

Firm and Engagement Performance Metrics

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INTRODUCTION/OVERVIEW

- On October 6, 2008, the U.S. Department of Treasury's Advisory Committee on the Auditing Profession ("ACAP") published a report detailing recommendations that would enhance the sustainability of a strong and vibrant public company auditing profession.
- One recommendation proposed by ACAP urged PCAOB to determine the feasibility of developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose these indicators and assuming development and disclosure of indicators of audit quality are feasible, require the PCAOB to monitor these indicators.
- In response to recent discussions at the SEIAG and IAG meetings in June 2022 and the comment letter from IAG members in response to the PCAOB Draft Strategic Plan 2022-2026, we are providing a summary of related PCAOB activities.

REPORTING LEVELS OF PERFORMANCE METRICS

- Engagement-Level
 - Engagement-level metrics provide information about a particular engagement of the firm that in some cases can be tailored to the information needs and interests of a user to support its oversight responsibility.
- Firm-Level
 - Firm-level metrics, which address an audit firm's overall strategies and initiatives, may complement engagement-level metrics.

EXAMPLE PERFORMANCE METRICS

- Many metrics can be applied at both the engagement and firm level. Some metrics may only be reported at either the engagement level or the firm level.

	Example Engagement Level	Example Firm Level
Employee Turnover	Percentage of prior year's partners, managers, audit staff, and engagement quality reviewers, are no longer assigned to the engagement	Percentage of partners, managers, audit staff, that have left the firm or left the firm's audit practice, in the preceding 12 months
Partner Workload	Chargeable hours managed by audit engagement partner for all public and private clients for the current year (planned) and prior year (actual)	Average chargeable hours managed by public company audit engagement partners for all public and private clients for the current year (planned) and prior year (actual)
Key Risk Areas	Identification of key risk areas and hours spent by the engagement partner in addressing them.	None.
Quality Ratings and Compensation	None.	Percentage of partners and managers, with exceptional internal performance ratings on audit quality.

PREVIOUS IAG ACTIVITIES

- In October 2013, an IAG working group made recommendations for firms to provide the PCAOB with data compiled at both the engagement level and the firm level. See [Attachment A](#) for a summary of those suggestions.
- IAG members strongly favored public disclosure of AQIs. Recommended disclosure of indicators that:
 - Measure the quality of the actual audit (output),
 - Help establish accountability for audit quality,
 - Are forward-looking, and
 - Have information or predictive content.
 - Wanted development of indicators that are credible early warning signals or forecasts of risks to the quality and credibility of audits.
 - In October 2017, an IAG working group endorsed the 2013 working group recommendations and added a few other indicators to consider.

PCAOB ACTIVITIES

- PCAOB 2015 Concept Release on Audit Quality Indicators (“Concept Release”) sought comment on 28 potential indicators. The PCAOB received 50 comment letters.
 - Most commenters expressed support for the general idea that AQIs could have some usefulness in advancing audit quality
 - Firms indicated that there was no standard group of AQIs that could advance understanding of audit quality.
 - Investors indicated that indicators should:
 - Be made public and could be used to stimulate competition based on quality among audit firms
 - Remedy the deficiency of information about audits
 - Give shareholders meaningful information to help them in voting on auditor selection

PCAOB ACTIVITIES (CONT'D)

- At the November 2015 Standing Advisory Group meeting members formed three breakout groups. Topics and their views:
 - Audit Quality Indicators and their Content
 - 28 indicators are too many
 - PCAOB is in a unique position to determine common definitions
 - Auditor Discussion of AQIs with Audit Committees
 - Any discussion of AQIs should be determined by audit committees and firms
 - PCAOB could share insight on possibly useful AQIs
 - Use of AQIs by Investors
 - Should include some level of mandated disclosure to investors
 - Recommend a phased approach

PCAOB ACTIVITIES (CONT'D)

- Information the PCAOB requires that are related to the engagement includes:
 - CAMs (AS 3101)
 - Auditor Tenure (AS 3101)
 - Disclosure of the name of the engagement partner (Rule 3211, Form AP)*
 - Identify a change in engagement partner (from Form AP data)
 - Other engagements for which that engagement partner is responsible (Rule 3211, Form AP)*
 - Percentage of the audit performed by other firms (Rule 3211, Form AP)*

* Available using the searchable database on the PCAOB's website.

