



UNDERSTANDING AUDIT QUALITY & TALENT MANAGEMENT OF AUDITORS IN PRACTICE THROUGH CONTENT ANALYSIS & INTERVIEWS

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ABSTRACT

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Audit quality continues to be a major concern in the corporate landscape due mainly to accounting scandals arising from questionable accounting practices signed-off by auditors and the inability of auditors to perform audits up to required standards. Researchers and the profession alike have pointed to the talent/human factor as being critical in achieving quality. Objective of the study: To better understand and obtain more information on audit quality and how talent is managed in external audit practices. Method: Content analysis of transparency reports issued by audit practices and interviews with auditors & regulators. Key findings: The content analysis and interviews have provided valuable insights on how the profession defines audit quality and their talent management practices in achieving audit quality. The transparency reports and interviews also provided information on the role audit regulators play in achieving audit quality and its impact on an audit firm's talent management. The content analysis and interviews were insightful in the areas of talent management policies, ethics management, succession planning and role of regulators as very little prior research has been carried out on these areas in the context of audit quality. Implications: The findings provide a sound foundation of audit quality attributes and talent management practices that are paramount in achieving audit quality as applied by the profession. Together with findings from prior research, these findings can be used to set out a comprehensive talent management framework in the external audit setting for achieving audit quality.

Contribution/Originality: This study is one of very few studies to have investigated the attributes of audit quality and talent management practices directly from practitioners of the external audit profession through a comprehensive review of audit quality reports published by audit firms and interviews with audit practitioners & regulators of the profession.

1. INTRODUCTION

Audit quality has long been in the limelight of the corporate and financial world, especially after scandals like Enron and WorldCom, which consequently gave rise to various regulations to monitor the audit profession closely. Despite numerous regulatory measures imposed over the years such as Sarbanes-Oxley Act in 2002 and the Public Company Audit Oversight Board (PCAOB) in the US and an Audit Inspection Unit under the Financial Reporting Council (FRC) in the UK, corporate scandals and accounting failures continue to occur in recent times and the role of external auditors continue to be questioned and challenged such as PwC in the case of India's Satyam Computer

Systems in 2009 (Ramamoorti, Epstein, Dorrel, & Varadarajan, 2017) and EY in the accounting scandals of Olympus and Toshiba in Japan (Uemura, 2016).

The continual corporate and accounting scandals leading to investigation into questionable accounting practices signed off by auditors and the inability of auditors to comply with standards and requirements for audits of financial statements have indeed raised concerns of audit quality, especially on what drives audit quality. Despite an array of factors affecting audit quality studied in the past such as incentives, experience, knowledge, firm size, length of auditor tenure, provision of non-audit services, the audit process, professional judgement of auditors, etc. (Iskandar, Sari, Mohd-Sanusi, & Anugerah, 2012; Jackson, Moldrich, & Roebuck, 2008; Peytcheva & Gillett, 2012; Reichelt & Wang, 2010; Seidel, 2017; Trompeter & Wright, 2010) the emphasis of late has been on the audit engagement team.

The significance of the human factor in an audit has been raised by several researchers studying audit quality over the years such as Hussein and MohdHanefah (2013) and Gaynor, Kelton, Mercer, and Yohn (2016). The importance of the human factor performing the audit in achieving audit quality is also emphasised by the International Auditing and Assurance Standards Board (IAASB) (International Auditing and Assurance Standards Board (IAASB), 2014; Neri & Russo, 2014) as promulgated in their *Framework for Audit Quality 2014*. Tysiac (2016) asserts that having the right people to perform the audit is the most vital element in the pursuit of audit quality. Even though there have been previous studies on the attributes of auditors and how it affects audit quality, there is limited study that examines how talent management affects the quality of auditors and consequently audit quality.

Given this significance, it is imperative to gain a better understanding and further information on how audit quality is perceived or viewed by the external auditing profession and how public accounting firms manage their talent to achieve audit quality; which is the research objective of this study. The subsequent sections of this paper set out the literature review on audit quality and talent management, the methodology used in the study, findings and implications of this study.

