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Dear Shamima

FRC Consultation: “Firm-level Audit Quality Indicators” June 2022

We present attached in the appendices to this letter, our response to the consultation published in June 2022 on the proposed reporting of firmwide annual Audit Quality Indicators (“AQIs”).

We agree that AQIs are useful management information tools for audit firms when used to complement other procedures and controls for assessing audit quality, and we have embedded these into our governance monitoring structures. Given the nature, timing and specificity of some of the annual firmwide AQIs proposed in this consultation, we do have some concerns over the usefulness and feasibility of reporting these as proposed. These concerns are discussed below.

Purpose of the AQIs

As stated in the consultation, the primary intention of this new AQI reporting process will be to contribute to greater transparency for decision makers such as Audit Committee Chairs (“ACCs”) and investors. As such, the view of these stakeholders as to what would be the most effective measures for these purposes, should be the key driver in determining which AQIs are shared publicly. In making these decisions, it is important for users to understand the limitations of these AQIs, as the risk of misinterpretation may outweigh the public interest benefit if inappropriate or unjustified conclusions are drawn. The key risks arise from the relevance and comparability of this information, which is commented on further below.

Before concluding on the final suite of AQIs to be published, it is vital to ensure that any reporting serves the intended purpose of supporting stakeholders in making informed decisions and does not create a separate industry of reporting and responding to questions as a result of incomparable, and/ or misunderstood data.

Additionally, in considering the purpose of these AQIs, the disclosures of AQIs at the level being proposed by the FRC are far more granular than key performance indicators required of other industries and the companies we audit. Whilst we recognise a desire to enhance conversations between interested parties, we consider that some of these AQIs (for example, utilisation and attrition) are sensitive and could impact our commercial interests if stakeholders use them to make inferences such as attractiveness of the business, pricing, or underlying profitability. To that end, we would welcome a conversation with the FRC and other impacted firms on this point.

Reporting timeframe and process

Whilst more consistency could be achieved by reporting all AQIs at the same point in the year across all firms, for those AQIs driven from the firm’s internal reporting processes and to balance cost of preparation versus consistency, we consider that the reporting period of any AQIs should align with the firm’s financial year-end. Doing so at any other time of year would result in additional cost and duplication of work in order to follow our required governance structures for preparation, review and

approval. We would also require reconciliations between periods for our internal and external reporting purposes to be performed, which would add no benefit to audit quality. It is therefore our recommendation that AQIs are reported by firms at their financial year-ends as is the case now.

If the desire is to have all AQIs reported in one location, for example on a single FRC website, other mandatory reporting requirements of AQIs should be removed, including the AQIs that are currently reported through the Transparency Reports through agreement of the Policy and Reputation Group (“PRG”). This will reduce administrative costs for firms, and the overall length of these reports. As noted in the consultation, the AQIs currently included in the Transparency Reports are not clearly defined and therefore may lead to differences if they are not removed in full. Whilst narrative will be essential to support users in understanding the meaning and implications of the reported AQIs, as this will be limited, reference to the Transparency Report is still required for additional detail on how quality is monitored and managed through actions throughout the year.

The most appropriate release date for each of these AQIs should be part of the subsequent discussions on the FRC’s proposed guidance note.

Relevance

AQIs can represent a single, or short period in time, and are often historic. Providing data on an annual basis is helpful to initiate discussion but loses all relevance as the variances experienced throughout a year will average out the overall responses. Even splitting these between ‘busy seasons’ and quieter periods will not provide an accurate picture as there are changes in all firms’ operations in all months of the year depending on the status of the companies we audit, economic activity, and internal action. Importantly, the AQI itself does not capture any actions taken to address shortcomings identified, or to prevent potential risks recognised. Whilst the narrative may allow for this, it is unlikely there would be sufficient commentary to fully disclose to the user the actions taken to address needs that arose during the year. The users of this data should therefore be aware of the limitations of any AQIs that fluctuate month on month before deciding if they are a helpful indication of audit quality when considered as an annual measure.

