

# The Work Environment in Large Audit Firms: Current Perceptions and Possible Improvements

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**SUMMARY:** This study examines the work environment in the audit division of large public accounting firms. Based on 18 semi-structured interviews (eight partners and ten staff auditors currently or recently employed by large public accounting firms), we find that the interviewees cite several positive aspects of auditing careers including the people, intellectual stimulation, challenge, and responsibility. However, they also cite significant negatives, including PCAOB regulation, stress, and hours. None of the staff interviewees plans to stay in public accounting long term, and while all of the partners would recommend public accounting to others, most focused only on public accounting as a place to start a career. The findings raise a number of concerns regarding the profession's ability to sustain the quality of its human capital, especially since there are no signs of a radically improved work environment in public accounting that may appeal to Millennials. We conclude by discussing possible improvements in the public accounting work environment that would address the issues raised in the interviews.

**Keywords:** public accounting; auditing; work environment; regulation; Millennials.

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Not only is [public accounting] fun every day and flexible, but you get to meet a lot of great people . . . What you do provides a lot of value to the public.

—Quote from a partner<sup>1</sup>

I will say our firm, and I think the other firms, made tremendous strides in work-life balance and creating careers that really suit being able to have a family and enjoy life.

—Quote from a partner

That's crap when they keep talking about [work-life balance], over and over, saying there is a work-life balance. Because on our job, because of the deadlines, the client demands, the public filings and all of that, there are times when work-life balance is completely out of whack, and if someone were to tell you they never have that situation, frankly they are lying.

—Quote from a partner

So you're working on average 60 hours [per week], and then . . . you get to January . . . we worked at least 90 hours [per week]. I remember [one week] submitting my timesheet and having 128 hours . . . One week, 128 hours. I went home [only] to shower one of those nights. I charged 22 hours for that day.

—Quote from an auditor

## INTRODUCTION AND BACKGROUND

This study examines the current work environment in large public accounting firms, specifically firms' audit groups. The first two quotes above describe firms' success in enhancing the work environment, expanding advancement opportunities, and allowing auditors to balance family life and career. However, the third and fourth quotes paint a much different picture, where the demands of the profession create instances in which work-life balance is "completely out of whack." In addition, workloads of 90-plus hours per week raise a host of questions about the attractiveness of public accounting as a long-term profession, audit quality, and even auditors' physical and mental health.

Many parties, including the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession (ACAP 2008), have expressed concerns about the long-term sustainability of the auditing profession, in large part because of human capital challenges—attracting and retaining talented people in the auditing profession. The ACAP (2008) acknowledged the auditing profession's efforts to increase its overall personnel retention rate; however, the Committee highlighted the need for continued efforts to assure the supply of human capital to meet the future needs of the auditing profession and to promote high-quality audits. More recently, the PCAOB's Standing Advisory Group (PCAOB 2013a, 2013b) discussed the need for metrics that measure audit quality. The discussion included measures of human capital such as staffing leverage, partner workloads, staff utilization, turnover rates, average years' experience, and number of engagement hours of managers, partners, and quality reviewers. In addition, PCAOB board member Stephen Harris (2015) recently called for research on the profession's ability to attract and retain top talent, echoing previous talent-related concerns voiced by the Big 4's CEOs (Solomon 2008).

<sup>1</sup> The interviewee quotes in the study have been lightly edited for grammar and clarity, with no change to content. In some cases, we have moved a quote to where it best fits the paper.

Thus, important accounting constituencies acknowledge the need for talented human capital to sustain the auditing profession. In addition, in recent years, each of the coauthors has heard a fairly consistent message from alumni and others in practice suggesting that the public accounting work environment has changed to become even *more demanding* and *less appealing* than in previous decades, which likely has a significant impact on the human capital issue in public accounting. The sentiments we have heard include such notions as:

- “The pace of public accounting is much faster today.”
- “Busy season is becoming year-round.”
- “Internal control auditing is not very rewarding.”
- “We are struggling to retain audit partners, especially women.”

And even:

- “Excessive regulation is making this a very difficult industry—I’m not sure I want to do this anymore.”

These sentiments cause us to be concerned for two primary reasons. First, we place many of our students in public accounting and want to better understand what we are “selling.” Second, we care deeply about the long-term viability of the public accounting profession, and the sentiments reported to us could represent significant warning signs regarding the future of the profession.

However, other signals seem to suggest that the work environment in public accounting could be improving. *Fortune* magazine (<http://fortune.com/best-companies/>) ranks the best companies to work for, and each of the Big 4 firms is in the Top 100 in the 2015 list.<sup>2</sup> Also, while many have recognized that Millennials (or “Generation Y”) have a strong focus on work-life balance (which may make public accounting less appealing), there are signs that the large firms are addressing this issue head on.<sup>3</sup> For example, *PwC (2013, 4, 11)* stated:

A decade after the first Millennials entered the halls of PwC, PwC firms began to notice that the youngest generation of professionals were leaving PwC in growing numbers after just a few years. Additionally, and perhaps even more alarmingly, a significant majority of them appeared to lack interest in the traditional professional services career path, one that required an intense work commitment early in their career in exchange for the chance to make partner later on.

PwC knew it needed to clarify the impact of what appeared to be a shift in culture. As a result, PwC undertook a massive generational study, the largest of its kind, to better understand the attitudes and goals of its Millennial workforce.

As a result of its *NextGen* study, PwC is better prepared to address the challenges of the future, understanding more clearly that the Millennial generation is pushing all organizations closer to the work world many of them want. It is critical that organizations acknowledge this seismic upheaval and devise new strategies and paradigms that will create a new, stable foundation from which to build.

<sup>2</sup> KPMG is ranked 63, PwC is 74, EY is 79, and Deloitte is 97.

<sup>3</sup> Consistent with the notion of Millennials focusing on work-life balance, *PwC (2013, 8)* states, “Millennials value work/life balance, and the majority of them are unwilling to commit to making their work lives an exclusive priority, even with the promise of substantial compensation later on.”

