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Dear Shamima,

### **FRC Consultation on Firm Level Audit Quality Indicators**

Thank you for the opportunity to respond to the FRC's "Consultation Document: Firm level Audit Quality Indicators" published on 22 June 2022 (the "Consultation").

We support the FRC's promotion of the use of audit quality indicators (AQIs), both at a firm level and an engagement level, as a way to increase the information available to the user of audit services beyond the AQR Inspection results. We are also supportive of audit firms providing greater information to the users of audit services about what makes a high quality audit, as well as the key elements of a high quality audit practice. In our view, although there is information currently being shared by audit firms, there are opportunities for improvement. As part of our efforts to improve our own reporting, we have committed to take steps this year to enhance the way we report both audit quality measures and audit quality indicators in our FY22 Transparency Report.

AQIs are a complex subject matter and 'audit quality indicator' is often used as an umbrella term to capture differing concepts. As a result, we support the FRC in taking careful consideration as to how AQIs can best be used as set out in the Consultation, as well as through initiatives such as the FRC's engagement level AQI pilot. We have actively engaged with the FRC's engagement level AQI pilot and implemented our own extended engagement level AQI pilot through 2021/2022, where we have learnt a great deal about the information audit committee chairs are interested in. The non-prescriptive approach to the pilot promoted innovation and allowed for continuous improvement in this area and we continue to support the FRC's principal objectives in promoting innovation and improvements in the use of AQIs, and exploring what good practice looks like.

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We have appreciated the opportunity to share some of our views already with you as part of your AQI engagement programme. In those discussions we have discussed some of the practical challenges and the risk of unintended consequences that we believe will result from the adoption of an entirely prescriptive approach to AQIs. Whilst we have captured those challenges in our response to the Consultation, we have also suggested an approach, building on the FRC's proposals, that could enable a proportionate and principles based regime in this area. In our view, there is a way to achieve this, whilst ensuring that public interest entity (PIE) audit firms meet the requirement from users of audits to share information and have high quality discussions on audit quality in a resilient and competitive market.

### **Challenges with the current proposal**

The proposal is based on the assertion that users of audit services are seeking the prescriptive information set out in the Consultation, and that the information in firms' Transparency Reports is not currently sufficient to meet their needs when tendering the external audit. The FRC has already issued guidance in relation to tenders to help audit committees assess how they may choose between firms and we believe that this is an effective mechanism to enable comparisons to be made in a competitive tender. We have not seen any indications that audit committees would benefit from a set of additional metrics on a firmwide level to make their selections. From our experience of audit tenders the information requested and provided varies, but common areas of interest are the composition and industry experience of the engagement team or the technology that will be used to underpin the audit, factors which are not covered by the proposed list of AQIs. Where there is interest about the audit firm, it is about how the business is run and our systems of quality management, which as ISQM 1 says *"operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements. It also does not operate in a linear manner."*

Comparability and consistency in a set of metrics is extremely difficult as each PIE audit firm is different in scale, operational structure, complexity and portfolio. The aim for comparability between firms is one we support, but the search for metrics which are precisely measured in the same way is likely to result in significant additional cost and unintended consequences. Audit firms also have different definitions of, and approaches to, areas important to audit quality such as project management. For example, different firms could set different planning milestones during an audit cycle and therefore this metric would not be comparable without very specific guidance of what exactly should be finalised by when. This level of precision could stifle innovation and would mandate how our business is run. We would recommend that consideration is given to adopting a similar approach to the FRC engagement level AQI pilot. This was performed in a way that was non-prescriptive with some guidelines for firms to follow, which allowed firms to innovate and develop their own engagement level AQIs.



Although the intended primary users of this AQI information are audit committee chairs or those charged with governance, given this information will be published there could be broader unintended consequences. For example,

- We believe AQIs such as staff utilisation is commercially sensitive information, and putting this in the public domain could have an adverse impact;
- We believe that, despite the aim of making AQI information more easily comparable through a tabular format, there is a risk that the users perceive the information presented as a league table. This could lead to misinterpretation of AQIs which are not single measures of quality outcomes; and
- AQIs should in our view reflect the way that the audit firm operates and monitors quality. The mandated publication of consistently defined AQIs that do not align with those used for management purposes could risk presenting a misleading perspective to users of this information.