Reporting of firmwide AQIs also loses relevance given the difference in size and nature of engagements. In our experience with ACCs, they are predominantly interested in only those metrics that can provide some context for discussion to their audits, for instance, driven by size, listing, etc. As explained in Appendix A, some of the measures proposed cannot be segmented, and may therefore add little value at a firmwide level.

Additionally, whilst individual AQIs can give an indication of overall progress of audits, this is not in itself indicative of the quality of the complete audit portfolio.

Comparability

The consultation states that one of the intentions of this AQI reporting process is to allow ACCs the opportunity to have richer conversations about audit quality with firms, especially when tendering for new auditors. It states that being able to make comparisons between firms on AQIs beyond external inspection results, will help audit committees make a more informed choice when selecting an auditor.

In our view, achieving consistency and comparability of reporting across firms will be a significant challenge. The guidance note to be produced will need to be explicit, with little room for interpretation, to ensure that the measures are as comparable as possible. Even with this, there will be inevitable differences, for example, driven by the size of the audit portfolio, the number of staff, and the existing processes in place, some of which cannot be changed due to required management processes (for

instance milestones, on which we report globally to pre-defined milestones deadlines which we consider the most effective, and therefore cannot alter for the purposes of consistency with other firms).

Our answers to the consultation questions are provided in the attached appendices. This also includes specific comments on the preparation and comparability of each of the AQIs which we offer for inclusion in the upcoming guidance note. We look forward to working with you on developing the most appropriate basis of reporting to support the needs of stakeholders, and if you have any questions or comments on our response, please contact me using the details provided.

Yours sincerely,



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Appendix A – Responses to the consultation questions

1. Do you agree that the firms reporting their AQIs should be aligned to the scope of the revised 2022 Audit Firm Governance Code? If not, what scope would you prefer and why?

Whilst we agree that this scope is most relevant, it should also be considered to apply for any firm that is likely to tender for similar sized engagements as those within this scope. Without doing so may unfairly disadvantage either those reporting this data with nothing against which they can be compared to the non-reporting firms, or similarly, it may disadvantage those who have not reported as they may be challenged by Audit Committees on how they are able to compare to those within scope. This information may also be of interest in the case of shared audit proposals by the joint participants, or the Audit Committees. Therefore, we suggest that the scope should be re-visited when requirements on managed shared audits is further developed.

2. Do you agree that the firms reporting 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?

Yes, we agree that segmented reporting between different types of engagements would be useful in some instances, although doing so as PIE versus non-PIE is not feasible or practical for all proposed AQIs. Survey results, utilisation (or charged hours per person), attrition, training and diversity and inclusion can only be reported on a total firmwide level. Milestones and partner involvement would be most appropriately split by engagement size (that is, the number of expected hours to be incurred to perform the audit) as PIEs can vary considerably by size - although we do not agree with the inclusion of these as firmwide metrics (refer to Appendix B for rationale). Internal and external inspection results would most usefully continue to be split between FTSE 350 and all reviews, or between listed and non-listed audits. Therefore, varying segmentations should be applied, depending on the nature of the AQI.

3. 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?

Yes, we would expect additional costs to be incurred if we were to report over a period not aligned with our financial year-end. All publicly reported information is subject to our internal governance structures for production, review and approval. Preparing information that does not align to our financial year-end would result in these review and approval processes being run twice in the year (once at the date of proposed reporting, and then at the year-end). Whilst we have not quantified these costs, we would expect them to be significant with very little value add to the firm, or to the users of the AQIs, therefore we do not agree with reporting AQIs over a period that is not aligned to our financial year-end.

We are part of a global network and report at a global level on various AQIs and Key Performance Indicators (“KPIs”), which, where reported annually, are aligned to our financial year-end, as is ISQM1. The production of this information outside of our financial year-end would lead to misalignment between our internally and externally reported data which would require careful review and reconciliation. If a revised process of reporting is concluded on, the currently reported disclosures in Transparency Reports should be removed to reduce administrative requirements.

