



**ACCOUNTANCY
EUROPE.**

AUDIT QUALITY INDICATORS

A global overview of initiatives

Factsheet

FACTS.

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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.

TABLE OF CONTENTS

Introduction	2
Background	2
Objective.....	2
New global framework for quality management	2
Overview of audit quality indicators initiatives	4
Initiatives in EU Member States	6
Institute of Public Auditors (IDW), Germany	6
Quartermasters, Netherlands	7
The Portuguese Securities Market Commission (CMVM), Portugal	8
Initiatives in other European jurisdictions.....	9
Federal Audit Oversight Authority (FAOA), Switzerland	9
Financial Reporting Council (FRC) – UK.....	10
Initiatives in other jurisdictions	11
Canadian Public Accountability Board (CPAB), Canada	11
The Institute of Chartered Accountants (ICAI), India.....	12
Accounting and Corporate Regulatory Authority (ACRA), Singapore.....	13
Independent Regulatory Board for Auditors (IRBA), South Africa	14
Center for Audit Quality (CAQ), US	15
About Accountancy Europe	1

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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