2. LITERATURE REVIEW

2.1. *The Link between Audit Quality and Talent Management*

The talent or people that perform and report on an audit have been examined in prior studies mainly from their (desired) behaviors and as inputs to audit quality. One of the key studies on the attributes of auditors was by Duff (2004) in his development of AUDITQUAL; which is a behavioral perspective of audit quality, that consists of nine factors of auditors behavior comprising reputation, capability, assurance, independence, expertise, experience, responsiveness, empathy, and provision of non-audit services. Duff's AUDITQUAL is an extension of prior studies of audit quality based on auditor's behavior (e.g. Behn, Carcello, Hermanson, and Hermanson (1997)). Whilst AUDITQUAL sets out desired attributes/behaviors of auditors, it does not examine how these attributes/behaviors are attained nor managed.

Other behavioral studies on auditors were on professional judgement and quality threatening behavior. Inconsistencies in applying professional judgement in the audit approach and report, such as the determination of materiality threshold or issuance of audit opinions (Iskandar et al., 2012) reflect low quality audit judgment performance. Quality threatening behaviors (QTB) are acts such as failure to pursue questionable items, false sign-off on audit steps, performing a superficial review of audit evidence, or suppressing questionable audit evidence. Peytcheva and Gillett (2012)'s study on mid-sized firms registered with the PCAOB for instance, found that prior involvement in an audit engagement increased the likelihood of evidence suppression by auditors who encounter disconfirming evidence. While past studies have shown the significance of professional judgement and QTB on audit quality, it however does not examine what is required to drive and manage such behaviors.

Studies on inputs of audit quality in relation to the people factor have been on auditor's education & knowledge (e.g. Cheng, Liu, and Chien (2009)) and experience & expertise (e.g. Reichelt and Wang (2010)). These studies

generally find that auditors' individual attributes such as education, knowledge, experience and expertise show a positive association with audit quality. However, just like studies on auditors' behavior discussed above, there is limited examination on how such attributes are attained nor managed in order to achieve audit quality. As the quality of an audit very much hinges on the people that perform and report on an audit, it is paramount that these talent be properly managed to not only ensure that they are able to obtain sufficient and appropriate audit evidence as the basis when forming the audit opinion, but is also ethical in doing so.

2.2. Key Factors Affecting Talent Management

Talent or human capital is a public accounting firm's most valuable asset (Cheng et al., 2009) more so when the emphasis on audit quality is now focused on the audit engagement team. Even though there is no consensus in defining talent management (TM) in academic research (Gallardo Gallardo & Thunnissen, 2016) the most common definition used or cited is by Collings and Mellahi (2009) who define TM as:

“activities and processes that involve the systematic identification of key positions that differentially contribute to the organization's sustainable competitive advantage, the development of a talent pool of high-potential and high performing incumbents to fill these roles, and the development of a differentiated human resource architecture to facilitate filling these positions with competent incumbents, and to ensure their continued commitment to the organization” (p. 304).

There have been various studies on TM activities and processes (i.e. practices) in the external audit profession such as recruitment (e.g. Law and Yuen (2011)), retention (e.g. Kang, Lee, Son, and Stein (2017)), training (e.g. Cheng et al. (2009)), supervision (e.g. Herrbach (2005)), work-life-balance (e.g. Ladva and Andrew (2014)). These studies generally find that the TM practices examined have a positive association with audit quality, however audit quality was measured based on audit outputs especially the effect of earnings management and contextual elements such as size and tenure, instead of desired behaviors or attributes of auditors. Most prior studies examined a few (or limited) talent management practices such as training & development or remuneration. Hardly any of these audit quality studies have examined a comprehensive set of TM practices/activities. This makes the scope of TM studied fragmented, which is not consistent with the definition of TM by researchers (such as Collings and Mellahi (2009)).

As such, it is imperative that we gain a better understanding of TM practices employed by audit firms in relation to audit quality, as well as how they define audit quality in practice. That is why this study will undertake a content analysis and interviews to better understand the phenomenon in practice.