### **Leveraging the insights from the AQI engagement level pilot**

We believe that using audit quality indicators and audit quality measures helps stakeholders to understand, in part, an audit firm's approach to, and progress with, audit quality. Our view was confirmed most recently by the insight we obtained from the FRC engagement level pilot. A number of our key learnings which we have shared back with the FRC from this pilot include:

- The discussions held with Audit Committee chairs and other non-executive directors showed that audit quality is complex and is as much, if not more, about qualitative factors as quantitative factors. Audit firms contribute to audit quality through their system of quality management (as applied under ISQM 1). The basis for including, or excluding, certain AQIs at a firm level should be based on the firm's system of quality management, rather than audit quality as a whole or what is easily measurable. We believe the components of ISQM 1 can act as a framework for how firm level AQIs are determined.
- We agree with the FRC's view in the Consultation that "*many stakeholders have asked for other publicly-available measures of audit quality, besides the FRC's AQR inspection results*". In our view, it is important to emphasise that AQIs are only indicators in areas important to quality, and not in themselves measures of quality, and should be looked at and used in that spirit. In our experience, the terminology of measures and indicators of quality are used interchangeably, which creates risk that indicators are over-relied upon and misinterpreted. In addition to AQR inspection results, PwC includes other measures of quality in our Transparency Report such as the view of our challenge and quality from the organisations we audit through the feedback surveys they complete following an audit. When using firm level AQIs we suggest that clearer differentiation is made between what is a measure of quality and what is considered an indicator in an area important to quality.
- Through our experience we saw that using AQIs at an engagement level led to richer conversations with the audit committee about what makes a high quality audit. The value in this discussion was down to the specificity of the AQIs to the engagement, including AQIs about management of the audited entity as well as the audit team, and the context that could be provided through discussion. A firm level AQI amalgamates information to an average across our business which is of less benefit to the users of audit services. For example, the ratio of partner to



manager hours will vary considerably between a large listed construction company to a small listed fund, both of which could be PIE audits.

- Through our experience, Audit Committees were interested in how the AQIs for their own audit engagement compared to other similar sized companies or others in their industry. For example, an Audit Committee of a US Listed global multinational business operating with a worldwide footprint in a certain industry will struggle to obtain any value in an audit firm's portfolio average, but would rather be able to compare to an industry average or a similar sized US listed audit. This risks undermining the FRC engagement level AQI pilot initiative which is seeking to encourage a more collaborative approach between the audit committee and auditor in determining what contextualising frame of references can be used alongside engagement specific AQIs.

### **Suggested proposal**

As we stated at the start of our letter, we believe there to be an alternative approach, which we consider meets the FRC's objectives and purpose in the use of firm level AQIs. We believe the FRC could design a principles based framework for the use of firm level AQIs, with sufficiently detailed principles and safeguards, so firms are able to publish their own firm level AQIs more clearly in their Transparency Reports.

The approach would involve the following:

- Ownership by the FRC of a principles based framework for the use of firm level AQIs, to be published, monitored and updated periodically.
- The Consultation proposal already uses a framework which aligns to areas of ISQM 1 and the FRC's principles of what makes a good audit practice. The FRC may wish to extend this framework to that used in their annual supervisory letter as a basis for how audit firms should present their firm level AQIs. The annual supervisory letter remains private, but further alignment between how the FRC supervises the audit firms privately with how audit firms should provide greater information publicly, could provide consistency within the market as to how audit firms are assessed.
- PIE audit firms would provide firm level AQIs (both quantitative and qualitative) across the areas of that framework, for example governance and leadership or resources. Audit firms would disclose their own AQIs, consistent with those they use in their internal monitoring. These AQIs, in a principle equivalent to IFRS 8 (Operating Segments), would reflect an approach through 'the eyes of management', demonstrating how each individual firm monitors audit quality mapped to the FRC framework.
- The selected AQIs could continue to be reported in the firms' existing Transparency Reports but in one specific place for ease of access, with audit firm's providing clear articulation of each AQI with its definition and purpose. Using the existing Transparency Report approach allows the benefit of leveraging existing governance and attestation processes over the information published. Those relevant sections might ultimately be linked to from a page on the FRC's website to allow a single point of access for any users of audit services. Ongoing compliance with this framework to be monitored citing areas of good practice or where the firms have not complied with the framework principles as part of the annual firm supervisory letter.



