



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

The Auditor General for Wales' Code of Audit and Inspection Practice

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Foreword

The creation of the WAO under the leadership of the Auditor General for Wales (AGW) will provide assurance about the proper stewardship of and accounting for public money across a wide range of public services in Wales. The WAO will also contribute to the improved delivery of public services through its programmes to scrutinise the performance of public bodies in Wales and examination of the value for money achieved for public expenditure.

This Code has been developed as a comprehensive, principles-based document. It defines the framework within which auditors and inspectors in Wales will approach their work.

The Code sets out how the Wales Audit Office, and its audit suppliers and contractors, will deliver a fully joined-up regime while dealing appropriately with the important constitutional issues associated with the fact that the regime covers both National Assembly for Wales and local government functions. It also sets out how we expect the regime to develop in terms of reviews of whole systems and integrated ways of working across boundaries - making audit and inspection as holistic as the problems which public services have to confront.

Auditor General for Wales
April 2005

Preface

The Auditor General for Wales' *Code of Audit and Inspection Practice* (the Code) is the broadest in scope of any of the codes of audit practice, or their equivalent, prepared by public audit bodies, or inspectorates of public services, anywhere within the United Kingdom. This reflects the scope of the Public Audit (Wales) Act 2004 (the Act) which brought together the existing functions of the Auditor General for Wales (AGW) and the audit and inspection functions previously carried out by the Audit Commission. The Act created the Wales Audit Office (WAO) to assist the AGW to deliver a regime with a remit across a wide range of public services and with an opportunity to carry out audit and inspection functions in a more co-ordinated and effective way.

The AGW's audit and inspection functions, encompassing audits of financial statements and work in relation to the performance of services, contribute to providing:

- assurance in relation to the annual financial statements and that public funds have been properly used for the intended purposes;
- assurance that Welsh public bodies are providing good value for money in the delivery of their services to the public;
- feedback to audited and inspected bodies to help them to improve services; and
- information to those responsible for the scrutiny of policy, to policy makers themselves, and to service users and taxpayers.

To meet these needs the AGW has developed this *Code* to set out how the range of functions in the Act should be used to ensure that audit and inspection in Wales are carried out in a properly joined-up manner. The principles on which the *Code* is based relate directly to achieving this aim.

The Act sets out the duties and powers of the AGW, the WAO, and auditors appointed by or sub-contracted to the AGW (audit and inspection staff). The purpose of the *Code* is to set out how the wide range of duties and powers is to be carried out, and as such to provide a framework against which the work of audit and inspection staff can be reviewed. The *Code* has been developed to secure as far as possible synergies and greater integration between public audit and inspection activities and practices across the range of public services within the remit of the AGW, whilst also meeting the requirements of the Act.

The *Code* is structured to link related audit and inspection activities under generic headings, wherever this can be done, rather than being restricted to the sector based practices created by history and previous legislation. The *Code* also provides for more effective co-ordination of the planning and delivery of audit and inspection work across services.

Preface

The Act has not altered some differences that exist between different sectors. The most notable of these differences is that the audits of local government and local NHS bodies comprise both the annual audit of the financial statements and work to consider the arrangements of bodies to secure economy, efficiency and effectiveness in their use of resources. This contrasts with the regime for the National Assembly for Wales (the Assembly) and bodies related to the Assembly in which audits of financial statements are carried out separately from the annual programme of value for money studies.

Consequently the *Code*, which must be consistent with the Act, sets out requirements which are sector specific where appropriate. It also highlights clearly those sections which apply on a statutory basis to the appointed auditors of local government, and have been adopted on a voluntary basis by the AGW for the audits of other sectors. But in reflecting differences between sectors, the opportunity has been taken to apply common principles and to make explicit references to the need to consider opportunities for co-ordinated working where this will bring benefits, which would include, for example, considering the scope for carrying out cross-cutting value for money audits of the Assembly and/or related bodies in tandem with relevant work by auditors and inspectors at local bodies.

In summary the *Code* comprises five sections, as shown in the following table. Those parts of the *Code* which are applicable to the audits of local government bodies by appointed auditors, and which together comprise the statutory *Code of Audit Practice* prepared under Section 16 of the Public Audit (Wales) Act 2004 and Section 8A of the Local Government Act 1999, are highlighted in the shaded text. The status, scope and application of the *Code* are explained further in the Introduction.

Structure of the Code

Section of Code	Pages	Content	Statutory Elements
1. Introduction	6-7	The introduction provides an overview of the AGW's regime and relationship with local government, and sets out the status, scope and application of the <i>Code</i> .	Paragraphs 6,9-11,13
2. General principles governing the work of the Auditor General for Wales	8-11	This section is applicable to all parts of the AGW's regime, including the work of appointed auditors. It sets out the general principles which apply to audit and inspection activities across all sectors.	<i>Paragraphs 16-23</i>
3. Auditing financial statements	12-15	This section covers the audits of financial statements. It applies to all parts of the AGW's regime, including the work of appointed auditors, and requires all audits of financial statements to be conducted in accordance with auditing standards, but there are some sector specific reporting requirements that are also set out.	<i>Paragraphs 24-29,31-38 46-47</i>
4. Examination and assessment of the performance of public services by the AGW and appointed auditors	16-21	This section applies the general principles set out in the earlier part of the <i>Code</i> to audit and inspection work in relation to arrangements for securing economy, efficiency and effectiveness, at both the local and all-Wales (national) level. Whilst there are sector specific requirements which derive from the Act, this section of the <i>Code</i> has been developed to ensure the effective co-ordination of work and to facilitate links between work programmes.	<i>Paragraphs 48-49,51-58 60-68, 71-73,79</i>
5. Other responsibilities of the AGW and appointed auditors	22	Finally, the <i>Code</i> sets out how certain other responsibilities of auditors should be carried out, for example in relation to specific duties and powers of appointed auditors of local government bodies.	<i>Paragraphs 84-87</i>
Schedule 1	23	Schedule 1 of the <i>Code</i> provides for the audit of small bodies.	<i>Paragraphs S1-S6</i>
Appendix 1	24-27	Glossary of terms.	

1. Introduction

This introduction provides an overview of the AGW's regime and relationship with local government, and sets out the status, scope and application of the Code.