3. METHODOLOGY

3.1. Content Analysis

3.1.1. Undertaking the Analysis

Content analysis is a research method that systematically examines observed symbolical data in human communication; be it textual, visual or audible; by recording these information or messages into categories (Stemler, 2001). Based on the review and analysis of audit quality and talent management practices from literature, a set of themes (as shown in Table 1) was developed. It was structured to obtain information relating to talent management practices and how audit quality is defined by external audit practices, as well as the role of regulators on audit practices. Creating themes or categories enables the reviewer or researcher to better describe the phenomenon, to increase understanding and to generate knowledge (Cavanagh, 1997; Elo & Kyngäs, 2008).

Table-1. Audit quality & talent management themes.

Theme A: Definition or concepts of audit quality	
Theme B: Talent management practices in relation to audit quality	
a)	Established talent management policy;
b)	Recruitment of partners and professional staff;
c)	Ethics management of partners and professional staff;
d)	Retention of partners and professional staff: <ul style="list-style-type: none"> - training and development; - supervision & review by superiors; - work-life-balance measures; and - remuneration and compensation
e)	Succession planning for leaders/partners the firm
Theme C: Role of regulators on audit practices	

Source: Adapted from literature on audit quality & talent management practices.

Based on the themes/categories as set out in Table 1, the text data was reviewed and read through thoroughly to obtain information, attributes or characteristics for each category/theme.

3.1.2. Text Data Used for the Content Analysis

The content analysis was based on audit quality reports' issued by audit firms, better known as the Transparency Report (TR). The TRs provide information on audit quality as well as policies, practices and approach undertaken by firms in achieving audit quality, including their talent management practices. TRs from the UK and Australia were selected for this analysis as these two jurisdictions have made it mandatory for auditors of corporations with traded securities and/or public interest entities to publish TRs annually (required by The Statutory Audit Directive by the Public Oversight Board of the Financial Reporting Council (FRC) in the UK and a requirement of the Corporations Act 2001 and the Australian Securities and Investment Commission in Australia).

Content analysis of reports by Malaysian firms is not feasible as there are no requirements by the regulators or professional accountancy bodies in Malaysia to publish such reports. Even though the TRs analyzed in this study were from the UK and Australia, the TRs selected were from firms with international practices which have a presence in Malaysia and therefore were largely relevant & applicable in the Malaysian context.

The latest published TRs (for reporting year 2016) from the top ten public accounting firms from both jurisdictions have been selected for the content analysis, as shown in Table 2 below. The top ten public accounting firms selected were based on the 2016 World Ranking of public accounting firms by the International Accounting Bulletin in February 2017 (International Accounting Bulletin, 2017).

Table-2. List of public accounting firms selected for content analysis.

No.	Public Accounting Firm	TRs analyzed for year 2016		TOTAL (number of TRs analyzed)
		United Kingdom (UK)	Australia	
<i>Big-Four Firms</i>				
1.	PricewaterhouseCoopers (PwC)	✓	✓	2
2.	Deloitte	✓	✓	2
3.	Ernst & Young (EY)	✓	✓	2
4.	KPMG	✓	✓	2
<i>Non Big-Four Firms</i>				
5.	BDO	✓	✓	2
6.	RSM	*	✓	2
7.	Grant Thornton International (GT)	✓	✓	2
8.	Baker Tilly International (BT)	*	✓	1
9.	Crowe Howarth International (Crowe)	✓	✓	2
10.	Nexia International (Nexia)	✓	✓	2
	Total	9	10	19

Note: * In the UK, BT and RSM are part of the same entity under the practice of "Baker Tilly UK Audit LLP".

3.2. Interviews

3.2.1. Undertaking the Interviews

Seidman (2006) asserted that interviewing is a method that “provides access to the context of people’s behavior and thereby provides a way for researchers to understand the meaning of that behavior. Interviewing allows us to put behavior in context and provides access to understanding their action” (p. 10). The interviews were carried out after the content analysis was completed. The questions posed to the interviewees were open ended questions, based on the themes derived from the literature review as set out in Table 1 and findings from the content analysis of TRs. The questions related to the meaning or concept of audit quality, talent management practices in achieving audit quality and the role of regulators on talent management and audit quality.