We strongly believe that our suggested approach would serve the public interest, helping achieve the objectives of the FRC to provide users of audit services with comparable information regarding factors that contribute to audit quality. We would be happy to work with the FRC to develop this approach further.

We would welcome the opportunity to discuss our view with you further. If you have any questions about our response please do contact me on the email address below.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hemione Hudson', written in a cursive style.

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## **Appendix 1 - Responses to Consultation Questions**

### **Question 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?**

We support the FRC's efforts to strike a balance between greater coverage of audit firms and not over burdening the user with information. We agree the scope of the AFGC is a helpful starting point for where we would expect the larger firms to lead the way in piloting the use of firm level AQIs. This could then be supplemented by a framework to enable challenger firms to be able to report on firm level AQIs if they believe this would help them competitively in the market.

### **Question 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?**

Where firm level AQIs are reported we believe they should represent all audit engagements of the audit firm. We do not support a segmentation between PIE and non-PIE audits because:

- Our system of quality management is applied to achieve consistently high quality audits across our whole audit portfolio and it does not differentiate between PIE and non-PIE audits. Segmenting AQIs between PIE and non-PIE could further reinforce the perception of a two tier quality bar, which we disagree with;
- There are risks that a PIE audit segmentation oversimplifies the complexity of an audit firm's PIE audit portfolio. In addition, some non-PIE organisations are more complex than some PIE organisations; and
- Some of the AQIs proposed that are people related (e.g. staff attrition or staff ratios), would not lend themselves to be split by engagement type.

### **Question 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?**

We expect the current proposal to result in additional costs incurred by firms, in part based on the change to reporting timelines. However, there will also be additional costs as a result of firms needing to develop their infrastructure to capture relevant and reliable information; adding additional process and governance in order for the figures to be attested publicly.



Currently we use management information, which includes our own AQIs, to make decisions over how we operate and monitor our audit business. This data provides us enough confidence to make real time decisions on a day to day basis. There is a difference between using internal data to make internal management decisions and publishing a metric with attestation. We draw similarities to Non-Financial Assurance and the internal information that companies publish externally, which has required large investment by corporate entities in order to be able to attain assurance over what was previously internal data. Additional resources would be needed to fulfil this role over and above the number of people already involved in our internal AQI firmwide process.

We have an established internal system to gather some of the data and AQIs in the proposals, however other firms who have not previously reported any metrics in their Transparency Reports would face substantially higher costs. We suggest undertaking a full impact assessment considering both costs and time to implement before the FRC finalises its proposals. We would be happy to be involved in a roundtable discussion with other firms to talk through the data and cost challenges and understand what would work best.

**Question 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.**

Discussions with Audit Committee chairs and other non-executive directors have shown that audit quality is complex and is as much, if not more, about qualitative factors as quantitative factors. In our experience of using AQIs, supporting narrative is essential in ensuring AQIs are interpreted appropriately. Metrics alone do not give a user a complete picture and risk oversimplification. In line with our suggested proposal, supporting narrative and contextualising information is already included in the transparency report. As part of a principles based framework, firms would be encouraged to include concise supporting narrative and context alongside their own AQIs to provide further qualitative information that is specific to the audit firm and which ensures the users of the information can interpret the AQI and any related trends in that AQI appropriately.

**Question 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 provided detailed comments with regards to each suggested AQI in Appendix 2. However, we believe there are a number of challenges that need to be considered across the AQIs which we have outlined below:

- The current descriptions provided lack the specificity needed to implement. Audit firms are complex, and for each AQI there are a number of variables that would need to be clarified as to what is included in, or excluded from, the measuring of the AQI. We acknowledge that the FRC has said it would need to develop a methodology and guidance note to ensure firms describe and measure their AQIs in the same way. We believe it would be beneficial for the FRC to work with firms to consider the different variables for each firm, and inform the drafting of any guidance.



*For example, where “total audit hours” is used as part of a definition, it would be helpful to understand whether this would include, for example, UK hours only, onshore or offshore delivery centre hours, global component team hours, or specialists and experts or only the front line audit team. In addition, as the use of more sophisticated technology tools expands, hours metrics alone are a less critical indicator in isolation.*

- Our internal systems and processes are designed to support our engagement teams to specifically tailor their audit and deliver on a wide variety of complex audits. As each audit is specifically tailored, our management information in certain areas is directional and imperfect. Whilst directional management information is used internally, alongside other intelligence, significant investment would be required to be able make certain data points accurate enough for public disclosure and attestation.

