



Audit Quality Reports Analysis: A Year in Review

March 2023

CAQ

About the Center for Audit Quality

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

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What are audit quality reports?

Some accounting firms publish audit quality reports voluntarily to communicate with stakeholders about measures they utilize to maintain, promote, and strengthen audit quality. Enhanced disclosures about how an accounting firm monitors audit quality, including related metrics, can foster important dialogue and deepen stakeholder understanding of the investment accounting firms make in their people and other resources, processes, policies, and technology – with the ultimate goal of improving audit quality.

In the last three years, eight of the [14 annually inspected accounting firms](#) issued audit quality reports. The nature of these reports and the information they include have evolved in line with firms' journeys and experiences with regard to audit quality. There is no single indicator or metric to measure audit quality; thus, each accounting firm's audit quality report is tailored to its specific facts and circumstances and may change over time.

What do audit quality reports tell readers?

Audit quality reports provide stakeholders with various qualitative and quantitative firm-level audit quality metrics and other information. The metrics and other information in audit quality reports are not necessarily determinative of audit quality; however, when considered in context and in combination, they provide valuable information to stakeholders at the firm level about how an accounting firm defines, approaches, and executes its audit quality mission.

The CAQ examined the most recent audit quality report for each of the eight accounting firms represented on the CAQ's Governing Board.¹ Given the voluntary nature of audit quality reports and the uniqueness of each accounting firm's system for managing audit quality, the metrics we observed varied by firm; though we did observe there were certain themes and metrics that were consistently present across many accounting firms' reports.

We observed over 100 unique qualitative disclosures and quantitative audit quality metrics in our analysis of the CAQ's eight Governing Board firms' most recent audit quality reports.

¹ The CAQ's Governing Board includes eight accounting firms, including BDO International, Crowe LLP, Deloitte & Touche LLP, EY, Grant Thornton LLP, KPMG LLP, RSM US LLP, and PwC LLP. The CAQ reviewed each firm's most recent audit quality report as of February 2023.

QUALITATIVE DISCLOSURES

The qualitative disclosures describing an accounting firm's audit quality activities are often in a narrative format and provide context to quantitative metric disclosures (see Quantitative Metrics below). For example, in the reports we reviewed, all firms emphasized their commitment to ensuring a tone at the top that drives audit quality, providing additional color as to how that is achieved.

In the audit quality reports we reviewed, we found the following common qualitative disclosures:

FIRMS' MESSAGES AND COMMITMENTS TO STAKEHOLDERS



Many audit quality reports begin with messages to stakeholders from the firm's leadership, setting the stage for what the report includes. These messages often highlight the centrality of audit quality to the firm's mission, how they define audit quality, and express the firm's commitment to serving their stakeholders and the public interest.

AUDIT METHODOLOGY AND EXECUTION



Audit quality reports often describe aspects of the firm's audit methodology, strategy for audit execution and journey to standardize the audit. This theme also incorporates the firm's views on how it complies with professional standards, employs best practices, and plays a key role in the financial reporting ecosystem.

PEOPLE AND FIRM CULTURE



People are integral to an accounting firm's audit execution. Audit quality reports provide insight into how firms attract and retain top talent and how firms foster a culture of quality, inclusion, and learning. Culture and core values influence many behaviors that are hard to measure, such as professional skepticism and professional judgment. Further, culture influences attitudes and behaviors such as coaching, consultation, compliance, remediation, innovation, and continuous improvement, which are critical to audit quality.

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QUALITY MANAGEMENT AND INSPECTIONS



Accounting firms often discuss their systems of quality management, including the standards they follow and how the systems promote audit quality. Audit quality reports also outline the types of inspections to which firms are subject (e.g., external and internal inspection, peer review, and sometimes global network-level inspections). Qualitative details regarding inspections often describe the nature, rigor, and scope of those inspections.

TECHNOLOGY AND INNOVATION



Accounting firms are investing heavily in technology to digitize and innovate their audits. Many use their audit quality reports to give stakeholders visibility into what those investments are and how they translate into the execution of high-quality audits. Recently, some firms have included discussion on how they employ data analytics and artificial intelligence or machine learning to further enhance audit quality.

THE FUTURE OF THE PROFESSION



Some audit quality reports also include firms' perspectives on the future of the profession. As financial reporting and stakeholder needs evolve, accounting firms are sharing how they monitor and plan for emerging needs. For example, audit quality reports may discuss how accounting firms are planning for and executing assurance in the environmental social and governance (ESG) space and other emerging areas.