<https://pcaobus.org/resources/auditorsearch>

VARIOUS FIRM-LEVEL METRICS

- Some audit firms are publicly reporting various firm level information through their Audit Quality Reports, Transparency Reports, or other published reports.
- Using the 28 indicators identified in the Concept Release, staff reviewed the most recent firm reports available from 9 firms to identify which indicators firms are currently reporting.
- The information in [Attachment B](#) indicates the following:
 - 16 of the 28 indicators are provided by at least one firm.
 - All firms reviewed reported information related to:
 - Technical and accounting resources
 - Training hours per audit professional

RECENT INITIATIVES AROUND THE WORLD

- Organizations, including regulators, oversight bodies, professional bodies, and independent forums around the world are continuing to conduct activities related to AQIs. Accountancy Europe has done a stock-take of recent AQI initiatives in Europe and beyond in a publication issued in May 2022.
- See [Attachment C](#) for a downloaded copy of the full report.

RECENT INITIATIVES AROUND THE WORLD (CONT'D)

- Some recent initiatives outlined in the publication are:
 - The Portuguese Securities Market Commission (CMVM), Portugal
 - Instituted a transitional implementation process in 2019
 - Independent Regulatory Board for Auditors (IRBA), South Africa
 - Published a survey report in 2021
 - The Financial Reporting Council (FRC)
 - Issued a consultation on June 22, 2022, on publishing audit quality indicators

QUESTIONS FOR IAG MEMBER CONSIDERATION

1. How are you currently using the information that is publicly available either from the PCAOB or the firms?
2. Besides the metrics already published by the PCAOB and provided by the firms, what other performance metrics would be useful?
3. How would you expect this information to be reported, through Form AP, the firm's audit quality reports, published by the firm on their website?
4. Which firms should be required to provide this information?
 - a. All firms
 - b. Firms that audit over 100 issuers (firms annually inspected by the PCAOB)
 - c. Firms that audit a specific number of issuers or broker dealers

ATTACHMENT B – CURRENT FIRM REPORTING

IAG Meeting October 12, 2022

Current Firm Reporting

Since the PCAOB’s 2015 Concept Release on Audit Quality Indicators, some audit firms are publicly reporting various firm level information addressed in the Concept Release through their Audit Quality Reports, Transparency Reports, or other published reports.¹ Using the 28 indicators identified in the Concept Release, staff reviewed the most recent firm reports available to identify which indicators firms are currently reporting. In addition, for each firm level metric currently being reported, staff included examples of how firms calculated the metric as well as the total number of firms reporting the specific firm-level metric.

Firm Level Metric	Firm Level Description from Concept Release	Example Firm Calculations	Number of Firms Reporting
Staffing Leverage	Measures the time of experienced senior personnel relative to the volume of audit work they oversee.	Leverage ratio of partners and managing directors to audit personnel Leverage ratio of managers and senior managers to senior and staff Leverage ratio of supervisor hours	7
Partner Workload	Generates data about the level of work for which the audit engagement partner is responsible and the number of claims on his or her attention.	Average annual hours worked in excess of 40 hours per week for partners Number of issuer audit engagements that audit partners lead	3
Manager and Staff Workload	Information about the workload of audit managers and audit staff.	Average annual hours worked in excess of 40 hours per week by level Annual utilization rate	4
Technical Accounting and Auditing Resources	Measures the level of a firm’s central personnel (or other resources engaged by the firm) available to provide engagement teams with advice on complex, unusual, or unfamiliar issues and the extent to which they are used in a particular engagement.	Partners and managing directors serving in technical professional practice roles to all partners and managing directors Total number of professionals serving in a technical role	9

¹ Various reports issued by nine firms were reviewed to identify firm level metrics disclosed in public reports. These firms are BDO USA, LLP, CohnReznick LLP, Crowe LLP, Deloitte & Touche LLP, Ernst & Young LLP, Grant Thornton LLP, KPMG LLP, PricewaterhouseCoopers LLP, and RSM US LLP.

ATTACHMENT B – CURRENT FIRM REPORTING

IAG Meeting October 12, 2022

Firm Level Metric	Firm Level Description from Concept Release	Example Firm Calculations	Number of Firms Reporting
		Total hours contributed by professional practice	
Persons with Specialized Skill and Knowledge	Measures the use in an audit engagement of persons with "specialized skill and knowledge," other than accounting and auditing personnel counted as technical accounting and auditing resources. These individuals may be firm personnel or they may be retained by the firm.	Percentage of audit hours provided by specialists	5
Experience of Audit Personnel	Measures the weighted average experience of firm's personnel generally.	Partner [managing directors] average years of experience within the firm Average tenure at firm by level	6
Turnover of Audit Personnel	Measures turnover, that is, movement to other firms, at the firm level.	Average annual voluntary turnover rate by staff level Average annual retention rate by staff level	8
Amount of Audit Work Centralized at Service Centers	Measures the degree to which audit work is centralized by the audit firm at service centers.	Percentage of audit hours performed by shared service center professionals	5
Training Hours per Audit Professional	Focuses on the hours of relevant training that staff and partners of the firm receive.	Average training hours completed by level Firm's policy on minimum training hours Total learning credits completed	9
Allocation of Audit Hours to Phases of the Audit	Measures the effort and staffing the audit devotes to audit planning, interim field work, and audit completion.	Percentage of audit work performed three months before the company's year-end Percentage of audit work performed before the company's year-end	1