*For example, our planning milestones are directionally measured through our Aura files, and each Aura file is tailored by the engagement to the specific audit (e.g. a large complex group would be different from a single entity audit) and so although we have directional information on completion of planning milestones that we use internally, this would require further investment to be able to accurately report on milestone completion externally.*

- Each firm will have different work programs or activities in the areas of the suggested AQIs. Each firm tailors these areas, like culture or project management, in their own way in order to both make the best impact on quality for their business and in order to gain a competitive advantage in the market. To make consistent and comparable AQIs in these areas would require firms to align or change the strategic activities that are already in place. We also believe that for a number of these AQIs the information would be commercially sensitive (for example, utilisation and staff attrition) and it could be anti-competitive to align the way these areas are measured, thus not actually supporting the objective of creating greater choice and competition in the market.

*For example, our culture survey asks questions using language that is specific to how we talk about our culture in the firm. Each firm will talk about their culture in a different way, and we do not believe it would either be helpful or appropriate to mandate consistency across the firms.*

- A number of the AQIs selected have been used as part of the engagement level AQI pilot (e.g 3, 8, 11). At a firm level, or even at a PIE audit level, the AQI metric will reflect a thematic average which will mask the differences within a portfolio and as a result may not be meaningful for users when considering what this might mean for quality on their own audits.
- We would suggest measures of quality, such as internal and external inspections results, are disclosed separately from AQIs to make a clearer distinction between measures of quality and indicators of areas important to quality.



- Although the proposed primary users of this information are audit committee chairs or those charged with governance, given this information will be published there could be broader unintended consequences. For example, we believe AQIs such as staff utilisation represents commercially sensitive information, and putting this in the public domain could have an adverse impact on the attractiveness of the audit profession, making it harder to recruit key talent which is critical for delivering a high quality audit. There is also a risk that where AQIs relate to audit hours, this could encourage inappropriate behaviour amongst staff in relation to charging time.

**Question 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 1.)**

As we set out in the cover letter, we believe there to be an alternative approach, which we consider still meets the FRC's objectives and purpose in the use of firm level AQIs. We believe the FRC could design a principles based framework for the use of firm level AQIs, with sufficiently detailed principles and safeguards, so firms are able to publish their own firm level AQIs more clearly in their Transparency Reports. We provide additional detail below on what those principles could entail, and examples of other AQIs that could be considered for use within that framework.

*Scope*

The framework could set out an audit firm scope which could align to firms that already produce Transparency Reports, and this is an area where we would expect the larger firms to lead the way in piloting the use of firm level AQIs. Having a framework in place means this could be extended beyond the top tier market to enable other PIE audit firms to be able to report on firm level AQIs if they believe this would help them compete in the market.

The Consultation proposal already uses a framework which aligns to areas of ISQM 1 and the FRC's principles of what makes a good audit practice. The FRC may wish to extend this framework to that used in their annual supervisory letter as a basis for how audit firms should present their firm level AQIs. The annual supervisory letter remains private, but further alignment between how the FRC supervises the audit firms privately and how audit firms provide greater information publicly could provide consistency within the market to how audit firms are assessed.

PIE audit firms would provide firm level AQIs (both quantitative and qualitative) across the areas of that framework, for example governance and leadership or resources. Audit firms would disclose their own AQIs, consistent with those they use in their internal monitoring. These AQIs, in a principle equivalent to IFRS 8 (Operating Segments), would reflect an approach through 'the eyes of management', demonstrating how each individual firm monitors audit quality mapped to the FRC framework.

*Reporting*

We believe the FRC could create principles that guide audit firms to report their firm level AQIs concisely in one place in the Transparency Report. Good practice can be highlighted by the FRC in this area, including what good reporting looks like, for example publishing the AQIs over a maximum of a two page summary to keep the information specific and concise aiding user consumption.



Each individual audit firm will decide the right balance between quantitative and qualitative AQIs, as well as what supporting narrative to include. Audit firms should also be in a position to report on comparatives sooner than the summer of 2025, to give more detailed trend analysis sooner.