Overview of the audit and inspection regime of the Auditor General for Wales

1. Independent external audit and inspection are essential elements in the process of accountability for public money. They make important contributions to the stewardship of public resources, good corporate governance, and the improvement of public services. Under the Public Audit (Wales) Act 2004 (the Act) and other legislation, the Auditor General for Wales (AGW) has audit and inspection functions across a wide range of public services in Wales. The Act also brought about the creation of the Wales Audit Office (WAO) which comprises the AGW and the staff appointed to assist the AGW.
2. The AGW has responsibility for the audit of the accounts prepared by the National Assembly for Wales (the Assembly), its sponsored and related public bodies, and the NHS in Wales, including local NHS bodies. The AGW also has power to undertake examinations into the economy, efficiency and effectiveness ('value for money') of those organisations and of bodies in the further and higher education sectors.
3. The AGW also has responsibility for appointing the external auditors to local government bodies in Wales, has duties to carry out national comparative and other value for money studies across local government, and has inspection powers to assess how well specified local government bodies are complying with their duty of achieving continuous improvement in their functions having regard to a combination of economy, efficiency and effectiveness.

The AGW's relationship with local government

4. Whilst the Act conferred functions on the AGW relating to the audit and inspection of local government, it does not change the constitutional relationship between the Assembly and local government bodies, which are primarily accountable to their own electorates. The AGW, the WAO and appointed auditors are required to respect the constitutional position of local government organisations in discharging their statutory functions.

Status, scope and application of this Code of Audit and Inspection Practice

5. The whole Code applies to audit work undertaken on the 2005/06 and subsequent years of account and covers the full range of the AGW's audit and inspection responsibilities. It sets out:
 - how the AGW's own audit and inspection responsibilities are to be carried out by the AGW's staff, audit suppliers and contractors; and
 - the responsibilities of appointed auditors of local government bodies are to be carried out.
6. The parts of this Code which relate to the audits of local government bodies by appointed auditors have statutory force under the Public Audit (Wales) Act 2004 and came into effect on [date] following approval by the National Assembly for Wales and issue of the Code by the AGW.

7. Where applicable, these provisions and all of the non-statutory provisions of this *Code* have been adopted on a voluntary basis by the AGW and also came into effect on [date] when the AGW issued the *Code*.
8. The range of functions of the AGW, and of auditors appointed by the AGW, which are covered by this *Code* is wide. The glossary sets out how key terms such as audit, inspection, auditor and appointed auditor are used in the *Code*. The term auditor is used generally to apply to the AGW or the staff and audit suppliers of the WAO when carrying out audit functions. When referring more specifically to those carrying out audit functions in relation to local government, the term 'appointed auditor' is used. This is because local government auditors, although appointed by the AGW, carry out their audit functions in their own right and not as agents of the AGW. Appointed auditors may be employees of the WAO or audit supplier firms.
9. The *Code* applies to auditors and inspectors carrying out functions to which the *Code* is relevant whether they are employees of the WAO, or whether they carry out their functions as audit suppliers under contract to the WAO or by AGW appointment as local government auditors.
10. As with any code that attempts to cover a wide variety of circumstances, the application of the *Code* in any particular case must depend on the specific circumstances and on auditors' and inspectors' properly evidenced judgements of what is reasonable and appropriate in those circumstances. All the provisions of the *Code* are to be read and applied with that necessary qualification.

Keeping the *Code of Audit and Inspection Practice* up to date and related documents

11. The AGW is committed to keeping the *Code* up to date to reflect changes both in the operating environment of audited and inspected bodies and in relevant professional standards and practice, and may amend the *Code* where appropriate in the light of practical experience.
12. In addition to the *Code*, the AGW publishes separate documents that are aimed specifically at audited and inspected bodies and members of the public. All of these documents are available on the WAO's website (<http://www.wao.gov.uk>) and include:
 - *Statements of Responsibilities of Auditors and Inspectors and of Audited and Inspected Bodies* – these clarify the different responsibilities of the auditor and inspector and the audited and inspected body, and the limits on what the auditor or inspector can reasonably be expected to do. The AGW is committed to preparing and maintaining sector specific statements of responsibilities and where these exist they serve as the audit engagement letter or letter of understanding. For audited or inspected bodies which are not covered by a statement of responsibility, or until such time as they are, the AGW issues an engagement letter or letter of understanding as appropriate; and
 - *Councils' Accounts: Your Rights* – which sets out the rights of members of the public to inspect, and of local electors to question and object to, local government bodies' accounts, and explains the powers of the auditor.
13. From time to time, when necessary, the AGW also issues guidance to appointed auditors. The AGW does so under powers set out in Section 14 of the Public Audit (Wales) Act 2004 to appoint auditors and to determine their terms of appointment.

2. General principles governing the work of the Auditor General for Wales

This section is applicable to all parts of the AGW's regime, including the work of appointed auditors. It sets out the general principles which apply to audit and inspection activities across all sectors.

14. In addition to complying with relevant legislation and the specific requirements of this *Code*, all auditors (including appointed auditors) and inspectors should plan, perform and report on their work in accordance with the following general principles, which are interrelated:
- i. be, and be seen to be, independent**

Auditors and inspectors carry out their work with independence and objectivity, in accordance with appropriate ethical standards. Their opinions, conclusions and recommendations should be, and be seen to be, impartial.
 - ii. report in public, where appropriate, about the performance of public services to enhance accountability**

Auditors and inspectors report, where appropriate, to the public and other key stakeholders, describing clearly what they have found. Audit and inspection is an essential element of accountability. The process of public reporting, if accompanied by a public response from the body concerned, helps the public decide how well services are being delivered.
 - iii. have wide scope, covering the stewardship of public money, the conduct of public business, and financial and non-financial performance in the delivery of services**

Special accountabilities attach to the use of public money and the conduct of public business, and so the scope of public audit and inspection is extended to include aspects of stewardship, governance and performance management.
 - iv. focus on public service outcomes from the perspective of a range of stakeholders**

Audit and inspection look at how well and efficiently public services meet needs and how they are experienced by the citizen. This focus means that audit and inspection need to take a 'whole organisation' approach and look across traditional organisational boundaries.
 - v. act as a catalyst to help public bodies improve their performance**