ATTACHMENT B – CURRENT FIRM REPORTING

IAG Meeting October 12, 2022

Firm Level Metric	Firm Level Description from Concept Release	Example Firm Calculations	Number of Firms Reporting
Results of Independent Survey of Firm Personnel	Measures an audit firm's "tone at the top" through use of a survey tool.	Percentage of Assurance professionals who reported receiving consistent messages about the importance of audit quality from firm leadership Percentage of Assurance professionals who reported understanding the firm's audit quality objectives	3
Compliance with Independence Requirements	Measures several elements of a firm's independence training and monitoring program and the importance it assigns to that program	Number of professionals who maintain independence policies, processes, and controls Number of independence-related consultations Number or percentage of partners and other professionals tested for their compliance with the firm's independence policies	4
Investment in Infrastructure Supporting Quality Auditing	Measures the amounts audit firms invest, in people, processes, and technology, to support the base on which quality auditing depends	Dollar amount invested in a learning and development center Dollar amount invested in delivery of new audit processes	2
Audit Firms' Internal Quality Review Results	Contains information about the internal quality reviews conducted by each audit firm.	Number of engagements subject to internal inspection or pre-issuance reviews Percentage of compliance rate for engagements that were internally inspected	6
PCAOB Inspection Results	Contains information about PCAOB inspection results relating to the audit firm involved.	Number of audits inspected and number of audits included in Part I.A	6
Frequency and Impact of Financial Statement Restatements for Errors	Measures the restatements for error of financial statements whose audit the audit firm has performed.	Percentage and number of issuer audit client financial statements that were (or were not) restated	6

ATTACHMENT B – CURRENT FIRM REPORTING

IAG Meeting October 12, 2022

Firm Level Metric	Firm Level Description from Concept Release	Example Firm Calculations	Number of Firms Reporting
		Percentage and number of reports on an issuer’s internal control over financial reporting that were (or were not) reissued or withdrawn	



**ACCOUNTANCY
EUROPE.**

AUDIT QUALITY INDICATORS

A global overview of initiatives

Factsheet

FACTS.

**AUDIT & ASSURANCE
MAY 2022**

HIGHLIGHTS

This paper presents an overview of selected recent initiatives on audit quality indicators (AQIs) in Europe and beyond. These have been initiated by different types of organisations, including regulators, oversight bodies, professional bodies, and independent forums. There exist also differences in terms of their intended users and transparency.

The publication aims to advance the European and global discussions on how to define, measure and improve audit quality. Accountancy Europe is actively working on this topic and will continue to contribute to the debate with evidence-based facts and constructive recommendations.

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INTRODUCTION

BACKGROUND

The European Commission launched an initiative to improve the quality of corporate reporting and its enforcement. The EC [consultation](#) included questions related to quality indicators for audit and its supervision. Accountancy Europe is willing to contribute to this topic by providing evidence-based facts and constructive recommendations.

This is also topical in other jurisdictions, for example:

- the Global Audit Quality Working Group of the International Forum of Independent Audit Regulators (IFIAR) has been working on an appropriate list of audit quality indicators (AQIs)
- the Public Company Accounting Oversight Board (PCAOB-US) identifies an objective to determine, develop, and communicate AQIs in its [Strategic Plan 2020-24](#),
- the Financial Reporting Council (FRC-Australia) plans to work with the accounting/audit firms and professional bodies on how to define and report on AQIs in its [Audit Quality Action Plan](#)

OBJECTIVE

Accountancy Europe issued [an information paper](#) in 2016 to provide an overview of AQIs by different organisations worldwide. Since then, there has been considerable change in the business environment, including operational models in companies, audit firms and regulators. Several new initiatives have emerged proposing or mandating various sets of AQIs. This publication presents an overview of these initiatives to provide a basis for informed discussions.