Recently, some firms have included discussion on how they employ data analytics and artificial intelligence or machine learning to further enhance audit quality.

Some accounting firms also include information regarding the nature and purpose of the firm's governance structure, for example including information about the composition of their board of directors or independent audit quality advisory committees.

QUANTITATIVE METRICS

Quantitative metrics of audit quality may enhance transparency regarding how accounting firms monitor and promote audit quality using firm-level measures, though not all aspects of audit quality can

be captured quantitatively. Quantitative metrics can provide additional information and data for understanding and discussing factors that contribute to quality audits, particularly when considered in conjunction with robust qualitative disclosures to provide appropriate context. While there is a variety of quantitative metrics accounting firms may include in audit quality reports, many common metrics focus on an accounting firm's human resources. For example, they may illustrate how firms train and supervise staff.

Some quantitative metrics also describe the results of internal and external inspections, consultations undertaken, or trends in reissuances and restatements which provide insight into a firm's policies and procedures for maintaining the firm's system of quality control.

COMMON QUANTITATIVE METRICS

In the audit quality reports we reviewed, we found numerous common quantitative disclosures. We have provided excerpts of firms' disclosures below to serve as examples. By providing these examples, we do not intend to imply these are the best format from every firm. We observed other effective presentations of similar information across firms. These disclosures were made as of a point in time along with relevant qualitative information for context. We believe that firms should identify and tailor the information that they believe may be most relevant and meaningful to their audit quality journeys.

Quantitative metrics can provide additional information and data for understanding and discussing factors that contribute to quality audits, particularly when considered in conjunction with other qualitative disclosures.

1 METRICS RELATED TO AUDIT FIRM INSPECTIONS

These may include internal inspections, external inspections, peer reviews, or other types of inspections programs disclosed based on quantities of engagements inspected, percentages of compliance, among other metrics, for singular or comparative periods.

*Firm frequency:*² 8 of 8

WHAT IT TELLS THE READER:

Data and results about a firm's monitoring activities are important factors in understanding a firm's audit quality because they can provide insight into the policies and procedures for maintaining the firm's system of quality control.



141 engagements internally inspected in FY21.



92% of private company inspections conforming without a material defect in the current inspection cycle.



9 out of 10 inspections (private and public) are considered conforming in the current year inspection cycle.



Source: BDO, PDF page 7

² Firm frequency represents the number of firms disclosing this, or a similar, metric in their most recent audit quality report reviewed by the CAQ.

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METRICS RELATED TO CONTINUING PROFESSIONAL EDUCATION AND TRAINING FOR PARTNERS AND PROFESSIONALS

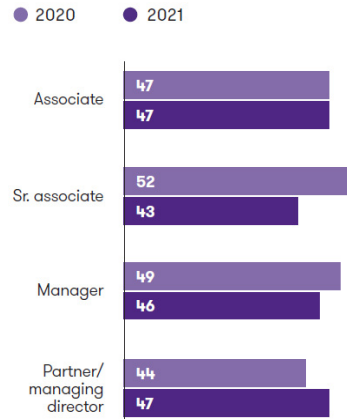
These may include annual or comparative quantities of training hours firmwide, by level or per person, by industry/subject matter area, or by minimum requirements.

Firm frequency: 8 of 8

WHAT IT TELLS THE READER:

Helps demonstrate a firm’s process for developing personnel to ensure the appropriate proficiency in new and existing professional standards (including ethics and independence), the firm’s audit methodology, and other appropriate competencies such as project management skills. A firm’s commitment to appropriately developing individuals who can consistently make objective, informed, and supported auditing decisions is critical to audit quality.

Average training hours by level



Source: Grant Thornton, PDF page 12

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METRICS RELATED TO USE OF SPECIALISTS, NATIONAL OFFICE OR CENTER OF EXCELLENCE SUPPORT

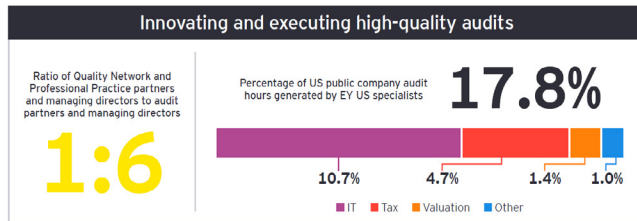
These may include ratios, hours, or percentages of usage or availability of specialists, national office, or centers of excellence.