Likewise, [Crowe Horwath \(2016\)](#) recently announced two initiatives to improve the quality of its work environment:

The firm's new mobility strategy, which was rolled out in December, includes two policies integral to the firm's approach to attracting and retaining the profession's best talent. The first initiative, "What to Wear," dictates that if you're in the office and aren't meeting with clients, you can keep it casual and wear jeans any day of the week. The second, "Where to Work," allows personnel to work wherever it's convenient and they're most productive, with support from their performance manager.

It is possible that these and other similar efforts at large accounting firms are improving the work environment in public accounting, such that a future shortage of talent can be averted. However, it appears to us that if the work environment today simply remains the same as in previous decades, there may be a major threat to the profession.

Specifically, the literature indicates that the current generation of workers places greater attention on work-life balance than the prior generation, and that professional services firms will have to take this into consideration if they are to effectively recruit and retain employees (e.g., [Cennamo and Gardner 2008](#); [Smith 2010](#); [Caraher 2015](#); [DeVaney 2015](#)). Thus, holding things constant in the public accounting work environment is not a solution because Millennials may not tolerate the long hours and stress faced by previous generations of public accountants.

To provide additional insight into these issues and to promote additional consideration of the work environment in public accounting, we recently took a "snapshot" of selected auditors' perceptions of their work environment. Specifically, we conducted 18 semi-structured interviews (eight partners and ten staff auditors currently or very recently employed in large public accounting firms).<sup>4</sup> We intentionally did not focus the primary interview questions on regulation or the PCAOB, but rather sought to gather broader perceptions of the audit work environment, explicitly asking about PCAOB issues only at the end of the interviews.

Our main areas of focus are:

- (1) what it is like to work in public accounting (i.e., auditing) today;
- (2) the best and worst aspects of the job;
- (3) whether/how public accounting is different than expected (for partners, whether public accounting is different than when they started their career);
- (4) if the staff plan to stay in public accounting;
- (5) if the partners would recommend public accounting to others; and
- (6) (only at the end of the interview) whether/how PCAOB regulation had affected the work environment in public accounting.

It is important to note that the focus of this study is not on specific elements of PCAOB oversight, such as auditors' experiences with the PCAOB inspection process. For insights into such issues, see [Daugherty and Tervo \(2010\)](#), [Houston and Stefaniak \(2013\)](#), and [Johnson, Keune, and Winchel \(2014\)](#). In addition, we emphasize that this is not a broad, large sample survey. Our intent is to understand, at a detailed level, the perceptions of a small group of auditors.<sup>5</sup> Our purpose is not to take specific findings and project them to the population of all auditors.

<sup>4</sup> The interviewees do not include anyone with whom we had spoken informally about the work environment in public accounting prior to undertaking this study.

<sup>5</sup> See [Power and Gendron \(2015\)](#) for discussion of the benefits of such a qualitative research approach.

We find that the partners and staff we interviewed agree that the career is unpredictable/varies and is demanding/challenging. In addition, the partners and staff agree that the best aspect of the job is the people. While the partners view regulation (i.e., PCAOB) and stress as the worst aspects of the job, the staff cite the hours and stress as the worst aspects. Many of the staff report that the responsibility and hours are different than expected, while several of the partners report that the level of regulation is different than when they started. Notably, not one of the staff interviewees plans to stay in public accounting long term. All of the partners would recommend public accounting to others, but most focused only on public accounting as a place to start a career. Finally, all interviewees report that PCAOB regulation has affected the work environment. The partners cite onerous PCAOB inspections as having reduced their satisfaction, while acknowledging that audit quality has increased as a result. The staff cite, as negative developments, more documentation and requirements, inspections driving the audit process, and costs of regulation exceeding benefits.

The findings raise a number of concerns regarding the profession's ability to sustain the quality and quantity of its human capital in coming years, especially since we do not see many signs of a radically improved work environment in public accounting.<sup>6</sup> We discuss implications related to mitigating public accounting's negative aspects, further developing public accounting's positives, and considering the degree to which high turnover in public accounting is a problem—especially whether the current turnover model results in the “right people” staying in the profession.

The next section summarizes recent research on the work environment in public accounting, followed by discussion of the interview method. We then present the interview findings, followed by the discussion and conclusion.

## SELECTED RECENT RESEARCH

Public accounting has long been known to be a demanding profession, with frequent concerns about employee stress, burnout, and turnover, with some attention focused on ways to try to mitigate these factors (e.g., [Fogarty, Singh, Rhoads, and Moore 2000](#); [Almer and Kaplan 2002](#); [Sweeney and Summers 2002](#); [Kalbers and Cenker 2007](#); [Hermanson, Hill, and Ivancevich 2009](#)). Building on this earlier literature, recent studies have provided additional insights into the work environment in public accounting.

For example, [Jones, Norman, and Wier \(2010\)](#) examine the role of a healthy lifestyle in coping with the stress of public accounting. They find that role stress and burnout have negative consequences, which can be mitigated to some extent by a healthy lifestyle. [Herda and Lavelle \(2012\)](#) examine the relation of organizational fairness with burnout and turnover intentions, finding that greater fairness is associated with a lower incidence of burnout and with reduced intention to leave the firm.<sup>7</sup> The authors point to the importance of organizational fairness in creating a better work environment.

As part of a recent analysis of the public accounting new hires assimilation process, [Church \(2014\)](#) finds a great deal of frustration among staff and seniors with the hours in public accounting,

<sup>6</sup> We recognize that this is not a longitudinal study; therefore, we do not have responses to these same interview questions from prior time periods.

<sup>7</sup> [Herda and Lavelle \(2012, 722\)](#) used three measures to assess how fairly firms treat their employees: “1. Overall, I am treated fairly by my accounting firm. 2. In general, I can count on this firm to be fair. 3. In general, the treatment I receive around my firm is fair.”

as well as the unpredictable nature of the schedule. Likewise, [Dalton, Buchheit, and McMillan \(2014, 214\)](#) find that “students who plan to pursue careers in tax perceive that they will have a more stable daily routine . . . if they work in tax (as opposed to audit).” Thus, there are concerns about the day-to-day workload and the predictability of one’s schedule.

