



The Code of Audit Practice of the Auditor General for Wales

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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This Code of Practice prescribes how the Auditor General for Wales and the auditors he/she appoints will carry out their audit functions

- 1 The Auditor General is the external auditor of the Welsh public sector. The Public Audit (Wales) Act 2004 (the 2004 Act), the Government of Wales Acts 1998 and 2006 and a range of other legislation¹ provide the statutory basis for the Auditor General to carry out his/her work.
- 2 For local government, the Auditor General appoints auditors who, once appointed, execute their own functions under the 2004 Act. He/she also has local government assessment, study and inspection functions.
- 3 The 2004 Act provides that the Auditor General may issue a Code of Practice, which prescribes the way in which auditors of local government bodies are to carry out their functions, and embodies what appears to the Auditor General to be best professional practice. This Code of Audit Practice (this Code) fulfils that purpose [and the parts that relate to the functions of appointed auditors (paragraphs 15 to 33 and Schedule 1) have been approved by the National Assembly for Wales].
- 4 In addition, the Auditor General has voluntarily expanded and adopted this Code so that it applies to all his/her audit work.
- 5 Unless specified otherwise, in this Code the terms 'auditor' and 'auditors' apply collectively to the Auditor General, the auditors he/she appoints to audit the accounts of local government bodies, and his/her staff and audit suppliers.
- 6 Under the Local Government (Wales) Measure 2009, the Auditor General must prepare a statement of practice that describes the way in which he/she intends to exercise key elements of his/her local government assessment functions. The Auditor General has prepared such a statement. The Statement does not form part of this Code but has been prepared in such a way that it is congruent with it.
- 7 The Auditor General will issue supplementary guidance on the application of this Code, including arrangements for how compliance with the Code will be assessed, as necessary. Such guidance will be updated should it be necessary in light of subsequent legislation.
- 8 Where there is uncertainty over meaning or intention individuals are encouraged to e-mail the key contact for this Code at code@wao.gov.uk

¹ For further information please refer to the Wales Audit Office publication *Principal statutory authorities for the work of the Auditor General for Wales and his/her appointed auditors*



The purpose of public sector audit is threefold – holding to account, providing insight and promoting improvement

- 9 Public services are those services that are provided on behalf of the public for the benefit of the public. External audit examines the performance, both financial and more widely², of public services and reports by answering three main questions:
 - How are public services performing?
 - Why is performance like that?
 - What can service providers do to improve?
- 10 Put another way, the purpose of public sector audit is threefold – holding to account, providing insight and promoting improvement.
- 11 Audit considers the effects of the implementation of policy. Audit may also examine how policy decisions are reached, but should not question the merits of policy objectives.
- 12 Audit adds value to society by providing assurance, stimulating better decisions and better outcomes, and helping to provide public service transparency.
- 13 But audit cannot act as a substitute for service providers' own responsibilities. It is for service providers to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.
- 14 The 2004 Act, the Government of Wales Acts 1998 and 2006 and other legislation provide the statutory basis for the Auditor General and his/her appointed auditors to fulfil their purpose across the Welsh public sector.



² Public sector audit concerns the proper accounting for, and stewardship of, public money, including the effectiveness of governance arrangements and the delivery of value for money.

Four principles underpin the work of the Auditor General and the auditors he/she appoints – being public focused, independent, proportionate and accountable

15 Alongside legal and professional requirements, four principles underpin the work of the Auditor General and the auditors he/she appoints. Auditors will carry out their functions consistently in accordance with these principles.

Public focus

16 External audit is carried out on behalf of the public and is done in the public interest. It is essential to the process of holding public bodies to account. The public have a legitimate stake in audit work and should be engaged with its processes where practical and appropriate. Outputs from audit work must be accessible³ (see our *Information Policy and Publication Scheme*), timely, evidence based and relevant to stakeholders.

