



Financial Reporting Council

Firm-level Audit Quality Indicators (AQIs)

Definitions Note

March 2023

Contents

	Page
Purpose	2
Application Scope	2
Data Reporting and Presentation	2
Supporting narrative	3
Transitional arrangements	3
Definition and measurement	4
Performance monitoring and remediation	4
Quality Monitoring	6
Resource planning and people management	9
Information and communication	18
Governance and leadership	20
Appendix	22

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2023

The Financial Reporting Council Limited is a company limited by guarantee.

Registered in England number 2486368. Registered Office:

8th Floor, 125 London Wall, London EC2Y 5ASThis is an updated FRC Lot 3 template with 12pt body text for accessibility purposes.

Purpose

1. Reporting of firm-level audit quality indicators (AQIs) is intended to:
 - provide users of audit services with more information regarding factors that contribute to audit quality at the firms, to help them make an informed choice when selecting an auditor and throughout the subsequent audit engagement;
 - enable users of audit services (and other stakeholders) to assess firms on a consistent basis, with the knowledge that AQIs across the firms will be calculated in the same way based on a definitions note (previously referred to as a methodological / guidance note in the consultation document) to be developed by FRC in co-operation with firms; and
 - enable users of audit services to have rich conversations about audit quality and correlated factors with audit firms.

Application Scope

2. The scope for reporting firm-level AQIs to the FRC for publication is the same as the scope for the Audit Firm Governance Code (AFGC) (revised), namely firms that audit 20 or more PIEs or one or more FTSE 350 companies. Where the number of PIE audits conducted by a firm within scope drops below 10 and a firm does not audit any FTSE 350 companies, it ceases to be in scope for the AFGC and hence also for reporting firm-level AQIs to FRC for publication.
3. Audit engagements in scope for reporting of AQIs are defined as UK statutory audits, excluding local audits and "outbound" audits, i.e., those referred from the UK firm to overseas firms (regardless of the overseas firm being within the same global network or not). "In-bound" audits, i.e., those referred to the UK firm from overseas, are in scope.

Data Reporting and Presentation

4. Audit firms can report AQI data covering any 12-month period. Firms should provide FRC with their AQI data in June each year. In their submission to FRC, firms should indicate the time period applicable to their AQIs. The time period will be published alongside the AQI data.
5. A senior partner¹ in each firm should provide an attestation confirming the accuracy (within bounds of materiality) of the information, including the comparative prior year data. The FRC does not intend to verify the data provided by firms in scope, and will state this alongside the AQI data.

¹ Head of Audit Quality, or Audit Compliance Principal, or equivalent.

Supporting narrative

6. An indicative word count of 500 words in total is available to firms to provide narrative supporting their AQI data. The FRC expects the narrative to be concise and useful for intended AQI data users, and be focused on the data where there have been significant movements over time, or where the firm has not followed one of the definitions in this note. The narrative can refer to, or provide links to, relevant FRC publications and webpages, but not to firms' own websites.

Transitional arrangements

7. In the first year of implementation, i.e., 2023-24, all firms in scope will participate in a pilot to collect AQI data (segmented between all, PIE and non-PIE audits, if possible) for private reporting to the FRC in June 2024, alongside the basis on which the submission was prepared ("Basis of Preparation").
8. FRC will endeavour to publish indicative ranges of AQI data collected from the pilot in due course, without publishing firm-specific data. The FRC welcomes feedback from firms and intended AQI users during the pilot period.
9. In the second year of implementation, firms should report firm-level AQIs, segmented between all and PIE audits where indicated, and including the previous year's data for comparison,² to the FRC in June 2025, for publication shortly thereafter.³

² If necessary re-stated as a result of any changes made following the pilot year.

³ The proposal currently under consideration is to publish the AQI data on the same day as the FRC's Public Reports on firms.

Definition and measurement

A. Performance monitoring and remediation

AQI	Area	AQI description	Indicator
1	People/culture survey results ⁴	Audit staff responses to certain annual people/culture survey questions.	Percentage of favourable and unfavourable responses to the survey questions.
	Segmentation between all and PIE audits?	No. Whole audit practice of the UK firm.	
	Timing of survey	In accordance with the firm's scheduled timing. At a minimum it should be annual. ⁵	
	Population of survey	<p>All staff (including partners) who are involved in the delivery of audits within the audit practice of the UK firm, including internal quality monitoring staff, except for the following exclusions:</p> <ul style="list-style-type: none">• Support and administrative staff within the audit practice who are not involved in the delivery of audits, if this group exceeds 5% of total headcount of the audit practice;• Staff from offshore delivery centres or equivalent;• Sub-contractors; and• Specialists located outside the audit practice.	
	Narrative of questions:	<p>Not rigidly set by FRC, however we strongly encourage the inclusion in the survey of three questions with the specific narrative as follows:</p> <ol style="list-style-type: none">1) <u>Resources</u>: I have sufficient time and resources to deliver high quality audits.2) <u>Training and Development</u>: I receive sufficient training and development to enable me to deliver high quality audits.	