[Buchheit, Dalton, Harp, and Hollingsworth \(2016\)](#) examine work-life balance and alternative work arrangements (i.e., flextime, part-time work, telecommuting, and compressed workweeks) in public accounting and industry. They find that work-life challenges are most acute in the Big 4 firms. In addition, they find that alternative work arrangements are viewed as least viable in Big 4 firms, despite organizational support for such arrangements being fairly strong. Thus, it appears that the Big 4 firms’ ability to address work-life challenges is constrained by the viability of alternative work arrangements in a demanding industry with a culture of long hours and face time.

With respect to regulation, [Johnson et al. \(2014\)](#) report that auditors are devoting considerable effort to mitigating potential PCAOB inspection findings, including performing additional procedures, researching current PCAOB inspection focus, and preparing detailed analyses for potential PCAOB inspection questions. Overall, however, the auditors do not feel they have much control over the inspection outcome irrespective of their efforts.

Finally, others recently have examined broader effects of audit workload issues. [Lopez and Peters \(2012\)](#) examine the issue of auditor workload stress and specific audit outcomes. They find that auditor workload compression is associated with greater client earnings management, and a greater likelihood that the client beats its earnings targets. [Bills, Swanquist, and Whited \(2015\)](#) also find that increases in the volume of audit work *temporarily* decrease audit quality as the office absorbs the increase in workload. Thus, the negative effects of overload and stress at the individual auditor level also appear to extend to the engagement level.

Overall, considerable research has examined the profession’s demanding nature and concerns about burnout and its resulting impact on audit quality. To extend this literature and provide current insights into the public accounting work environment, we use a two-pronged interview approach: interviewing both staff auditors and partners about the profession. Based on the interview results and our own observations, we then develop implications, with a focus on possible improvements in the public accounting work environment.

## METHOD

### Interviewees

In 2014, we interviewed ten audit staff members and eight partners from large public accounting firms. All ten of the staff are auditors, and six of the eight partners are auditors—one partner is in tax/wealth management, and another is an advisory services partner who previously had been an auditor.<sup>8</sup> We identified the interviewees through our professional contacts, and they represent multiple geographic areas and firms. We recognize the limitation of a convenience sample, but note that this is typical for interview-based studies (e.g., [Hermanson, Tompkins, Veliyath, and Ye 2012](#)), which require participants willing to speak to the researchers.

The partner participants all are male. Five partners work for a Big 4 firm, two for other annually inspected firms (i.e., categorized by the PCAOB as “large” firms), and one for a Top 200 firm. Their

<sup>8</sup> One of the ten staff interviewees was a first year audit senior who had recently (within the last three months) left a Big 4 firm to take a job in industry. For ease of exposition, we refer only to “staff” interviewees.

average age is 43, and they average 21 years of experience. The majority (54 percent) of their clients are publicly traded.

Six (60 percent) of the audit staff members are male, and four are female. Eight (80 percent) of the staff work at Big 4 public accounting firms, and two at other annually inspected firms. Their average age is 26, and they have 1.7 years of experience on average. Approximately two-thirds of the clients on which they work are publicly traded.

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## Interview Process

It is important to note that the purpose of the 18 interviews is not to extrapolate findings from these 18 individuals to the broader population of auditors in public accounting. Rather, the purpose of such a qualitative approach is to dig deeply into the thoughts of these 18 people, allowing the researchers and readers to gain insights about what these people have experienced and what they are thinking. In many instances, we summarize the findings to provide the reader with the central themes or findings from this group of 18 people, but we caution against using this, or any other, qualitative study to project findings to the population. Other research methods, such as large sample surveys or archival studies, are better suited to estimating population means. Qualitative studies are designed to provide deep insights from a small number of individuals.<sup>9</sup>

All participants were interviewed by telephone, and all but one agreed to be digitally recorded. The average interview length was 31 minutes. The participants who agreed to be digitally recorded had their interviews recorded by one coauthor, then transcribed by graduate assistants.<sup>10</sup> A coauthor and a graduate assistant independently coded the individual interview responses and selected representative quotes. Any differences in the coding were investigated and reconciled.

We believe that our sample size is adequate, as later interviewees began to repeat observations from earlier interviews. The interviews were semi-structured, with open-ended questions (Appendix A, discussed below, provides a summary of the interview guide and the most common responses) to facilitate participants' ability to describe perceptions of their work environment uninterrupted and to encourage active, frank participation by the interviewees.

## FINDINGS

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### Staff Auditors' Overall Impressions

We asked the staff auditors for their thoughts about what it is like to be an audit staff person in a large public accounting firm (see Appendix A).<sup>11</sup> The majority of their answers indicate that the profession is demanding and/or challenging (five staff), or is unpredictable and/or varies (four staff). As representative of the staff work environment, one staff commented on the tight deadlines and constant change:

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<sup>9</sup> For a similar approach, see [Boyle, Hermanson, and Mensah \(2011\)](#).

<sup>10</sup> The one interviewee who did not want to be recorded was interviewed in the presence of one coauthor and a graduate assistant. Both parties took notes and reconciled any differences in their coding within 24 hours of the interview.

<sup>11</sup> Often, the respondents gave multiple answers to the same question, or may not have answered a particular question, so the responses do not always equal the number of respondents. Also, we often present only the most common responses.

Whether it's busy season or planning, it seems like there always are things that come up that are delegated that are needed right now . . . Constantly changing.

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### **Partners' Overall Impressions**

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In response to a similar question about the partner work environment, many of the partners responded that their roles were very challenging and demanding, and that their day-to-day work tasks focused on providing high-quality client service. A few also commented on the role of providing training and leadership to younger staff members for their personal growth and the growth of their firm.

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### **More Specific Elements of the Work Environment**

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#### **Nature of Tasks**

The partners indicate that they complete a wide range of tasks in fulfilling their daily responsibilities. Most state that their work tasks are varied (five partners), changing (three partners), and demanding (three partners). Several partners commented on the entrepreneurial aspects of their tasks, as the representative partner quotes shown below indicate:

Feel like an owner of a business.

Worried about all the same things that an owner of a business would be concerned with, such as HR, recruiting, retention. To me, this is a lot of fun.

The staff members indicate that they primarily work on internal controls (eight staff), substantive testing (seven staff), documenting (six staff), and inquiry (four staff).