Independent

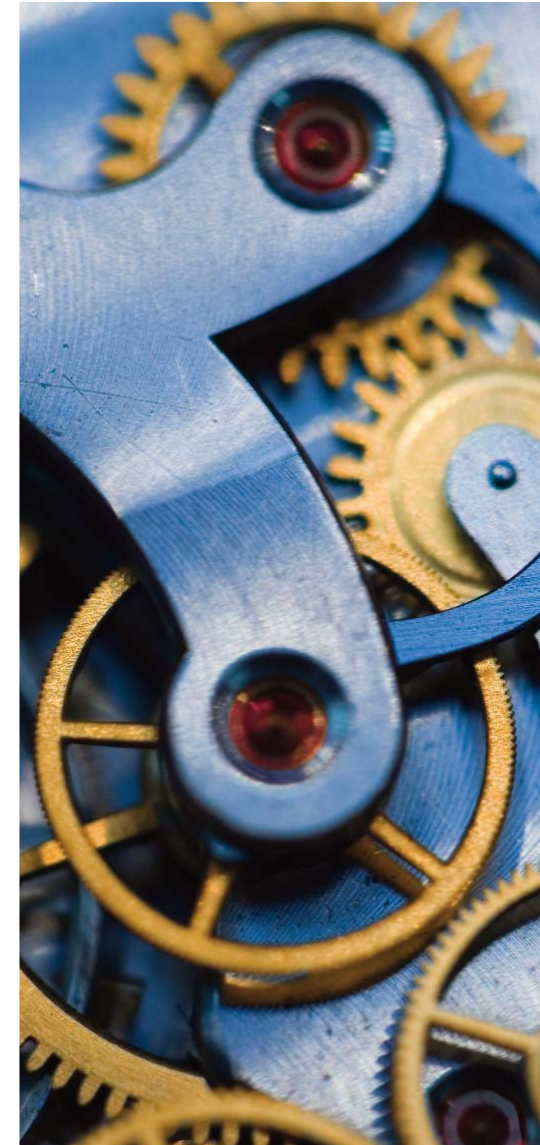
17 Audit must be, and be seen to be, independent. It must be carried out with integrity in a way that is objective, impartial and in accordance with appropriate ethical standards and considerations. Audit must not be constrained by any particular interest in reaching its conclusions and reporting on its findings.

Proportionate

18 Service providers need to be given enough space to deliver services to a high standard, while being subject to sufficient levels of scrutiny. Striking this balance is an important part of the auditor's judgement in determining the nature, scope, scale and duration of audit work.

Accountable

19 Public sector auditors are publicly funded and are accountable for the stewardship of the resources provided to them. They must be transparent in their activities, in accordance with the legal framework that they work in, so that all parties understand the particular purpose for which audit is being used.



³ Legislative provisions prohibit the Auditor General and the auditors he/she appoints from disclosing certain types of information in particular circumstances.

The General Code – this prescribes the way in which auditors will carry out their functions

20 In accordance with the four principles laid out in this Code, the following will apply.

Planning

21 Auditors will plan their work. They will:

- carry out initial scoping work, including obtaining the views of relevant stakeholders, to understand the situation and decide the most appropriate focus for the work in the form of an overall question that the project will address;
- conduct an analysis of the issues that are relevant to the project and identify a logical structure of supporting questions that need to be answered in order to answer the overall question;
- design a fieldwork methodology to answer these questions at a local, regional and national level as appropriate, but not based on expectations of uniformity;
- have regard to the fact that public services can be delivered through a range of collaborative arrangements, including partnerships and contracts, and consider how to follow public money across such arrangements; and
- 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.



Fieldwork

22 While carrying out fieldwork, auditors will:

- carry out their work in accordance with relevant legislation, and guidance issued by the Auditor General;
- obtain such information as is necessary, using relevant legal rights of access⁴, to provide an answer to the overall question and to meet statutory and professional responsibilities;
- work efficiently, placing reliance on work previously undertaken by the Auditor General and his/her appointed auditors, alongside the work of internal audit and other external review bodies, whenever possible and appropriate;
- obtain information in a way that facilitates performance comparison and the identification of good practice and well-managed innovation whenever possible and appropriate; and
- ensure that all data received or obtained is held securely and in compliance with statutory and other requirements relating to the collection, holding and disclosure of information⁵.

Reporting

23 After concluding fieldwork, auditors will:

- draw conclusions about the outcomes of fieldwork and answer the overall question that the work set out to address;
- determine the key messages and the structure of the outputs through which they will be reported;
- offer relevant stakeholders the opportunity to comment on the factual accuracy of the findings;
- produce outputs that:
 - comply with statutory and professional reporting requirements;
 - are rigorous, clear, and concise whilst conveying the necessary messages;
 - provide an answer to the overall question the work set out to address and give the reasons for that answer in a logical evidence based structure;
 - are open about the boundaries of the project; and where appropriate
 - use graphics and tables to convey information; and
 - make recommendations for future improvement, which are useful, specific, practicable and focused on the interests of the public.
- ensure that the outputs are made available to a wide range of stakeholders in a way that maximises the potential impact and value of the work.