3.2.2. Respondents of the Interviews

For this study, audit partners and regulators were interviewed to better understand how audit quality is defined and talent management practices employed by the profession in the context of audit quality. Onwuegbuzie and Collins (2007) suggested that the minimum sample size for phenomenological research is no more than ten interviews. Ten individuals were interviewed comprising eight audit partners and heads of the two audit regulators in Malaysia. The audit partners were contacted directly through email and through the assistance of professional accountancy bodies in Malaysia. In order to attain information and feedback that was balanced, the eight partners interviewed comprised of partners from one big-four firm (denoted as BF1), five small-medium practices (denoted as SMP 1 to SMP 5) and two sole proprietors (denoted as SP 1 and SP 2).

The two regulators interviewed (denoted as REG 1 and REG 2) were the heads of audit oversight and/or enforcement; one being the regulator for auditors of public-interest entities and the other being the regulator for auditors of non-public-interest entities.

4. FINDINGS & DISCUSSION

4.1. Audit Quality

Table 3 summarizes the concepts of audit quality defined or provided by audit firms, extracted from their respective TRs based on the themes as set out in Table 1. The results are discussed below.

Table-3. Definition or concept of audit quality derived from the TRs.

No	Definition or Concepts of Audit Quality	UK (9 TRs)		Australia (10 TRs)		Total (UK & Australia)	
		No.	%	No.	%	No.	%
a)	Conducting the audit in accordance with auditing standards and regulatory requirements.	9	100%	8	80%	17	89%
b)	Capabilities and experience of the audit team.	9	100%	7	70%	16	84%
c)	Independence/ethical behaviour of the audit team.	8	89%	10	100%	18	95%
d)	Ability to deliver client service.	2	22%	5	50%	7	37%
e)	(Minimising) deficiency findings from inspection by regulators.	8	89%	3	30%	11	58%
f)	Professional scepticism.	7	78%	7	70%	14	74%

Source: Transparency Reports of respective firms for 2016.

The analysis of TRs showed that most audit firms defined audit quality based on attributes of the engagement team. The ability of partners and staff to perform the audit in accordance with prescribed standards and regulations, ethical conduct/behavior and competency and skills of the audit team were the key attributes of audit quality. Based on the nineteen TRs reviewed, almost all the firms indicated that independence of the engagement team was paramount to audit quality. Most of the firms asserted that integrity amongst their professionals was important to

guide the conduct of the audit team and that this was an integral infrastructure of audit quality. Besides ethical behaviors, the other area of importance that augments audit quality reported by the firms were the competencies and capabilities of the engagement team (all firms in the UK and 70% of firms in Australia) and their ability to perform the audit in accordance with prescribed standards such as the ISAs and ISQC 1 and relevant regulations (all firms in the UK and 80% of firms in Australia). Because of this, most firms had made substantial investment in its people; in particular in training and development.

The TRs reviewed also indicated that a vast majority of the firms in both jurisdictions cited professional skepticism amongst its auditors to be integral to audit quality. 78% of UK firms and 70% of Australia firms reported that they placed emphasis on audit engagement teams to exercise professional judgement in planning & performing an audit and exercise professional skepticism when undertaking audit procedures and reaching conclusions. 22% of UK firms and half of Australian firms noted that as service organizations and commercial enterprises, the quality of an audit has to transcend merely compliance with prescribed standards, to also provide the best service to clients.

Besides talent or people attributes, public accounting practices in the UK have also reported audit quality in terms of outcome of inspections from regulators, specifically the FRC Audit Quality Review and ICAEW's annual inspections. 89% of firms in the UK had reported on outcome of findings from external reporting as part of their audit quality indicators, whereby a decrease in audit deficiencies reported by regulators was regarded as an improvement of audit quality of the firm.

From the interview with Malaysian audit practitioners and regulators, the interviewees generally asserted and acknowledged that compliance with standards and regulations (including quality controls requirements) was fundamental to audit quality. Most of the practitioners and regulators interviewed also asserted the importance of partners and staff having the right mind-set (i.e. professional skepticism), integrity and independence when performing the audit to ensure the quality of audit was achieved.