Firm frequency: 8 of 8

WHAT IT TELLS THE READER:

May provide insight into how a firm uses internal and external specialists, shared service center(s), and technical resources (e.g., national office or similar body) to promote audit quality, including how the firm provides sufficient resources to enable appropriate consultation on accounting, auditing, ethics, independence, and risk management matters.

Innovating and executing high-quality audits



Source: EY, PDF page 4

4

METRICS RELATED TO AUDIT REPORT REISSUANCES AND FINANCIAL STATEMENT RESTATEMENTS

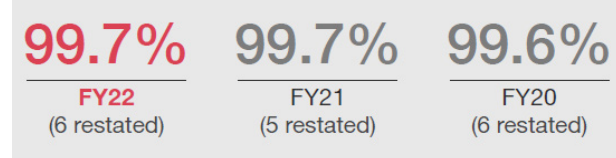
These may include percentages or counts of audit reports reissued or client financial statements restated as a result of various types of inspections or other monitoring activities for singular or comparative periods.

Firm frequency: 7 of 8

WHAT IT TELLS THE READER:

Data and results about a firm’s monitoring activities are important factors in understanding a firm’s audit quality because they can provide insight into the policies and procedures for maintaining the firm’s system of quality control.

Percentage of issuer audit client financial statements that were not restated:



Source: PwC, PDF page 36

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METRICS RELATED TO FIRMS' INDEPENDENCE MONITORING OR CONSULTATION PROGRAMS

These may include quantities of human resources dedicated to performing independence consultations or independence consultation hours completed in a given period, among other examples.

Firm frequency: 7 of 8

WHAT IT TELLS THE READER:

May provide insight into a firm's processes for monitoring compliance with independence requirements at the individual, engagement, and firm levels. Achievement of independence throughout the course of an audit is required by professional standards as it is essential to quality audit outcomes.

“In FY22, this team engaged in approximately 41,500 independence-related consultations.”

Source: PwC, PDF page 10

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METRICS RELATED TO PARTNER OR PROFESSIONAL TENURE AT THE FIRM OR OTHER FORMS OF EXPERIENCE

These may include average years at the firm for various levels of partners and professionals, professionals dedicated to certain industries or subject matters, among other examples, for singular or comparative periods.

Firm frequency: 7 of 8

WHAT IT TELLS THE READER:

May indicate to the reader about the firm-level policies, procedures, and ability to assign work to individuals with the appropriate knowledge, skills, and abilities to audit a particular company, including industry expertise. Assigning resources with the relevant knowledge and experience to engagement teams based on company risk profiles while managing resource capacity and workload is important to audit quality.

25 years

Partners' average years of experience*

* Includes audit and national office partners

► Leadership sets the tone for the importance of consistently enhancing audit quality.

Source: Crowe, PDF page 4

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METRICS RELATED TO THE FIRM'S PERSONNEL COMPOSITION BY LEVEL

These may include tabular or narrative descriptions of personnel counts or percentages of total by level/ position for singular or comparative periods.

Firm frequency: 7 of 8

WHAT IT TELLS THE READER:

May provide readers with insights about the firm-level policies, procedures, and ability to assign work to individuals with the appropriate knowledge, skills, and abilities to audit a particular company, including industry expertise. Assigning resources with the relevant knowledge and experience to engagement teams based on company risk profiles while managing resource capacity and workload is important to audit quality.

Our Audit team

Personnel	FY22		FY21		FY20	
	Head count	URG ⁴ %	Head count	URG ⁴ %	Head count	URG ⁴ %
Partners/ Managing Directors	1,193	39%	1,048	37%	1,060	36%
Senior Managers/ Managers	2,304	63%	2,072	62%	2,208	59%
Senior Associates/ Associates	6,499 ¹	66%	5,456 ²	64%	6,058 ³	64%
Total	9,996	62%	8,576	60%	9,326	59%

¹ Includes October 2022 hires
² Includes October 2021 hires

³ Includes October 2020 hires
⁴ Underrepresented group

Source: KPMG, PDF page 4

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8 METRICS RELATED TO PERSONNEL OVERSIGHT

These may include ratios of firm personnel, like partners to managers, managers to staff, or other personnel oversight metrics for a singular or comparative periods.

