
Audit Scotland response to FRC Consultation on Firm-level Audit Quality Indicators (AQI)

Audit Scotland welcomes the opportunity to comment on the FRC consultation on Firm level Audit Quality Indicators.

Public audit in Scotland AQI context

Audit Scotland is a statutory body established under the Public Finance and Accountability (Scotland) Act 2000. It is Scotland's national public sector audit agency which provides the Auditor General and the Accounts Commission with the services they need to carry out their duties.

Public bodies in Scotland within our audit regime include central government bodies, councils, health boards, and colleges, as well as more diverse entities such as charities, companies limited by guarantee, and public interest entities. Collectively these bodies spend over £40 billion of public money each year.

Auditors are appointed to audit these public bodies by the Auditor General and by the Accounts Commission, supported by Audit Scotland. In most cases, staff in Audit Scotland's in house audit practice are appointed as auditor but six private sector accountancy firms are appointed to around a third of the bodies. Performance audit reports are also undertaken by the Auditor General and Accounts Commission.

Under our [Audit quality framework](#), which provides assurances to the Auditor General for Scotland and the Accounts Commission on the quality of financial and performance audit work, we currently report on a range of audit quality KPIs. These can be found in at appendix 1 in our most recent [Quality of public audit in Scotland annual report 2021/22](#).

Audit Scotland is currently refreshing its Audit Quality Framework for the next round of audit appointments starting in 2022/23 and found this consultation timely and it is useful to understand the FRC's thinking and the direction of travel.

We hope you find our responses to your questions helpful.

Contact

If you would find further information useful, please contact Owen Smith – osmith@audit-scotland.gov.uk

Audit Scotland response to FRC Consultation on Firm-level Audit Quality

Question	Audit Scotland response
<p>1 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?</p>	<p>No response submitted to this question which pertains to the private sector.</p>
<p>2 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?</p>	<p>No response submitted to this question which pertains to the private sector.</p>
<p>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?</p>	<p>No response submitted to this question which pertains to the private sector.</p>
<p>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.</p>	<p>We agree that it would be useful to include supporting narrative.</p> <p>A word count limit may be the best tool to ensure that each firm has an opportunity to add some supporting narrative context to each AQI.</p> <p>However, it may not be possible to provide a full nuanced explanation with a limited word count. Providing firms an opportunity to publish fuller explanations in a linked document/site could mitigate this problem.</p>
<p>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.</p>	<p>We agree that the majority of the proposed preferred 11 AQIs would be useful.</p> <p>Many of these indicators will not have an obvious target, i.e. what is good or bad in terms of audit quality. In such cases they are unlikely to be very meaningful without trend data which will take time.</p> <p>Comments on specific AQIs:</p> <p>AQI 3a/b would be complex to calculate and be more useful as an audit firm management AQI. It is not clear what AQI 3 would add beyond that which AQI 2 is already providing in terms measuring the delivery performance of the audit.</p>

Question	Audit Scotland response
	<p>AQI 4 would be useful as it provides a good indication of proportion of resource invested in quality assurance by each firm.</p> <p>AQI 5 and 6 -the definitions are different. Could AQI 6 be split into two indicators? For example, AQI 6a being <i>‘Percentage of audits inspected internally, by quality grading’</i> and AQI 6b being <i>‘Number of audits internally reviewed as a percentage of total number of audits completed during the period, with quality grading’</i>. AQI 6a would be consistent with AQI 5 and provide a direct comparison between internal and external gradings which could provide some assurance on the quality of internal reviews undertaken or at least identify any divergence and AQI 6b would provide a measure of the relative percentage of internal reviews being undertaken by firms.</p> <p>Alternative AQI 7 would be useful, although there is a risk of creating an expectation of a certain percentage when the requirement for conducting an EQCR is risk based.</p> <p>Preferred AQI 11 may cause problems as different approaches on the use of specialists will result in different rates between firms. In addition, where specialists are bought in but paid for on an outputs basis, there may not be any hours to include in the calculation. It might be useful to define ‘specialist’ and a useful starting point for auditing purposes could be ISA 620 and the ‘auditor’s expert’ definition therein.</p>
<p>6 Do you think there are any other firm-level AQLs that we should consider? If so, please explain. (If relevant, please refer to the list of AQLs we have considered but not proposed, in Appendix 1.)</p>	<p>Value of non-audit services:</p> <p>This could be disclosed as a percentage of total audit fees to demonstrate that the firm is not overly reliant on non-audit services. The operational split between audit and non-audit may make this measure less relevant.</p>
<p>7 Are there any other comments you wish to make about these proposals, including concerning costs, benefits, or impacts not discussed above?</p>	<p>Tabulation is often not the best way to show relative performance. Consideration will need to be given to how the data is presented to best show relative performance.</p>