#### **Intellectual Stimulation**

All of the partners and staff we interviewed believe that their work environment is intellectually stimulating, and additionally stressed that the work environment was challenging. One partner mentioned challenging negotiations with clients, which make it difficult to do the right thing:

Challenging clients. Every day is focused on doing the right thing, and it's not easy.

An audit staff member also mentioned the challenging and uncertain nature of the work, indicating that he/she often does not completely understand the task:

Yeah, it's a lot more ambiguous, and it's not for everyone, I think. You have to deal with a lot of uncertainty and a lot of not completely understanding everything that you are doing.

Another staff member said that the profession is great for those with a short attention span:

So the great thing about public accounting is that it is great for ADD [attention deficit disorder] people. There are tons of things to do. So you can start an assignment and know that one is going to take a while, start something else, then come back to it. So the work is always challenging.

#### **Hours/Busy Season/Travel**

The partners we interviewed worked an average of 61.9 hours per week during the busy season and 51.4 hours per week otherwise, reflecting a fairly modest difference between the busy



season and the rest of the year.<sup>12</sup> One partner explained that long hours were not a problem for him or his family:

I do not mind that 80 or 90-hour week, that doesn't bother me. I just learned to deal with it over the years, as has my family.

The audit staff members worked an average of 71.7 hours per week during busy season and 44.5 hours per week during non-busy season, a very clear spike in hours during busy season. One staff member discussed the cause of some of the overtime—feeling as if he/she has to stay late simply because the more senior people on the team are staying late:

Peer pressure because your senior's there. Like who are you to say that you're going to go home before your senior? They're kind of your superiors. I mean even like manager or partner. It's kind of pressure when the person above you is staying late, you feel like you need to stay late, too.

Another staff member discussed busy season hours and a culture of working late and having dinner together:

It's just like an age-old expectation that everybody's going to be there, and we are all going to eat dinner together. And, it doesn't always seem necessary and isn't always the most efficient way to work, so it can be very discouraging.

Regarding travel, the partners indicated a lot of travel (five partners) or some travel (three partners), but the staff appeared to travel less, as three staff indicated they had no travel requirements, three staff indicated some travel, and one staff experienced significant travel requirements.

### Time Budget/Fee Pressure

The partners indicated that time pressure exists, but half of them indicated that it is not really an issue.<sup>13</sup> The audit staff members' impressions varied, with responses indicating no pressure (five staff), some external pressure (five staff), varies based on client size (four staff), and self-imposed pressure (four staff). From partner and staff comments, it appears that regulatory issues represent an externally imposed source of increased time pressure on audit engagements. For example, an audit staff member commented on the impact of a PCAOB inspection on an audit, which ultimately resulted in the managers working 17–18-hour days to meet demands:

Reviewed last year by the PCAOB on my large job; big part of [audit staff member] day-to-day job; expect turnaround within 24 hours; [long] process; constant inquisition; showed up guns blazing; it was not a joke; very demanding process; a little off track for the next year because we were having to bill so much with them that it puts you behind

<sup>12</sup> We caution the reader that these statistics for partners and staff are provided to convey a sense of the hours worked by our 18 interviewees. These should not be viewed necessarily as indicative of the overall means for the relevant populations of partners and staff.

<sup>13</sup> It may appear contradictory that the interviewees report long hours, but do not experience a great deal of time pressure. However, it appears to us that time pressure has to do with adhering to a budget and getting work done quickly. By contrast, long hours reflect a sense of “we are staying until this job is done, regardless of how long it takes.” Thus, long hours may even reflect an *absence* of time budget pressure—rather, the budget has been tossed aside, and the team will simply work until the audit is complete.

because you have to give every waking moment to them; managers working 17–18-hour days during the review process.

All the while, both the partners and the staff auditors respect that audit quality is the goal that the PCAOB and the auditing firms share. One partner commented that he is never reluctant to spend more time to address risks:

There is not a situation where I will hesitate to send someone out there if there needs to be some extra time mitigating a particular risk.

## Use of Technology

We asked the staff auditors about the technology used in performing their tasks. Excel (all ten staff) and electronic documentation software (four staff) were mentioned most often.

One audit staff member described the pervasive nature of Excel:

If I don't have an Excel document open, then I'm not breathing.

Similarly, another stated:

I would say that 99 percent of my time was in Excel.

Thus, it appears that traditional programs are the most commonly used. One staff auditor commented on relatively limited technology available to perform the audit:

I [actually] would expect something more from a Big 4 firm.

## Compensation

We asked both partners and audit staff members about the fairness of their compensation. Not surprisingly, we found differences between partner and staff perceptions. Six partners believed that their compensation was fair, and three partners indicated that their compensation was not fair (one partner's response reflected both "fair" and "unfair" aspects of compensation). One partner indicated the need for greater discretion in compensation to adjust for the riskiness of the engagement:

We have had several IPO's in the last couple of years. So, when you do that, PCAOB comes to town, and that's not fun. There should be, for lack of a better term, there should be "hazard pay" for having to go through that, because there are partners that have, maybe not a reduced load I would say, they have a full load but maybe it's all private [companies].

Another partner indicated that partner compensation is not as high as it may seem, once you consider taxes and charitable contributions:

I think a lot of times that [partner compensation] seems very high, but when you consider taxes that you are really paying—the taxes to the firm as well as your responsibility for so many other different contributions like the United Way and other things that people quickly forget about—it really isn't as large as it appears.

Another partner discussed the challenge of retaining young partners, who can make much more money elsewhere:

We are losing a lot of young partners. If the salary is not high enough, they are taking off for the market. And there are companies out there, especially in this market . . . They are throwing money at [them] hand over fist.

Seven of the audit staff members perceived their compensation to be fair for public accounting, but recognized that they were paid less for the experience they were gaining. One staff member commented on his compensation “discount” that is possible because of the benefits of getting Big 4 experience (perhaps because of not only the training, but also the ability to include Big 4 experience on his/her resume):

Big 4 firms are putting maybe a little bit of a discount on us, based upon the amount of experience that we are gaining from being able to work for a Big 4 firm, but I definitely think I am being fairly compensated.