NEW GLOBAL FRAMEWORK FOR QUALITY MANAGEMENT

The International Auditing and Assurance Standards Board (IAASB) issued three new standards on audit quality which will come into effect by the end of 2022:

- *International Standard on Quality Management 1 (ISQM 1)* requires audit firms to adopt a risk-based and integrated quality management approach at firm-level
- *ISQM 2* addresses the appointment and eligibility of the engagement quality reviewer as well as their responsibilities relating to the performance of an engagement quality review
- *International Standard on Auditing (ISA) 220* focuses on quality management at the engagement level and requires the audit engagement partner to take responsibility for the achievement of quality

ISQM 1 requires a proactive and tailored approach to quality management. It focuses on achieving quality objectives through identifying risks to those objectives and responding to the risks. According to the ISQM 1, a system of quality management addresses the following eight components:

- the firm's risk assessment process
- governance and leadership
- relevant ethical requirements
- acceptance and continuance of client relationships and specific engagements
- engagement performance
- resources
- information and communication
- the monitoring and remediation process

The firm's risk assessment process and monitoring and remediation process set out specific procedures that the audit firm is required to follow. The remaining components comprise specific quality objectives the audit firm is required to establish.

Audit firms' key performance indicators and AQIs determined by different organisations usually fall into one or more of these components.

OVERVIEW OF AUDIT QUALITY INDICATORS INITIATIVES

The table below presents an overview of various AQI initiatives, followed by more details. A brief analysis of these initiatives allows the following observations:

- **Owner:** The initiatives are mostly launched by audit oversight bodies and professional organisations. Firms use their own metrics to monitor audit quality, and these are structured in different ways.
- **User and transparency:** Audit committees, oversight bodies and audit firms are considered the primary users. AQIs are often reported exclusively to specific users and not made public.
- **Nature and selection:** AQIs are not limited to quantitative elements and are presented in a wider context. There are several factors to be considered when selecting, evaluating, and reporting AQIs (e.g. cost-benefit of tracking indicators and results of external reviews). A combination of metrics is recommended for a profound insight into audit quality.

Owner	Background of the owner	Intended user	Transparency (public or private)	Short overview
IDW – Germany	Professional organisation	Audit committees, oversight body and public	Mainly for reporting to audit committees and oversight body	32 AQIs under four components below and one cross-divisional AQI: Quality culture Workforce quality Process quality Communication
Quartermasters – Netherlands	Independent group of experts assigned by the Minister of Finance	All stakeholders, including public	Subject to adoption by the Ministry of Finance, firms will be obliged to report	11 indicators under three categories: Audit quality Quality control system Context
CMVM – Portugal	Audit oversight body	Oversight body	For the first two years, exclusive reporting to the CMVM	Eight indicators, four of which are at firm-level, one at engagement level and three for both firm and engagement levels
FAOA – Switzerland	Audit oversight body	Oversight body	FAOA presents a summary, including trends, in its annual reports	Nine indicators and three of these are to be reported separately for the Swiss Market Index (SMI) and non-SMI companies
FRC – UK	Audit oversight body	All stakeholders, including public	FRC will consult on AQIs to be included in audit firms' transparency reports	FRC identified 52 AQIs that are monitored by the six largest audit firms in the UK, and these can be grouped into six broad categories
CPAB – Canada	Professional organisation	Audit committees and audit firms	This was a pilot project without any specific requirements, and most participants tracked AQIs	An exemplary list of 20 AQIs is presented along with their definitions and types

Owner	Background of the owner	Intended user	Transparency (public or private)	Short overview
			in a standalone report, typically produced by the auditor for audit committee	
ICAI – India	Professional organisation	Oversight body and audit firms (for self-evaluation)	No public reporting envisaged	The model suggests scoring criteria for competency bases under three categories: Operations management – Human resource management Strategic/functional management
ACRA – Singapore	Audit oversight body	Audit committees and audit firms	Audit firms are encouraged to share the AQI data privately with audit committees	The Framework comprises seven AQIs, which are to be disclosed at engagement and/or firm-level
IRBA – South Africa	Audit oversight body	Audit committees, audit firms and oversight body	IRBA issued a survey report based on AQI-related information provided by the firms auditing listed companies	The AQIs cover the following thematic areas: independence tenure internal firm quality review processes workload of partners and audit managers span of control technical resources training staff turnover
CAQ – US	Autonomous public policy organization	Audit firms	Firms are encouraged to consider public disclosure	The Framework includes a non-exhaustive list of firm-level AQIs for the six elements of audit quality: leadership, culture, and firm governance ethics and independence acceptance and continuance of clients and engagements engagement team management audit engagement performance monitoring

INITIATIVES IN EU MEMBER STATES

INSTITUTE OF PUBLIC AUDITORS (IDW), GERMANY

In its [position paper](#) (December 2021), the IDW explains what constitutes audit quality from the profession's point of view, and how it can be measured and evaluated. The position paper shows which criteria can be relevant when selecting AQIs to assess the audit quality. In addition, it presents various aspects to be considered when interpreting AQIs.