In other territories, such as the USA and South Africa, we have seen similar two page reports become something that is then easily used outside Transparency Reports, between an audit team and an audit committee, or those charged with governance, as part of the tender process. By leaving this to the firm to do this proactively could, in our view, create competition in the market.

#### *Publication*

The FRC could collate and link to concisely reported information in Transparency Reports on the FRC's website. Further, the fact that this information is in Transparency Reports and is made more readily available, could increase interest in the broader information included in the Transparency Report.

Audit firms already have considerable processes and governance over the publication of their Transparency Reports. Our suggested framework would utilise those existing processes to help reduce the cost impact, but still conclude with a clear attestation.

#### *Example AQI*

Specific AQIs would not be prescribed by the FRC, which will allow audit firms to continue to innovate in this area, thereby encouraging competition, and not being seen as a compliance exercise. Although AQIs themselves will not be directly equivalent, the AQIs should act as stimulation for a richer discussion on the areas important to audit quality. As discussed, these areas could be aligned to ISQM 1, what makes a good quality audit or the audit firm supervision letter.

For example, the Consultation appendix setting out the “*List of firm-level AQIs considered but not proposed*” included the “*use of / investment in technology*” with a supporting description of “*Effect of auditors’ use of technology in audits is not easy to measure, and its impact on quality is not easy to establish.*” However, technological resources are a key part of ISQM 1, and audit firms will be investing in technology in different ways, which is important to drive competition and resilience within the audit market. A qualitative AQI in this area could promote a richer discussion around the firm’s technological resources which underpin their audits.

PwC plans to reflect this approach in our FY 2022 Transparency Report, as we believe this will provide firm level AQIs that are meaningful and relevant to the PwC audit practice.

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

We support the FRC’s decision to not include targets or thresholds for these indicators. Doing so could result in audit firms making decisions to manage by the outcome of the quality indicator rather than audit quality overall, which could be detrimental to FRC’s objectives. In our experience of monitoring AQIs internally, not all AQIs have a binary outcome or clearly identifiable target.



## Appendix 2

We have set out below our detailed response to each AQI proposed in the Consultation. We believe a number of these AQIs could be used, but have highlighted particular areas that would require further consideration by the FRC.

#	Agree with the firm level AQI / Believe the AQI is useful at an engagement level / Believe that the AQI is not useful	Further considerations
1	We agree with the use of the staff / culture survey results as a firm level AQI as it provides valuable insight into the firm's culture.	A range of outputs from our staff and culture surveys are already included in our Transparency Report, which align with our audit behaviours. Trying to align questions that surveys ask across firms could undermine the effort firm's have taken to define their own culture. Each firm will use different and specific language which differentiates audit firms, supporting competition within the market.
2	We believe specified audit planning milestones to be a useful engagement level AQI.	<p>Each firm will have different planning milestones. At PwC we have invested heavily in our team's understanding when our audit planning milestones are. In addition, the data from our Aura system used to monitor our planning milestones can be imperfect as our audits are complex and Aura is not built for single entity audits. Whilst this data is directionally usable as management information, it would not be accurate for external attestation without significant investment.</p> <p>We believe this AQI to be more useful at an engagement level as seen through the engagement level AQI Pilot.</p>
3a	We believe that the average audit hours performed pre-year end to be a useful engagement level AQI.	<p>Depending on the complexity and industry of the organisations we audit, the hours performed pre-year end can look different. Reporting this AQI at a firm level will only provide a thematic average which might not be that useful and will vary significantly based on the nature of a particular firm's audit portfolio.</p> <p>We believe hours performed pre-year end can be most useful at an engagement level, as the audit team is best placed to discuss the specific milestones with their audit committee.</p>
3b	We do not agree that the average percentage of audit hours spent in the last 2 weeks before sign-off to be a useful AQI.	<p>The average percentage of time spent in the last two weeks will vary by size, complexity and industry of the organisation being audited. A smaller client, or one with more balance sheet intensive work, might have a larger proportion of work performed in the last two weeks of the audit, which would not be indicative of the quality of the outcome. Reporting this AQI at a firm level will only provide a thematic average which might not be that useful.</p> <p>Further to be able to report on this AQI we would need to have specific sign off dates for all audit reports which currently our systems are not designed to track.</p>
4	We do not agree that the	We would require a number of clarifications over what is included in 'internal