4.2. Talent Management Practices

The talent management practices prescribed by public accounting firms as reported in the TRs are set out in Table 4.

4.2.1. Talent Management Policy

With regards to establishing a talent management policy, the majority of the firms did not indicate having a formalized talent management policy. Only four firms in the UK and Australia respectively had reported on talent management policy. Among the firms that had indicated such policies were GT referred as "People Practices or Controls" and KPMG UK referred as "People Practices – Our Deal". Of the firms that have reported on the existence of such policies, two main findings relating to talent management have been noted. Firstly, 44% of UK firms and 40% of Australian firms indicated that having an established talent management policy forms part of the firm's overall strategy. Secondly, half of the firms that have reported on the importance of talent management policies as part of their overall strategy further point out that having a talent management policy is vital to drive overall talent management and career planning of their partners and professional staff.

While the content analysis had not indicated a significant proportion of firms highlighting the role or impact of an established talent management policy on audit quality, the interviews with practitioners on the other hand revealed the significance of having a formal, written and established talent management policy within the firm to drive talent management practices to ensure that the right people were brought into the firm and that they were properly developed and consequently retained. Some of the feedback on this were as follows:

"A talent management policy is very important, because without a policy there isn't a direction on how to manage the people. If it's not written down or it's not documented, it can be easily off tangent" (SMP 1).

“It’s very important for a firm to have an established talent management policy. While getting talent is not an issue, the bigger challenge faced is keeping the talent. We want to ensure that the people who leave are the people who we don’t want to keep.” (BF1).

Table-4. Talent management practices associated with audit quality derived from the TRs.

No	Talent management practices associated with achieving audit quality	UK (9 TRs)		Australia (10 TRs)		Total (UK & Australia)	
		No.	%	No.	%	No.	%
1.	Established Talent Management Policy:						
	a) Part of the firm’s strategy	4	44%	4	40%	8	42%
	b) For human resource management & career planning	2	22%	3	30%	5	26%
2.	Recruitment:						
	a) Graduate and experienced hires routes	5	56%	3	30%	8	42%
	b) Diversity in hiring	4	44%	3	30%	7	37%
	c) Skills and competency assessments for selection	7	78%	5	50%	12	63%
	d) Ethical values of new hires	3	33%	1	10%	4	21%
3.	Ethics management:						
	a) Independence and other ethical compliance of ISQC 1	9	100%	10	100%	19	100%
	b) Code of conduct or ethics	8	89%	9	90%	17	89%
	c) Person in charge or team overseeing ethics management	8	89%	8	80%	16	84%
	d) Tone from the top drives ethical behavior	6	67%	2	20%	8	47%
4.	Training and development:						
	a) Mandatory CPE/CPD hours	2	22%	6	60%	8	42%
	b) Specific or mandatory topics to be covered	2	22%	3	30%	5	26%
	c) Structured/class room training	5	55%	6	60%	11	58%
	d) On-the-job training	5	55%	6	60%	11	58%
	e) E-learning	1	11%	2	20%	3	16%
5.	Supervision and review of work done:						
	a) By more experienced staff	9	100%	10	100%	19	100%
	b) Embedded as part of firm’s methodology	1	11%	1	10%	2	10%
	c) Review findings are discussed with subordinates	2	22%	2	20%	4	21%
6.	Remuneration/Compensation:						
	a) Based on skills, expertise and performance	5	56%	7	70%	12	63%
	b) In line with market rates	3	33%	0	0%	3	16%
	c) Equal or fair remuneration	1	11%	0	0%	1	5%
7.	Appropriate work-life-balance measures.	0	0%	0	0%	0	0%
8.	Succession planning for new leaders or partners:						
	a) Groom or develop senior management	4	44%	3	30%	7	37%
	b) Specific or designated program in place	4	44%	3	30%	7	37%
	c) Part of firm’s overall sustainability	0	0%	1	10%	1	5%

Source: Transparency Reports of respective firms for 2016.

4.2.2. Recruitment

85% of firms in the UK and 72% of firms in Australia reported at varying degrees, on recruitment practices for new partners and professional staff. The TRs revealed four issues in relation to recruitment practices amongst these firms.