⁴ If an audit firm does not carry out audit people/culture survey on an annual basis, the firm can provide explanation in a note alongside its data submission which would be published by the FRC.

⁵ If a firm runs this survey less frequently, it should include the most recent data, and mention when it was done in its narrative.

3) Commitment to audit quality: I am encouraged and supported by audit engagement partners to deliver high quality audits.

Respondents should be asked to express their agreement on a scale of 1 ('Strongly disagree') to 5 ('Strongly agree').

If a firm does not use the specific wording for the three questions above, the firm should list the alternative questions asked in the supporting narrative.

Presentation of data:

To each of the above three questions, firm should present the data in the following categories⁶:

- Favourable: percentage of responses scoring 4 & 5
- Neutral: percentage of responses scoring 3
- Unfavourable: percentage of responses scoring 1 & 2

⁶ If a firm does not have a 5-point scale, for example due to using a network survey tool, the firm should make use of the supporting narrative to explain the difference. At the very least, the firm should present the survey results segmented into favourable and unfavourable responses.

B. Quality Monitoring

AQI	Area	AQI description	Indicator
2	Internal quality review	Extent of review by firms' internal quality review teams.	Responsible Individuals (RIs) who have been reviewed internally, as a percentage of RIs who have signed an audit opinion in the 12-month period covered.

Segmentation between all and PIE audits? No.

Data coverage period: Whichever 12-month period the firm has chosen to be applicable for the majority of the AQIs.

Definitions: Internal quality review is defined as:

- Cold reviews, i.e., reviews on completed and archived statutory audit files at the firm, resulting in a quality grading, over the 12-month period concerned, regardless of who conducts the review (i.e., offshore resources or contractors as well as UK firm staff).

Exclusion:

- Hot reviews, i.e., reviews which are performed while the audit is in progress.

Presentation of data: Firm should calculate the metric: for the chosen 12-month period as follows:

$$\frac{\text{Number of RIs who have been reviewed internally}}{\text{Total number of RIs who have signed an audit opinion}} \times 100\%$$

AQI	Area	AQI description	Indicator
3	Inspection results – internal	Results of internal inspections by the audit firm.	Quality grading of audits internally reviewed (expressed as the percentage of number of audits reviewed during the period).

Segmentation between all and PIE audits? Yes.

Data coverage period: Whichever 12-month period the firm has chosen to be applicable for the majority of the AQIs.

Definitions: Internal quality review is defined as:

- Cold reviews, i.e., reviews on completed and archived statutory audit files, resulting in a quality grading, during the 12-month period concerned, regardless of the review being conducted internally, by offshore resources, or by contractors.

Exclusion:

- Hot reviews, i.e., reviews which are performed while the audit is in progress.

Presentation of data: Firm should calculate the metric, segmented between all and PIE audits, covering the 12-month period concerned, as follows:

$$\frac{\text{Number of audits reviewed and graded as [X]}}{\text{Number of audits reviewed and graded}} \times 100\%$$

[X] = Firm to insert according to its internal quality review grading system. If a firm’s grading system has, for instance, three different quality grades, the firm should report a total of six metrics, i.e., three grades, each segmented between all and PIE audits.

Firms may make use of the supporting narrative to provide a definition of their quality grading system, for context.

AQI	Area	AQI description	Indicator
4	Inspection results – external	Results of external inspections of the audit firm.	Percentage of audits inspected, by quality grading.
	Segmentation between all and PIE audits?	Not directly applicable (as there are non-PIE audits that are within AQR's inspection scope).	
	Data coverage period:	Latest available set of results of external inspections of the audit firm.	
	Definitions:	<p>The most recent year of regulatory audit inspection results reported by:</p> <ol style="list-style-type: none"> 1) FRC's Audit Quality Review (AQR); and 2) ICAEW's Quality Assurance Department (QAD), or ICAS' Audit and Practice Monitoring team (APM), whichever is applicable to the firm 	
	Presentation of data:	<p>Where possible, FRC will provide the latest AQR, ICAEW QAD or ICAS APM inspection results, as part of the firm-level AQIs reported publicly. FRC may ask firms to provide the latest available ICAEW QAD or ICAS APM inspection results.</p> <p>If external inspection results are not available on an annual basis, firm may submit a nil return and explain in the supporting narrative.</p>	

C. Resource planning and people management

AQI	Area	AQI description	Indicator
5	Partners' and Responsible Individuals' involvement in audits	Extent of involvement in and/or supervision of audits by partners and partner-equivalents.	Average hours spent on audits as a percentage of total audit hours by Responsible Individuals and partners ⁷ .