Finally, it proposes a set of AQIs under the components listed below. The indicators are classified as either firm-related or engagement-related for each component.

Component	AQIs
Quality culture	<ul style="list-style-type: none"> ▪ governance ▪ leadership ▪ professional scepticism & independence
Workforce quality	<ul style="list-style-type: none"> ▪ expertise ▪ industry understanding & experience
Process quality	<ul style="list-style-type: none"> ▪ availability of human and technical resources ▪ involvement ▪ IT systems & audit tools ▪ fit of the audit process ▪ quality management process
Communications	<ul style="list-style-type: none"> ▪ communication with the supervisory body ▪ communication with the management
Cross-divisional AQIs	

Acknowledging the lack of a globally accepted definition for audit quality, the position paper notes that AQIs cannot be limited to quantitative dimensions but should also address qualitative factors.

QUARTERMASTERS, NETHERLANDS

In the Netherlands, the quartermasters, appointed to ensure the audit reform delivery, [proposed](#) (February 2022) 11 quality indicators that were developed upon a public consultation:

Category	AQIs
Audit quality	<ul style="list-style-type: none"> ▪ involvement of external auditor ▪ weaknesses in audits and financial statements ▪ contemporary topics: fraud and continuity
Workforce quality	<ul style="list-style-type: none"> ▪ quality-enhancing measures ▪ quality control systems
Context	<ul style="list-style-type: none"> ▪ culture ▪ audit team turnover ▪ investments in innovative technology ▪ budget overrun ▪ training hours for environmental, social and governance (ESG) matters ▪ client satisfaction

In their proposal, the quartermasters suggest that there is not a single indicator or definition that can provide a profound insight into the audit quality. Hence, consideration should be given to other factors such as the administrative burden, comprehensiveness and comparability regarding each indicator. Once the Dutch Ministry of Finance adopts the proposal, audit firms with a license to perform statutory audits will be obliged to publicly report on these AQIs as from 2023.

The Royal Netherlands Institute of Chartered Accountants (NBA) is going to collect relevant data from the audit firms, and the disclosure will be made through a public dashboard. A specific committee will be formed to monitor the deployment and the update of AQIs, where necessary. The Dutch Authority for the Financial Markets (AFM) will be overseeing the entire process.

THE PORTUGUESE SECURITIES MARKET COMMISSION (CMVM), PORTUGAL

In 2021, the CMVM updated its [AQI model](#) that includes a set of indicators that, together with a quality assessment, may allow to assess the audit quality. The update consisted mainly of fine-tunings to the indicator “hours per audit phase” and some clarification of concepts in relation to the indicators “quality control results”, “experience”, “responsibilities under management” and “team setup”.

The CMVM suggests a transitional implementation whereby the six largest firms auditing PIEs (Group A) were required to report their AQIs (indicators and metrics at firm and engagement level) for 25 group audit engagements starting from 2019. As from 2020, five more firms (Group B) are required to report their AQIs for five group audit engagements each.

The firms’ reporting for both 2019 and 2020 financial statements audits were to be submitted exclusively to the CMVM. The indicators identified by the CMVM are as below:

- team setup
- responsibilities under management
- experience
- training
- staff turnover
- hours per audit phase
- quality control results
- quality control functions

INITIATIVES IN OTHER EUROPEAN JURISDICTIONS

FEDERAL AUDIT OVERSIGHT AUTHORITY (FAOA), SWITZERLAND

The FAOA collects nine audit quality indicators (AQIs) from the five largest audit firms. It uses these primarily to analyse trends, and for its risk assessment and inspection planning. The FAOA provides an overview of the last four years, including the minimum and maximum amounts observed for each AQI, in [its 2021 annual report](#). The indicators are as below:

- annual revenue per audit partner
- non-audit fees to audit fees ratio*
- number of staff per partner
- training hours
- staff turnover in %
- average number of engagement quality control review hours*
- average number of auditor-in-charge hours*
- number of foreign shared service centre hours as a percentage of overall hours at public companies
- number of consultations per public company audit

* to be reported separately for Swiss Market Index (SMI) and non-SMI companies

The FAOA notes that the five largest audit firms in Switzerland use their own AQIs and these are structured in different ways.

