

## **Analysis of responses to the consultation draft of the Code of Audit and Inspection Practice**

### **Introduction**

1. The purpose of this paper is to provide the Committee with a high level summary of the responses received in relation to the recent consultation exercise on the draft Code of Audit and Inspection Practice (the Code).
2. The Code sets out the framework that will govern the work of public sector auditors in Wales. There has previously been in place a Code of Audit Practice dealing with the responsibilities of Audit Commission appointed auditors in both England and Wales. The new Code is specific to Wales and reflects the extended remit of the Auditor General for Wales (AGW) as set out in the Public Audit (Wales) Act 2004. It therefore covers National Assembly for Wales and local government functions.
3. On 6 August 2004 the AGW issued the draft Code to around 900 organisations and individuals for comment, including, but far exceeding, the minimum requirement for the AGW to consult with associations of local government bodies. The draft was also available on the AGW's website. The consultation period closed on the 31 October 2004.
4. The overall drafting of the Code, including the evaluation of responses to the consultation exercise, has been overseen by a project team set up by the AGW and chaired by the Audit Commission's Director of Audit Policy and Appointments. Reference has also been made to work recently carried out by the Audit Commission in England in revising its own Code of Audit Practice.
5. This summary provides an analysis of responses to the consultation. In total there were 34 individual and composite written responses to the Code, representing a broad range of organisations. The list of respondents is shown in the Annex to this summary. The project team has been very grateful for the helpful comments and suggestions received and a written reply has been sent to all respondents to acknowledge their help in finalising the drafting of the Code.

### **The overall response to the draft Code**

6. The overall response received was very positive in tone and, of the 34 responses made, 10 reported that they were content with the Code as drafted. Where substantive comments were made they were generally requests for amplification or clarification within sections of the Code, and centred on the following main areas:

## Measuring the quality of audit and inspection work

7. Comments focused on how the performance of auditors and inspectors would be measured and sought clarification of auditors' quality standards. The issue was also raised of how consistency would be ensured in the work of appointed auditors of local government given that they will consist of both staff of the Wales Audit Office and external audit firms. In a similar vein, one respondent asked what review procedures would be in place to ensure that the Code is adhered to.

8. Other respondents raised matters including the importance of ethical standards for auditors and the need to avoid conflicts of interest. One respondent raised the potential difficulty in the costing of audit recommendations, an area referred to in the General Principles section of the Code. Also raised was the importance of achieving consistency in the way risk assessments are carried out by auditors and inspectors.

The audit report to be prepared by appointed auditors on the accounts of local authorities and by the AGW on other bodies

9. Respondents sought further clarification on two main matters within this area. The first related to the statement in the Code that the auditor's report would include, on an exception basis, findings relating to the preparation of Improvement Plans by local authorities under the Wales Programme for Improvement. The second matter concerned the work that would need to be carried out by auditors to meet the requirement in the Code to include in the auditor's report a conclusion on the value for money achieved by a body in its use of resources.

Importance of working with other regulators and inspectorates

10. A number of respondents stressed the importance of active co-operation between auditors and inspectors and other independent regulators and inspectorates. Clarification was also sought on how the relationship between the Wales Audit Office and other inspectorates would work in practice.

## **How the Code has changed as a result**

Improvements made to the draft

11. The project team have made specific changes to the draft Code to reflect the comments made, wherever appropriate. As examples, the Code now includes in its Preface a clear statement that the document will provide a framework against which the work of audit and inspection staff can be reviewed; and Section 3 of the Code includes a more precise description of how the auditor's report on financial statements will look.

12. To help in addressing issues raised by respondents, an opportunity has also been taken to improve the overall presentation of the Code so that it reads more clearly and includes better signposting

throughout the document. The sections of the Code applying specifically to the appointed auditors of local government bodies are also now set out more explicitly.

## **Other proposed developments to support the Code**

Further guidance to be prepared

13. The replies from respondents have also reinforced the proposals already in place to prepare more detailed guidance in a number of areas, which will be issued separately and will support the Code. An example of this will be Statements of Responsibilities setting out, in relation to audit and inspection work undertaken, the respective responsibilities of auditors and inspectors and audited and inspected bodies.

Other work being undertaken

14. The results of the consultation exercise are also being taken forward in the Wales Audit Office's development work in areas such as audit quality. The main benchmark in this area, alongside the Code itself, will be the requirement for our auditors to comply with professional auditing and ethical standards. The staff of the Wales Audit Office are currently drawing up a framework for internal quality assurance and control procedures which is likely to be subject to ongoing external evaluation and validation.

## **Conclusion**

15. The consultation exercise has, we believe, resulted in a much strengthened Code that will also in due course be supported by more detailed published guidance in key areas that will assist auditors and inspectors and audited and inspected bodies further in implementing its requirements.

## **Annex**

### **ORGANISATIONS AND INDIVIDUALS RESPONDING TO THE CONSULTATION EXERCISE ON THE DRAFT CODE OF AUDIT AND INSPECTION PRACTICE**

#### **NATIONAL HEALTH SERVICE BODIES**

Blaenau Gwent Local Health Board

Newport Local Health Board

Pembrokeshire Local Health Board

Swansea Local Health Board

Carmarthenshire NHS Trust

Pontypridd & Rhondda NHS Trust

Velindre Trust

## **LOCAL GOVERNMENT BODIES**

Chief Internal Auditor, Bridgend County Borough Council

Carmarthenshire County Council

Ceredigion County Council

Denbighshire County Council

Gwynedd Council

Powys County Council

Chief Officers North Wales Police

South Wales Police

Welsh National Park Authorities

Welsh Local Government Association

## **INSPECTORATES AND REGULATORY BODIES**

Benefit Fraud Inspectorate

Estyn

General Optical Council

Healthcare Commission

Social Services Inspectorate for Wales

## **ACCOUNTANCY AND AUDIT**

Audit Scotland

Chartered Institute of Public Finance and Accountancy

HLB AV Audit PLC

Institute of Chartered Accountants in England and Wales

KPMG, Cardiff

National Audit Office

PricewaterhouseCoopers

## **OTHER STAKEHOLDERS**

Citizens Advice Cymru

Mr Geoff Marlow, Housing Department, National Assembly for Wales

National Assembly for Wales Officials

Professor Michael Quayle, University of Glamorgan

Wales and West Housing Association