

17 August 2022

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Our Ref: SJG/AS

### **Proposed Firm-level Audit Quality Indicators: Invitation to Comment**

Dear Sir/Madam

We are pleased to provide Crowe's response to the questions posed in the above invitation to comment, dated 22 June 2022.

Crowe is one of the top 10 audit firms in the UK by audit fee income with more than 1,200 people nationally. We audit around 100 listed companies, most of whom are listed on the AIM market and we are consistently ranked in the top 10 list of auditors by number of listed company audits in the quarterly Corporate Advisers Rankings Guide. Crowe is also the leading auditor of charities, topping the Charity Financials Auditor Benchmarking and Charity Finance Audit Survey for 13 consecutive years (2009 – 2021). We are also widely regarded as one of the leading auditors to pension schemes.

The firm is the UK member of Crowe Global, one of the top 10 accounting networks in the world, with revenues of \$4.6 billion and more than 35,000 partners and professionals in 150 countries. Crowe Global is a member of the Forum of Firms.

### **Crowe high level position relating to Audit Quality Indicators (AQIs)**

In relation to the Consultation, our high-level position is as follows:

- We support the FRC's aims of improving audit quality and in this light, we acknowledge that AQIs can be a useful tool in providing users with more information regarding factors that contribute to quality and can help users make informed choices when selecting an auditor
- AQIs need to be developed carefully, must support the objectives which they are being held up to promote and there should be empirical evidence for them
- It is essential that AQIs are both consistent and comparable between firms because there may be a risk of unintended consequences for the audit market
- AQIs should be considered alongside other information to help users make informed choices when selecting an auditor

## **FRC's aim to set high standards and improve audit quality**

Almost two years have passed since the publication of the FRC's thematic review into Audit Quality Indicators (AQIs), which is a key aspect of the FRC's aim to improve audit quality. During that period, the reviews by the FRC's Audit Quality Review have continued to highlight that the quality of work on audits needs to improve.

## **Usefulness of AQIs**

This is not the first project globally to consider the development of AQIs. Specifically, the PCAOB in the USA have applied themselves to this subject matter over a number of years. However, it has still not been able to clearly define a list of key quality indicators that can be agreed on by all key stakeholders and have a clear, unambiguous link with audit quality as a whole – at the firm level.

That said and in line with worldwide trends, we feel that there is value in pursuing the formulation of a set of indicators that can assist in assessing the level of audit quality – both prospectively and retrospectively at the firm level and engagement level – and in communicating these publicly. AQIs would assist users, Audit Committees and Audit Committee Chairpersons to make more informed choices – from the point of selecting an auditor and on a continuous basis throughout the subsequent audit engagement. However, audit quality is hard to accurately measure.

As such, the development of a single set of evidence backed AQIs is potentially a longer-term goal that could be pursued after ISQM (UK) 1 has been fully implemented and has been tracked for a period of time.

## **Care to be taken in developing AQIs**

The development of performance management systems that accurately measure the quality of the work being performed on engagements - as closely as possible to the timing at which the work is performed - should be the top priority for every firm that is serious about improving quality on their engagements. However, significant additional investments will be required from each audit firm to implement performance management systems and this will be an additional burden on them.

In this light, and as already referenced, ISQM 1 was developed, published and will be effective from mid-December 2022. Given that ISQM 1 mandates firms to follow a structured, risk-based approach with respect to the management of the quality of their audits at a firmwide level, the development of firm-level AQIs could potentially introduce unnecessary complexity into the quality management processes by diverting resources away from ISQM 1 or client facing matters and thus could potentially undermine various firms' endeavours to comply with ISQM 1.

When setting AQIs, care needs to be taken to ensure that they support the objectives that they are intended to promote (i.e. there should be a direct link to quality) and there should be empirical evidence supporting the link between the AQI and how it drives quality.