In the case of some AQIs, there will be additional costs incurred in producing these on an annual basis, as they are currently produced on a monthly basis for management purposes. In order to consider and address potential challenges to audit quality in a time effective manner, monthly reporting is most relevant for internal use. However, we do concur that an annual metric would be more useful to Audit Committees and other external stakeholders to facilitate discussions. These should be produced to align to our year-end for consistency with the remainder of our reporting and to avoid the duplicate governance processes as described above. There may be some instances of AQIs where reporting outside of our financial year-end is viable. We can assess this on a case-by-case basis when the definitions and guidance on how to prepare each AQI are available.

Companies prepare their KPIs for their financial year-ends, and stakeholders are required to view these across industries and competitors at the dates they are prepared, rather than to an aligned date outside of the companies' year-ends. Therefore, it is feasible for users of the AQIs to do the same. The AQIs at each firms' financial year-end can be published together at any time of year if required, along with narrative explaining the age of the AQIs at that date, which the users can consider when making their assessments and enquiries. In line with how businesses in industry report their KPIs, we consider it most appropriate to continue to report our AQIs in line with our financial year-end.

We also note that the proposed timeline of April to March is problematic due to the traditional “busy season” running from January through to March each year. It would be inappropriate to divert attention of audit teams during this key audit period from the quality of the work they are delivering to request information and input to support the production of some of the AQIs, for example, for the culture survey.

4. 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.

Yes, we agree that it would be useful to include supporting narrative. The key information that would be useful to users of this information are:

- Divergence to the proposed definitions that are to be published (which should be limited as far as possible);
- Material changes year on year (noting that there will be no comparatives in the first year);
- Any unusual activity or exceptional items in the period; and
- Linkage with other AQIs reported, where applicable.

A word limit would be beneficial. As suggested, reference to other publications with further detail can be used, but the ability to provide this key information alongside the AQIs is vital to the immediate understanding of the data. A significant element for users to consider in the use of these AQIs is not only what they have shown for the last year, but any actions being taken to address challenges going forward. However, the length of this may be extensive in some cases and therefore may not lend itself to being included in the narrative. Links to relevant publications (for example, the FRC

public report for each firm or the Transparency Reports) with this information would be required, which would also impact the possible timing of publication, and require it to be aligned to the year-end as stated above.

As suggested in the consultation, contextual information such as the number of audit partners/ Responsible Individuals, audit staff by grade, number of professionally qualified staff working in audit, number of PIE audits undertaken by the firm, etc, would also be helpful information. Whilst we concur that providing links to other publications with this data is an option and will prevent the reported AQIs from becoming overburdensome for the user, this information is of utmost importance when considering most of these AQIs against other firms. For this reason, it is important that this information is reported in the same location as the AQIs. Comparability is discussed in the sections below.

5. 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 numbers.

We have summarised our view of each of the proposed AQIs below. Please note agreement in all instances is subject to clarity on the definitions, and how these will be comparable between firms. Refer to Appendix B for detailed consideration on each proposed AQI, as well as specific questions or concerns we have raised, particularly in relation to comparability.

Proposed AQI	Comments
Staff/ Culture survey results	We agree that we could report this AQI, subject to clear guidance on the points noted in Appendix B.
Audit planning milestones	We do not agree with reporting this AQI as a firmwide measure.
Internal quality review	We do not agree with reporting this AQI, as defined, as a firmwide measure. <u>As an alternative</u> , we consider that the measures that we currently report on internal quality monitoring (percentage of Responsible Individuals subject to quality reviews, and percentage of FTSE 250 audits, for example, subject to internal review) can continue to be reported, as this gives insight into the volume and nature of the internal reviews completed.
Inspection results - external	We agree that we could report this AQI, subject to clear guidance on the points noted in Appendix B.
Inspection results - internal	We do not agree with reporting this AQI as a firmwide measure. <u>As an alternative</u> , we consider that the measures that we currently report on internal quality monitoring (number of audits inspected, with quality gradings) can continue to be reported as this gives insight into the volume and nature of the internal reviews completed.
Partner involvement in audits	We do not agree with reporting this AQI as a firmwide measure.
Staff utilisation (and reported separately for busy period of January to March)	We do not agree with the public reporting of this AQI. If a measure to assess work intensity is considered important to include, we would welcome further discussion on the best measure to make this meaningful and comparable given the number of variables it may include, and also to consider commercial sensitivities.
Staff attrition	We do not agree with the public reporting of this AQI.
Training	We agree that we could report this AQI, subject to clear guidance on the points noted in Appendix B.
Diversity and inclusion - percentage of individuals in the audit leadership by gender and ethnicity	We agree that we could report this AQI, subject to clear guidance on the points noted in Appendix B.