Auditors and inspectors seek to secure the ownership of findings by the body under review, challenge audited and inspected bodies to improve, and are unequivocal about failure or failing services. External review processes should be designed to support leadership in achieving improvement, recognising that failure to improve is itself a key business risk for public bodies.
 - vi. be based on an assessment of risk**

Auditors and inspectors tailor the scope, scale, nature and conduct of their work to the circumstances of the body under review, so that audit and inspection effort is directed to areas of greatest risk. This is achieved by risk-based planning in audit and inspection.

vii. be based on a considered assessment of costs and benefits, with a concern for achieving value for money both by audited and inspected bodies and within the audit and inspection regimes themselves

Public bodies have an obligation to make best use of public resources. Any assessment of performance should take account of public bodies' use of resources. In doing so auditors and inspectors also recognise that their recommendations can themselves be perceived by audited and inspected bodies to contribute to upward pressure on costs. Therefore, in making recommendations aimed at improving performance, auditors and inspectors consider the practicability and potential resource implications of their recommendations.

viii. work collaboratively with other inspectors and external review agencies, achieving greater co-ordination and a more holistic approach to the assessment of the performance of public services

Auditors, inspectors and other external review agencies coordinate their work to take a 'whole organisation' approach. The emphasis on joining-up external review processes enhances auditors' and inspectors' understanding of bodies and reduces the burden on those reviewed.

ix. share learning to create a common understanding of performance which encourages rigorous self-assessment and better understanding of their performance by audited and inspected bodies

Audit and inspection support leadership in effecting change by seeking to identify the 'root causes' of barriers to improvement, good practice and ways of implementing successful change, and by sharing

lessons learnt about what works, both with audited and inspected bodies and more widely to inform the policy setting process. National summaries of the results of audit and inspection should be more than a description of how many bodies did what. National and local lessons should be drawn about how services can be improved. Auditors and inspectors liaise with others, and keep abreast of wider developments, to identify and share good practice in governance and achieving value for money.

x. carry out audits and inspections objectively with skilled and experienced people to high standards using relevant evidence, transparent criteria, and open review processes

Auditors and inspectors carry out their work in a professional manner, as efficiently and effectively, and in as timely a way as possible. Judgements are not based on assumptions but on evidence of performance against appropriate criteria including achievement of value for money for the taxpayer.

15. These ten general principles underpin this Code. They provide the conceptual framework within which the scope and objectives of audit and inspection work are determined.

Fulfilling the general principles of audit and inspection

16. Auditors and inspectors should plan and carry out their work to meet their objectives and comply with the *Code*. Neither auditors nor inspectors act as substitutes for audited and inspected bodies' own responsibilities for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively to achieve appropriate outcomes from the delivery of services.
17. In framing their approach auditors and inspectors should:
 - (a) Plan and perform the audit or inspection, having regard to their assessment of risks relevant to their responsibilities, determining where to direct their work and to allocate resources to ensure that the audit or inspection is tailored to the circumstances of the audited or inspected body. The assessment of risks should be continually updated, and revised as appropriate. Auditors and inspectors should obtain such information and explanations as they consider necessary to provide themselves with sufficient evidence to meet their responsibilities under statute and the *Code*. They are not expected to review all aspects of the audited or inspected body's arrangements, systems, processes or records.
 - (b) When carrying out an audit or inspection, have regard to the principle that each part of the audit, and each inspection, needs to be viewed in the context of the whole programme of audit and inspection work. No one part stands alone and work in relation to one element informs work in relation to other elements.
 - (c) Have regard to the fact that public bodies operate and deliver their services through a range of arrangements, including partnerships and other forms of joint working or contracts with other public sector, voluntary or private sector bodies. The AGW and appointed auditors have certain powers to follow public money and should, therefore, also consider whether they need to follow it into and across such arrangements.
 - (d) Discuss with the audited or inspected body the need for timely and effective production of working papers and other information required for audit or inspection, so that the audit or inspection can be carried out as efficiently and effectively as possible.
 - (e) Establish effective co-ordination arrangements with internal audit. Auditors should seek to place the maximum amount of reliance on the work of internal audit whenever possible.
 - (f) Co-operate with other external auditors and inspectors, and, in the case of appointed auditors, provide information to the AGW (both locally and nationally), to enable knowledge of good practice to be transferred effectively across public bodies and from one audited or inspected body to another.
 - (g) Have regard to the wider system of audit, inspection and regulation of public bodies, and establish effective co-ordination arrangements with other statutory inspectorates to make best use of overall audit and inspection resources.
 - (h) Adopt a constructive and positive approach wherever possible, and thereby support and encourage worthwhile change, while providing independent scrutiny and assurance

and fulfilling their statutory and professional responsibilities.

General considerations relating to planning and reporting the results of audits and inspections

18. The outcome of the planning process should be a documented plan setting out how auditors and inspectors intend to carry out their responsibilities in the light of their assessment of risks. Plans should provide for effective follow-up arrangements to review whether the audited or inspected body has properly considered any matters previously identified and, where appropriate, has implemented agreed actions. Plans should be kept under review and updated as necessary.
19. Auditors and inspectors should maintain regular communications with audited and inspected bodies and ensure that emerging findings are discussed at the level within the audited or inspected body which auditors and inspectors consider to be most appropriate, and on a timely basis. Auditors and inspectors should consult audited and inspected bodies on the factual accuracy of draft reports of audit and inspection work.
20. All outputs from audits and inspections should be issued promptly at the appropriate point in the audit or inspection process. Auditors and inspectors should report in such a way as to enable the intended recipients of outputs to understand:
 - the nature and scope of the work done;
 - matters of substance or significant issues arising from this work;
 - clear conclusions and judgements on these issues; and
 - the nature and grounds for any concerns, indicating any action that may be required to secure improvement.
21. Audit and inspection reports should be:
 - clear and succinctly expressed;
 - supported by the evidence and analysis carried out by the auditor or inspector;
 - relevant to the needs of the intended recipients of reports; and
 - explicit when drawing conclusions and making recommendations.
22. Auditors' or inspectors' recommendations, arising from their work in relation to the use of resources or effectiveness of services, should:
 - be specific about what action the audited or inspected body should consider taking;
 - be useful, practicable and based on an assessment of the benefits to the audited or inspected body of implementing them; and
 - consider the potential resource implications of implementation.
23. It is not part of auditors' or inspectors' functions to question the merits of the policies of the audited or inspected body, but auditors and inspectors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited or inspected body to decide whether, and how, to implement any recommendations made by auditors or inspectors and, in making any recommendations, auditors and inspectors should avoid any perception that they have any role in the decision making arrangements of the audited or inspected body.

