effectively for each engagement and allow breathing room in timescales to avoid resourcing crunches in deadlines squeezing out or shutting down scepticism and challenge. • Create a culture of continuous feedback including one in which colleagues are transparent that mistakes happen and focused on how to learn from these and on solutions moving forward. • Embed effective hybrid working by utilising virtual channels for informal as well as formal discussion between audit engagement teams, inviting audit managers and junior auditors to calls that would be useful to observe, and maximising the use of face-to-face interactions for socialising between all seniority levels.
Reward & recognition	<ul style="list-style-type: none"> • Build explicit links between specific quality behaviours including scepticism and challenge and remuneration at all levels, not just partners, such as higher salaries for those who have been shown in feedback to be exhibiting the behaviours.

	<ul style="list-style-type: none"> • Identify opportunities for ad hoc feedback and praise to help foster a culture of positive reinforcement when auditors exhibit the behaviours, for example setting time aside in weekly meetings to praise positive examples of scepticism and challenge. • Capitalise on audit firm-wide award processes and ensure these are clearly backed internally and therefore meaningful, to reinforce the importance of scepticism and challenge, and provide specific examples of where these behaviours have been applied.
<p>Training, coaching & mentoring</p>	<ul style="list-style-type: none"> • Factor in time for coaching responsibilities into the workload of more senior auditors, particularly those who are taking on coaching responsibilities for the first time and may need time and space to develop soft skills around feedback and coaching. • Make formal training as interactive and specific as possible (e.g. role play, case studies, breakout sessions), particularly when delivered virtually in the context of hybrid working. Where possible ensure senior auditors attend to give additional weight to training content, share their own experiences of applying scepticism and challenge and refresh their own training in these behaviours. • Focus on the soft skills training that unlocks scepticism and challenge (e.g. communication, coaching) and tailor this by level.
<p>Relationship with the audited entity</p>	<ul style="list-style-type: none"> • Establish effective relationships with audited entities from the very outset of each engagement, including open conversations about potential risks, ways of working, and establishing channels of communication for the remainder of the engagement. • Bring senior auditors into key meetings with audited entities, particularly at the start of an engagement and when any challenges are being raised, to demonstrate to the entity that the auditors raising the challenge have their firm’s full backing. • Assert from the outset and throughout the engagement the role and independence of the audit firm, including the importance of scepticism and challenge to achieving a high-quality audit, so that challenge is expected rather than viewed as a confrontation.
<p>Relationship with the Audit Committee</p>	<ul style="list-style-type: none"> • Actively engage with Audit Committees from the outset of an engagement to establish the role of the audit firm and the priorities for the audit (including the role of scepticism and challenge), particularly if there are concerns that Committee members may lack an up-to-date understanding of requirements on firms.

- Stress the importance of Audit Committees that are made up of engaged, expert members with enough financial literacy to engage in the detail of an audit, and interrogate that detail with sufficient rigour.