FINANCIAL REPORTING COUNCIL (FRC) – UK

[FRC Thematic Review](#) from May 2020 defines AQIs as quantitative and qualitative measures of external audit quality, including both inputs and outputs. The review benchmarks the AQIs monitored by the largest six audit firms in the UK. The AQIs used by the firms are classified as ‘leading’ (before the audit commences), ‘in-flight’ (during the audit) and ‘historical’ (after the audits have happened).

There are nine key messages drawn from this review which concludes that the most common AQIs can be grouped into the categories below:

- people (13 AQIs)
- other inputs (6 AQIs)
- project management (5 AQIs)
- other processes (11 AQIs)
- management initiatives (6 AQIs)
- outcomes (11 AQIs)

There is a variety with regards to selecting AQIs and only three of the 52 indicators were monitored by all of the audit firms within the scope of the review.

According to the FRC, audit committees should use AQIs when appointing their auditor, and to assess quality on an ongoing basis, by benchmarking against other firms. In addition, management and leadership within audit firms should use AQIs to encourage a culture focused on quality. The review suggests that FRC would consult publicly on a core set of AQIs that firms would be required to present in their transparency reports.

In its [3-year plan for 2022-25](#), the FRC commits to continue its work on audit culture and audit quality indicators, describing these as the essential components of understanding how audit quality is improving over time.

INITIATIVES IN OTHER JURISDICTIONS

CANADIAN PUBLIC ACCOUNTABILITY BOARD (CPAB), CANADA

In 2016, the CPAB launched an exploratory AQI pilot project to get feedback on AQIs' usefulness and support broader national and international discussions. The results of the initiative were summarised in [the final report](#) published in 2018. The report provides the following set of AQIs as an example:

Type	AQIs
Engagement team indicators	<ul style="list-style-type: none"> ▪ experience of engagement team* ▪ training and professional development ▪ turnover of the engagement team ▪ partner/manager involvement ▪ partner workload
Audit execution indicators	<ul style="list-style-type: none"> ▪ audit hours by areas of significant risk* ▪ timing of audit execution* ▪ audit progress milestones ▪ technology in the audit ▪ specialist engagement* ▪ service delivery centres
Management indicators	<ul style="list-style-type: none"> ▪ management deliverables* ▪ remediation of control deficiencies ▪ reliance on controls
Firm-level indicators	<ul style="list-style-type: none"> ▪ results of inspections ▪ independence ▪ reputation ▪ tone at the top
Client service indicators	<ul style="list-style-type: none"> ▪ communication with the audit committee ▪ sharing of insights

* AQIs selected by more than 75% of participants in the pilot project

The CPAB notes that there are no silver bullet AQIs and there is a range of perspectives depending on the individual audit committees' unique needs and circumstances.

The report lists the benefits and challenges identified while using AQIs. It also explains the factors to consider when selecting, evaluating and reporting them.

THE INSTITUTE OF CHARTERED ACCOUNTANTS (ICAI), INDIA

The ICAI-India proposed an [Audit Quality Maturity Model](#) (AQMM) as a capacity-building measure in 2021. The initiative's primary objective is to provide an opportunity for audit firms to self-evaluate their maturity level in terms of audit quality. It would be voluntary initially and after the first year of implementation, the ICAI will review the date from which it would become mandatory.

Firms auditing listed entities, banks and insurance companies are in the scope of the model. ICAI suggests that the maturity level should not be publicised or mentioned by audit firms in the public domain. The model includes scoring criteria for the following competency bases:

Competency basis	AQIs
Practice management – operation	<ul style="list-style-type: none"> ▪ practice areas of the firm ▪ workflow - practice manuals ▪ quality review manuals or audit tool ▪ service delivery - effort monitoring ▪ quality control for engagements ▪ benchmarking of service delivery ▪ client sensitisation ▪ technology adoption ▪ revenue, budgeting & pricing
Human resource management	<ul style="list-style-type: none"> ▪ resource planning & monitoring as per the firm's policy ▪ employee training & development ▪ resources turnover & compensation management ▪ qualification skill set of employees and use of experts ▪ performance evaluation measures carried out by the firm (KPIs)
Practice management - strategic/functional	<ul style="list-style-type: none"> ▪ practice management ▪ infrastructure – physical & others ▪ practice credentials

The outcome of the self-evaluation would be a score between 0 and 600, indicating the maturity level of the audit firm in terms of audit quality.