Despite the good intentions behind the proposed AQIs (as currently outlined in the Consultation document), the proposed AQIs are slightly disappointing in that it would seem that a number of the AQIs proposed are being used as a vehicle to achieve an outcome that has no evidenced link to quality, as explained in our analysis in Appendix 1. Prominent or headline AQIs could lead to a situation where, within a short timescale, an appropriately

registered firm is perceived as delivering poor quality work if even just one of the AQIs is not comparable with its competitors. A possible consequence would be even fewer active audit firms in the market and this could even undermine the process relating to the delivery of a quality audit (in that firms may potentially be driven solely to meet AQI targets which would be damaging to broader quality goals in the longer term, especially if quality efforts are all focused on PIE engagements at the expense of non-PIE engagements during the phasing-in of AQIs).

AQIs have the most value when measured against a consistent definition of quality. Defining audit quality is extremely complex and there is no single succinct definition of audit quality. Indeed, the FRC has changed its own articulation of audit quality between 2018 and 2021. It would be helpful for all stakeholders for the FRC to use an agreed-upon definition, which was not subject to change over a relatively short period of time as a starting point in measuring quality at a firmwide level.

Thereafter AQIs should be developed with the aim of tracking the performance of firms against key components of the agreed definition of quality.

### **Comparability and avoiding unintended consequences**

Good AQIs should allow for better comparability between the firms in terms of the quality of audits being delivered by them. However, as with anything that is measured, care needs to be taken to ensure that the existence of a metric (or set of metrics like the proposed AQIs) does not drive behaviour that is focused solely on the achievement of the metric itself. Consequently, care must be taken that imposed AQIs should not drive unacceptable or undesirable behaviour from any of the audit firms or their staff.

Furthermore, given that AQIs may not necessarily be the same as the internal or prospective indicators that audit firms use, care will also be required to ensure that the final set of AQIs developed for public dissemination will not be open to misinterpretation or be misconstrued (either innocently or maliciously) by key stakeholders whilst also allowing for ease of comparison amongst the firms.

### **Achieving the purpose of developing AQIs**

The consultation document outlines that the purpose of publishing firm level AQIs is to provide users with more information to make an informed choice; assess firms on a consistent basis; and; ensure that there are clear, concise and comparable AQIs available.

In addition to our observations above regarding comparability, we would make the following challenges that need to be addressed in developing AQIs further:

- Do the AQIs proposed adequately, sufficiently, fairly and appropriately meet the purpose as outlined?
- Will all firms prepare AQIs on a consistent and comparable basis? Firm's are all different sizes and have a different mix of audit clients both in terms of size and complexity which may make comparison and consistency more challenging.
- Is there clarity on what 'good looks like' in interpreting each AQI as the AQI in itself may not indicate better or worse audit quality in comparison to another firm just because a particular AQI is higher or lower?
- There is a need for the users of audit services to be fully aware of all relevant information that is available, beyond AQIs, in enabling them to make an informed choice when

selecting an auditor. Such information may include the size of the firm, transparency reports, the regulatory Tier in which they operate and what that means, the level of regulatory supervision they are subject to, AQIs, AQR reports, details on the structure and governance of the firm, details on their financial resilience, etc. Is it intended that a comprehensive analysis of such information will be developed?

- The consultation notes that *“we do not wish to suggest that the indicators discussed in this document are mechanistically related to quality. Nor, in general, do we suggest that there is a ‘optimal’ or ‘target’ value for most of them”*. How do you plan to ensure that the development of such AQIs will not create an interpretation and perception with users of audit services that this will not be the case?

## Conclusion and summary of key actions

The contents of the Consultation document seem to be leaning heavily towards AQIs that are not evidence based, as outlined in Appendix 1, specifically in our reply to Question 5. Further, we are concerned that the manner in which some AQIs are articulated may not achieve the aim of broadening choice in the audit market.

AQIs should not only be developed with Audit Committee Chairs in mind, but should be developed with the information needs of the investing public at large and should be simple enough for ‘the reasonable person’ to understand what the indicator is measuring.

