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Strengthening Audit Quality

Measuring and Monitoring Firm Culture

Part 1: Measuring Culture as Part of a System of Quality Management

High-quality audits depend not only on the technical expertise of auditors, but on the ethics, culture, and governance of audit firms. Firm culture shapes what is valued and prioritized, how individuals make decisions and respond to competing pressures, and the behaviours that are encouraged and reinforced in practice. Firm leadership plays a critical role in establishing the desired culture by setting expectations and demonstrating the values and behaviours that support audit quality, professional ethics, and the public interest. The culture is reinforced through the firm's strategy, governance, and policies and procedures.

A strong culture that supports audit quality is central to how a firm meets its public interest responsibilities. Culture influences not only the quality of individual audits, but also the firm's reputation and the confidence that investors, audit committees, and other stakeholders place in its work. Where culture weaknesses come to light, particularly in high-profile matters involving ethics or integrity, the effect can extend beyond the firm and erode trust in the auditing profession as a whole.

The Canadian Standard on Quality Management (CSQM) 1 requires firms to demonstrate a commitment to quality through a culture that exists throughout the firm.[1] Quality management is not a separate function of the firm, but an integration of a culture that demonstrates a commitment to quality with the firm's strategy, operational activities, and business processes.[2]

Measuring culture can help firms assess whether the culture they seek to promote supports audit quality and whether that culture is understood, experienced, and reflected in behaviours throughout the firm.

This publication shares practical insights from CPAB's regulatory activities, including inspections of firms' systems of quality management and observations of how firms design, conduct, and assess their culture-measurement activities. While approaches vary based on a firm's size and structure, CPAB has observed a number of good practices that helped firms obtain meaningful information about the behaviours and conditions that influence audit quality and use those insights to strengthen their system of quality management.

Designing Culture-Measurement Activities

The design of culture-measurement activities can influence the quality and usefulness of the information obtained. CPAB observed the following good practices at firms that designed culture-measurement activities to obtain insights into the behaviours and conditions that influence audit quality.

Measure Culture Across the Firm

Firms that measured culture organization-wide, including all assurance personnel and personnel in other service lines and functions, were better positioned to assess whether their commitment to quality was reflected in a culture that exists throughout the firm, as required by CSQM 1.

This included all assurance personnel, whether they work on reporting issuer audits or private company engagements because they often share leadership, methodology, training, and resources. It also extended beyond the assurance practice to other personnel who can affect audit quality, such as tax, IT, or valuation specialists who support audits and personnel who provide non-assurance services to audit clients.

Measuring culture across these populations provided a firm-wide baseline. Firms used scoping questions to disaggregate survey results and identify differences across relevant populations (e.g., personnel level, geography, tenure, business unit, or service line). This helped them assess whether those differences could affect audit quality.

[1] CSQM 1, paragraph 28.
[2] CSQM 1, paragraph A30.

Use Multiple Sources

Firms that used information from multiple sources when assessing culture were able to compare stated perceptions with other indicators of behaviour and outcomes and identify areas warranting further investigation. Examples of sources used included surveys, internal and external inspection findings, root cause analyses, whistleblower matters, focus groups, personnel turnover and retention data, and exit interview themes.

Consistent findings across different sources can provide a stronger indication that a cultural issue may exist. For example, if survey results indicated that personnel did not feel comfortable speaking up or challenging more senior team members, firms could compare those results with whistleblower activity, exit interview themes, and findings from inspections or root cause analyses.

Differences between sources can be equally informative. For example, favourable survey results about workload may appear inconsistent with high personnel turnover, or exit interview feedback indicating workload pressures. Such differences could prompt the firm to investigate why personnel perceptions captured through the survey differ from other indicators.

While a concern identified through any one source may warrant follow-up, considering multiple sources together helped firms better understand the nature and extent of the matter and focus their response.

Surveys incorporating culture-related questions provide an important source of personnel perspectives that can be compared with other information available to the firm. Survey results can help firms identify potential gaps between how policies and procedures are intended to operate and how they are experienced by personnel.

Integrate Culture-Measurement Activities with the System of Quality Management

Firms that involved individuals with responsibility for the firm's system of quality management in designing culture-measurement activities were able to link survey questions to the firm's quality risks. Culture insights could then be used to inform the firm's risk assessment process and its monitoring and remediation activities.