Firm frequency: 7 of 8

WHAT IT TELLS THE READER:

May provide readers with insights about the firm-level policies, procedures, and ability to assign work to individuals with the appropriate knowledge, skills, and abilities to audit a particular company, including industry expertise. Assigning resources with the relevant knowledge and experience to engagement teams based on company risk profiles while managing resource capacity and workload is important to audit quality.

Leverage ratio of audit team member hours			
Staff level	2021	2020	2019
Partner to senior directors/senior managers/managers	1 to 3.5	1 to 3.5	1 to 3.4
Senior directors/senior managers/managers to staff	1 to 2.8	1 to 2.8	1 to 2.9
Partner to staff	1 to 9.7	1 to 9.7	1 to 9.6

Source: RSM, PDF, page 13

9 METRICS RELATED TO PERSONNEL TURNOVER

These may include turnover rates for singular or comparative periods.

Firm frequency: 7 of 8

WHAT IT TELLS THE READER:

A firm's policies and procedures to incentivize and motivate professionals to stay with the firm can factor into maintaining audit quality.

Voluntary turnover rate¹

	Total
FY2022	16% ²
FY2021	15%

¹ includes partners, principals, managing directors, senior managers, managers, seniors, and staff.

² In response to a rise in turnover, we made numerous investments in our people. As a result, our annualized turnover has decreased to 14% as of October 15, 2022.

Source: Deloitte, Annual talent survey, section

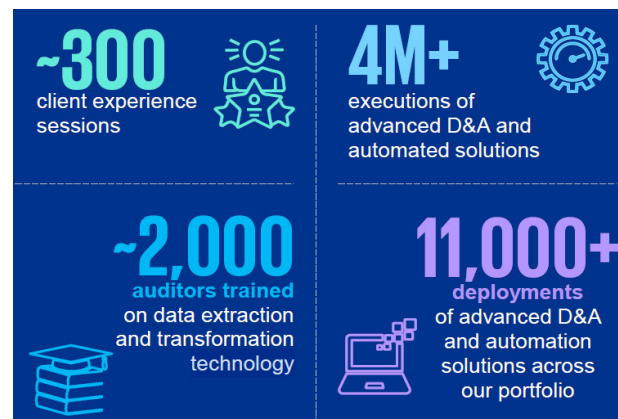
10 METRICS RELATED TO FIRMS' INVESTMENTS IN TECHNOLOGY AND AUDIT TRANSFORMATION

These may include dollars or hours invested in developing technologies to transform the audit or using advanced tools or technologies to execute the audit, among other metrics.

Firm frequency: 5 of 8

WHAT IT TELLS THE READER:

Auditors who appropriately utilize technologies and techniques may enhance the effectiveness of audit procedures performed, including risk assessments.



Source: KPMG, PDF, page 14

11 METRICS RELATED TO DIVERSITY

These may include matrices or narrative descriptions of personnel counts or percentages of total by various types of diversity categories (e.g., gender, race, ethnicity, etc.) level for singular or comparative periods.

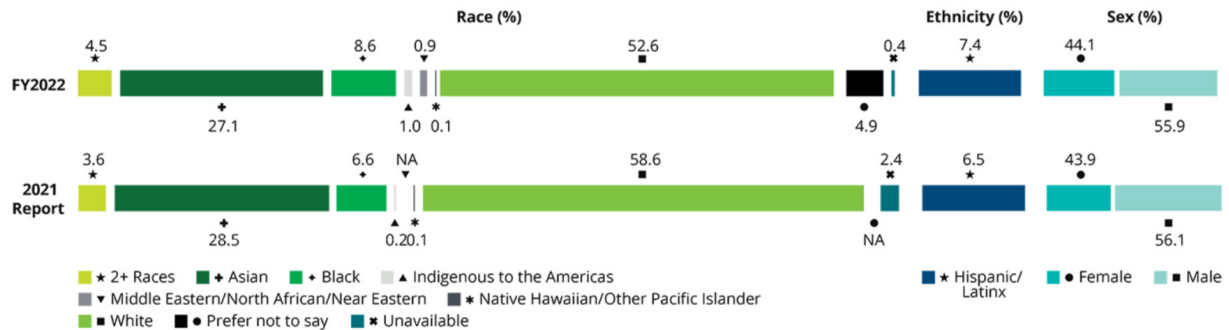
Firm frequency: 5 of 8

WHAT IT TELLS THE READER:

A firm's commitment to diversity and inclusiveness initiatives can be important to audit quality. It can show how a firm promotes well-balanced, collaborative audit teams that identify new ways to solve problems and provide a more meaningful overall experience for professionals, management at the companies audited, and audit committee members.