In summary, to address the concerns arising from the consideration of proposed AQIs, we recommend that the FRC:

- Begins cautiously, by mandating public disclosure only of those AQIs with proven effectiveness (i.e. those that have a direct, evidence-based link to quality and which measure outputs rather than inputs);
- Learns from others, by inspiring contributions from a very wide range of stakeholders, including academia;
- Establish criteria for assessing which proposed AQIs are to be tested more widely.
- Test candidate AQIs thoroughly in a private setting in order to learn from what works, what does not work, and why; and
- Implement only AQIs that have demonstrated they are genuinely indicators of quality.

Our responses to the detailed questions asked are attached.

Yours faithfully

Crowe U.K. LLP

**Crowe U.K. LLP**

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## Appendix 1

FRC question	Crowe comment
<p><b>Q1: Do you agree that the firms reporting their AQIs should be aligned to the scope of the (revised) Audit Firm Governance Code? If not, what scope would you prefer and why?</b></p>	<p>Yes, the firms that report AQIs should be aligned to the scope of the revised Audit Firm Governance Code.</p> <p>We are generally content with the proposed transition period that may be needed for firms which will come into scope of the revised AFGC to provide such firms with more time.</p>
<p><b>Q2: Do you agree that the AQIs should include all audit engagements, but segmented between PIE and non-PIE audits? If not, which engagements do you think should be included?</b></p>	<p>Yes, AQIs should apply to all engagements. Audit quality is important across many sectors of the audit market and is not confined simply to the audit of PIE entities.</p> <p>The management and information systems in different firms may mean it is not possible to report on different segments of their audit practice without considerable changes to systems and considerable investments by the firms, which would be an additional burden on them. We are also concerned that some firms within scope may have a relatively small population of PIE audits on which to report metrics. Segmentation between PIE and non-PIE audits would potentially result in unfair comparisons between RI's and between firms due to small populations of PIE work in smaller firms.</p> <p>At the present time there is a single set of auditing standards which apply to all audit assignments. We do not believe it would be in the public interest overall to create a reporting regime which would appear to imply that audit quality was important for one sector but not another.</p>
<p><b>Q3: Do you expect any additional costs to be incurred by firms reporting over a period which is not aligned with their financial years? Are there ways to minimise these costs?</b></p>	<p>Yes, we believe this will result in additional costs to set-up the systems to track the intended data. Management and information systems are normally configured to produce data based on financial periods years and portions thereof (e.g. monthly, quarterly and half-yearly).</p> <p>If configured appropriately, Systems of Quality Management should be able to produce key performance indicators (in this case, quality metrics at firmwide level) at any point in time. Thus, if done properly, there should be no additional cost reporting for periods that differ to the financial year ends of the various firms over and above initial setup costs.</p> <p>We would expect most firms to commission their systems of quality management such that key data can be produced on at least a monthly basis and, provided that is the case, there should be no significant additional costs in providing information over a period that does not match the financial year.</p>

FRC question	Crowe comment
	Data and analytics tools such as Alteryx and Power BI could be used to produce dashboards for ease of management oversight and monitoring.
<p><b>Q4: Do you agree that it would be useful to include supporting narrative? Please provide suggestions to ensure that the information is concise and useful for users of audit services</b></p>	<p>Metrics should be easily understandable and if not, then narrative should be included. The aim, however, should be to do away with excessive narrative and to keep AQIs as clear and simple as possible for ease of consistent interpretation by various stakeholders.</p> <p>Care should be taken with regard to the FRC proposing an indicative work count for firms' textual responses – we consider that the narrative assessment should be qualitative not quantitative.</p> <p>We do not agree with any suggestion that the FRC allow firms to provide a link to their own webpage to publish relevant material. This creates further inconsistency and will not achieve the purpose of clarity to users of audit services on where to find key information on published firmwide AQIs. To be effective, such information should be available to such users in one place.</p>
<p><b>Q5: Do you agree with our proposed AQIs? If not, or in addition, do you prefer some of the alternatives presented above? Please explain, using the reference number</b></p>	<p>We believe it is imperative that any AQIs introduced on a mandatory basis are those where there is evidence to demonstrate that they improve quality.</p> <p>It is possible that the intuitive policy response does not lead to the desired outcome. For example, it seems intuitive that greater independence will lead to greater audit quality but research indicates that newly-appointed auditors may lack knowledge of the audited entity that can harm audit quality<sup>1 2</sup>. Similarly, research indicates that preventing audit firms from providing consulting services to their audit clients <i>“leads to higher investments in audit quality, but can decrease average audit quality if</i></p>