Segmentation between all and PIE audits? Yes.

Data coverage period: Whichever 12-month period the firm has chosen to be applicable for the majority of the AQIs.

Definitions: Hours, in the context of this metric, is limited to audit chargeable hours. This includes:

- hours spent on EQCR;
- hours undertaken at overseas delivery centres; and
- hours spent on audits by staff and partners from outside the audit practice, who act as specialists providing assistance to audit teams.

Presentation of data: Firm should calculate the metric, segmented between all and PIE audits, covering the 12-month period concerned, as follows:

$$\frac{\text{Average number of audit hours spent by partners and partner equivalents}}{\text{Total average number of audit hours}} \times 100\%$$

Firm may make use of narrative to support this metric, in particular if there is a wide range of percentage of audit hours spent by partners/equivalents across the firm's audit portfolio.

⁷ Includes partners within the audit practice, and also partners who act as specialists and possess expertise in a field other than auditing, whose work in that field is used to assist the auditor, as defined in ISA (UK) 620. Firms have the discretion to include individuals who they deem as partners in the calculation. Firms should provide a breakdown by grades / job titles that they have included as partners as part of the Basis of Preparation in the pilot year.

AQI	Area	AQI description	Indicator
6	Staff / partners and Responsible Individuals ratio	Capacity of partners/Responsible Individuals to supervise junior audit staff in the firm, and the level of professional support for partners/Responsible Individuals.	Average number of audit staff managed by a partner/Responsible Individual.

Segmentation between all and PIE audits? No.

Data coverage period: Whichever 12-month period the firm has chosen to be applicable for the majority of the AQIs.

Population concerned: In determining the population of **staff**, all staff who are involved in the delivery of audits within the audit practice of the UK firm, including offshore resources or equivalent, and internal quality monitoring staff, should be included, with the following exclusions:

- Support and administrative staff within the audit practice who are not involved in the delivery of audits if this group exceeds 5% of total headcount of the audit practice;
- Specialists involved in the delivery of audits (recognising that the supervision of junior specialists is the responsibility of the partners belonging to the same specialism who do not typically have RI status; also there may be a different shape of staff structure in the other service lines to which specialists belong); and
- Sub-contractors.

In determining the population of partners/**Responsible Individuals (RIs)**, all RIs who are involved in the delivery of audits within the audit practice of the UK firm, including internal quality monitoring staff, should be included.

Presentation of data:

Firm should calculate the ratio by dividing the average full-time equivalent (FTE) of staff by the average FTE of partners/Responsible Individuals, for the 12-month period concerned, as follows:

$$\frac{\textit{Average FTE of audit staff}}{\textit{Average FTE of partners \& Responsible Individuals}}$$

The average FTE should be calculated by averaging the FTEs at the start and the end of the 12-month period chosen.

If a partner/Responsible Individual has on average, say, 30 audit staff to manage and supervise over the 12-month period concerned, the firm should present the metric as 30:1.

AQI	Area	AQI description	Indicator
7a	Staff workload	Number of hours worked per week, as a percentage of contracted hours.	Average hours worked by staff, by group of grades in the audit practice, on a weekly basis, as a percentage of weekly contracted hours.

Segmentation between all and PIE audits? No.

Data coverage period: Whichever 12-month period the firm has chosen to be applicable for the majority of the AQIs.

Population concerned: All staff involved in the delivery of audits within the audit practice of the UK firm, including internal quality monitoring staff, except for the following exclusions:

- Support and administrative staff within the audit practice who are not involved in the delivery of audits if this group exceeds 5% of total headcount of the audit practice;
- Specialists located outside the audit practice;
- Sub-contractors; and
- Staff from offshore delivery centres or equivalent.

Definitions: A 5-day standard working week is 35 hours, i.e., 7 hours daily depending on the firm/office, adjusted as necessary for part-time staff or for staff who are not contracted for 35 hours on a weekly full-time basis.