3. Auditing financial statements

This section covers the audit of financial statements. It applies to all parts of the AGM's regime, including the work of appointed auditors, and requires all audits of financial statements to be conducted in accordance with auditing standards, but there are some sector specific reporting requirements that are also set out.

General approach for all audits, including reporting on the results of the audit of financial statements

24. The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:
- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and prepare financial statements in accordance with relevant requirements.
25. The audited body is also responsible for preparing and publishing with its financial statements a statement made by those charged with governance relating to their review of the effectiveness of the system of internal control (Governance Statement.)
26. Auditors are required to audit the financial statements and to issue an **audit report** on the financial statements which includes an opinion on:
- (a) whether the financial statements give a true and fair view of, or present fairly, the state of affairs of the body and have been prepared properly in accordance with relevant legislation, directions or regulations and applicable accounting standards; and
 - (b) for certain bodies, the regularity of the transactions.
27. In carrying out this responsibility, auditors should also provide reasonable assurance in their audit report that the financial statements:
- (a) are free from material misstatement, whether caused by fraud or other irregularity or error;
 - (b) comply with statutory and other applicable requirements; and
 - (c) comply with all relevant requirements for accounting presentation and disclosure.
28. Auditors should review whether the Governance Statement has been presented in accordance with relevant requirements and to state in their audit report if it does not meet these requirements or if the Statement is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors should take into account the knowledge of the audited body gained through audit work in relation to the body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
29. In carrying out their audit of the financial statements in accordance with the *Code*, auditors should comply with auditing standards currently in force, and as may be amended from time to time, and have regard to any other relevant guidance and advice issued by the Auditing Practices Board (APB). Auditors should also comply with the APB's Ethical Standards currently in force, and as may be amended from time to time.

Additional requirements relating to audit reports issued by appointed auditors on the financial statements of local government bodies

30. The following paragraphs describe additional reporting requirements for appointed auditors of local government bodies. These requirements will also be applied by the AGW, as statutory external auditor, to the financial statements of local NHS bodies. Further audit reporting requirements applicable to local NHS bodies, and which are shared with the accounts of the Assembly and its sponsored and related public bodies, are described in paragraphs 39 to 45 below.
31. The audit report of appointed auditors of local government bodies covers all the auditor's responsibilities under the Act. Therefore, it comprises the auditor's **opinion** on the financial statements and, having regard to relevant criteria, the auditor's **conclusion** on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
32. In forming a conclusion on the audited body's arrangements relating to its use of resources, the auditor will be applying criteria to be specified by the AGW. The typical sources of assurance on which the auditor should base the conclusion are set out in Section 4 of this *Code*.
33. The audit report should also include, by exception, any report by the appointed auditor on:
- any matters that prevent the auditor from being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
 - any matters that prevent the auditor from concluding that the Improvement Plan has been prepared and published in accordance with relevant requirements (for specified local government bodies);
- any recommendations relating to the audit of the Improvement Plan, (for specified local government bodies);
 - any recommendations on whether the AGW should carry out an inspection of the body and the National Assembly should give a direction (for specified local government bodies);
 - any recommendations for consideration by audited bodies under Section 25 of the Public Audit (Wales) Act 2004 (local government bodies);
 - any matters reported in the public interest in the course of, or at the conclusion of, the audit; and
 - the exercise of any other special powers of the auditor.
34. Where any findings on the above areas have been set out in a separate report prepared by the auditor, the audit report may include an appropriate reference to these findings.
35. Appointed auditors are required, under Section 23 of the Public Audit (Wales) Act 2004, to certify the completion of each local government audit. The effect of the issue of the completion certificate is to close the audit and it marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.

Auditors' responsibilities in relation to the Act

36. There will be occasions when audit work in relation to the financial statements is substantially completed but the audit cannot be concluded with the issue of a certificate, for example because there are outstanding matters to be resolved arising from action or possible action under the Act. Appointed auditors should consider issuing their audit report, including the opinion and the conclusion whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, as soon as the necessary audit work has been carried out, subject to any exception or other qualification which the auditor may need to consider.

37. In addition to issuing the audit report, the auditor should ensure that relevant key issues and findings arising from the audit of the financial statements are included in other outputs from the audit as appropriate. The other outputs include:

- oral and/or written reports or memoranda to officers;
- communications with those charged with governance;
- annual audit letter; and reports in the public interest, where appropriate.

The form and content of these other forms of output are described in Section 4 of this Code.

38. Auditors may also be required to provide information to the AGW, upon request.

Additional requirements relating to audit reports issued by the AGW on financial statements

39. The AGW is the statutory external auditor of the financial statements prepared by local NHS bodies, the National Assembly for Wales, (including the summarised accounts of NHS Wales), and a wide range of other public bodies that are either sponsored by, or related to, the Assembly. There are also certain accounts for which

the AGW is the external auditor by agreement, rather than by statute. Certain audited bodies may, in addition to their full annual statutory accounts, choose to produce summary financial statements for publication within their annual report, which will also be subject to audit.

40. Auditors working on behalf of the AGW should have regard to the responsibilities of auditors summarised in the AGW's letter of understanding (for statutory audits) or letter of engagement (for audits by agreement) with each audited body, which remains in force, until superseded by a relevant statement of responsibilities.

41. For statutory audits, the AGW is normally required to certify the accounts and lay copies, together with his report thereon, before the Assembly. The certificate, addressed to the Members of the National Assembly for Wales, will incorporate the audit opinion in the prescribed form.

42. If the AGW issues an unqualified opinion, and has no matters that merit specific mention in a report, he will discharge his obligations to report by adding the words *I have no observations to make on these financial statements* to the certificate (this is known as a 'nil report'). If the opinion is qualified, or the AGW otherwise wishes to report on any matter, the certificate will refer the reader to a substantive report that is published with the accounts.