6. 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 B).

Where we consider the proposed AQIs that are not suitable for reporting, we have stated potential alternatives. Refer to Appendix B for this detail. As stated in the consultation, introducing too much information will make the data more difficult for stakeholders to use. Therefore, we have kept these limited where possible. However, if Audit Committees and other stakeholders would find additional AQIs useful, we are committed to supporting the

needs of these communities and welcome further discussion on how best to achieve that whilst balancing with commercial sensitivities and the costs of production.

7. Are there any other comments you wish to make about these proposals, including concerning costs, benefits, or impacts not discussed above?

If these AQIs are those that Audit Committees and other stakeholders are interested in, our prime concerns are the relevance of annual measures, and the comparability of such measures across firms, as well as the commercial sensitivity due to the inferences that can be drawn from some of these measures (such as attractiveness of the business, pricing, or underlying profitability).

Whilst the guidance note planned will be helpful in achieving a level of consistency, there will be unavoidable differences due to the size and nature of engagements. The segmentation of engagements (for example by size and listing) will go some way to alleviate these differences, but as there is significant variety within these engagements, there remains the risk of the lack of comparability which may prejudice the users' perceptions against one firm over another. The suggestion of contextual information to be provided along with the AQIs will go some way to mitigate this but will not prevent immediate perceptions based on AQIs alone, leading to misalignment.

AQIs are a useful management tool to help monitor audit quality, and to support with the identification of issues as they arise. It must be made clear to users of annually reported AQIs that these are supportive of audit quality, and not indicative thereof. Firstly, all of the AQIs identified are historic. Used on a monthly basis as a management tool, they raise concerns for which actions are taken immediately by the firm. An historic measure annually reported AQI will not show the rectification, only the issue arising. Users are encouraged to read other publications along with these AQIs, which will give context to the work applied each year to continually improve audit quality, for example, the Transparency Report and our EY Audit Quality Report. Secondly, the usefulness of some of these as an indicator of quality is also limited as they often show the results of the process, but this does not give any indication of the final quality of the work performed.

The commercial sensitivity of some of these measures should also be considered before concluding on what should be shared via this method. There may be alternative bases on which to share the required information to support Audit Committees in their discussions with firms.

Appendix B - Proposed AQIs and rationale for agreement or disagreement

	Proposed AQI	EY response
	Performance monitoring and remediation	
1	Staff/ Culture survey results - percentage of favourable and unfavourable responses to the survey questions	<p>We agree that we could report this AQI, subject to clear guidance on the points noted below.</p> <p>The results of a number of audit quality survey questions are currently reported in our Transparency Report. If this basis of firmwide AQI reporting is agreed, the current reporting in annual Transparency Reports should be removed to avoid duplication and help reduce the related workload and costs to firms. It is important to consider that the results to a survey are valid only at one point in time. If these are reported later than the date of the survey, actions are likely to have been taken to address any concerns arising in responses. Users should read this data in that context. We currently run our annual audit quality survey in September. Actions are devised and put in place by the end of that quarter to address the concerns of our business. We also run smaller, more targeted focus group sessions quarterly throughout the year for which actions are continually considered and fed into our audit quality strategy. It should also be considered that results to surveys can be biased, positively or negatively, with respondents answering strategically to serve their motivation.</p> <p>These AQIs would not be categorised between different types of engagements (size, PIEs, other).</p> <p><i>Guidance required:</i></p> <ul style="list-style-type: none"> • The survey questions must be exactly the same across firms, to avoid different interpretations by respondents. • The rating scale must be defined (for example "strongly agree", "agree", "neutral", "disagree", "strongly disagree"). • The basis on which the responses will be published is required, specifically, if this will be published per question, and in aggregate for any combination of questions.
2	Audit planning milestones - completion of audit phase - percentage of audits meeting key planning milestones by the target completion date.	<p>We do not agree with reporting this AQI as a firmwide measure.</p> <p>The reporting of this data as an annual firmwide measure will demonstrate how many of our engagements did not meet the proposed milestones at a given date, however it gives no indication as to the cause of the delay, or the actions taken to resolve the delay. For instance, delays may arise due to new transactions or changes at the audited company, which result in unavoidable changes to the timing of planning procedures. Nor does it indicate the length of the delay (for example, one day, versus one month). The single AQI does not demonstrate the work undertaken by the audit teams and audited companies to ensure that the planning is completed to a</p>