Another staff member echoed this and indicated that there is no effort to match offers that employees receive outside the firm:

It’s fair compared to other public accounting firms. Firms know most students come for the experience, so they can collectively pay less because of that demand. [I] feel very replaceable. Firm doesn’t even try to counter offers when people leave.

Likewise, a partner commented on staff pay, suggesting that the premium of Big 4 experience is used to pay staff less:

There is a premium to working at a Big 4 firm, so we can pay less.

Six of the audit staff members indicated that their compensation was unfair considering the hours worked, and three indicated that pay was below those working in industry. One staff member elaborated on the high pay in industry relative to public accounting, which may contribute to high turnover in public accounting:

Well, at first I thought [compensation was fair], and then as I got more and more work and was working a ton, and then saw how much the people we were auditing made and then how much I make, doing more work, and I didn’t think so. Like some clients, you know, they don’t do much. Well, you’ll look them up and just be disgusted that they make \$20,000 more than you. So, in general the raises are good, but the salary for what we do might be low.

## Performance Evaluation

Regarding performance evaluations, the partners we interviewed indicated that they are evaluated heavily on quality (five partners) and that the evaluations reflected a systematic and formal process (four partners). Less frequently mentioned were sales goals (three partners) and client-oriented measures (one partner mentioned financial metrics and another spoke of clients’ likelihood to be inspected). One partner commented on the focus on audit quality in partner evaluations:

I would tell you that quality is number one. I think there is a tremendous focus on quality of work and deliverables that we provide on our engagements. We’re evaluated on how we do on that, and that’s probably the biggest factor. In the audit practice, it’s not based on your sales or anything like that, or the number of audits you’re bringing in. It’s truly on your work performance on the actual engagements, so that’s the biggest emphasis in terms of how you’re reviewed.

Other partner comments expressed some tension in performance evaluations coming from the PCAOB inspections. One partner commented on the career risks of PCAOB findings and worried about the fairness of the process:

I am deeply concerned particularly with the PCAOB in that they are creating unnecessary professional and personal risk and taking mistakes and turning them into enforcement matters that can completely destroy one's career and cause one to never practice again. I am sure there are some partners that are perpetrating things in the profession that ought to be taken out of the profession, but fortunately in my practice office I don't believe I work with any of them. But there is a looming concern and I think some doubt that the PCAOB is going to be either consistent or fair in all circumstances. And I think this stems from the fact that they have a . . . lay [layperson] board.

Two other partners noted the potential negative repercussions related to compensation caused by PCAOB inspections, which can be quite material to the partner:

If you, and again here's the risk, are someone that is not reviewed one year, that doesn't necessarily mean they have better quality than someone that is reviewed by the PCAOB and the PCAOB maybe found something, it just means they didn't get reviewed. But what happens if you get reviewed and the PCAOB finds something or you know depending on the comments they have, if there is a potential restatement involved, you would definitely get dinged from a compensation standpoint.

If you have a PCAOB inspection that has a finding . . . or a comment that makes Part 1, the publicly disclosed part of the PCAOB report, the firm will very likely punitively assess that partner and concurring reviewer a fine. It can be tens of thousands of dollars.

Six of the staff members indicated that their performance evaluations were systematic or formal, and five staff stated they receive formal evaluations after every 80-hour engagement.

### **Best Thing about Your Job**

The partners indicate that people (four partners), client interaction (three partners), challenge and variety of their job duties (two partners), developing people (two partners), and flexibility (two partners) as the best aspects of their job. The staff members most often indicate that people (six staff), challenge and variety of their job duties (five staff), and the experience and responsibility (four staff) as the best things about their job. A common theme in the staff interviews was that they were surprised at the level of responsibility they are given, and most complete tasks intended for a job level above their title; e.g., staff auditors functioning as seniors. Two staff interviewees described their unexpectedly high level of responsibility:

I have only gone through one busy season as a staff, and they put me as the senior on four different . . . engagements, which basically means I was the person that was leading all of the engagements.

For my small job, I am actually functioning as the main senior. So even though I've only been with the firm for two years, I'm in charge of other people, in charge of my areas, managing upwards.

And another expressed surprise at being in charge:

I think I have to be more responsible than what I thought it would be. I'm in charge of stuff. I did not know I would be doing that right off.

One staff member focused on the friendships and ability to learn quickly:

The best thing [about public accounting] is the friendships that you make and how quickly you can learn . . . For every year you have of public accounting, you have five years over someone else who is in private.

While such responsibility can be rewarding for staff, it does raise the question of whether the level of responsibility placed on staff is optimal. Specifically, is this level of responsibility driven by staff talent and accompanied by appropriate oversight, or is high staff responsibility due to significant turnover at the senior level?

### **Worst Thing about Your Job**

There were differences in the partner and staff responses about the worst aspects of their job. The partners cited regulation (four partners), stress (three partners), time commitment/hours (two partners), and seeing people fail/difficult conversations (two partners). However, the staff felt that the time commitment (all ten staff) was the worst aspect of their position, followed by stress (three staff) and the variability of their hours (two staff). One staff member described the worst aspects of the job as the hours, low pay, and unpredictable schedule:

People can easily leave for more pay and less hours. Easy to get burned out. Not the most enjoyable job. No social life during busy season (three to four months a year). No predictability in schedule. You hardly ever know if you're going to be off work at 5:30 or be off work at 7:30.

### **Is This Job Different Than What You Expected? (Staff)**

The majority of the staff members (seven staff) indicated that the job is different than they expected (consistent with [Hermanson et al. \[2009\]](#)), specifically that they were surprised by the level of responsibility they were given right away (three staff), the hours (three staff), and the ambiguity (two staff). One auditor described each of these elements:

Once you're kind of explained something, if you don't ask any questions, they [audit superiors] kind of send you on your way and you are expected to execute . . . And I guess there's a lot more ambiguity than I expected . . . Also hosting meetings. I never expected to go sit down with a client and host a meeting and understand their processes.

Another commented on the hours, which were not emphasized in the recruiting process:

So it's really tough. Whenever they're recruiting they really sugar coat it a lot . . . Some of those people work like 80 hours a week all the time.