43. Auditors should consider whether it would be appropriate to prepare such a substantive report on behalf of the AGW, and should always do so in cases where the AGW's opinion is qualified. A substantive report should also be considered in respect of any matter that the AGW wishes to bring to the attention of users of the accounts without qualifying the audit opinion. Examples of such matters include concerns relating to propriety or the proper conduct of public business.

44. Where the AGW issues a substantive report on accounts to the Members of the National Assembly of Wales, the Assembly's Audit Committee has the power, if it so wishes, to take evidence from the relevant Accounting or Accountable Officer and other appropriate officials.
45. At the conclusion of each audit, auditors carrying out the audit on behalf of the AGW should ensure that relevant key issues and findings arising from the audit are communicated with those charged with governance. Auditors of Assembly Sponsored Public Bodies should additionally report, as required by the AGW, to the Welsh Assembly Government on matters arising from the audit.

The audits of small bodies

46. There will be circumstances in which aspects of the *Code* that are potentially applicable may be inappropriate to the audit of certain bodies, for example because of the relatively small amounts of public money controlled by the bodies in question. In carrying out the audit of such bodies auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account any relevant guidance issued by the AGW. In carrying out the audit of bodies with either annual income or annual expenditure below a financial limit determined, after consultation with relevant bodies, by the AGW from time to time, auditors should apply Schedule 1 of this *Code* to their audits if directed to do so by the AGW.
47. There may also be circumstances in which the AGW could determine that the full requirements of the *Code* will apply to bodies that would otherwise be considered to be small.

4. Examination and assessment of the performance of public services by the AGW and appointed auditors

This section applies the general principles set out in the earlier part of the Code to audit and inspection work in relation to arrangements for securing economy, efficiency and effectiveness, at both the local and all-Wales (national) level. Whilst there are sector specific requirements which derive from the Act, this section of the Code has been developed to ensure the effective co-ordination of work and to facilitate links between work programmes.

Responsibilities of audited and inspected bodies

48. It is the responsibility of the audited and inspected body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and include the body's arrangements for:
- establishing strategic and operational objectives;
 - determining policy and making decisions;
 - ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community;
 - ensuring compliance with established policies, procedures, laws and regulations;
 - identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and other forms of joint working or contracting;
 - ensuring compliance with the general duty of best value, where applicable;
 - managing its financial and other resources, including arrangements to safeguard its financial standing;
 - monitoring and reviewing performance, including arrangements to ensure data quality; and
 - ensuring that its affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.

49. The audited and inspected body is responsible for reporting on these arrangements as part of its annual Governance Statement.

Responsibilities of appointed auditors in relation to the arrangements of local government bodies for securing economy, efficiency and effectiveness in their use of resources

50. The following paragraphs describe the responsibilities of appointed auditors in relation to the arrangements of local government bodies for securing economy, efficiency and effectiveness in their use of resources. These responsibilities will also be applied by the AGW, as statutory external auditor, to the audits of local NHS bodies.
51. Appointed auditors of local government bodies have a statutory responsibility to satisfy themselves that audited bodies have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's performance management and financial management arrangements and report on these arrangements. Appointed auditors of specified local authorities also have a responsibility to consider, and report on, the audited body's compliance with statutory requirements in respect of the preparation and publication of its Improvement Plan.

52. Auditors' sources of assurance in discharging their responsibilities in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources include:
- the evidenced operation of the audited body's whole system of internal control (elements of which are outlined in paragraph 48, above) as reported on in its Governance Statement;
 - the results of the work of statutory inspectorates where they are relevant to auditors' responsibilities;
 - work specified by the AGW, or other work carried out by the AGW, in support of carrying out the functions of the AGW; and
 - any other work that they feel necessary to discharge their responsibilities.
53. Auditors should place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance without carrying out procedures to assess the quality of the work performed and without re-performing any of the work, except where particular circumstances or information lead them to conclude that it would not be reasonable to place reliance on such reported results.
54. In planning local value for money audit or inspection work, auditors and inspectors should consider and assess the relevant significant business risks that apply to the audited or inspected body and are relevant to audit or inspection responsibilities. Such risks are those significant operational and financial risks to the achievement of the audited body's statutory functions and objectives. The assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question.
55. Auditors' and inspectors' assessment of risk, which they should discuss with the audited or inspected body, should reflect their consideration of the relevance and significance of the potential business risks faced by all bodies of a particular type, and other risks that apply specifically to individual bodies. Auditors and inspectors should also consider the body's own assessment of the risks it faces and the arrangements put in place by the body to manage and address its risks. In assessing risks in relation to economy, efficiency and effectiveness auditors and inspectors should have regard to:
- evidence gained from previous audit and inspection work, including the response of the body to previous audit and inspection reports;
 - the audited or inspected body's record in improving its performance recognising that failure to improve is itself a business risk; and
 - the work of other statutory inspectorates and external review agencies.
56. On the basis of their risk assessment auditors and inspectors should plan their work and decide whether to:
- highlight the risk to the audited or inspected body;
 - defer any further work in the light of current or planned work by the body or other review agencies; or
 - carry out work in relation to specific risks to form a view on the adequacy of aspects of the body's arrangements for stewardship and governance, service planning and delivery, and performance and financial management.

Considerations relating to planning local audit and inspection work in relation to economy, efficiency and effectiveness

54. In planning local value for money audit or inspection work, auditors and inspectors should consider and assess the relevant significant business risks that apply to the audited or inspected body and are relevant to audit or inspection responsibilities. Such risks are those significant operational and financial risks to the achievement of the audited body's statutory functions and objectives. The assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question.

57. In considering whether to carry out work in relation to a particular risk, auditors and inspectors should have regard to the potential for them to contribute to improvement in the delivery of the functions of the audited or inspected body. Value for money audit or inspection work may involve:
- agreeing with authorities on the scoping and planning of their reviews;
 - scheduled full inspections with a report which may be published; and
 - the application of other tailored performance audit or inspection methodologies.
58. Such work may also include working with others in order to assess how well risks arising from the audited or inspected body's involvement in partnerships and other forms of joint working or contracting are being addressed.

- (c) an annual audit letter or, for those bodies where the AGW carries out inspections, an annual audit and inspection letter to the audited and inspected body;
- (d) inspection reports and assessments of performance; and
- (e) reports in the public interest.