The most common issue reported was that there were two major routes employed for recruiting new staff - which was the new hire or inexperienced hire (sourced directly from universities and through job advertisements) and the second avenue being the hire of experienced staff and partners (sourced primarily from job advertisements and referrals). 56% of firms in the UK and 30% of firms in Australia have explicitly reported on these distinct approaches to recruiting new staff and partners.

The second recruitment issue highlighted in the TRs of 78% of firms in the UK and 50% of firms in Australia was that the assessment of skills and competency of potential new staff and partners was done for selection into the firm's workforce. These assessments included technical competency and behavioral aspects conducted via formal tests and/or informal interviews. The firms highlighted the importance of such assessments as a means to ensure they get the right people into the firm to ensure the quality of the audit work performed and opinions rendered thereafter.

The next issue which was reported was the importance of the ethics of the new staff and partners recruited. 33% of firms in the UK and 10% of firms in Australia highlighted the significance of ensuring that new recruits coming into the firm had strong ethical sense and values, to ensure that the audit work performed and decisions taken were not compromised.

44% of firms in the UK and 30% of firms in Australia explicitly reported on diversity in recruitment. The firms that report on this area denoted that hiring staff and partners from a diverse background and ethnicity have, and will contribute to more varied skill sets and consequently towards audit quality.

The interview with the Malaysian practitioners had also echoed the importance of the recruitment process in ensuring audit quality, specifically in terms of getting the right talent into the firm to achieve this. Various approach and considerations were applied in the recruitment process from using different channels to engage with potential talents, interviews & assessments for candidates, the need for diversity in hiring new talents as well as ethical considerations.

4.2.3. Ethics Management

The review of TRs on talent management practices related to ethics management, training & development and supervision & review revealed a unanimous consensus from all firms in both jurisdictions that these practices were critical to audit quality, as shown in [Table 4](#). Firms explicitly reported on specific measures put in place to manage ethical requirements of the engagement team, supervision and review of work done by the engagement team as well as training & development for partners and professional staff. The consensus was prevalent across Big-Four and non Big-Four firms.

In terms of ethics management, five key practices were observed from the TRs reviewed. Firstly, all firms indicated compliance with ethical requirements (especially on independence) set out by professional & regulatory bodies and ISQC 1 by all partners and professional staff which include independence & confidentiality declarations and client acceptance procedures. Most firms indicated that such compliances must be explicitly made at least on an annual basis.

Next was having a formal code on ethics set out as a reference for partners and staff within the firm to guide them on how to deal with ethical matters throughout the audit. 89% of UK firms and 90% of Australian firms had a formal Code or Manual of Ethics, as part of their practice in managing ethics amongst their talent. These codes are largely derived based on international codes of ethics issued by the IFAC and local regulatory and professional bodies. 89% of UK firms and 80% of Australian firms also reported that there is a designated person (a Partner or

Director of the firm) in charge to oversee proper implementation and compliance of ethical requirements. Besides that, 67% of firms in the UK and 20% of Australian firms also indicated that the tone from the top was crucial in driving ethical behavior within the firm.

The importance of managing ethics amongst partners and professional staff was also prevalent throughout the interviews. There were various mechanisms put in place for managing ethics and achieving ethical compliance, specifically in terms of ISQC 1 compliance. Here are some of the comments made by the interviewees:

“There is a Code of Conduct to guide what you do and don’t do, your conduct outside of office and holding out of firm information. The firm wants to articulate the value of the firm and is it channeled down to everyone. So the hard process is all the forms and codes, and the soft process is the culture and tone from the top. For us ethics is fundamental – we don’t condone something wrong or short cuts or compromise integrity” (SMP 3).

4.2.4. Supervision and Review

All TRs of firms reviewed indicated that there were certain practices put in place for supervision and review of work done by subordinates by superiors, as shown in Table 4. Two main practices have been noted.

Firstly, the supervision and review generally involved a detailed review by a more experienced staff of the audit work done, adequacy & appropriateness of audit evidence obtained and ensuring all necessary compliances have been addressed.

