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Dear Ms Hussain

Consultation – Firm-level Audit Quality Indicators (AQIs)

I am pleased to have the opportunity to respond to the above consultation paper. I am a former audit partner at one of the Big 4 firms and a former member of the, then, UK Accounting Standards Board. I am however writing this letter in a private capacity and the views expressed are my own.

I have set out below some observations on the various issues arising from the consultation and then, to the extent not already addressed in those observations, responded specifically to the consultation questions.

Publication of Firm-level AQIs

The ready availability of clear, concise and comparable AQIs for the audit firms clearly has the potential to be of value to all stakeholders who wish to engage with audits firms and the FRC/ARGA on developments in audit quality. Accordingly, I am supportive of the proposal.

However, consideration of high level AQI information can only be the starting point for such engagement. In my view it is vital that stakeholders and in particular ACCs read the audit firms' Transparency Reports and relevant FRC/ARGA publications and reports. I therefore believe that the AQI repository hosted by the FRC/ARGA should include a clear articulation of FRC/ARGA expectations in this regard and in particular its expectations of ACCs.

Inclusion of audit firms' comments on the AQIs

I suspect that stakeholders may view observations made by the audit firms on AQIs with some scepticism and I am unclear how helpful stakeholders have found the observations/responses currently included by the audit firms in the AQR annual reports. The FRC may wish to consider any feed-back they have received on those comments, as well as feedback to this consultation in considering this matter. However, in the absence of a strong stakeholder view that audit firm comments should not be included my view is that it should be open to the audit firms to include (brief) observations on the AQIs if they wish to do so. Such observations could include cross references to the firm's Transparency Report and

other publications to assist stakeholders in understanding the basic data. I would anticipate the FRC/ARGA agreeing a word count limit with the firms.

Inclusion of FRC/ARGA comments on the AQIs

There is no discussion in the consultation paper on whether the FRC/ARGA should include its comments on the AQIs. This leads me to believe that the current FRC view is that it should not comment. I do not believe that this is an appropriate or sustainable position.

Whilst the AQI data will be helpful in gaining an understanding of the commitment and achievements of the audit firms on audit quality it will also (and increasingly) be a measure of the success of the supervision of firms by FRC/ARGA. Whilst the consultation paper rightly notes that there is no “optimal” value for any AQI, stakeholders will inevitably ask the question “does the FRC think this is appropriate/enough and if not, what has been done about it?”, particularly if individual firms are marked outliers on any given metric.

Accordingly, I believe that as part of the implementation of this proposal the FRC/ARGA should engage with stakeholders on whether, and if so how, it might best include its observations on the firms’ AQI data.

Assurance on AQI data

I would agree that the audit firm’s senior partner should provide an attestation on the accuracy of the data. However, I do not believe that the FRC/ARGA should include a disclaimer.

Given the increasing supervision of the firms by FRC/ARGA I believe that it is, or should be, in a position to provide limited assurance to stakeholders on the AQI data. The FRC/ARGA will have reviewed AQI data during its inspections and supervisory activity, it will have observed whether the data reported is consistent with that used by the firms in their management and audit quality review activities. On that basis I believe that it would be possible to provide some (albeit limited) assurance to stakeholders on the data and I would anticipate that stakeholders would find such assurance helpful.

The specific AQIs proposed

One of the problems with AQIs is that it is always possible to identify another “helpful” metric. Conscious of that I think the consultation paper’s proposals on the number of AQIs and the specific metrics proposed are well judged.

As regards the various alternatives/additions discussed on pages 11-15 of the consultation paper I would not favour including most of them. Alternatives 3a and 3b appear to be better viewed as engagement level AQIs to be discussed at that level. Turning them into a firm level AQI would involve a degree of averaging which would, in my view, significantly reduce the value of the metric. Similarly, alternatives 7 and 11 appear to be more engagement level rather than firm level AQIs. Alternative 12 could provide useful information to stakeholders and if other respondents favour its inclusion I would favour its inclusion.

In addition, given the critical importance of appropriate consultation to the exercise of professional judgement as discussed in the FRC's recently published guidance, I believe an AQI metric focusing on this area would be useful to stakeholders. As noted in the paper the different audit firms will have different approaches to consultation and therefore a metric looking solely at the number of consultations would probably not be helpful. However, a metric which measures the extent support available to auditors – i.e a ratio of “consultees” (including those in the firm's independence and accounting technical functions) to total professional staff might be helpful, albeit I recognise that differences between the firms may make achieve a consistent assessment of who is a “consultee” problematic.

Finally, I agree with the consultation papers conclusion that average utilisation rates for the full year may not be sufficiently informative. However I wonder whether rather than a requirement for the specific months of January to March it might be better to require highest and lowest utilisation months together with the average to give stakeholders a better sense of “operational stresses”

Segmentation

I agree with the FRC's tentative conclusion not to require AQI data to be provided for different sectors or size of audited entity for the reason cited.

I think the provision of separate data for PIE and non-PIE audits needs to be considered very carefully as I do not believe there should be any suggestion that there are “two tiers” of audit quality. However, I recognise that if a metric might be impacted by the proportion of PIE/non-PIE audits an audit firm undertakes it makes sense to provide a metric for each population.

Considering the AQI measures proposed a number are “firm wide” (eg staff attrition, staff utilisation and staff culture) and therefore there would be no split. Of the rest I believe only measure 7 (most non-PIE audits will not have an EQCR) and possibly measure 8 (many factors will drive the required level of partner involvement in an audit but on balance “simpler” audits are more likely to be non-PIE) are likely to have significant PIE/non-PIE differences. Whilst it might be thought that there could be a difference on measure 2, given that the metric is based on “planned milestones” which would reflect the status of the audit, there should not be a difference. Accordingly, it would appear appropriate for the required disclosure to include a PIE/non-PIE split for metrics 7 and 8.

Specific Questions Raised

I set out below my observations on the 7 specific questions raised, cross referenced to my comments above as appropriate

1 Yes alignment with the AFGC provides an appropriate scope for this requirement

2 Yes but for the reasons noted above I think segmentation will only be relevant for certain of the AQIs

3 On the basis that I believe that the firms will be monitoring most or all of the AQIs on a very regular basis I would not anticipate that any incremental cost of using a reporting period out of line with their financial year would be significant

4 Yes see my comments above

5 and 6 See comments above.

7 See my comments above re the need for FRC/ARGA to engage with shareholders on the possibility of including its comments on the reported AQIs.

I hope these observations are helpful but if you would like to discuss any of my comments further please do not hesitate to contact me.

Yours sincerely

Robert Overend