In determining this metric and ensuring that it reflects resource tension appropriately, firms are expected to include:

- Chargeable hours; and
- Non-chargeable hours such as training and annual leave.

Presentation of data:

The metric should be disaggregated into the following groups of staff grades:

- Partners & Directors
- Managers & Senior Managers
- Qualified, but below Managers
- Unqualified

Firm should calculate the metric, covering the 12-month period concerned, for all individuals in the designated staff grade, as follows:

$$\frac{\text{Number of average weekly hours charged in the time recording system}^*}{\text{Total number of weekly contracted hours}} \times 100\%$$

*Includes both chargeable and non-chargeable hours, such as training and leave.

Example:

An audit staff member who is contracted for 35 hours on a weekly basis, records the below hours in the time recording system:

- Monday – sick leave
- Tuesday – audit engagement, with 3 hours over-time
- Wednesday – audit engagement, with 3 hours over-time
- Thursday – training
- Friday – audit tender

The number calculated under this AQI should be (as a contribution to the average over the 12-month period):

$$\frac{7 \times 3 + 10 \times 2}{35} \times 100\% = 117\%$$

AQI	Area	AQI description	Indicator
7b	Staff workload for busy period (January to March)	Number of hours worked per week, as a percentage of contracted hours, for busy period (January – March unless otherwise stated in the narrative).	Average hours worked by group of grades in the audit practice, for busy period (January – March), as a percentage of weekly contracted hours.
	Segmentation between all and PIE audits?	No.	
	Data coverage period:	Three-month period from January to March of the 12-month period chosen.	
	Population concerned:	<p>All staff involved in the delivery of audits within the audit practice of the UK firm, including internal quality monitoring staff, except for the following exclusions:</p> <ul style="list-style-type: none"> • Support and administrative staff within the audit practice who are not involved in the delivery of audits, if this group exceeds 5% of total headcount of the audit practice; • Specialists located outside the audit practice; • Sub-contractors; and • Staff from offshore delivery centres or equivalent. 	
	Definitions:	<p>A 5-day standard working week is 35 hours, i.e., 7 hours daily depending on the firm/office, adjusted as necessary for part-time staff or for staff who are not contracted for 35 hours on a weekly full-time basis.</p> <p>In determining this metric and ensuring that it reflects resource tension appropriately, firms are expected to include:</p> <ul style="list-style-type: none"> • Chargeable hours; and • Non-chargeable hours such as training and annual leave. 	

Presentation of data:

The metric should be disaggregated into the following groups of staff grades:

- Partners & Directors
- Managers & Senior Managers
- Qualified, but below Managers
- Unqualified

Firm should calculate the metric, covering the three-month period concerned from January to March, for all individuals in the designated staff grade, as follows:

$$\frac{\text{Number of average weekly hours charged in the time recording system}^*}{\text{Total number of weekly contracted hours}} \times 100\%$$

*Includes both chargeable and non-chargeable hours, such as training and leave.

All firms should provide the metric relevant to the period from January to March as a minimum. If a firm does not consider the period from January to March to be its main/sole busy period, the firm may provide an additional metric in the supporting narrative and explain. (Please only mention one busy period, not different ones for different parts of the audit practice.)

AQI	Area	AQI description	Indicator
8	Staff attrition	The rate at which staff leave the firm's audit practice.	Average staff attrition rates by group of grades in the audit practice.
	Segmentation between all and PIE audits?	No.	
	Data coverage period:	Whichever 12-month period the firm has chosen to be applicable for the majority of the AQIs.	
	Population concerned:	<p>All staff who are involved in the delivery of audits within the audit practice of the UK firm, including internal quality monitoring staff, except for the following exclusions:</p> <ul style="list-style-type: none"> • Support and administrative staff within the audit practice who are not involved in the delivery of audits if this group exceeds 5% of total headcount of the audit practice; • Staff from offshore delivery centres or equivalent; • Specialists located outside the audit practice; and • Sub-contractors. 	
	Definitions:	<p>In determining the metric, firms are expected to account for staff leaving the audit practice, both voluntarily and involuntarily, and not net this against those who joined during the year.</p> <p>Firms are expected to account for staff leaving the audit practice for permanent internal transfer within the firm as leavers.</p> <p>Staff promoted within the audit practice are not considered as "leavers" from their previous grade.</p>	
	Presentation of data:	<p>The metric should be disaggregated into the following groups of staff grades:</p> <ul style="list-style-type: none"> • Partners & Directors • Managers & Senior Managers 	

-
- Qualified, but below Managers
 - Unqualified

Firm should calculate the metric, covering the 12-month period concerned, for all individuals in the designated category of staff grade, as follows:

$$\frac{\text{Number of staff who left the audit practice}}{\text{Average of the number of staff at the beginning and the end of the period concerned}} \times 100\%$$

Firms may make use of the supporting narrative to provide a qualitative summary of the resourcing initiatives in place.

