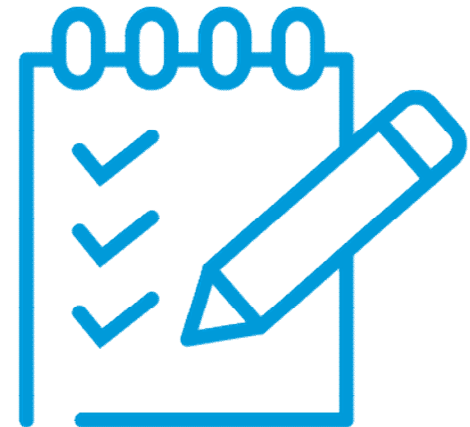


The Importance of Firm Culture

Division of Registration and Inspections and Office of
the Chief Auditor
PCAOB SEIAG Meeting
May 22, 2025

AGENDA

- The importance of firm culture and the impact on audit quality
 - Firm culture and PCAOB standards
 - A global topic of interest
 - An overview of the PCAOB's Culture Initiative
 - Key takeaways from the PCAOB's Culture Initiative
 - Continuing the discussion



FIRM CULTURE AND PCAOB STANDARDS

- AS 1000 addresses topics directly affected by firm culture including:
 - Professional qualifications of the auditor
 - Due professional care, including professional skepticism
 - Professional judgment
 - Competence
 - Engagement performance (e.g., reasonable assurance, audit communications, etc.)

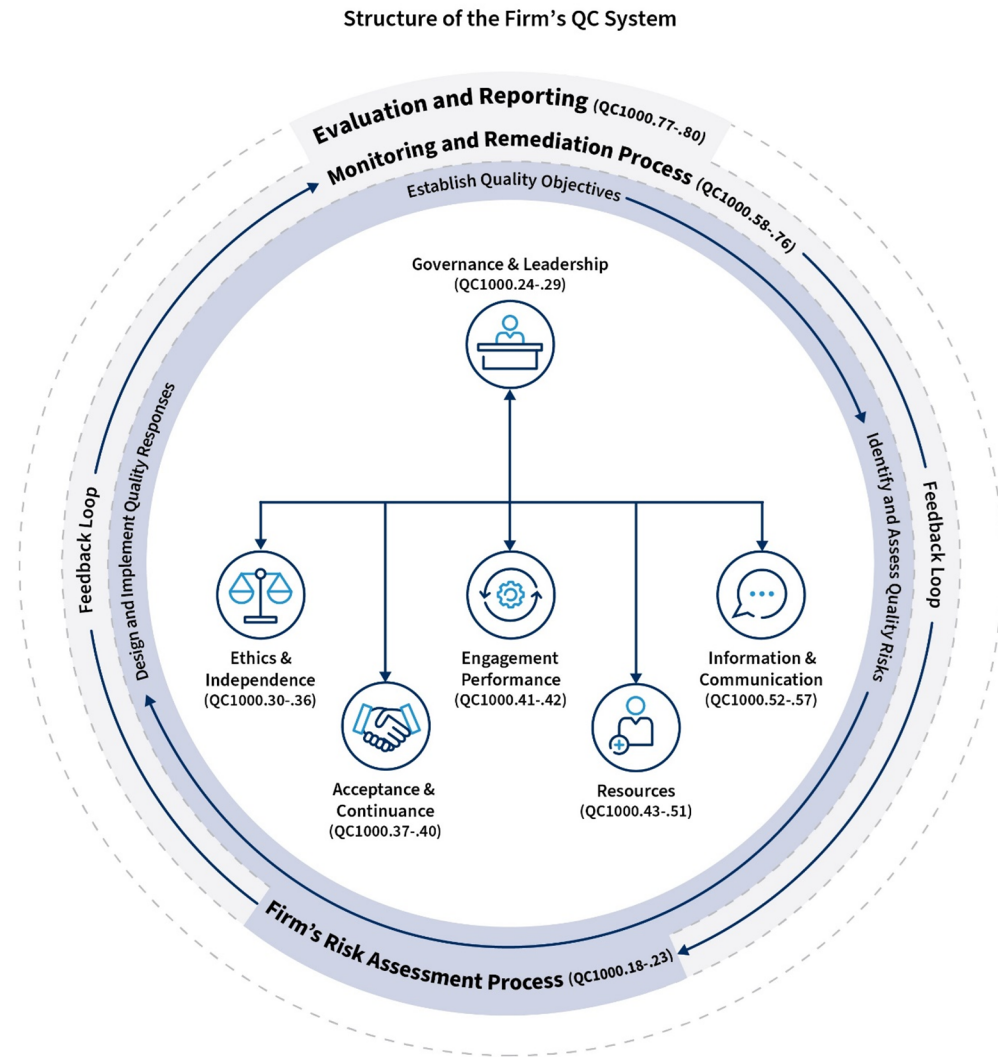
FIRM CULTURE AND PCAOB STANDARDS (CONT'D)