Two staff mentioned that having an internship opportunity gave them a more realistic expectation of the workload required, and they did not express any expectations gaps.<sup>14</sup>

<sup>14</sup> It is possible that staff would have more accurate expectations if they had worked as interns. We did not specifically gather information on whether the staff had worked as interns, and we recognize this limitation.

### **Is This Job Different Than When You Entered the Profession? (Partners)**

Six of the partners indicated that the profession is different than when they entered. The partners' responses primarily cited regulation (four partners), audit quality focus (two partners), and more variety (two partners). One partner explained the shift from sales to audit quality:

When I started, the focus was on sales . . . Then, the pendulum swung back to quality. It was not in my opinion just SOX. It was the failed audits and the impact on accounting firms' bottom lines.

Another reflected on his interview process years ago and how his view of partner life was incorrect:

I can remember going through interviews and sitting in partners' offices while I was the interviewee and just thinking, "Gee, these partners have the life. They don't look like they are working that hard, they get to play golf twice a week, they seem to make a lot of money, and they don't seem stressed out about it." And that's just nowhere near reality. I am sure that was not even reality before the PCAOB, and it's absolutely not now.

### **Do You Plan to Stay in Public Accounting Long Term? (Staff)**

All of the staff auditors we interviewed indicated they do *not* view public accounting as a long-term career.<sup>15</sup> Six indicated that they plan to stay until they are promoted to manager, and others said the hours were too long (two staff) and incompatible with a family life (three staff). A staff auditor commented on the title of "senior" typically being followed by departure from the firm:

As soon as somebody gets that senior title, they might have another year and then they're out of there.

Another staff member shared a surprising observation made by a partner:

If you . . . don't think about quitting public accounting at least once a year, then there's something wrong with you.

Finally, a staff member reflected on work-life balance and how the partners became partners by being the last people still there, which raises questions about who stays in public accounting:

I don't ever want to sacrifice my work-life balance or feel like my job was consuming me . . . I don't know that I wouldn't jump to a different job if another job opportunity came along that was wiser for my life goals . . . I do not want to be consumed by work. I don't want to say our partners in our firm are, but they are very intelligent. I don't know if I see myself there. I think a lot of the partners would say the same thing. They never necessarily thought they were going to become partner, but one day they were the only ones left and they were partner.

<sup>15</sup> This figure (0 percent long-term retention) should not be extrapolated to the population to suggest that no one stays in public accounting. It is provided to give the reader insight into this group of interviewees. [Carter and Spence \(2014, 976\)](#) suggest that about 2–3 percent of Big 4 auditors stay until the partner level.

## **Would You Recommend Public Accounting to Others as a Long-Term Career? (Partners)**

All eight of the partners we interviewed said that they would recommend public accounting to others as a long-term career, although five went on to discuss getting started in public accounting and then moving on to other positions.

## **Has PCAOB Regulation of the Public Accounting Profession Impacted the Work Environment in Your Firm?**

At the end of the interviews, we asked if PCAOB regulation has impacted the work environment in the firm. All of the partners and staff we interviewed indicated that PCAOB regulation impacts the work environment of their firm.

When asked specifically about the impact of PCAOB regulation on the work environment, six partners and two staff indicated that the inspection process is onerous, and five staff stated that inspections now drive the audit plan. Partners also mentioned the focus on audit quality and increased accountability (three partners each). Staff auditors mentioned documentation (six staff), additional requirements (six staff), costs outweighing benefits (five staff), and electronic audit evidence (four staff).

One partner commented on the loss of personnel over PCAOB issues, which may ultimately have a negative impact on audit quality:

I know for a fact we have lost multiple managers and senior managers on the audit side because of PCAOB reviews, and when you lose experienced people like that it just dumps more on the experienced people that stay behind. The PCAOB has been . . . terrible to work with because with accounting there is so much, from an audit standpoint, there is so much judgment . . . if your judgment is different than their judgment or their opinion then they are always right and you are always wrong. That is what is very frustrating and drives many people away.

Likewise, a staff auditor commented on the constant challenge and resulting turnover:

Some people don't thrive in the environment where you are constantly challenged. Always need more seniors and managers. Especially managers, they early promoted four people after they only worked here for four years to managers this past year because a lot of managers quit and they needed them there.

Another partner looked at the number of managers leaving the firm and indicated that the level of criticism from the PCAOB is tough to endure:

I think people who have made it to the manager and senior manager level are the type of people that are used to doing well and used to getting positive feedback saying, "You are doing a good job," and now somebody [PCAOB] says, "Now we think you did it wrong," can be a little tough.

Some participants indicated the PCAOB does not provide enough guidance for the firms on their expectations of audit quality and at the same time appears to change its expectations without guidance. One staff participant said:

Yeah that has probably been the frustrating part, and they [PCAOB] just kind of come out and say, "This is what we want you to work towards." It is a long process for us to figure

out exactly what needs to be done there because there is not a lot of specific guidance . . . So it is kind of difficult for our firm to be asking all of our teams to meet that standard immediately when you know there isn't a lot of guidance out there for what exactly needs to be done, so it is kind of like a moving target.

A partner commented on the PCAOB's total control of the issues:

The PCAOB . . . [is] the author, judge, legislature, jury, and hangman when it comes to auditing standards.

We also asked the partners to describe the impact of PCAOB regulation on their staff auditors. The partners indicated diminishing the well-rounded aspect of public accounting, increases in pressure on inexperienced auditors, and increases in risk/stress (two partners each). One partner explained the negative effects of PCAOB oversight:

I do feel that our people, younger people, are impacted by the increased documentation and the engagements take a little bit longer. I think there's increased pressure to make sure that they're doing a very thorough job, and indirectly I think that has some impact on people perhaps not staying as long in the practice or in what we're doing, finding other opportunities, not wanting to have that significant PCAOB oversight.

A staff auditor also mentioned the increased documentation requirements and the impact on auditor stress and workloads:

There's a lot more documentation. When asked, "Why can't we do that anymore?" or "Why did we start doing this?" [managers'] answers are always the PCAOB inspection and the resulting comments. Every new initiative is from the PCAOB, and often at terrible times.