61. In addition, appointed auditors of local government bodies include within their annual audit report on the financial statements a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources – see Section 3, paragraph 31 of this *Code*. Auditors will also report other matters by exception, for example in relation to the Improvement Plan.

Reporting by appointed auditors in relation to the performance of local government bodies

59. The following paragraphs describe the considerations to be applied by appointed auditors when reporting on the performance of local government bodies. These considerations will also be applied by the AGW, as statutory external auditor, to the audits of local NHS bodies.

60. The results of local audit and inspection work will be reported to individual audited and inspected local bodies in a range of outputs which include:
- (a) oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of auditors' and inspectors' work;
 - (b) reports to those charged with governance summarising the work of the auditor;

Reports or memoranda on individual aspects of audit or inspection work

62. Auditors and inspectors may report the results of, and matters arising from, specific elements or parts of the audit or inspections, in reports, memoranda or properly evidenced presentations. Such reports, memoranda or presentations should be prepared and issued or delivered as soon as possible after completion of the work.

Reports to those charged with governance

63. Auditors' reports to those charged with governance should cover the full range of auditors' responsibilities under statute and the *Code*. However, these reports do not need to duplicate significant matters previously communicated to those charged with governance, for example through reports, memoranda or presentations on specific pieces of audit work during the course of the year. Auditors should satisfy themselves that their reports are considered at the level within the audited or inspected body which they consider to be most appropriate.

Annual audit letters, or for those bodies where the AGW carries out inspections, annual audit and inspection letters

64. The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body.
65. Whilst the format of the letter is not prescribed, it should be prepared in accordance with guidance issued from time to time by the AGW and should highlight the key issues drawn from reports to those charged with governance and auditors' conclusions on relevant aspects of the audit, and it should cover all the work carried out since the previous annual letter was issued. It should be prepared in language which is clear, concise and accessible to a wide audience.
66. The annual audit letter should be addressed to all the members of the audited body and the auditor should ensure that all members receive a copy. Where the audited body does not arrange for distribution to all members, the auditor should make the necessary arrangements. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors should encourage these bodies to publicise the availability of the letters.
67. The auditor should issue the annual audit letter to the audited body as soon as possible after completion of the audit and, other than in exceptional circumstances, no later than a date to be specified by the AGW, following the end of the financial year to which the accounts relate.
68. For those audited bodies where the AGW carries out inspections, appointed auditors should provide information to the AGW on the key issues arising from their audit work, in accordance with guidance issued from time to time by the AGW, to enable

the AGW to prepare and send to the audited body an annual audit and inspection letter. The letter will cover the work carried out by auditors since the previous annual letter was issued. It will include a summary of audit and inspection work, progress against improvement plans and draw on published reports of other inspectorates in order to provide an annual summary to the audited and inspected body.

Inspection reports and assessments of performance of local government bodies

69. The results of inspection work will be reported to individual inspected bodies. Reporting may be in a range of formats including, as appropriate:
 - oral presentations or workshops;
 - written reports to the inspected body; and
 - written reports which may be scored and published.
70. In addition, inspections which are carried out in all or several local authorities may be followed by a national report summarising findings and conclusions, and this may be published.

Reports in the public interest

71. The Act requires that appointed auditors of local government bodies should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.
72. Auditors should consider whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit. An immediate report in the public interest should be made where auditors consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

73. In preparing and issuing reports in the public interest auditors should tailor their approach to the urgency and significance of their concerns.

74. Auditors of all bodies for which the AGW is the statutory external auditor should consider whether to make reports in the public interest. Any reports in the public interest made in respect of non-local government bodies must be laid before the Assembly and therefore fall within the remit of its Audit Committee.

Considerations relating to reporting to the Assembly in respect of local NHS bodies

75. The AGW has powers to report to the Members of the Assembly on individual NHS bodies and will consider doing so if, in the AGW's opinion, a matter relating to the stewardship, governance or performance of a body needs to be reported in the interest of public accountability. Any such reports are published and the Assembly's Audit Committee may take evidence on them from the relevant accountable officer. Auditors, working on behalf of the AGW, should therefore consider whether a report for publication should be prepared if significant issues relating to regularity, propriety or value for money, or other matters concerning the proper conduct of public business come to their attention during the course of their work on such bodies.

76. Where the AGW's value for money programme includes studies on NHS Wales these may incorporate work undertaken on, or information obtained, from the audits of individual NHS bodies. In undertaking work in support of such studies, auditors should discuss the scope and findings of the work with the bodies concerned.

National studies of local government services

77. The AGW has a duty under the Public Audit (Wales) Act 2004 to carry out 'value for money' studies across local government in Wales. The AGW will publish, or otherwise make available, the results of studies undertaken and the recommendations made. Work carried out under these powers is referred to as national studies, although individual studies may cover local government services in the whole of Wales or a selection of local government bodies within Wales. Studies enable the AGW to make comparisons across a range of local government bodies, and, taken together with the AGW's powers in health and other sectors, facilitate carrying out studies, and reporting, on a community basis.

78. In determining the programme of studies to be carried out across local government bodies, the AGW will consider the opportunity to carry out studies in parallel with the AGW's work in other sectors where there would be benefits from conducting co-ordinated work.

79. The AGW may identify risks relating to the use of resources faced by all local government bodies of a particular type or within a locality. In the light of these risks the AGW may design programmes of inspection or studies which require comprehensive coverage by auditors and inspectors to enable comparisons to be made. The AGW may specify additional elements of work to be carried out by appointed auditors which supplement their local risk-based approach to planning the audit.

Value for money work on the Assembly and its related bodies

80. In order to inform the preparation of the AGW's annual programme of value for money work, auditors, on behalf of the AGW, should monitor developments across the bodies and sectors on which the AGW is statutorily empowered to conduct such investigations. In determining subjects for value for money work, the AGW, and auditors on behalf of the AGW, will consider the risk to value for money (in terms of economy, efficiency and effectiveness), having regard to a number of matters, including:
- the scope for the AGW to add value from the programme of value for money work through financial impact or improving public services;
 - the need for systematic coverage of the audit field over time;
 - areas of particular interest to the Assembly Audit Committee; and
 - the scope for and desirability of collaborative work with other bodies.
81. Each year the AGW will consult relevant audited bodies and senior officials of the Welsh Assembly Government, and, where appropriate, Assembly Parliamentary Services, on a draft programme of value for money work to commence in the following year.