ACCOUNTING AND CORPORATE REGULATORY AUTHORITY (ACRA), SINGAPORE

In 2015, the ACRA introduced an Audit Quality Indicators Disclosure Framework to enhance discussions between audit committees and audit firms on elements that contribute to or are indicative of audit quality. In 2020, ACRA updated the framework which is available for voluntary adoption by audit firms.

The [revised Framework](#) comprises seven AQIs, which are to be disclosed at engagement and/or firm-level as follows:

- audit hours: time spent by audit team members during each audit phase
- experience: years of audit experience and industry specialisation
- training: average training hours and industry-specific training
- inspection: results of external and internal inspections
- quality control: headcount in quality control functions
- staff oversight: staff per partner/manager ratios
- attrition rate: degree of personnel losses

Under the Framework, audit firms are encouraged to share the AQI data privately with audit committees after each annual audit is completed and when the audit committee considers a change in auditor.

The ACRA has also issued [guidance for audit committees](#) to explain the AQIs and how audit committees should interpret them. The ACRA will be performing sample checks to ensure that the AQI data provided by audit firms are prepared in accordance with the framework.

INDEPENDENT REGULATORY BOARD FOR AUDITORS (IRBA), SOUTH AFRICA

The IRBA published a [survey report](#) in 2021 on AQIs. Firms auditing listed companies were requested to submit AQI-related information and the report describes the results of the information submitted, under the five broad thematic categories:

Category	AQIs
Independence	<ul style="list-style-type: none"> ▪ non-audit fees (%) - as a percentage of the total audit fees billed to audit clients ▪ fee recovery (%) - audit fees billed as a percentage of the total audit fees internally charged
Tenure	<ul style="list-style-type: none"> ▪ firm (years) - average number of completed years as the audit firm for the audit client ▪ partner experience (years) - average tenure as an engagement partner
Internal firm quality review processes	<ul style="list-style-type: none"> ▪ engagement quality review partner hours and engagement quality review team hours (%) ▪ firm review processes ▪ internal review results (%) ▪ partner coverage (%)
Workload of partners and audit managers	<ul style="list-style-type: none"> ▪ engagement partner role (%) ▪ manager supervision (%)
Other	<ul style="list-style-type: none"> ▪ span of control: professional staff (ratio) ▪ technical resources: partner (ratio) ▪ training (hours per person) ▪ staff turnover (%)

The report argues that high or low ratios may mean different things to different users, and they may be interpreted differently when correlated with other statistics. Thus, the context of the AQIs should always be carefully considered.

The report presents comparisons across audit firms on an anonymous basis. The IRBA relies on AQIs as an information source for business intelligence gathering and risk-based selections, as part of its inspections process. They also help the IRBA monitor overall trends related to audit quality.

CENTER FOR AUDIT QUALITY (CAQ), US

The CAQ's [Audit Quality Disclosure Framework](#) was developed in consultation with a range of CAQ member firms. It aims to aid audit firms as they develop (or consider developing) their transparency or audit quality reports. The Framework, which adheres to three key principles:

- is voluntary and illustrative
- is flexible, giving firms the ability to tailor the information that is most relevant
- relates to disclosure of a system of quality control at a firm level, rather than at the engagement level

Based on these overarching principles, the Framework provides points of focus and certain examples of firm-level AQIs for the six elements of audit quality listed below:

- leadership, culture, and firm governance
- ethics and independence
- acceptance and continuance of clients and engagements
- engagement team management
- audit engagement performance
- monitoring

The CAQ notes that stakeholders may have different views on how to measure and communicate information about audit quality. Accordingly, no single metric or set of metrics should be viewed as the sole determinant of audit quality. However, a combination of metrics, if taken as a whole and supplemented with robust discussion, may provide useful information and additional transparency into a firm's quality management systems.



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ABOUT ACCOUNTANCY EUROPE

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ATTACHMENT A – PREVIOUS IAG RECOMMENDATIONS MATRIX

IAG Meeting October 12, 2022

At the October 2013 meeting¹ of the Investor Advisory Group, a working group of the IAG (IAG Working Group on Audit Quality Initiatives) made recommendations for firms to provide the PCAOB with data compiled at both the engagement level and the firm level. These recommendations were subsequently endorsed by the 2017 IAG Working Group on Audit Quality Initiatives. In the table below, the staff of the Office of the Chief Auditor indicates where this information may be available publicly.

Note: This document was developed by the staff of the Office of the Chief Auditor to foster discussion among the members of the current Investor Advisory Group at the October 2022 meeting. It is not a statement of the Board; nor does it necessarily reflect the views of the Board, any individual Board member, or PCAOB staff.