	Proposed AQI	EY response
		<p>revised requirement to facilitate the changes at the audited company without compromising quality in the audit, for example, changes in reporting timetable or audit team.</p> <p>Comparability between firms is also a significant challenge for this AQI. At a firmwide and engagement level, we currently assess this metric based on engagement size rather than PIE status, with different deadlines set depending on total hours expected on the audit (as there are a proportion of PIEs that are significantly smaller than others). Non-PIEs would also include statutory engagements for which milestones due dates would be skewed as a result of timing of procedures performed for the group element. We assess milestones compliance considering both the year-end date, and the expected reporting release date. Our milestones and the dates by which they are to be achieved are unlikely to be consistent across firms. Introducing consistent dates/ thresholds across firms would not be practical. It would result in additional costs and time for preparation and governance monitoring. It would also not allow for explanation of actions taken as we cannot change the dates at which we monitor and take action at an engagement level internally. The size of the firms and number of engagements subject to milestones would also lead to challenges when comparing across firms.</p>
3	<p><i>Alternative/ additions</i> - Proportion of audit hours by phases of audit</p>	<p>We do not propose reporting this AQI as well as, or instead of, the others in this category.</p> <p>Whilst we concur that a higher percentage of hours spent upfront at the planning phase may result in better planning, and potentially higher audit quality, this is not a definitive measure of audit quality. There would be significant challenges in identifying the actual hours per phase of audit, for instance, there may be instances where the hours charged in the first phase of the audit are not related to planning, or may serve dual purposes. Implementing rules to assess this would be prone to error and inconsistencies. The size and nature of the audit may also impact the expected hours to be incurred in each phase of the audit, and reporting at a firmwide level would eliminate that nuance. Therefore, trying to assess this at a firmwide level could give an inaccurate or unbalanced view of the process.</p>
	Quality Monitoring	
4	<p>Internal quality review - Internal quality review hours as a percentage of total audit hours (Internal quality review hours refers to hours carried out in conducting 'cold reviews' which review at least one</p>	<p>We do not agree with reporting this AQI as a firmwide measure. <u>As an alternative</u>, we consider that the measures that we currently report on internal quality monitoring (percentage of Responsible Individuals subject to quality reviews, and percentage of FTSE 250 audits (or other appropriate segmentation) subject to internal review) can continue to be reported as this gives insight into the volume and risk of the internal reviews completed.</p> <p>There is an EY global "cold review" process in place to which we align. As part of this process, every Responsible Individual is subject to a cold file review at least every three years, plus in the first and last year of their tenure, and in any year following a negative quality occurrence. Every FTSE 350 engagement is subject to a cold file review at least every six years. Therefore, as with other firms, we do not meet the proposed definition of</p>