For example, where survey results indicate that personnel do not feel that they have sufficient time to perform a quality audit, a firm can use that insight to assess whether overtime monitoring and workload management policies and procedures identified workload issues. If they did not, this may indicate a deficiency in their design or operation that should be investigated further. For example, the threshold for follow-up may be too high, the review may occur too late to provide timely support, or personnel may not be charging all the hours worked.

Measure the Conditions that Influence Behaviour

Firms that moved beyond survey questions about awareness of values were better able to understand the conditions that influence behaviour. This gave them insight into whether the firm's expectations were reflected in day-to-day practice.

For example, rather than asking whether personnel understood the firm's values, these firms' surveys asked whether personnel felt supported in challenging audit evidence, consulting on difficult matters, or prioritizing quality when facing deadline pressure.

See the Appendix for examples of questions that explore the conditions that influence behaviour and the linkage to the system of quality management.

Develop a Comprehensive and Consistent Set of Questions

Firms that used a comprehensive set of well-designed questions were better able to understand the range of conditions that influence behaviour and audit quality. Using questions that collectively covered the areas the firm sought to understand provided a more complete picture of culture than relying on a smaller number of broad questions.

Firms that maintained a consistent core set of questions across measurement periods were able to establish a baseline for assessing changes in culture over time. Core questions were supplemented with questions on emerging issues or areas requiring deeper insight, while preserving the consistency needed for future comparison.

Consider the Timing of Assessments

Firms that designed culture-measurement activities to occur at multiple points during the year were able to identify and remediate findings in a timely manner. For example, culture-related questions can be incorporated into standalone culture surveys, annual engagement or people surveys, or shorter periodic pulse surveys.

Pulse surveys can be used between more comprehensive assessments to monitor whether perceptions of culture have changed, identify areas where improvement is needed, evaluate the effectiveness of actions taken, or understand the impact of significant organizational or external changes.

The timing of when culture-measurement activities are conducted has an impact on the results obtained. Timing of assessments should consider events that may bias the results, such as the completion of busy season or payout of bonuses. Firms that scheduled assessments during periods of typical workload, when personnel had time to respond thoughtfully, obtained more balanced and useful feedback.

Conducting Culture-Measurement Activities

The effectiveness of culture-measurement activities depends not only on their design, but also on how they are conducted. CPAB observed the following good practices at firms that took steps to support meaningful participation and engagement throughout the process.

Communicate the Importance of Participation and Track Progress

Firms that achieved relatively high participation rates (generally 70% or higher) gained more representative insights into personnel experiences and perspectives providing a stronger basis for targeted action. Leadership supported participation by communicating the survey's importance and monitoring response rates throughout the survey period.

Lower participation rates, including among specific groups of personnel, could also provide useful information and warrant further inquiry. It may indicate time constraints, lower engagement, concerns about confidentiality or confidence in the process, or insufficient encouragement from leadership.

To support meaningful engagement, firms explained the purpose of the survey, confidentiality safeguards, how responses would be used, and actions taken in response to previous feedback. Some firms also held leaders accountable for response rates or used friendly competition between offices or teams to encourage participation.

Protect Confidentiality to Support Candid Feedback

Firms that took steps to protect and clearly communicate the confidentiality of survey responses helped address concerns personnel may have about whether their responses could be identified or attributed to them. Providing sufficient comfort around confidentiality can encourage personnel to participate and provide more candid feedback, strengthening the quality of the insights obtained.

Some firms engaged an independent third party to administer the survey and only reported results in aggregate where there were sufficient responses to protect confidentiality. This approach can be particularly helpful for smaller firms, or where there are smaller teams within a larger firm, where personnel may be more concerned that their responses could be identifiable.

Close the Feedback Loop

Firms that communicated survey findings to personnel and explained how they planned to respond helped personnel understand how their feedback was being used. This demonstrated the firm's commitment to addressing the issues identified. These firms found that participation in future surveys increased and personnel provided more candid and meaningful feedback, reflecting greater trust in the survey process. Some firms further engaged personnel through focus groups to better understand the issues underlying the findings and identify actions that personnel considered meaningful.