	Internal quality review hours as a percentage of total audit hours to be a useful AQI.	quality reviews hours' as well as total audit hours. The AQI result year on year would be influenced by changes in the total audit hours than the internal quality review hours. This AQI is also very similar to #6 in relation to the percentage of audits reviewed, as both metrics are trying to give an indication of the proportional focus on quality reviews.
5	We agree with the use of the percentage of audits inspected, by quality grading.	These metrics are already publicly reported in the Transparency Report and by the FRC. There is a risk that, by including this metric within the AQI list, it is not seen as a measure of quality, but rather an indicator of quality. We would propose measures and indicators are differentiated in reporting.
6	We agree with the use of our internal inspections results with quality grading.	Our internal inspection results are already publicly reported in the Transparency Report and by the FRC. There is a risk that, by including this metric within the AQI list, it is not seen as a measure of quality, but rather an indicator of quality.  The secondary metric measuring the number of audits reviewed as a percentage of the total number of audits will likely vary more by the total number of audits rather than the gross number reviewed. Using a measure based on the percentage of Responsible Individuals reviewed could be more comparable across firms.
7	We believe that EQCR hours as a percentage of total audit hours to be a useful engagement level AQI.	For larger firms, reporting this AQI at a firm level will only provide a thematic average which may not be useful to the user. It is likely that this AQI would be influenced more by total audit hours rather than EQCR hours.  We believe hours performed by the EQCR can be most useful at an engagement level, as the audit team is best placed to discuss the specific involvement the EQCR has had in the audit.
8	We believe Partner (or all responsible individuals) involvement to be a useful engagement level AQI.	For larger firms, reporting this AQI at a firm level will only provide a thematic average which is not useful to the user. We believe this AQI to be more useful at an engagement level as seen through the engagement level AQI Pilot.
9a	We do not agree with the use of staff utilisation as a useful AQI.	We have worked in the market to ensure that we are properly paid to deliver high quality audits and that the market sees the value in audit. Publicly disclosing staff overtime could deter time charging, and have other unintended consequences including on the attractiveness of the profession.  From a quality perspective, it is not clear what a 'good' level of overtime looks like and we believe some overtime across an audit team can support quality. Reporting this AQI at a firm level will only provide a thematic average which is not useful to the user.
9b	We do not agree with the use of staff utilisation in January-March as a useful AQI.	In addition to the response in 9a, focussing just on January - March builds in a bias towards December year ends. Within the firm we have different business units with busy periods outside January-March. There is also increased non-chargeable activity outside January - March which can create equal pressures in other periods.
10	We agree that staff attrition	By publicly reporting staff attrition, this would focus on the more negative aspect



	could be a useful firm level AQI, however we do also believe this to be commercially sensitive information.	<p>surrounding our headcount. Recruitment, for example, is equally important as attrition and both form a key part of whether we have the right headcount. Reporting attrition by itself without the context of recruitment and overall headcount would be misleading and commercially sensitive.</p> <p>There would also need to be a clear definition of attrition as we have people who take internal transfers or secondments into other lines of services or to other territories, all of which impact headcount, but would not count as external leavers.</p>
11	We believe the use of specialists to be a useful engagement level AQI.	<p>Audit firms have different business models and use a wide range of staff who would be defined as either experts or specialists, and so a clearer definition would be needed as to what is considered specialist hours.</p> <p>The amount of specialist time would reflect the complexities within the audit portfolio, and so this could vary by firm. Reporting this AQI at a firm level will only provide a thematic average which is not useful to the user. We believe this AQI to be more useful at an engagement level as seen through the engagement level AQI Pilot.</p>
12	We agree that the use of staff ratios could be a useful firm level AQI.	This AQI would act as a better indicator for the staff mix within the audit practice than compared to AQI 8. There would need to be consideration around seasonality of staff within the practice as this could vary through the year and a point in time measure could be misleading. This AQI would be supported by additional context, such as total average headcount through the year and clear definition of what staff would be included in the calculation.
13	We agree that the use of training hours could be a useful firm level AQI.	Similar AQIs are already published in our Transparency Report.
14	We agree that the use of gender and ethnicity of audit leadership could be a useful firm level AQI.	There would need to be a clear definition of what is audit leadership, as we have varying levels of leadership within the audit line of service and in business units.