

Strengthening the Governance and Oversight of the International Audit-related Standards-setting Boards in the Public Interest

Introduction

1. This response has been prepared on behalf of the Auditor General for Wales.
2. We welcome the opportunity to respond to this consultation. As a national audit agency we are greatly concerned to ensure that arrangements for setting international standards are operating effectively in the public interest.

Response

3. Our response to the consultation is limited to commenting on the following open question:

Question 27: Do you have any further comments or suggestions to make that the Monitoring Group should consider?

Public Sector Perspective

4. The Auditor General adopts the FRC's International Standards on Auditing (UK), which derive from the original international standards. It is therefore of the utmost importance to us that the auditing, assurance and ethical standards are of the highest quality and take account of differences between the public, private and third sectors.
5. The public sector is a significant part of the economies of countries that have adopted international auditing standards. For example, according to OECD data¹, general UK government spending in 2015 as a proportion of GDP was 42.4%.
6. In developing any revised governance model, we would strongly encourage you to ensure that the perspectives of the public sector are properly and adequately taken into account in developing new auditing, assurance and ethical standards.

The Future of Audit

7. The accounting and auditing professions anticipate very significant changes in the coming years as a result of adopting smart and digital technology to enhance, and potentially replace, traditional ways of working.
8. The pace of this change is likely to increase as the profession continues to invest quite significantly in research and development. The extent of this likely change – particularly in relation to applications arising from 'machine-learning' - is likely to pose considerable challenges to the profession, and to standard setters, as we grapple with fundamental questions such as the nature of audit and assurance in a highly digital environment.
9. We note the concerns expressed in the consultation about the extent of professional involvement in the standards-setting process. While we acknowledge these concerns, we also urge the Monitoring Group to consider the need for the standard setting process to be able to respond to

¹ OECD (2018), General government spending (indicator). doi: 10.1787/a31cbf4d-en (Accessed on 31 January 2018)

potential fast-moving and radical changes in the worlds of audit and assurance in an informed, authoritative and agile manner.

Integrated Reporting

10. The consultation appears to largely concentrate on standards that relate to financial reporting. While this is undoubtedly a fundamental area for focus, we would observe that many organisations are increasingly focusing on broader ranges of capital –eg, financial, manufacturing, human, social and relationship, intellectual and natural capitals – in evaluating their longer term value propositions.
11. We therefore believe it is important that any new model takes into account how we respond to the need to provide assurance around the various integrated reporting frameworks as it is only in providing a longer term and sustainable view of organisations that can trust in them be truly built and maintained.

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