Closing the feedback loop does not mean acting on every suggestion. Firms that explained what they heard, what they plan to do, and where action may not be appropriate or feasible found they received more candid feedback in future surveys.

Assessing Culture Insights

The value of culture-measurement activities ultimately depends on how the resulting information is assessed and used. CPAB observed the following good practices at firms that considered how insights could be analyzed, monitored, and incorporated into decision-making.

Analyze Culture Across the Firm and Within Different Populations

Firms that analyzed culture at the broader firm level and across different populations (e.g., personnel level, geography, tenure, business unit or service line) gained a more complete understanding of where experiences, perceptions, and behaviours differed across the firm.

This broader and disaggregated view helped firms identify differences that firm-wide results sometimes masked. For example, comparing perspectives on independence across assurance and non-assurance personnel can help identify whether expectations are understood and reinforced consistently across the firm and where further investigation or targeted action may be needed.

Turn Insights into Action and Track Change Over Time

Firms that incorporated culture insights into their monitoring and remediation processes were better positioned to address identified concerns and reinforce cultural strengths. These firms identified priorities, developed targeted actions, and assigned accountability for implementation.

Firms then reassessed culture periodically to determine whether those actions were having the intended effect and if further changes were needed. Comparing results over time helped firms identify changes in personnel perceptions and assess whether those changes were consistent with the intended outcomes of their actions. Some firms supplemented periodic comprehensive assessments with shorter pulse surveys to monitor changes between assessment cycles.



Key Messages

Culture is fundamental to audit quality. Measuring it helps a firm understand whether its commitment to quality is reflected in how personnel make decisions and behave in practice. The practices CPAB observed point to the following key messages:

- **Start with a clear definition of the culture the firm seeks to promote.** Culture measurement is meaningful only when the firm has set out its values and the behaviours it expects of personnel, and leadership consistently demonstrates them. That definition is the benchmark for assessing results.

- **Recognize culture as central to audit quality and the public interest.** Culture shapes the judgments and behaviours on every engagement. It also supports confidence in the firm and the profession. Understanding whether the firm's culture is working as intended should be a leadership priority.

- **Make culture measurement an integral part of the system of quality management.** Culture measurement adds the most value when it is built into the system of quality management, not run alongside it. In practice, that means linking it to quality risks, comparing results with monitoring outcomes and other information, and using it in risk assessment and remediation.

- **Design determines the value of the insights.** How useful the results are depends heavily on design choices. Firms get the most insights from measuring the conditions that influence behaviour (not just awareness of values) and drawing on multiple sources. Running the process in a way that earns personnel's trust and candid participation matters too.

- **Manage culture as an ongoing cycle.** Firms get the most value when they act on what they learn, assign accountability, communicate back to personnel, and reassess over time. This lets them confirm that actions are working and respond as conditions change.

Appendix

Culture Surveys: Questions that Generate More Useful Insights

Culture surveys were one of the tools used by firms to assess culture. CPAB's review identified several questions included in surveys across a range of firms that helped firms obtain more meaningful insight into firm-wide culture. The examples below illustrate how survey questions can provide insights into the conditions that influence quality behaviours and may help firms identify quality risks across different components of the system of quality management.

The questions are illustrative. They are not intended to be a complete or prescriptive set and do not cover all components of the system of quality management. Their usefulness depends on the firm first clearly defining the culture it seeks to promote, including its values and the behaviours expected of personnel. It also depends on how culture-measurement activities are designed, conducted, and assessed. Individual-focused questions, such as those about awareness of the firm's values, can still provide useful information. However, they are most informative when considered together with conditions-focused questions and other sources of information.

For simplicity, each example question is presented under the component to which it most directly relates. However, examples may also provide useful insights to other components of the system of quality management.