82. The AGW is required to take account of the views of the Assembly Audit Committee in formulating the value for money work programme, although the final decision rests with the AGW, in accordance with the principle of auditor independence. The AGW will present the proposed programme to the Audit Committee for its consideration. The AGW will take account of the views of the Committee, before finalising the programme to commence in the following year. The AGW will inform the Committee, and other stakeholders, of the final programme. The AGW retains the right to amend the programme in the light of changing circumstances.

Reporting to the Assembly the results of examinations by the AGW of the performance of the Assembly and its related bodies

83. The AGW's value for money reports on the Assembly and related bodies (including the NHS) may be published and laid before the Assembly. The Assembly Audit Committee may consider any reports so laid by taking evidence from relevant Accounting or Accountable Officers of the bodies under examination and subsequently publish its own reports. The Welsh Assembly Government or, where relevant, the Assembly House Committee, is required under Assembly Standing Orders to respond publicly to Audit Committee reports within a specified number of working days.

5. Other responsibilities of the AGW and appointed auditors

This section of the Code sets out how certain other responsibilities of auditors should be carried out, for example in relation to specific duties and powers of appointed auditors of local government bodies.

Principles relating to the exercise of specific powers and duties of local government appointed auditors

84. In addition to the general functions of appointed auditors set out in other sections of this Code, appointed auditors of local government bodies have specific powers and duties under the Act. In exercising any of these specific powers and duties, including when they are carrying out audits of small local government bodies under Schedule 1, auditors should tailor their approach to the particular circumstances of the matters under consideration.
85. Where any representations are made or information is provided that is relevant to the audit, or matters relevant to the audit otherwise come to their attention, appointed auditors should consider whether the matter needs investigation and action under their specific powers or whether it can be considered more effectively within planned work programmes and audit reporting arrangements under their general audit powers.
86. In considering whether to exercise any of their specific powers under the Act, appointed auditors should apply a balanced and proportionate approach in determining the time and resources to be spent on dealing with matters that come to their attention. They should consider:
- the significance of the subject matter;
 - whether there is wider public interest in the issues raised;
 - the costs of dealing with the matter bearing in mind that these fall directly on the taxpayer; and
 - in the case of objections, the rights of both those subject to objection and the objector.

87. Appointed auditors should reject objections which disclose no reasonable cause for action, are frivolous or vexatious, or are otherwise an abuse of the audit process.

Other investigative work by the WAO

88. Using relevant powers of access, the WAO is able, at the discretion of the AGW, to carry out other investigative work - outside the audit of accounts and full value for money examinations. For example, the WAO aims to provide, where appropriate and practicable, full responses to correspondence received. This work is often, by its nature, unplanned but can require significant resources. Where the results of such unplanned examinations warrant it, the WAO may publish a report on the outcome.

Schedule 1: The audits of small bodies

Governance and accountability

- S1 It is the responsibility of small bodies (as defined by the AGW in accordance with Section 3 of the *Code*) to put in place proper arrangements to ensure the proper conduct of their financial affairs, and to monitor the adequacy and effectiveness of those arrangements in practice. Small bodies are required to prepare their accounts in accordance with their statutory responsibilities, and to maintain an adequate system of internal audit of their accounting records and control systems.
- S2 Small bodies meet their responsibilities by preparing and publishing, and providing the auditor with, the accounts prepared for the financial year, together with such additional information and explanation as is necessary to provide sufficient evidence that they have maintained adequate systems of internal control and internal audit throughout the financial year.
- S5. Where, on the basis of the auditor's review, the auditor requires further evidence in relation to any relevant matter, additional testing should be undertaken to address the auditor's concerns.
- S6. When the auditor has completed an examination of the annual accounts and additional information and explanation provided, the auditor gives an opinion on the accounts and certifies the completion of the audit. Auditors provide assurance in the form of an opinion whether, on the basis of their review, the accounts and the other information provided are in accordance with the specified requirements and that no matters have come to their attention giving cause for concern that relevant legislative and regulatory requirements have not been met.

The audit approach

- S3. Auditors of small bodies should undertake an examination of the annual accounts and additional information and explanation provided by the body.
- S4. Auditors should meet their responsibility by:
- reviewing compliance with the requirements for the preparation of the annual accounts;
 - carrying out a high level analytical review of financial and other information provided to the auditor; and
 - reviewing such additional information and explanation as is necessary to provide sufficient evidence that the body has maintained an adequate system of internal control and internal audit throughout the financial year.

Appendix 1: Glossary

Accounting and Accountable Officers

The senior officials within the Assembly, its related public bodies and NHS Wales bodies who take personal responsibility for the finances entrusted to their care. These responsibilities include the need to ensure proper financial management, regularity and propriety and secure value for money in the use of resources.

The Treasury has appointed the Permanent Secretary as the Principal Accounting Officer for the National Assembly for Wales. The Treasury has also appointed a number of senior Assembly officials as additional Accounting Officers including, for example, the Director of Health and Social Care as the Accounting Officer for NHS Wales. In turn, the Principal Accounting Officer has appointed the chief executives of Assembly sponsored public bodies as Accounting Officers for their respective organisations, and the Director of Health and Social Care has designated the chief executives of local health boards and NHS trusts as Accountable Officers.

Accounting and Accountable Officers may be called to give evidence before the Assembly Audit Committee and the House of Commons Committee of Public Accounts.

Act (the)

The Public Audit (Wales) Act 2004.

Annual Audit Letter / Annual Audit and Inspection Letter

Report issued by the appointed auditor to a local government body which summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and matters of substance or significant issues arising from auditors' work. For bodies where the AGW carries out inspections, the annual audit letter may be issued with a summary of inspection work carried out in the period.

Appointed Auditor

An auditor, who may be a member of the staff of the WAO or a firm providing audit services, appointed by the AGW under the Public Audit (Wales) Act 2004 as the auditor of a local government body. Appointed auditors of local government bodies are required to comply with the relevant parts of this Code which constitute the statutory Code of Audit Practice under the Act.