Many accounting firms also disclose audit quality metrics in publicly available reports or publications other than an audit quality report. Each CAQ Governing Board firm has released both a transparency report and a diversity equity and inclusion (DEI) report in the last year.

Deloitte US overall workforce representation (total US workforce: 80,146)



Deloitte US additional self-identification options

Percentages calculated out of total US respondents

5.7%

Professionals identify as a person with a disability

4.9%

Professionals identify as a veteran

4.6%

Professionals identify as LGBTQIA+

0.5%

Professionals identify as transgender

Source: Deloitte, 'Diversity, equity, and inclusion' tab

OTHER QUANTITATIVE METRICS AND INFORMATION

We observed other quantitative metrics in the audit quality reports we reviewed. By providing these examples, we do not intend to imply these are the best format from every firm.

12 METRICS RELATED TO EXCESS HOURS WORKED

These may include quantities of hours worked by firm personnel in excess of a standard work week (i.e., 40 hours per week) for singular or comparative periods.

Firm frequency: 2 of 8

WHAT IT TELLS THE READER:

Provides insight into partner and personnel workload at the firm level and show how a firm manages resource capacity.

Average annual hours worked by audit professionals in excess of 40 hours per week

Partners/MDs*	349
Directors/managers	295
Senior associates	256
Associates	220

Source: PwC, PDF page 4

13 METRICS RELATED TO AUDIT MILESTONE COMPLETION

These metrics may include percentages or ratios of hours spent on various phases of audit engagements at the firm level.

Firm frequency: 2 of 8

WHAT IT TELLS THE READER:

May indicate, in part, how a firm monitors the timely identification of potential issues, the execution of audit procedures, and meeting formal milestones.

“In fiscal 2022 (mostly audits of 2021 financial statements), our teams performed 36% of their work three months before the company’s year-end and 62% of their work before the company’s year-end.”

Source: EY, PDF page 19

14 METRICS RELATED TO STAFF UTILIZATION

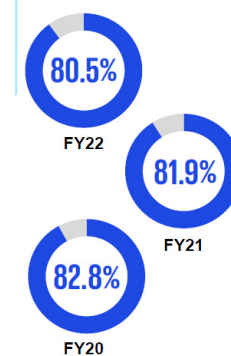
These may include the percentage of personnel work time spent on client audit work relative to total hours worked for singular or comparative periods.

Firm frequency: 1 of 8

WHAT IT TELLS THE READER:

May provide insight into partner and personnel workload at the firm level and show how a firm manages resource capacity.

Utilization



Source: KPMG, PDF page 5

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METRICS RELATED TO AUDIT PREPARATION AND SUPERVISION

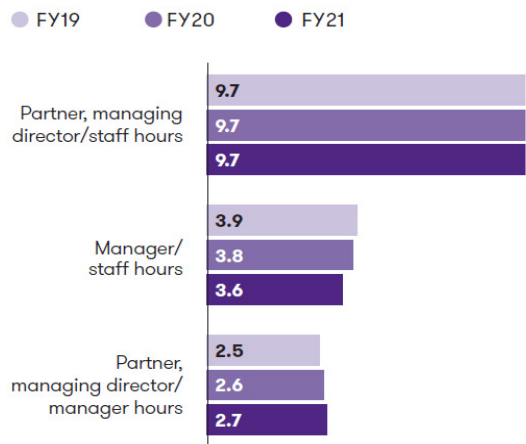
These may include ratios of hours spent supervising the audit (e.g., review time) relative to hours spent preparing audit documentation for singular or comparative periods.

Firm frequency: 1 of 8

WHAT IT TELLS THE READER:

May demonstrate, in part, a firm’s ability to supervise and review audit engagements to evaluate whether (1) the work was performed and documented, (2) the objectives of the procedures were achieved, and (3) the results of the work support the conclusions reached.

Ratio of audit services supervisory hours



Source: Grant Thornton, PDF page 7

Conclusion

The combination of qualitative information and quantitative metrics included in audit quality reports can provide transparency into the firm-level processes that accounting firms employ to promote and enhance audit quality. These reports will continue to evolve and vary across firms, and it is important to know that this valuable information is available to stakeholders.

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your feedback!**

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questions to info@thecaq.org