<sup>1</sup> Corbella, S., Florio, C., Gotti, G., & Mastrolia, S. A. (2015). *Audit firm rotation, audit fees and audit quality: The experience of Italian public companies*. Journal of International Accounting, Auditing and Taxation, 25, 46-66. [https://www.researchgate.net/profile/Giorgio-Gotti/publication/256017786\\_Mandatory\\_Auditor\\_Rotation\\_Audit\\_Fees\\_and\\_Audit\\_Quality/links/5543aaaa0cf23ff7168520a5/Mandatory-Auditor-Rotation-Audit-Fees-and-Audit-Quality.pdf](https://www.researchgate.net/profile/Giorgio-Gotti/publication/256017786_Mandatory_Auditor_Rotation_Audit_Fees_and_Audit_Quality/links/5543aaaa0cf23ff7168520a5/Mandatory-Auditor-Rotation-Audit-Fees-and-Audit-Quality.pdf)

<sup>2</sup> Jackson, A. B., Moldrich, M., & Roebuck, P. (2008). Mandatory audit firm rotation and audit quality. Managerial Auditing Journal. [https://www.researchgate.net/profile/Andrew-Jackson-29/publication/227429796\\_Mandatory\\_Audit\\_Firm\\_Rotation\\_and\\_Audit\\_Quality/links/53f3be010cf2155be3537d7e/Mandatory-Audit-Firm-Rotation-and-Audit-Quality.pdf](https://www.researchgate.net/profile/Andrew-Jackson-29/publication/227429796_Mandatory_Audit_Firm_Rotation_and_Audit_Quality/links/53f3be010cf2155be3537d7e/Mandatory-Audit-Firm-Rotation-and-Audit-Quality.pdf)

FRC question	Crowe comment
	<p><i>marginal clients switch to lower quality auditors</i><sup>3</sup>, which would suggest operational separation and reduced non-audit services may not necessarily lead to the assumed improvements in audit quality.</p> <p>While we are not suggesting that these prior positions be reversed, we believe the FRC should ensure that it is an evidence-based regulator and should develop policy on that basis.</p> <p>It is not clear whether the FRC has performed a cost benefit analysis of each of the proposed AQIs. If not, this should be considered along with the fact that costs would include both implementation costs and the costs of behavioural change. It follows that only AQIs that are evidenced as having a direct link to quality and that have a net positive cost benefit analysis score should be pursued.</p> <p><u>AQI specific points</u></p> <p><b>A1 – Staff / culture survey results</b></p> <p>We support these as an AQI but the question asked needs to be the right one. In this light, we encourage the FRC to consult with firms to determine the survey questions that it believes work well, together with the evidence linking these to higher quality.</p> <p><b>A2 – Planning milestones</b></p> <p>We believe further research is needed to determine the linkage between milestones and audit quality as we are not aware currently of an evidence base for this.</p> <p>In order for this metric to be truly comparable, all of the firms who agree to report AQIs would need to introduce exactly the same milestones with the same cut-off points and, in this regard, the metric is currently not prescriptive enough. Given our earlier comment that AQIs should be reported across all audit assignments we are concerned that the nature of audit assignments can be so different that this will become an extremely difficult measure to report on reliably. Further, the nature of firms' information and audit systems are so different that we believe a number of firms (particularly those at the smaller end) would have to make significant changes in systems in order to report on this metric.</p> <p><b>A3a – “Average audit hours spent before the financial year-ends of audits in scope, as a percentage of total audit hours”</b></p>

<sup>3</sup> Friedman, H. L. and Mahieux, L. (2021). *How Is the Audit Market Affected by Characteristics of the Nonaudit Services Market?* Journal of Accounting Research. <https://doi.org/10.1111/1475-679X.12347>