	Proposed AQI	EY response
	completed engagement for each engagement partner)	<p>conducting a cold review for at least one completed engagement for each engagement partner annually. This process is well established and subject to global controls.</p> <p>Additionally, the proposed AQI does not allow for comparability across firms, as it gives no indication of the size or complexity of the engagements reviewed. It is not clear why this would be limited to cold reviews, rather than including hot file review investment. The comparability element would remain an issue, as hours invested in hot file reviews as well as cold file reviews would not be demonstrative of the size or complexity of the engagements reviewed.</p>
5	Inspection results - external - percentage of audits inspected by quality grade	<p>We agree that we could report this AQI, subject to clear guidance on the points noted below.</p> <p>These AQIs are currently reported by the FRC, and in our annual Transparency Report. We concur that we could continue to report these on an annual basis. Whilst we prefer to continue to report them in line with our financial year-end, as the information is publicly available in July on the FRC website, this could be collated and reported at any time of year. The age of the data, and the periods to which the reviews relate would be key information to share with the users of this data. For instance, an inspection included in results published in July 2022 may have a year-end date as old as June 2020, during which time there can be significant changes in the audit firm and/ or audited company. This AQI does not provide insight into key findings, or actions taken to address these. However, the narrative could be used, as well as a link to other publications with full details. We consider it most appropriate that this data continues to be reported with 1 and 2 grades categorised together as “good or limited improvement”.</p> <p>This data is currently split between FTSE 350 reviews and all reviews for the FRC AQR reviews and with no split for the ICAEW QAD inspections. If these were being amalgamated a listed/ unlisted split may also be appropriate.</p>
6	Inspection results - internal - number of audits internally reviewed as a percentage of total number of audits completed during the period, with quality gradings.	<p>We do not agree with reporting this AQI as a firmwide measure. <u>As an alternative</u>, we consider that the measures that we currently report on internal quality monitoring (number of audits inspected, with quality gradings) can continue to be reported as this gives sufficient insight into the volume and risk of the internal reviews completed.</p> <p>The consultation refers to the number of audits internally reviewed as a percentage of total number of audits completed during the period, with the quality grading. Determining the total number of audits as the denominator would pose a significant challenge in ensuring consistency across firms and in collating this within a firm. For instance, does it include all audit opinions signed within the period, or all the year-ends within the period? Does it include only statutory audit opinions or also group reporting audit opinions which may be the only audit opinions for some entities?</p>

	Proposed AQI	EY response
		The alternative proposed is currently reported in our annual Transparency Report, and in the FRC annual firm specific report. We could continue to report this on an annual basis.
7	<i>Alternative/ additions</i> - Involvement of EQCR	<p>We do not propose adding this AQI as well as, or instead of, the others in this category.</p> <p>We have minimum EQCR hours guidelines based on the size of the engagement, and any outliers require consideration and explanation to ensure appropriate EQCR time in response to the audit risk. However, this is considered at an engagement level, and a firmwide metric could give an inaccurate or unbalanced view of the process.</p> <p>Furthermore, EQCR involvement is determined based not only on whether it is a PIE or not, but also on the risk of the engagement. As such, we have EQCR involvement on non-PIEs which may result in a lack of comparability across firms. Lower EQCR involvement is not necessarily indicative of lower audit quality, but may be due to lower risk, and/ or lower overall engagement hours. Further, in a group audit, the EQCR hours will be at the group level whereas the total audit effort which may drive the level of their involvement may not all take place in the UK.</p>
	Resource planning and people management	
8	Partner involvement in audits - average hours spent on audits as a percentage of total audit hours by engagement partner and key audit partners.	<p>We do not agree with reporting this AQI as a firmwide measure.</p> <p>We are currently developing our firmwide AQI to monitor partner involvement as a percentage of total hours in audits, as we concur that this is an important metric, when used alongside other data, to consider audit quality. The reporting of this data as an annual firmwide measure can demonstrate how many hours our partners have spent as a percentage of total hours, but it gives no indication of other specifics of the engagement, for instance, other executive involvement on the engagement from other senior team members, the complexity or risk of the engagement, level of overseas or specialist involvement, etc., all of which you would be expected to impact the partner involvement.</p> <p>Comparability between firms is a significant challenge for this AQI. A firmwide metric would provide no indication of the complexity of the engagements across different firms. Similarly, the size of the firm, and number and size of engagements subject to the partner involvement targets would also vary considerably across those in scope. The structure of the audit team may also impact who meets the criteria of “key audit partners”.</p>

