

**FRC Consultation:
Firm-level
Audit Quality Indicators**

ICAS Response

18 August 2022



Introduction

ICAS welcomes the opportunity to comment on the FRC's Consultation: Firm-level Audit Quality Indicators.

Our CA qualification is internationally recognised and respected. We are a professional body of over 23,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practices, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's, and the world's, great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to James E Barbour, Director, Policy Leadership:
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General comments

We are supportive of increased transparency in terms of the reporting of information that can provide reasonable indications as to the importance placed by firms on audit quality. We also acknowledge that the global direction of travel is for firm-level Audit Quality Indicators (AQIs) to be reported to assist users in this regard. However, we do believe that key users such as audit committee chairs gain greater insights from more specific engagement audit quality indicators.

We have concerns about the likely costs to be incurred, in particular, amongst those firms that do not currently publish such information but will be caught within the proposed scope. We do, however, appreciate that the FRC has recognised that there will be a need for a transition period to help firms that do not currently publish such information.

We believe that the reporting of supporting narrative is essential to help provide proper context to the indicator reported. The true value lies in the appropriate blend of quantitative and qualitative information to properly inform the end user. We are not convinced by the proposal to restrict the word count.

We welcome that the FRC is not proposing to set targets for the indicators and recognises that there are many reasons why any particular AQI may vary between firms and from one year to the next.

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?

The proposed scope appears reasonable. We appreciate that the FRC has recognised that there will be a need for a transition period to help those firms that do not currently publish such information but will be caught within the proposed scope.

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?

The ultimate objective should be to include all audit engagements to provide a holistic perspective. However, how that position is reached might require consideration being given to further transition measures, as deemed appropriate, to minimise the cost burden on firms.

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?

Yes, we believe that there would be additional costs incurred if the period is not aligned to a firm's financial year. However, our biggest concern is the overall cost to firms of having to put in place the systems required to collect the necessary data to allow these firm-level AQIs to be produced, as well as the subsequent ongoing costs.

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.

Yes, we believe that this would not only be useful but rather is essential to help provide proper context to the indicator reported. The true value lies in the appropriate blend of quantitative and qualitative information to properly inform the end user. We are not convinced by the proposal to restrict the word count.

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.

Whilst we appreciate the importance of training, the proposed AQI (No. 13) is solely focused on the input and does not provide any indication of the impact of that training or indeed of the relevance of that training on audit quality.

The proposed AQI on diversity and inclusion (No. 14) appears rather narrow in focus, as it only concentrates on gender and ethnic diversity.

Additionally, the AQI on staff attrition (No. 10) will also not necessarily provide valuable insights into audit quality as this will be subject to various factors.

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.)

Whilst comparability may be an issue, there would appear some merit in considering an AQI along the lines of that described at No. 12 i.e.

“Average number of audit staff managed by an audit partner/manager.”

Question 7

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

As noted above in our response to question 3, our biggest concern is the overall cost to firms of having to put in place the systems required to collect the necessary data to allow these firm-level AQIs to be produced, as well as the subsequent ongoing costs.

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