Another partner described the negative impact of regulation on audit hours and the attractiveness of the auditing profession:

I have never seen this level of intense hours. I worked in the 90s in the accounting firms, and it was two years and burn, two and leave. I'm afraid we are going to get more of that based on what the regulators are mandating a lot of our engagement teams to do. I just see people working harder than they ever have, and it just blows me away and a lot of it is focused from regulation. A lot of it is very good, but at the same time it has really impacted our industry and it has made the accounting industry very unattractive—especially the public accounting very unattractive to go into.

We followed up by asking the partners if they believe PCAOB regulation has improved audit quality. Six of the partners indicated yes; however, some partners stated that the quality improvement came at a high cost (two partners) or that regulation has the wrong focus (two partners). One partner indicated that the PCAOB has clearly improved audit quality:

I think that it's [PCAOB regulation] put a spotlight on us, and I think that any time you do something like that . . . it forces you to look internally and look at how you execute things and try to enhance your approaches . . . I think that's good. I think it's definitely helped from an industry standpoint for us. I think it's really helped tremendously. I think it's, of course, for everyone to really up the ante in terms of their quality standards, and that's good for the public markets.



## DISCUSSION AND CONCLUSION

Perhaps the major theme of the interviews can be expressed as follows, “Public accounting has some appealing features (smart people, challenging and varied work, stimulating work), but for most people, these positives are outweighed by the very long hours, intense regulation, and stress. As a result, public accounting is not very appealing to most people as a long-term career.” Such a theme, in our view, leads to a number of important considerations, especially given that we do not see strong signs that the public accounting environment has markedly improved from previous decades, and thus may be less appealing to Millennials.

First, can anything be done to address the long hours, intense regulation, and stress in public accounting? In other words, can the apparent “negatives” of this career be mitigated to some extent and, if so, how?

In terms of the long hours, are there ways to soften the busy season peak (which may be especially intense for staff), such that the workload would become more balanced throughout the year? This would seem to require a move away from tight 10-K filing deadlines, perhaps in combination with reducing the concentration of 12/31 fiscal year-ends. Alternatively, are there creative staffing arrangements (flextime, variable staffing, etc.) that could provide additional labor during busy season such that 70-hour weeks are not the norm? Also, are there cultural changes that are possible within the firms to reduce the emphasis on (and apparent status of) working long hours? For example, are there ways to ensure that audit staff do not “hang around” late at night simply because the seniors and managers are still onsite? Overall, the long hours appear to have a structural dimension (many 12/31 year-ends and tight SEC deadlines), as well as a cultural dimension (we all stay late together) that will require personal attention. Church (2014, A33) describes an individually focused approach to dealing with the hours:

The participants in this study asserted that dedicated new hires can adapt to the demands of the audit job, including long hours, tight budgets, and high stress. However, in order to do so, they need supportive peers, effective supervisors who steer individual behavior and group dynamics, interactions with interested partners who serve as positive role models, and predictable time away from the job, both at the end of the day and for long-term breaks.

Regarding regulation, it seems to us that the PCAOB must walk a very fine line in regulating the profession.<sup>16</sup> On one hand, given the accounting disasters of the early 2000s, the PCAOB should be a vigilant regulator of the auditing profession, with a robust inspection and enforcement program. On the other hand, if regulation and enforcement are perceived as too heavy handed, then there is significant potential to promote either (1) suboptimal auditor behavior, as auditors may devote too much attention to inspection and compliance issues (and related complaining) and too little attention to true audit quality and catching problems in the financials, or (2) a mass exodus of talent from the auditing profession, as auditors conclude that the profession, in its current highly regulated state, is simply not rewarding. We strongly encourage the PCAOB to carefully monitor its progress along this fine line. Ultimately, audit quality will surely suffer if too many good people choose to leave the profession—or never enter the profession in the first place. Based on comments we have heard, as well as findings in these interviews, it appears to us that the PCAOB is in danger of driving too many good people out of the profession.

<sup>16</sup> For detailed analyses of the PCAOB’s efforts, including recommendations for change, see Glover, Prawitt, and Taylor (2009); Palmrose (2013); Bailey (2014); Carmichael (2014); Franzel (2014); Gradison (2014); and Wedemeyer (2014).

Second, can anything be done to create enhanced “positives” of a public accounting career? We are encouraged to see that the people and the nature of the work are strong positives of the profession, and we encourage the firms to carefully guard these positives and to appreciate the risks of giving staff “too much” responsibility at an early stage. One notable area for improvement, especially in the lower ranks, may be compensation. Simply stated, Big 4 starting pay is low, apparently because people are willing to accept low pay for deferred compensation—higher pay after leaving the firm (most people), or higher pay as a partner (a few people). Perhaps with higher pay at the staff and senior levels, there would be less of a mass exodus from the firm at the 3–5-year level, or less of a mindset among new hires that they are only coming into the firm for a few years. Such an initial mindset of “three years and I’m out of here” may be difficult to overcome, even if the person’s experience in public accounting is positive.

Finally, is it a problem if most people do not view public accounting as a viable long-term career? With a need for turnover to accommodate the pyramid model of public accounting, some may argue that turnover is expected and actually good. But, are the firms experiencing the right turnover, or do many of the best people leave the profession? Do those who stay in public accounting have skill sets most conducive to audit quality and investor protection, or are they more commercially focused than is appropriate for an entity with a statutory franchise to promote the quality of financial reports (see [Carter and Spence 2014](#))?<sup>17</sup> We believe that these issues warrant rigorous research, ideally encompassing performance evaluation and promotion data from the large audit firms. In a related vein, is there any effort to package public accounting as a long-term career instead of a short stay? If so, how is this done?

As educators and suppliers of talent (i.e., Millennials) to the public accounting profession, we have been concerned by the comments we have heard from professional colleagues about the work environment in public accounting. Based on the results of this study, we continue to have concerns about the long-term human capital challenges facing the public accounting profession. We encourage additional research to fully understand the changing nature of the work environment in public accounting, including the effects of busy season, compensation, and regulation on the long-term attractiveness and viability of the profession.

