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Dear John

Promoting Audit Quality – Discussion Paper November 2006

The Auditor General for Wales welcomes the opportunity to comment on the FRC's discussion paper – Promoting Audit Quality. This response has been prepared on behalf of the Auditor General for Wales by the Wales Audit Office.

The discussion paper seeks views on whether the FRC:

- has identified all the relevant drivers of audit quality;
- has identified the threats to those drivers and whether there are other threats that should be considered; and
- whether the FRC should be taking any additional action to improve the likelihood of audits being of a consistently high quality.

The discussion paper provides a comprehensive and helpful analysis of quality drivers and the threats to those drivers. We are in broad agreement with issues identified by the FRC, and particularly share and endorse the assessment of the threats posed by:

- not establishing an appropriate culture, including making time for considered responses to issues arising in the course of the audit, having regard to the timetable involved;
- not tailoring teams to match the risks posed by particular audits, or the team's makeup being unduly influenced by inappropriate factors; and
- the pressures caused by the accelerated reporting regime – which is particularly resonant in the public sector with the introduction of whole of government accounts.

We recognise the threat to quality posed by the increased use of computerised audit methodologies reducing the time partners and managers spend in the field with audit teams at client sites, and for the creation of a 'tick-box' mentality. However, we also recognise the

quality improvements in areas such as consistency and completeness that computerised methodologies have provided.

Other factors that we consider drive audit quality in the public sector, and which the FRC may wish to consider towards promoting improvement are:

- a wide remit. The remit of the Auditor General for Wales (and his appointed auditors in local government) goes beyond the audit of the financial statements and includes examination of the economy, efficiency and effectiveness of public services. The quality of financial audit is enhanced by the greater insight into the client available from a wider and deeper engagement with the client;
- public reporting and public scrutiny. The Auditor General and his appointed auditors are empowered to report publicly on any aspect of their financial and non-financial audit work. Public reporting increases the level to which financial performance and services are subject to public scrutiny which can have a positive impact on audit quality and on improvement from clients;
- the regulatory environment. The Auditor General for Wales regulates public sector audit in Wales by prescribing a Code of Audit and Inspection Practice, issuing subsidiary guidance to auditors, and his ongoing quality monitoring of audit work. The ongoing nature of these activities assists in maintaining a continuous culture of promoting quality and seeking improvement.

I hope you find these comments helpful.

Yours sincerely



Simon Edge

Partner - Compliance