FRC question	Crowe comment
	<p>We believe this metric has shortcomings for a number of reasons, which we list below. In addition, we have not seen the evidence that indicates that a higher percentage of audit hours before the year end leads to higher audit quality scores.</p> <ul style="list-style-type: none"> <li>(a) Hours do not necessarily equate to a quality audit being performed as there could be large amounts of wasted time and re-work contributing to time booked onto the engagement code.</li> <li>(b) Firms already have a massive challenge with staff “undercharging” their time on engagements and this may lead to staff not booking their hours correctly in the final phase of the audit.</li> <li>(c) A number of audits cannot have interim work performed on them, so these audits would need to be subjected to different quality metrics to avoid skewing the results.</li> <li>(d) This metric would be biased in favour of larger audit firms that have a large number of clients where audit work is done ahead of year end.</li> <li>(e) Timesheet systems would require re-design to track time for pre-and post-year end occurrences, and the majority of smaller firms in the sector do not record their time this way.</li> </ul> <p><b>A3b – “Average percentage of audit hours spent in the two weeks before sign-off.”</b></p> <p>Again, purely ‘hours’ based metrics do not have evidence of a clear and direct link to the quality of the audit work being produced, and a number of audits are extremely time pressured from the client side or due to historical market expectations, so this necessitates a rapid turnaround of the audit within a short timeframe leading up to sign-off. As such, whilst it could be argued that firms should manage time pressures better in some cases, the AQI as it currently stands would inadvertently penalise teams performing audits to a high quality despite time pressured situations.</p> <p><b>B4 – Internal quality review hours as a percentage of total audit hours.</b></p> <p>As noted above, hours based metrics alone are not supported by evidence that shows a clear linkage to quality.</p> <p>This metric needs to be more precise and perhaps should be re-formulated to “The number of high risk audits covered by the internal quality review process”.</p> <p>That said, the phrase “high risk audits” would itself need to be universally agreed and benchmarked. A metric like this would quickly provide clear and strong evidence of how seriously the firm takes its commitment to producing high quality work.</p>



FRC question	Crowe comment
	<p>Another option would be that the metric would need to be split over “high risk audits” and “all audits” (not necessarily split by whether it is a PIE or not), but this could prejudice smaller firms with less technical resources, so it would be best to focus on audits with a higher risk profile for the purposes of monitoring.</p> <p>In either event, for a metric like this, it would be good to know “what good looks like” – i.e. should EQCR time booked on the engagement relative to the time booked by Managers and RI's on the engagement be 150%, 125% or 100% of the time. Further, a metric like this over-emphasises remediation rather than quality at the point of the work being done – which is already covered by ISQM 1 as an overall monitoring mechanism.</p> <p><b>B5 – Percentage of audits inspected, by quality grading</b></p> <p>This is an appropriate metric because it is an output measure and given these inspections are done independently of the firm / its staff / management, they provide one of the strongest sources of evidence as to quality in the firm and should be the first metric displayed in any AQI reporting.</p> <p>In addition, all Category B AQIs should be presented with more prominence than Category A AQIs or any other category of AQIs (switch category A and B, Larger font sizes for certain AQIs, smaller font sizes for other categories). Further, all other categories of AQIs should be explained as being other measures developed by the FRC for information purposes only and that they do not have a clear, demonstrated link to quality.</p> <p><b>B6 – Number of audits internally reviewed as a percentage of total number of audits completed during the period, with quality grading</b></p> <p>As outlined above, this would potentially be detrimental to smaller firms who with less resource may be unable to review as many files and thus would be benchmarked negatively against the larger players in the market. As such, this AQI would reinforce the barriers to entry and to directly competing with the Big 4. In addition, it is unclear whether “hot reviews”, “cold reviews”, automated monitoring or even ‘in-flight’ reviews (or some hybrid of these approaches) would be considered to be part of the internal review process or not and the FRC would need to provide more guidance on this area. Further, existing EQCR processes don't seem to be covered by this metric, which would make this metric biased against smaller firms who cannot afford the significant costs associated with the additional resources required to perform internal reviews on all files.</p> <p><b>B7 – EQCR hours as a percentage of total audit hours</b></p>