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<sup>17</sup> [Carter and Spence \(2014\)](#) conducted interviews with 32 individuals associated with audit firms to examine characteristics of who makes partner in the Big 4. They find that Big 4 partners tend to come from modest backgrounds, are viewed as well rounded (moving away from technical expertise), and are economically/commercially oriented. The authors conclude, “In the past, there were different types of accounting partner: commercial, technical, and those that can do both (to paraphrase an interviewee). Now, a more unified partner prototype is emerging that more fully embodies commercial logics” ([Carter and Spence 2014](#), 978). Also, see [Carcello \(2008\)](#) for discussion of an alternate educational model (professional schools of auditing) to promote the public responsibility of auditors.

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## APPENDIX A

### Summary of Most Common Interview Responses from Eight Partners and Ten Staff

#### Material in [Brackets] Reflects Alternate Wording for Partners

1. Please tell us about the work environment that you experience each day. In other words, what is it like to be an auditor [audit partner] at your firm today?

***Overall, what is it like to be a partner/staff auditor in a large public accounting firm today?***

	<u>Partner</u>	<u>Staff</u>
Unpredictable/varies	4	4
Demanding/challenging	3	5
Consultative	3	
Problem solving	2	
Reviewing	2	
Social		2
Stable/one client		2

- a. Nature of tasks:

<u>What comprises the nature of your tasks?</u>	<u>Partner</u>	<u>Staff</u>
Variety	5	
Fluid/changes	3	
Demanding	3	
Talent management	2	
Reviewing workpapers	2	
Problem solving	2	
Client relations	2	
Internal controls		8
Basic substantive testing		7
Documenting		6
Inquiry		4
Research		2

- b. Intellectual stimulation:

<u>How intellectually stimulating is your job?</u>	<u>Partner</u>	<u>Staff</u>
Challenging	8	10

- c. Hours/busy season/travel:

<u>Staff</u>	<u>Mean</u>	<u>Min.</u>	<u>Max.</u>
<u>Hours per Week:</u>			
Busy season	71.7	55	109
Non-busy season	44.5	40	60

<b>Partner</b>			
<u>Hours per Week</u>	<u>Mean</u>	<u>Min.</u>	<u>Max.</u>
Busy season (n = 6)	61.9	50	80
Non-busy season (n = 7)	51.4	40	60

<u>What are the travel requirements?</u>	<u>Partner</u>	<u>Staff</u>
None		3
Some	3	3
A lot	5	1

## d. Time budget/fee pressure:

<u>Do you experience any time budget/fee pressure?</u>	<u>Partner</u>	<u>Staff</u>
Exists, but not really an issue	4	
Absolutely	4	
None		5
Some external pressure		5
Varies, based on client size		4
Self-imposed/self-conscious		4

## e. Use of technology:

<u>Overall, what technology and/or programs do you use most often in the performance of your job?</u>	<u>Staff</u>
Excel	10
Electronic documentation software	4

## f. Compensation:

<u>How fairly are you compensated?</u>	<u>Partner</u>	<u>Staff</u>
Fairly	6	
Not really fairly	3	
Fairly when compared to other public accounting firms		7
Not fair for the hours worked		6
Below industry pay		3

## g. Performance evaluation:

<u>How is your performance evaluated?</u>	<u>Partner</u>	<u>Staff</u>
Quality focus	5	
Systematic/formal process	4	6
Sales goals	3	
Client oriented	2	
Formal evaluation after every 80 hour engagement		5

## 2. What is the best thing about your job?

<u>What is the best thing about your job?</u>	<u>Partner</u>	<u>Staff</u>
People	4	6
Interacting with clients	3	
The challenge and/or variety of tasks	2	5
Developing people	2	
Flexibility	2	
The responsibility and/or experience		4

## 3. What is the worst thing about your job?

<u>What is the worst thing about your job?</u>	<u>Partner</u>	<u>Staff</u>
Regulation	4	
Stress	3	3
Time commitment/hours	2	10
Seeing people fail/difficult conversations	2	
Variability of hours		2

## 4. Is this job different than what you expected [than when you entered the profession]? If yes, explain.

<u>Is this job different than you expected?</u>	<u>Staff</u>
Yes	7
No	3
<b><i>If yes, please explain:</i></b>	
More responsibility	3
More hours	3
More ambiguity	2
Internship helped	2

Has this professional changed since you entered? (n = 7)

	<u>Partner</u>
Yes	6
No	1
<b><i>If yes, please explain:</i></b>	
Regulation	4
Focus on audit quality	2
More variety	2

## 5. Do you plan to stay in public accounting long-term? [Would you recommend public accounting to others as a long-term career?] Why or why not?

<u>Do you plan to stay in public accounting long-term?</u>	<u>Staff</u>
No	10
<b><i>Why not?</i></b>	
I plan to stay until manager for the experience and then leave	6

Job is incompatible with a family	3
Waiting for the right offer	3
Hours are too long	2

***Would you recommend public accounting to others as a long-term career?***

	<b>Partner</b>
Yes	8
<b>Why?</b>	
At least at the beginning of their career	5

6. (If not addressed in earlier responses) Has PCAOB regulation of the public company auditing profession impacted the work environment in your firm? If yes, explain.

***Has PCAOB regulation of the public accounting profession impacted the work environment in your firm?***

	<b>Partner</b>	<b>Staff</b>
Yes (n = 6 partners)	6	10
<b>How?</b>		
Inspection process is onerous	6	2
Audit quality focus	3	
Accountability/pressure	3	
More documentation		6
More requirements		6
Inspections drive audit plan		5
Costs outweigh benefits		5
Electronic audit evidence focus		4

***How has the PCAOB regulation changed the work environment of your audit staff?***

	<b>Partner</b>
Diminishes the well-rounded aspect of public accounting	2
Increases pressure on inexperienced auditors	2
Creates a lot of risk/stress	2

***Has regulation improved audit quality? (n = 7)***

Yes	6
No	1

***Comments***

Cost/benefit	2
Wrong focus	2

These summaries of responses are provided to give the reader a sense of the main messages and themes from our 18 interviews. The responses from these 18 individuals may not generalize to the broader population of audit partners and staff.