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Mr G Pflugarth
Technical Director
Public Policy and Regulation
International Federation of Accountants

(Submitted electronically)

Date	14 May 2013
Our ref	0514.mju.pflugarth
Pages	1 of 5

Dear Mr Pflugarth,

IAASB Consultation Paper: A framework for Audit Quality

The Auditor General for Wales welcomes the opportunity to comment on this consultation paper. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

The Auditor General, and the auditors he appoints, are responsible for audits of the Welsh devolved public sector, which includes:

- The Welsh Government;
- Welsh Government sponsored and other related bodies;
- Local government bodies in Wales;
- Local health bodies in Wales; and
- certain publicly owned companies.

We are fully supportive of the IAASB initiative to facilitate improvements in audit quality and we agree with the substance of the consultation paper (subject to the issues raised in the appendix). In particular, we consider that it is very helpful that IAASB has defined audit quality (per paragraph 18 of the Framework).

However, we consider that there is scope to present the information contained in the document in a more succinct form and/or clearer structure. In its current form, the complexity of the Framework reduces its accessibility. To improve the accessibility of the Framework, particularly to non-auditors, we suggest that the IAASB should consider:

- producing a summary document; and/or
- rearranging the attributes by stakeholder, so that stakeholders can easily identify what the Framework expects from them.

We have set out in [Appendix 1](#) our response to the specific matters for comment, and a few other issues are identified in [Appendix 2](#).

I hope that you find our submission appended to this letter useful. If you have any queries regarding our response, please contact my colleague Iolo Llewelyn, via email: iolo.llewelyn@wao.gov.uk or via telephone: +44 (0) 7766 505 189.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Mike Usher', written in a cursive style.

MIKE USHER
Group Director – Technical

Appendix 1: Responses to specific questions

Question	Response
1. Does the Framework cover all of the areas of audit quality that you would expect? If not, what else should be included?	We have not identified any additional areas of audit quality that should be added to the Framework.
2. Does the Framework reflect the appropriate balance in the responsibility for audit quality between the auditor (engagement team and firm), the entity (management and those charged with governance), and other stakeholders? If not, which areas of the Framework should be revised and how?	<p>The Framework reflects the range of stakeholders, their responsibilities and the relationships that impact on audit quality. However, the complexity of the document reduces its accessibility. To improve the accessibility of the Framework, particularly to non-auditors, the IAASB should consider:</p> <ul style="list-style-type: none"> • producing a summary document; and/or • rearranging the attributes by stakeholder, so that stakeholders can easily identify what the Framework expects from them.
	<p>Section 2.1.6 (Reports from Those Charged with Governance)</p> <p>This section, rather than outlining desired attributes that can be applied globally, is mainly a recognition of arrangements in some jurisdictions; in light of the stated aim of the Framework (per paragraph 21) this section should be revised so that it states more explicitly what are the IAASB's expectations of how 'Those Charged with Governance' should facilitate improved audit quality.</p>
3. How do you intend to use the Framework? Are there changes that need to be made to the form or content of the Framework to maximise its value to you?	<p>We will, when the Framework is finalised:</p> <ul style="list-style-type: none"> • use the definition given in Paragraph 18 to drive audit quality in the Wales Audit Office; • evaluate the engagement and firm level attributes to inform our audit methodologies, acceptance procedures, training regime, staff appraisal procedures etc; and • evaluate the engagement level attributes relevant to those charged with governance to inform the training we provide to Audit Committees, Boards etc, on how to hold external auditors (including the Wales Audit Office) to account.

Question	Response
<p>4. What are your views on the suggested 'Areas to Explore'? Which, if any, should be given priority and by whom? Are there additional 'Areas to Explore'?</p>	<p>We agree with the suggested 'Areas to Explore'. We consider that the following Areas should be given priority:</p> <ul style="list-style-type: none">• Area To Explore 2: establishing a common understanding of capabilities, and how they are demonstrated and assessed, as they relate to audit quality for use by audit firms when recruiting, evaluating, promoting, and remunerating partners and staff.• Area To Explore 4: considering whether audit inspection activities can do more to improve audit quality and to make audit quality more transparent to users.• Area To Explore 7: increasing the informational value of auditor's reports and improving perceptions of the value of audit.• Area To Explore 9: striving for greater international harmonisation in the role of audit committees with regard to the evaluation of the quality of the external audit. <p>We have not identified any additional Areas to Explore.</p>

Appendix 2: Other matters

Paragraph 11

The final sentence of the paragraph states: *‘in the public sector, while public sector bodies are not profit making entities, budget constraints may provide them with an incentive to limit the amount of work performed’.*

We consider that the word *‘incentive’* is inappropriate, and the sentence should be redrafted along the following lines:

‘In the public sector, while public sector audit bodies are not profit making entities, funding constraints for an audit could influence professional judgements regarding the amount of work required to deliver an ISA compliant audit.’

Section 5.1.1 (Considerations Specific to Public Sector Audits) Inputs

Para 244: Another important distinction at the engagement level is that a public sector auditor appointed under statute is generally unable to decline or withdraw from that appointment, albeit that the reasons for this can generally be made public by the auditor.

Finally, it would also be helpful for the Framework to recognise that often at the Board/member level (particularly where members are elected), public sector bodies may not internally have access to all the skills required to operate an effective audit committee (or equivalent) such that it can have an influence on impact on improving audit quality. In such circumstances IAASB should state that audit committees should consider co-opting independent members who possess the required skills.