

Professional Oversight Board
Reporting on Audit Quality Monitoring
Comments by Audit Scotland

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Introduction

Audit Scotland is the public sector audit agency covering the external audit of the majority of public sector entities in Scotland and welcomes the opportunity to comment on the Consultation Document.

Current Quality Reporting arrangements for public sector audit in Scotland

In Scotland public sector audit appointments to either professional auditing firms or staff of Audit Scotland are made by the Auditor General or the Accounts Commission and the terms and conditions of those appointments are administered by Audit Scotland. Both the Auditor General and the Accounts Commission regard audit quality as very important and accordingly Audit Scotland carries out Audit Quality monitoring on their behalf.

The current Quality Appraisal arrangements include visits to appointed auditors (both in house teams and firms) which include reviews of audit files for a small sample of audits selected after a risk assessment exercise but often also including some audits on a random basis. Following each review the appointed auditor receives a detailed report on the findings of the review and a summary report is provided at least annually to the Auditor General and the Accounts Commission. Under Freedom of Information legislation the summary report would be made publicly available and we would also make available the Executive Summary of the individual reports. However we have not made the detailed reports available on the grounds that it would inhibit the degree to which we would be able to discuss review findings with auditors (particularly firms) and would increase the cost of the review exercises.

Overall comments

Audit Scotland welcomes the Consultation Document and shares the Board's view of the issues and its preferred way forward. Responses to the specific questions in the Consultation Document are set out below.

Question 1

We attach greatest importance to the argument that to extend the level of public reporting too far would weaken the essential purpose of audit inspection which is to improve audit quality. Whilst there are strong arguments for having transparency in public interest processes the practical impediments to this such as significantly increased costs and/or bland reports would appear to outweigh the current advantages of getting agreement to real improvements within a framework which includes scrutiny by Institute Registration Committees for individual cases and the Dtl for the overall results.

Question 2

We share the Board's view that Option C would be the appropriate way to proceed.

Question 3

There are a number of issues arising in considering whether information could or should be passed to audit committees of companies whose audits had been subject to an inspection visit including:

- a) Privacy – how realistic would it be to expect information provided to an audit committee to remain confidential to that committee or the wider board of the company concerned?

- b) Cross membership – there is significant cross membership between non-executive directors of public interest entities – how would a non-executive director receiving information about an auditor of a company be expected to treat that information when acting as a director of another company which might have the same audit firm?
- c) Role of the audit committee – what role, if any, would be envisaged for the committee in following up any concerns raised by the inspection report?
- d) Effect on inspection process – it is quite likely that any meaningful criticisms of an audit firm to be included in any report to the audit committee would lead to many of the same disadvantages for the inspection process as identified in part 5 of the Consultation Paper in the context of full publication of individual inspection reports.
- e) Purpose of inspections – the AIU is part of POBA and as such carries out its inspections for the purposes of maintaining and improving the standard of audit in the UK. Audit committees are focused on the individual company and in providing assurance to the Board about financial controls etc. The scope of inspections would need to be made very clear in order to avoid the perception that there are areas of interest to audit committees which the AIU may not cover but which audit committees might believe were covered eg the quality of management reports beyond minimum requirements set out in ISAs.

Overall we believe that there a number of significant issues that need to be addressed before any detailed information could be released to audit committees and we are concerned that the effect of releasing information could have many of the same disadvantages in practice as publication of individual reports. A possible first step might be for the AIU to inform audit committees that an inspection of a firm had included a review of that company's audit and that the AIU had recommended to the relevant Institute that registration be continued. It might also be possible for the AIU to indicate whether there were any areas of accounting about which they had concern and which the company may wish to consider.

We hope that you find our comments helpful and should you require any further information please contact Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH, e-mail rfrith@audit-scotland.gov.uk.

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