Assembly

The National Assembly for Wales (the Assembly).

The Assembly Audit Committee

A statutory committee of the National Assembly for Wales which takes evidence from Accounting Officers and other officials on the basis of accounts and reports laid before the Assembly by the AGW. Having taken evidence it produces its own reports to which the Welsh Assembly Government must respond. The AGW's reports covering only local government activities are not laid before the Assembly and therefore do not fall within the Audit Committee's remit.

The AGW submits an annual estimate of the income and expenses of the WAO to the Audit Committee for consideration and, as Accounting Officer for the WAO, is accountable to the Committee for the use of its resources.

Audit

The audit of the accounts of an audited body which comprises the audit of the financial statements and other work to meet auditors' other statutory responsibilities under relevant legislation.

It also covers the "value for money" work carried out across the public services in Wales.

Audited and/or Inspected Body

Body which is audited by the AGW or to which the AGW is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'members' and 'those charged with governance'.)

Auditing Practices Board

The body responsible in the UK for issuing auditing standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing Standards

Pronouncements of the Auditing Practices Board, which contain basic principles and essential procedures governing audit work.

Auditor General for Wales (AGW)

The office holder appointed under Section 90 of the Government of Wales Act 1998. The AGW is the external auditor of the National Assembly for Wales and its related public bodies, including Assembly sponsored public bodies, local health boards and NHS trusts. The AGW appoints the external auditors of local government bodies in Wales and undertakes value for money work and performance studies on local government services and inspections under the Wales Programme for Improvement. The AGW is the head of the Wales Audit Office and is its Accounting Officer.

Auditor(s)

The AGW, audit staff of the WAO or audit supplier when carrying out audit functions. The term 'appointed auditor' is also used in the Code – see above.

Code (the)

The Auditor General for Wales' Code of Audit and Inspection Practice.

Ethical Standards

Pronouncements of the Auditing Practices Board which contain basic principles applicable to the conduct of audits with which auditors are required to comply.

Financial statements

The annual financial statements in the prescribed form, or the books of account for those audited bodies that are not required to produce statements.

Governance Statement

A statement included within an audited body's financial statements which documents the results of a review by those charged with governance of the organisation of the effectiveness of its system of internal control. (See also "those charged with governance".)

Improvement plan / Wales Programme for Improvement

The improvement plan is the plan which specified local government bodies are required to publish annually under section 6 of the Local Government Act 1999, supplemented by guidance issued by the National Assembly for Wales, in relation to their statutory duty to make arrangements to secure continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Assembly has established the Wales Programme for Improvement through which it is seeking to implement requirements related to this duty, and secondary legislation has provided for improvement plans to meet statutory requirements in Wales.

Inspection functions of the AGW

The functions of the AGW or the staff of the WAO, carried out under the AGW's inspection powers to assess how well specified local government bodies are complying with their 'best value' duty of achieving continuous improvement in their functions having regard to a combination of economy, efficiency and effectiveness.

Inspectorates

This general description covers those other organisations which have responsibilities to carry out inspections, and other review agencies which have regulatory responsibilities in relation to public bodies.

Internal control

The whole system of controls, financial and otherwise, which is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Letter of Engagement

Letter issued by the AGW to audited bodies where the audit is carried out by agreement. The letter sets out the respective roles and responsibilities of the auditor and the audited body.

Letter of Understanding

The letter, equivalent to the 'letter of engagement', issued to audited bodies where the AGW is the statutory auditor. This is issued, and remains in force, until superseded by a relevant Statement of Responsibilities. (See also "statement of responsibilities").

Local government bodies

Bodies for which the AGW is responsible for appointing auditors, as set out in Sections 12 to 14 of the Public Audit (Wales) Act 2004. These include local authorities, community councils, committees of local authorities (including joint committees), police authorities, local probation boards, fire authorities and national park authorities.

Materiality (and significance)

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects.'

The term 'materiality' applies only to the audit of the financial statements. The AGW, and auditors appointed by the AGW, have responsibilities and duties under statute, in addition to their responsibility to audit the financial statements, which do not necessarily affect their opinion on the financial statements. The concept of 'significance' applies to these wider responsibilities, including the AGW's inspection functions, and auditors and inspectors adopt a level of significance which may differ from the materiality level applied to the audit of the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected or appointed members of audited bodies who are responsible for the overall direction and control of the body. (See also 'those charged with governance' and 'audited body'.)

It also refers to elected members of the National Assembly for Wales ("Assembly Members.")

National studies of local government services

The AGW has a duty under the Public Audit (Wales) Act 2004 to carry out 'value for money' studies across local government in Wales. Work carried out under these powers is referred to as national studies although individual studies may cover local government services in the whole of Wales or specified local government bodies within Wales.

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of relevant bodies, including local NHS bodies, have been applied for the purposes intended by Parliament and the National Assembly for Wales, and conform with the authorities that govern them.

Statement of Responsibilities

A statement issued by the AGW on general responsibilities relevant to audits in specific sectors. Its purpose is to clarify where - in the context of the usual conduct of an audit - the different responsibilities of auditors and inspectors, and the audited and inspected body, begin and end, and the limits on what the auditor and inspector can reasonably be expected to do.

Stewardship

The term stewardship refers to the principle that those responsible for the proper conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

For the Assembly those charged with governance are the Permanent Secretary, the Executive Board and the Corporate Governance Committee (called as such to avoid confusion with the statutory Audit Committee of the Assembly). Within this framework there are additional governance arrangements for the executive agencies and the Assembly Parliamentary Services which are headed by persons designated as additional Accounting Officers.

For other bodies related to the Assembly, those charged with governance are the appointed boards or their equivalents, the chief executives or permanent official heads in their capacity as Accounting Officers and their audit committees.

In local NHS bodies, those charged with governance, for the purpose of complying with auditing standards, are the board of directors and, in respect of certain responsibilities, the audit committee on behalf of the board, and the chief executives as Accountable Officers.

In local government bodies, those charged with governance are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police, fire authorities and national park authorities – the full authority, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for local probation boards – the board or audit committee; and
- for other local government bodies – the full authority/board/council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Wales Audit Office

The Auditor General for Wales (AGW) and the staff of the AGW together comprise the Wales Audit Office (WAO).