Secondly, some firms used technology for their supervision and review practices by using an audit software that enabled superiors to supervise the work done by staff on a “real time” basis. Firms that employ such an approach for review and supervision were PwC that used their “Aura” software and GTI Australia who used their “Voyager” software. A small number of TRs also noted that part of the review & supervision function was the importance of communicating findings of the review to subordinates effectively.

The practitioners interviewed shared similar practices for supervision and review as those discussed earlier from the review of TRs.

4.2.5. Training and Development

The TRs of most firms indicated that their training and development practices encompassed structured/classroom training and on-the-job training. 55% and 60% of UK and Australian firms respectively explicitly reported that employing this two-pronged approach was effective for training & developing their engagement team in delivering better quality audits. A small number of firms (11% of UK firms and 20% of Australian firms) also expanded the method of training their partners and staff through e-learning platforms. Besides training and development methods, two other findings have been noted from the TRs reviewed – mandatory continuing professional education/development (CPE/CPD) hours and specific learning and development topics. 22% of firms in the UK and 60% of the firms in Australia reported that partners and staff were required to complete a minimum or mandatory number of training hours.

The CPE/CPD hours required ranged from between 90 to 120 hours, over a three-year period, which is in line with the requirements of many professional and regulatory bodies in the UK and Australia. Some firms also incorporated a specific or mandatory training program, covering fundamental topics on auditing and financial reporting, that had to be completed by partners and staff. 22% of firms in the UK and 30% of the firms in Australia have reported such practices in their TRs.

Feedback obtained from the interviews also demonstrated how crucial training and development is to build competency of talent in an accounting firm and its direct impact on the quality of the audit performed. Practitioners interviewed shared various aspects of training and development of their talent which encompassed specific topics or mandatory training areas, minimum training hours to be fulfilled and varied training delivery methods; as follows:

“We have structured training between 60 to 80 hours per year. There is compulsory training on methodology as well as on leadership. We find that the more we train, the more we are equipped and training is one of our biggest investments as this affects the quality of our work” (SMP 3).

“Every level of the engagement team needs to go through the required mandatory training hours. At the same time, on-the-job training is also very important. As a regulator, we look into whether partners and staff have met CPE requirements...” (REG 2).

4.2.6. Work-Life Balance

None of the firms in both jurisdictions disclosed or reported on any work-life balance measures or practices in their TRs.

However, the interviews revealed that work-life balance is a growing concern and an important part of talent management within the profession, especially with the millennials. Practitioners have put in various measures to address work-life balance concerns, with the hope that the productivity of talent within the firm will improve and consequently improve the quality of the audits performed. The following are some of the feedback from the interviewees:

“There are a lot of activities and engagement with the staff such as sports activities, inter-firms games and so on. We want to know if somebody is not happy, feeling tired or pressured. In Malaysia, we cannot avoid the volume (of work). The direction we want to take is to grow on quality, not on volume. We want to grow the fees, educate the client, provide them with quality services and reduce the volume by resigning from clients that we don’t think there is a future” (BF1).

“Our working hours is flexible and this is preferred by younger people. We take on good jobs; where we want to earn from margin – gone are the days where we want to earn from revenue. This is one of the ways we want to achieve work-life balance. Besides that, we have set aside funds for recreation and trips” (SMP 4).

4.2.7. Remuneration

Table 4 shows that 50% of firms in the UK and 56% of firms in Australia have reported specific remuneration or compensation practices for partners and staff as a means of retention and/or to reward performance. Partners and staff were rewarded based on their performance and contribution towards the achievement of quality audits, and in some cases; special recognition and awards were accorded to staff and partners who demonstrated exceptional performance in their audit work done.

Most performance based rewards were determined based on formal appraisals performed on partners and staff. 56% and 70% of firms in the UK and Australia respectively reported this in their TRs. 33% of UK firms also indicated that their remuneration is line with market expectations and firms’ overall performance. Such an approach is used to ensure that the remuneration is not only fair and equitable, but also as a means to retain talent in the firm.