Two process components

- The firm's risk assessment
- The monitoring and remediation

Six components

- Governance and leadership
- Ethics and independence
- Acceptance and continuance
- Engagement performance
- Resources
- Information and communication



FIRM CULTURE AND PCAOB STANDARDS (CONT'D)

- QC 1000 requires **governance and leadership** quality objectives to include, for example:
 - Communicating and promoting the firm's commitment to quality (*See QC 1000.25a*)
 - Linking performance evaluations and compensation to quality (*See QC 1000.25b*)
 - Making strategic decisions and actions that are consistent with and support the firm's commitment to quality (*See QC 1000.25d*)
 - Obtaining or developing and allocating or assigning resources in a manner that allows the effective design, implementation, and operation of the firm's QC system (*See QC 1000.25f*)

FIRM CULTURE AND PCAOB STANDARDS (CONT'D)

- As part of the risk assessment process component, QC 1000 requires that the firm must identify and assess quality risks to achieving each quality objective. Appendix B includes examples of quality risks including examples related to:
 - **The characteristics and management style of leadership** (e.g., senior leadership turnover, the extent to which senior leadership consists of individuals without experience in auditing, leadership tone at the top, timing of actions in response to identified QC deficiencies or engagement deficiencies)
 - **The extent to which a culture of integrity and commitment to audit quality, including ethics and independence, is promoted within the firm and embraced by firm personnel across all levels** (e.g., recognizing the firm's fundamental obligation to protect investors, establishing and adhering to a code of conduct, emphasizing the importance of professional ethics, values and attitudes).

AUDIT FIRM CULTURE – A GLOBAL TOPIC OF INTEREST

- Audit firm culture is being researched by several bodies globally:
 - IESBA: “Commencing in 2025, the Firm Culture and Governance Project aims to develop a new standard establishing an accounting firm culture and governance framework that emphasizes ethical values and fosters a strong ethical culture within firms.”
 - UK Financial Reporting Council (FRC), Audit Market Supervision: “Audit firms need the right culture to drive the right behaviours, which in turn are necessary for high-quality audits. We undertake work to assess and monitor various aspects of the culture at the firms, with a specific focus on the behaviours and mindset that correlate to high-quality audit.”

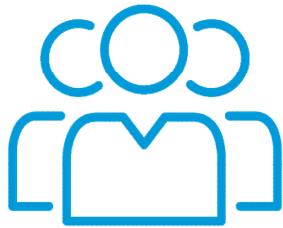
THE PCAOB'S CULTURE INITIATIVE - BACKGROUND

- **Objective:** Explore and understand drivers of audit firm culture and to probe whether the audit firm's culture had an impact on the high rates of audit deficiencies we observed in our inspections from 2020 to 2023.
- **Process:** Launched in September 2023, DRI staff conducted interviews with more than 150 partners across all six Global Network Firms (GNF).
- **Output:** Through interviews, as well as ongoing inspections of firms' quality control systems, we developed several key takeaways related to firm culture and audit quality.

THE PCAOB'S CULTURE INITIATIVE – OVERVIEW

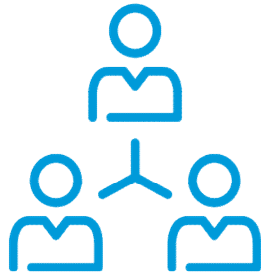
An audit firm's QC system has a critical link to audit firm culture, as QC lays the groundwork for everything auditors do.

Governance and Leadership



- Leadership's Commitment to Integrity and Audit Quality
- Professional Skepticism
- Strategic Decisions and Actions

Resources



- Resource Management
- Hiring and Retention

Engagement Performance



- Responsibility and Accountability
- Centralization and Standardization
- Use of Shared Service Centers

Information and Communication



- Communications
- Work Environment

CULTURE INITIATIVE – KEY TAKEAWAYS

- Key takeaways from Culture Initiative
 - Audit firm culture can drive audit quality – positively or negatively.
 - Centralization and standardization may be correlated with audit quality.
 - The remote/hybrid work environment affects audit firm culture.
 - Audit firms need to promote a culture of accountability to support audit quality.
 - Certain firm personnel may lack foundational skills.
 - Audit leadership sends mixed messages.

December 2024 Spotlight available at: [culture-spotlight.pdf](#)

CULTURE INITIATIVE – CONTINUING THE DISCUSSION

- What other factors should be considered when developing and maintaining a culture that results in high quality audits?
 - Generational differences
 - Stage of career
 - Tenure and experience
 - Global operations including those in emerging markets

It may be helpful to consider the four QC topics referenced on the previous slide when considering this question. Those topics are **governance and leadership**, **resources**, **engagement performance**, and **information and communication**.

CULTURE INITIATIVE – CONTINUING THE DISCUSSION (CONT'D)

- What other considerations to developing and maintaining a strong firm culture and system of quality control do you think exist?
- How do you measure and test the strength of firm culture?
- How do you change firm culture?
- What further steps do you believe the PCAOB should take related to firm culture?

QUESTIONS/COMMENTS