* These items were only recommended by the 2017 IAG Working Group on Audit Quality Initiatives.²

** There items were included in the PCAOB’s 2015 Concept Release on Audit Quality Indicators.

IAG Recommendation	Provided to the Audit Committee	Published by PCAOB	Published by the Firm in its Audit Quality Report	Published by Others	Not provided
ENGAGEMENT LEVEL AQI					
Ratio of partner and manager hours to the hours charged by the rest of the engagement team**					X
Identification of key risk areas and hours spent by the engagement partner in addressing them**	X – Key risk areas only, AS 1301				
Whether the audit had been inspected by the PCAOB in the most recent year. If so, whether any deficiencies in the audit were noted and a description of the types of deficiencies**					X
Hours spent by audit partners and staff in firms that are not subject to an inspection by the PCAOB, as well as the percentage of the balance sheet, income statement and cash flows audited by the non-inspected firm		X – Form AP			

¹ See https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting_758.

² See https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting_1085.

ATTACHMENT A – PREVIOUS IAG RECOMMENDATIONS MATRIX

IAG Meeting October 12, 2022

IAG Recommendation	Provided to the Audit Committee	Published by PCAOB	Published by the Firm in its Audit Quality Report	Published by Others	Not provided
Percentage of audit hours outsourced to either another firm or an affiliate in a foreign country		X – Form AP			
Whether there was any consultation with the national technical office, and if so, on what issue(s)	X – AS 1301				
The name of the lead engagement partner, in order to assess whether he or she has participated in other audits whose credibility has been questioned	X	X – Form AP			
AUDIT FIRM LEVEL AQI					
Policy on measurement and management of audit quality indicators which should be made public					X
Compensation Policy for (1) executive partners, (2) audit partners and (3) audit staff and whether (and if so, how) compensation levels are linked to audit quality, including specific triggers measured and used in linking audit quality to compensation			X – Audit partner compensation policy that links to audit quality	X – Required for partners under the European Union Audit Directive, Article 13	
Average billing/hours responsibility of audit partners. Also average chargeable hours of (1) partners, (2) managers and (3) audit staff**			X – Only average audit utilization percentage		
Number of audit engagements for which an independence review occurred and, of those, the number and aggregate estimated fees of non-audit engagements which the firm declined to accept					X
Identification of affiliates not subject to an inspection by the PCAOB		X – Only those PCAOB not permitted to inspect			

ATTACHMENT A – PREVIOUS IAG RECOMMENDATIONS MATRIX

IAG Meeting October 12, 2022

IAG Recommendation	Provided to the Audit Committee	Published by PCAOB	Published by the Firm in its Audit Quality Report	Published by Others	Not provided
Identification of affiliates who do not provide audit documentation to the U.S. affiliate in compliance with SOX					X
Number of restatements, by major industry groups			X – Total number of restatements (and percentage of total number of restatements of issuer engagements).	X – Audit Analytics	
Number of material weaknesses reported, by major industry group				X – Audit Analytics	
Billable fees or hours by major industry groups					X
Portion of audits assessed as being “high risk” audits					X
Percentage of revenues spent on audit staff**					X
Dollar investment in audit tools and audit technology**			X – Some firms publish this information in other locations.		
Number of pending SEC and PCAOB enforcement actions**				X – Pending SEC orders	X – Pending PCAOB orders
Average salary for new hires on the audit staff					X
The number of first year audit engagements where the prior auditor resigned, or there was a disagreement reported with the prior auditor				X – SEC	
ENGAGEMENT AND FIRM LEVEL AQI					

ATTACHMENT A – PREVIOUS IAG RECOMMENDATIONS MATRIX

IAG Meeting October 12, 2022

IAG Recommendation	Provided to the Audit Committee	Published by PCAOB	Published by the Firm in its Audit Quality Report	Published by Others	Not provided
Average hours of professional education for (a) partners, (b) managers, and (c) staff assigned to audit**			X		
Turnover in staffing at (a) partner, (b) manager, and (c) staff levels**			X		
Average years of experience of audit partner and personnel staff assigned: (a) experience on specific engagement; (b) experience in the industry; and (c) overall audit experience**		X – Partner (a) only	X – (c) only		
Any violation of the PCAOB auditor independence rules**	X – Rule 3526	X – Part I.B Independence findings only			X – Part II Independence findings
Transparency of inspection grades and results*					X
Trends in both private and regulatory legal actions*, **		X – Form 3 for regulatory legal actions			X – Private legal actions
Timely reporting of going concern reports*					X