FRC question	Crowe comment
	<p>EQCR involvement is important and this metric would allow firms to focus on audits that have a higher risk profile and are thus subject to EQCR. As already noted, purely hours based metrics do not have evidence of being directly linked to quality and they can be misleading and biased. The metric (or metrics developed) should be based on EQCR involvement at key stages throughout the audit and the complexity of the audit (as reflected in RI hours) should also be incorporated into the final EQCR related AQI. The proportion of EQCR involvement in the audit against RI / Key Audit Partner hours should also be factored into any AQI that is developed in this area.</p> <p><b>C8 – Average hours spent on audits as a percentage of total audit hours by engagement partners and key audit partners</b></p> <p>This is another hours-based metric and there is no evidence of a clear linkage to quality. It should also be borne in mind that hours charged by engagement partners depend on the type of audit engagements that partners perform and the relative complexity of the audit.</p> <p>It would be important to balance this metric to avoid inadvertently rewarding RI's who are potentially too methodical and thus charge a lot of time to their project codes as opposed to RI's who are more economical with their time and perhaps more efficient in their reviews. In addition, it would be good for the FRC to outline 'what good looks like' in the context of this AQI. Further, the AQI as it stands is too narrow. For example, a firm could have an audit for quite a large entity with a low volume of judgemental areas which stay consistent over time which would introduce a degree of efficiency as it would not require a lot of RI involvement. As such, this AQI would be very different on different jobs, which would make this AQI inherently incomparable.</p> <p>The nature and governance arrangements for different types of audits can have a significant impact on this metric. Entities with more formal and well-developed governance procedures tend to require a greater number of RI hours compared to say, even a large private company with more informal governance. If the FRC were to proceed with this AQI, it would need to be segregated between the various types of audit but this again could mean it is difficult for firms to extract this information readily from their systems.</p> <p><b>C9a – Average staff utilisation rate by grade (or group of grades) in the audit practice</b></p> <p>Utilisation rates could, in principle, be a good indicator relating to quality, due to the fact that firms will ordinarily push for higher utilisation percentages to ensure they are extracting the maximum amount of output from audit personnel.</p>

FRC question	Crowe comment
	<p>From a quality lens perspective, excess utilisation can cause quality to suffer but we are not clear what evidence exists as to the linkage between utilisation and quality, so this would need to be clarified.</p> <p>Ultimately, for this metric to be useful the data needs to be accurate, which would rely on all staff recording all their time.</p> <p>In addition, utilisation metrics that are based upon a complete year may not produce the required outputs as this can mask those times in a year where people are excessively utilised (in the 'busy period'), compared to other times when they may have spare capacity. Through discussion with the firms, it would be beneficial for the FRC to determine what a 'good' level of utilisation is and then for firms to report on the number of months per year where utilisation exceeds a predetermined 'maximum' upper limit of utilisation, as this would result in firms taking action to spread the load of work better amongst staff, thereby indirectly driving better quality outcomes.</p> <p><b>C9b – “Average staff utilisation rate by grade (or group of grades) in the audit practice – separate number for busy period”</b></p> <p>In principle it is good to focus on busy seasons or periods, but in practice, different staff within the same firm will have separate busy periods during the year, so overall measures would be better to monitor. Also, it is unclear what evidence exists to support the linkage between this AQI and quality.</p> <p><b>C10 - Average staff attrition rates by grade in the audit practice.</b></p> <p>Staff attrition itself arises from a number of factors, some of which are totally unrelated to the quality of work being produced. There is an argument that can be made that if talented staff leave in excess number, then this puts excessive pressure on the managers and above in terms of coaching, direction and supervision of the work of more junior staff. The other side of the argument is that attrition is a key part of the business model of audit firms and that retaining too many staff would break the model of how the business works. As such, an indicator like this would be useful to monitor attrition at more senior levels (Manager and above).</p> <p>More important than the numbers when it comes to attrition are the reasons. A smaller firm may experience a lot of attrition if, say, the larger audit firms embark on a recruitment drive given, generally, their ability to offer enhanced reward packages and the attraction of a 'Big 4' name on a CV.</p>