D. Information and communication

AQI	Area	AQI description	Indicator
9	Training	To demonstrate the level of investment in training offered to partners and staff.	Average number of planned mandatory training hours per person, and percentage of completion rates, by group of grades.

Segmentation between all and PIE audits? No.

Data coverage period: Whichever 12-month period the firm has chosen to be applicable for the majority of the AQIs.

Population concerned: All staff who are involved in the delivery of audits within the audit practice of the UK firm, including internal quality monitoring staff, except for the following exclusions:

- Staff and administrative staff within the audit practice who are not involved in the delivery of audits, if this group exceeds 5% of total headcount of the audit practice;
- Staff from offshore delivery centres or equivalent;
- Specialists; and
- Sub-contractors.

Definitions: Study leave / qualification training to be excluded in the determination of training hours.

Presentation of data: The metric should be disaggregated into the following groups of staff grades:

- Partners & Directors
- Managers & Senior Managers

-
- Qualified, but below Managers
 - Unqualified

Firm should disclose the average number of planned mandatory training hours per person, and percentage of completion, by groups of grades, for the 12-month period concerned.

E. Governance and leadership

AQI	Area	AQI description	Indicator
10	Diversity	Gender and ethnic diversity of the firm's audit partnership.	Percentage of individuals in the audit partnership, by gender and ethnicity.

Segmentation between all and PIE audits? No.

Data coverage period: Whichever 12-month period the firm has chosen to be applicable for the majority of the AQIs.

Definitions: Population concerned is the audit partnership at the firm.

The audit partnership is defined as:

- Partners who are aligned to the audit practice and entitled to the annual distribution of profits generated in the audit practice at the firm.

Ethnic minority is defined as:

- The definition used in the England and Wales census 2021. Ethnic minority includes Asian, Black, Mixed and other groups.⁸

Presentation of data: Firm should measure the gender diversity by dividing the number of women by the total number of individuals within the audit partnership.

Firm should measure the AQI on ethnic diversity by dividing the number of self-identified ethnic minority by the total number of individuals within the audit partnership.

The metrics should be calculated by averaging the gender and ethnic diversity position over the 12-month period chosen.

⁸ Ethnic group, England and Wales: Census 2021:

<https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/bulletins/ethnicgroupenglandandwales/census2021>

Firm with fewer than ten audit partners in total can choose not to disclose diversity data if they wish.

Appendix

10. Some amendments have been made to the list of AQIs since the publication of our Feedback Statement in December 2022, after further discussions with the firms likely to be in scope on the practicality of producing the metrics.

11. The changes are as below:

- Removal of segmentation between all and PIE audits in AQI #2 Internal quality review;
- Description of the indicator amended to "Responsible Individuals (RIs) who have been reviewed internally, as a percentage of RIs who have been signed an audit opinion in the 12-month period covered", from "internal quality review hours as a percentage of total audit hours", in AQI #2 Internal quality review;
- Re-ordering of AQI #3 Internal inspection results and AQI #4 External inspection results;
- Removal of segmentation between all and PIE audits in AQI #4 External inspection results, recognising that there are non-PIE audits that are within AQR inspection scope;
- Re-ordering of the AQI on staff/partners and Responsible Individuals ratio to #6 from #8;
- Amendment of AQI #7a & #7b area to staff workload, from staff utilisation;
- Description of the indicator amended to "average hours worked by staff", from "average staff utilisation rate", in AQI #7a staff workload and #7b staff workload for busy period (January to March);
- Description of the indicator amended to "average number of planned mandatory training hours per person, and percentage of completion rates, by group of grades", from "average number of mandatory training hours per person", in AQI #9 Training; and
- Description of the indicator amended to "audit partnership", from "audit leadership", in AQI #10 Diversity.



Financial Reporting Council

**Financial
Reporting Council**

8th Floor
125 London Wall
London EC2Y 5AS
+44 (0)20 7492 2300

www.frc.org.uk

Follow us on
 Twitter [@FRCnews](https://twitter.com/FRCnews)
or **LinkedIn**.