4.2.8. Succession Planning

The last TM practice associated with audit quality was succession planning. Almost half of UK firms indicated that succession planning measures were in place as part of their approach of achieving (and sustaining) audit quality. However, this was lower among Australian firms; whereby only about one third reported succession planning practices. Three findings were derived from the TRs reviewed.

Firstly, succession planning practices were put in place to groom and develop potential partners and directors and secondly, firms explicitly indicated that there as a specific program in place to develop them. The program put in place included pre-determined criteria for identification of potential leaders and specialized training on leadership skills and duties. 44% of firms in the UK and 30% of firms in Australia reported these two approaches in their TRs.

The responses from the interviews generally showed that succession planning in an audit practice was important for continuity purposes; specifically for retention. Retention is a key component of talent management and with proper retention (and continuity), the quality of work performed will also be positively affected.

4.3. Role of Regulators

The TRs generally indicated that the regulator's role on audit quality was through inspection of work performed by firms to ensure that they met regulatory requirements, financial reporting & auditing standards and ethical requirements; highlight areas requiring improvements and providing recommendations to improve audit deficiencies. Besides that, regulators also set out frameworks on audit quality to guide auditors throughout the audit engagements.

The interviews provided further information on the role of regulators besides just inspecting the quality of the audit work performed but further revealed that the regulators' inspection creates a "fear factor" within the firm that drives partners and staff to ensure audit quality throughout the audit engagement. The findings on areas requiring improvement and recommendations provided by the regulators during inspections have also helped firms to improve, if not elevate their audit quality. Due to the seriousness of regulators for firms to ensure quality in their audit work, partners (and the firm) have communicated this message down to all professional staff and this has affected how talent is managed in the firm, seen mostly in recruiting the right people for the job and retention practices implemented in the firm. The following are some of the responses from the interviews:

"When the regulator comes in it's very stressful; but thanks to them, the overall audit quality improved a lot. Mostly because of fear – a lot of firms get reprimanded and they make it public. We try to take in recommendations given by them and this is communicated to the staff" (SMP 3).

"The oversight by regulators has influenced the way firms carry out their work because we have sent a very clear message to auditors that we mean business with audit quality; so those who don't meet the standards or requirements will be removed or publically reprimanded. When we inspect the firm, they know the importance of properly staffing the job and indirectly they will make sure they have and retain the right people" (REG 2).

5. CONCLUSION

The objective of undertaking the content analysis and interviews for this study was to better understand and obtain more information on audit quality and talent management practices in public accounting firms. The content analysis of TRs from UK and Australia as well as the interviews with Malaysian practitioners and regulators provided invaluable insights into actual practices and additional clarification on talent management to achieve audit quality in practice. This is especially in the case of practices on ethics management, training & development, supervision & review and succession planning which can be clearly seen from both disclosures in the TRs as well as feedback from the interviews, whereby practices that are specific and unique to the audit profession have been noted. Of these, the information on ethics management has been most insightful as there has been very little researched on this area in the past within the external audit setting. The clear contrast in terms of findings from the content analysis and interviews is seen in the information relating to establishing a TM policy and work-life-balance. While the TRs do not explicitly report on these two areas, the interviews with partners and regulators have shown how important these two areas are in talent management, especially for achieving audit quality.

The findings provide a sound foundation on the audit quality attributes deemed significant by the profession and the specific TM practices undertaken by firms to manage their talent in the pursuit of audit quality. Together with information already obtained from prior studies, these findings can be used to set out a comprehensive talent management framework in the external audit setting for achieving audit quality. These attributes and practices can also be used in future research to measure audit quality and talent management of external auditors that is relevant and unique to the profession.

The key limitation in gaining better understanding on the audit firm attributes and practices through analysis of TRs is that most TRs report information on audit quality and talent management practices in a standardized manner (based on reporting requirements set by respective regulators) and tend to disclose information at a minimum. As such, there could be other specific attributes of audit quality or TM practices that may have not been discussed in the TRs. This somewhat limits the richness of potential information and understanding that could be obtained by the researcher. Interviewees (especially SMPs) also tend to hold back on sharing more specific information about their internal TM practices as some practitioners regard them as confidential or uncomfortable to share due to being perceived as poor/lacking in good practices.

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