Individual-focused question	Conditions-focused question	What the response may help the firm understand	Example quality risk the response may help identify
Governance and Leadership			
Leadership consistently reinforces the importance of audit quality.	Leadership demonstrates its commitment to audit quality through its decisions and behaviours, including when quality competes with commercial or client pressures.	Whether personnel experience alignment between leadership messaging and leadership actions.	Commercial or operational priorities influence leadership decisions in ways that may undermine the firm's commitment to audit quality.
I speak up about concerns regarding audit quality or ethical matters when I become aware of them.	I feel confident that I can raise concerns about audit quality or ethical matters, including through the firm's speak-up channels, without fear of retaliation.	Whether personnel trust the firm's speak-up processes and believe that concerns raised will be addressed without negative consequences.	Audit quality or ethical matters are not raised or escalated on a timely basis because personnel do not have confidence in the firm's speak-up channels.
I feel comfortable challenging judgments in my audit.	I feel safe challenging decisions made by more senior team members when I have concerns.	Whether hierarchy, team dynamics, or performance considerations may hinder appropriate challenge and escalation.	Engagement team members do not appropriately challenge significant judgments or decisions because hierarchy or team dynamics discourage challenge.
When faced with challenging situations, I escalate, consult, and prioritize audit quality.	I feel encouraged and supported to seek consultation when faced with difficult or contentious matters.	Whether the firm's culture supports consultation and escalation when difficult issues arise.	Difficult or contentious matters are not appropriately consulted on or escalated because personnel do not feel supported in seeking consultation.

Individual-focused question	Conditions-focused question	What the response may help the firm understand	Example quality risk the response may help identify
Relevant Ethical Requirements			
I understand and comply with applicable ethical requirements.	I feel supported in prioritizing ethical considerations when faced with difficult or ambiguous situations.	Whether the firm's culture supports ethical decision-making when the appropriate course of action may be less straightforward.	Commercial or client pressures influence decisions in a manner that may result in relevant ethical requirements not being appropriately considered or complied with.
I comply with the firm's independence requirements relating to non-audit services.	I feel comfortable reporting a potential independence concern about proposed non-audit services, even when there is commercial or client pressure to provide the services.	Whether the firm's culture supports an objective assessment of the permissibility of non-audit services under the independence requirements, when commercial or client pressures exist.	Commercial or client pressures influence the assessment of whether non-audit services are permissible under applicable independence requirements.
Acceptance and Continuance			
I consider the availability of specialized skills/ knowledge when accepting or continuing engagements.	I feel comfortable raising concerns about whether the firm has the specialized skills or knowledge needed to perform an engagement, even when there is commercial pressure to accept or retain the client.	Whether commercial pressures discourage personnel from raising concerns during acceptance and continuance.	Commercial pressures influence acceptance or continuance decisions where the firm may not have sufficient resources with the appropriate competence and capabilities available to perform the work.
I consider client integrity when accepting or continuing engagements.	Concerns raised about a client's integrity or ethical values are taken seriously and investigated, regardless of the client's size or fee level.	Whether information about a client's integrity and ethical values is acted on when it may affect the firm's commercial interests.	Information about a client's integrity or ethical values is not appropriately considered in acceptance or continuance decisions, particularly where commercial interests may create competing pressures.

Individual-focused question	Conditions-focused question	What the response may help the firm understand	Example quality risk the response may help identify
Resources			
I have enough time to complete my audits.	I am supported in recording all time worked and raising concerns when the time or resources allocated are insufficient to perform quality work.	Whether engagement budgeting or workload expectations may discourage accurate time reporting or prevent personnel from raising resource constraints.	Resource constraints are not identified and addressed on a timely basis because personnel do not feel supported in reporting actual time worked or raising workload concerns.
I manage my workload effectively across the engagements I am assigned to.	My engagements are budgeted and staffed with sufficient personnel at the appropriate levels, and my overall workload allows me to perform quality work, including during peak periods.	Whether the firm's engagement budgeting, staffing, and workload management processes provide personnel with sufficient time and support to perform quality work, including during peak periods.	Engagements are not budgeted or staffed with sufficient resources, or workloads are not managed effectively, resulting in insufficient time to perform quality audits.
I have the appropriate skills, experience, and training to perform the work assigned to me on my audits.	I feel comfortable raising concerns when I am assigned work for which I do not believe that I have the appropriate skills, experience, or training.	Whether engagement team assignments and the firm's culture support personnel in identifying potential competence or capability gaps.	Competence or capability gaps are not identified and addressed when assigning personnel to engagements or as engagement circumstances change.

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