	Proposed AQI	EY response
9a/ 9b	Staff utilisation - Average staff utilisation rate by grade (or group of grades) in the audit practice.	<p>We do not agree with reporting this AQI publicly as a firmwide measure. If a measure to assess work intensity is considered important to include, we would welcome further discussion on the best measure to make this meaningful and comparable given the number of variables it may include, and also to consider commercial sensitivities.</p> <p>There are a number of considerations to be made with regard to comparability of a utilisation metric. We welcome discussion on the appropriateness of this measure, with the primary focus being on the definition and proposed basis on which it could be comparable across firms. The most significant challenge is the available hours against which utilisation would be calculated. This is a difficult estimate to make due to holiday, unplanned leave, etc., and will vary across firms. Charged hours is a less subjective measure and therefore could be an alternative to utilisation. Whilst utilisation/ charged hours could be a useful measure to enable discussion with key stakeholders and audit firms, the key concern on firmwide reporting of an AQI of this nature is the expectation of users. Whilst high utilisation/ charged hours may indicate work overload, a firmwide metric will be impacted by internal or non-chargeable work. An annual measure also eradicates any high intensity periods being offset by quieter periods, which could lead to inappropriate conclusions. This data is also considered sensitive, and the risk of misinterpretation is likely to outweigh the benefit of a public disclosure.</p> <p>Utilisation is expected to be higher during the busy season (January to March), therefore reporting two separate metrics is reasonable, but the weighting to this period will depend on a firm's spread of audits by year-end.</p> <p>These AQIs, if reported, should not be categorised between different types of engagements (size, PIEs, other).</p>
10	Staff attrition - Average staff attrition rates by grade in the audit practice.	<p>We do not agree with reporting this AQI publicly as a firmwide measure.</p> <p>As with utilisation, this information is sensitive, and the risk of misinterpretation may outweigh the benefit of public disclosure.</p> <p>These AQIs would not be categorised between different types of engagements (size, PIEs, other).</p>
11	<i>Alternatives/ additions</i> - Use of specialists	<p>We do not propose adding this AQI as well as, or instead of, the others in this category.</p> <p>This AQI will not consider the level of risk of the area in which the specialist is required.</p>
12	<i>Alternatives/ additions</i> - Staff/ partner & staff/ manager ratios	<p>We do not propose adding this AQI as well as, or instead of, the others in this category.</p>

	Proposed AQI	EY response
		This AQI will not consider the tenure or experience of each of these people in these ranks and therefore will not provide a fair assessment of experience across teams. Different firms may have different operating models which also result in a lack of comparability.
	Information and communication	
13	Training - average number of mandatory training hours per person	<p>We agree that we could report this AQI, subject to clear guidance on the points noted below.</p> <p>A form of these AQIs is currently reported in our annual Transparency Report. We concur that we could continue to report these on an annual basis. In order for this firmwide metric to be comparable, guidance would need to be provided as to the exact nature of training to be included, how the hours are to be accumulated, and what is considered “mandatory”. Users should also be made aware of comparability issues. For instance, hours will vary year on year depending on the regulatory environment, macroeconomic conditions, and other external and internal factors. Training requirements may vary firm by firm depending on internal changes, for instance, implementation of new tools.</p>
14	Diversity and inclusion - percentage of individuals in the audit leadership by gender and ethnicity	<p>We agree that we could report this AQI, subject to clear guidance on the points noted below.</p> <p>Diversity of Board leadership is currently reported in our annual Transparency Report (not included with the AQIs section). We concur that we could continue to report these on an annual basis and expand this to audit leadership. It is also worth considering if this should be limited to leadership, or if other metrics such as by rank or location would also be useful. In order to make this comparable, “leadership” would have to be clearly defined.</p> <p>These AQIs would not be categorised between different types of engagements (size, PIEs, other).</p>