

Private and Confidential

Shamima Hussain
Financial Reporting Council
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17 August 2022

Dear Madams/Sirs

BDO Response to Firm-level Audit Quality Indicators Consultation

We welcome the opportunity to respond to the Consultation on publicly-reported firm-level Audit Quality Indicators (AQIs).

Over the last few years we have invested heavily in central audit quality infrastructure, including embedding the newly established Audit Quality Improvement Team to strengthen, amongst other aspects, audit quality monitoring including Audit Quality Indicators.

BDO is committed to developing its AQI monitoring programme to identify trends in quality and provide insight into the functioning of the audit practice so that areas for improvement can be identified and appropriate actions developed. We have started to use audit quality indicators as one of the inputs into the Root Cause Analysis (RCA) process. These AQIs may be used to further analyse identified findings from the internal quality reviews or the external regulatory reports or to identify new findings which may require further investigation. AQIs will also be used to support interviews, and to corroborate and challenge findings. BDO is committed to continuing to ensure that we have a broad set of input factors to support effective RCA enquiries and judgements on causal factors.

We support the proposed reporting of firm-level AQIs and have provided some specific comments on questions asked in the consultation document.

If you have any questions on the points raised, please do not hesitate to contact me.

Yours faithfully



Stuart Diack
Partner and Head of Audit Quality Improvement
For and on behalf of BDO LLP

Scope and application

Q. 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?

We agree that alignment to the Audit Firm Governance Code seems appropriate.

Q. 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?

If segmentation is to be implemented, then segmenting between PIE and non-PIE audits would appear reasonable. We note that some AQIs are not assignment based and therefore we would not expect the following AQIs to be segmented:

- 1 (Staff / culture survey results)
- 9a and 9b (Staff utilisation)
- 10 (Staff attrition)
- 12 (Staff / partner and staff / manager ratios) if included
- 13 (Training hours)
- 14 (Diversity and inclusion)

Q. 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 do not anticipate additional costs to be incurred. We note one practical point being that our weeks and months end on a Friday (possibly in common with other firms) and we would ask the FRC to accept the nearest Friday to 31 March as being an acceptable reporting period, for example 29 March 2024 will be the last day of our Period 9.

Reporting

Q. 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

We agree that some supporting narrative is likely to be beneficial. An indicative word count would appear a reasonable approach. We would also suggest that guidance around what the narrative is expected to address would be required, for example, is the text envisaged to only explain variances to previous years or could it also enable clarification on how the numbers / statistics have been arrived at. Please also refer to our response to question 7.

Q. 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 are in agreement with the proposed AQIs. Having reviewed the alternatives presented, we do not consider there to be any additional AQIs that require inclusion.

With regards AQI no.1 (staff / culture survey results), we note that based on Transparency Reports, the questions posed by firms can vary slightly, therefore we would ask that the questions to be included are specified to ensure direct comparability.

We assume that the key planning milestones and target completion dates referred to in AQI no.2 would be those set internally and therefore not necessarily consistent amongst firms but clarification of this would be required.

For AQI no.11, if this were to be included we would require clear definition of what constitutes a specialist for these purposes. We would welcome clarification regarding whether firms would include 'quality control' specialists e.g. Inflight review teams in the statistics.

Q. 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.)

Having reviewed Appendix 1 and reflected more widely, we do not consider there to be any other firm-level AQIs that should be considered.

General Question

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

We emphasise the importance of the point raised in the consultation being that each AQI will need to be defined precisely, therefore we welcome a comprehensive guidance document.

We also pose the question as to whether the expectation is that the set of AQIs on which firms are required to report will change over time, rather than this being a permanent set of AQIs that will be reported each year.