FRC question	Crowe comment
	<p>As such, if an attrition rate AQI is chosen as part of the final AQIs, then we propose that any attrition rate AQI is segmented between Tier 1 and Non-Tier 1 firms as this AQI would inherently not be comparable.</p> <p><b>C11 – Average hours spent by specialists on audits as a percentage of total audit hours.</b></p> <p>This AQI assumes that all audits require specialist assistance and that the more specialist hours, the better. These assumptions generally do not necessarily hold to be true (for example, PIE engagements may require more specialist involvement than non-PIE engagements) and a majority of lower risk engagements do not require the involvement of specialists.</p> <p>Additionally, this AQI would incentivise larger firms (who have far larger resources at their disposal) to assign more specialists to their audits, which would only drive up audit costs, reinforce the dominance of the larger players and not necessarily result in better audit quality. In addition, it is unclear what evidence exists to support the linkage between this AQI and quality. If a link can be demonstrated, a better AQI to monitor specialist involvement may be, “Percentage of engagements using a specialist, where the work of the specialist was only completed within 1 week prior to sign-off of the audit opinion”.</p> <p><b>C12 – Average number of audit staff managed by an audit partner / manager</b></p> <p>We believe there is merit in this metric or something similar but, as ever, it needs to be contextualised and taking only one data point could be misleading. When looking at audit partner ratios, the focus would need to be on “RI”.</p> <p>Further, a ratio target could be set by each firm, but inherently these would not be comparable with each other and wouldn't be all that meaningful. When looking at capacity constraints, from a quality lens, it is not the averages which can impact the quality, but rather the actual capacity levels throughout the year and at specific points in time as these factors influence timing of the performance of the work along with deadline management.</p> <p><b>D13 – Average number of mandatory training hours per person.</b></p> <p>Mandatory training hours in isolation is a poor metric as it could lead to firms pushing a lot of courses (which may not even be linked to audit quality) onto its staff only for the purposes of boosting the metric. This would undermine messaging and staff attitudes relating to the importance of continuous learning and development. What is most important is not only the number of mandatory training hours, but the effectiveness of this training on improving audit quality.</p>

FRC question	Crowe comment
	<p>Training is important and we want our staff to view it as useful and something they would choose to do even if it were not mandatory – linked to their own unique professional development needs. Having more mandatory training courses would make this impossible to achieve and result in a less motivated workforce.</p> <p><b>E14 – Percentage of individuals in the audit leadership, by gender and ethnicity</b></p> <p>Diversity and inclusion (D&amp;I) are obviously important and a good thing for all sectors. Many of the firms already report on D&amp;I information in their Transparency Reporting. If the FRC is to promote this as an AQI then it should provide the justification for it being sufficiently closely linked to the quality of the audit.</p> <p>We are focussing on ED&amp;I as a firm because it is the right thing to do, rather than as being something that should be done to improve audit quality.</p>
<p><b>Q6: Do you think there are any other firm-level AQIs that we should consider? If so, please explain. (If relevant, please refer to the list of AQIs we have considered but not proposed, in Appendix 1.)</b></p>	<p>No other AQIs suggested at this time, but it is important to reiterate that any and all AQIs that are to be reported on should be evidence based and be clearly linked to the definition of quality.</p>

FRC question	Crowe comment
<b>Are there any other comments you wish to make about these proposals, including concerning costs, benefits, or impacts not discussed above?</b>	<p>It is unclear what the FRC has learned about AQI from its experience of performing AQR reviews and this should be considered as part of the process. In addition, it should be considered whether there are external factors that might indicate good or bad quality outcomes. Given the length of time that AQR has been conducting audit quality reviews and the evidence it has gathered, we would welcome the FRC publishing an analysis of that data.</p> <p>Examples of important questions not addressed are:</p> <ul style="list-style-type: none"><li>• What does the FRC know about the relationship between length of tenure and quality?</li><li>• What is the relationship between non-audit services and quality?</li><li>• What is the impact of tendering on quality?</li></ul>