⁴ The Auditor General and the auditors he/she appoints have extensive legal rights of access to information and documents that appear necessary for the purpose of their functions.

⁵ The Wales Audit Office *Information Security Policy* can be accessed via our website.

The Specific Code – this further prescribes the way in which auditors will carry out particular functions, as part of a co-ordinated approach to audit work

Audit of accounts

- 24** In addition to the General Code and in accordance with the principles of being public focused, independent, proportionate and accountable, the following will apply.
- 25** The Auditor General issues reports on the accounts of public service bodies that he/she audits. He/she also appoints auditors to audit and report on the accounts of local government bodies. Audit reports include an opinion on:
- whether the financial statements give a true and fair view of, or present fairly, the income and expenditure and the state of financial affairs of the body;
 - whether the financial statements have been prepared properly in accordance with relevant legislation, directions and applicable accounting standards; and
 - the regularity of the transactions, at bodies where this is required.
- 26** When carrying out their work, auditors will comply with auditing and ethical standards currently in force and as may be amended from time to time⁶, and appear relevant to the Auditor General. Auditors will also have regard to related guidance and advice issued by the Auditing Practices Board.
- 27** Auditors will provide reasonable assurance that the related financial statements:
- are free from material misstatement, whether caused by fraud or other irregularity or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- 28** Auditors will state in an audit report where the governance statement, or statement on internal control, is not in accordance with relevant requirements or where it is misleading or inconsistent with other information of which they are aware⁷. They are not required to form an opinion on the completeness or effectiveness of the procedures described in these statements.

⁶ Put into operation by the Auditing Practices Board of the Financial Reporting Council.

⁷ Where required, alongside the financial statements, audited bodies prepare and publish a statement made by those charged with governance relating to their review of the effectiveness of the system of internal control (referred to as either the governance statement or the statement on internal control).



29 When required to satisfy themselves that an audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, auditors will apply criteria specified by the Auditor General. Auditors will place reliance on the following sources of assurance:

- the results of the audit work undertaken on the financial statements;
- the audited body's system of internal control, as reported in its governance statement or statement on internal control and the auditor's report thereon;
- the results of other work carried out by the Auditor General, including value for money examinations and studies, certification of claims and returns, data matching exercises and, for local government bodies, work carried out under the Local Government (Wales) Measure 2009;
- the results of the work of other external review bodies where relevant to the auditor's responsibilities; and
- any other work that addresses matters not covered by the above, and which the auditor considers necessary to discharge their responsibilities.

30 Plans and results of accounts audit work will be reported via a range of appropriate outputs. The following outputs may be issued by the auditor at key points in the audit process:

- an audit planning document;
- oral and written reports or memoranda to appropriate individuals on the results of, or matters arising from, specific aspects of the auditor's work;
- a report to those charged with governance summarising the conclusions of the auditor;

- an audit report including the auditor's opinion on the financial statements;
- certification that the audit of the accounts has been completed in accordance with statutory requirements; and
- a related substantive report if the auditor's opinion is qualified⁸, or if the Auditor General wishes to report on any matter.

31 The auditor may also issue further outputs in accordance with relevant legislation and guidance. Though not exhaustive, this may include reports made in the public interest and statements of reasons following objections raised by local authority electors.

32 There will be circumstances in which aspects of the Specific Code may be inappropriate to the audit of accounts of certain bodies, for example due to 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 Specific Code as far as in their judgement, and in accordance with any guidance issued by the Auditor General, it is appropriate. In carrying out the audit of bodies with either annual income or annual expenditure below a financial limit determined by the Auditor General from time to time, auditors should apply Schedule 1 of this Code if directed to do so by the Auditor General.

33 Auditors will carry out their work in accordance with any relevant guidance and advice issued by the Auditor General, having regard to appropriate statements of responsibilities or their equivalent. This applies to all work in relation to the audit of accounts, including that that goes beyond the general duties of auditors, for example, public inspection and prevention of unlawful expenditure.

⁸ As opposed to an unqualified opinion, which is expressed when the auditor concludes that the financial statements give a true and fair view, or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

Value for money examinations and studies

- 34** In addition to the General Code and in accordance with the principles of being public focused, independent, proportionate and accountable, the following will apply.
- 35** The Auditor General has powers to examine the economy, efficiency and effectiveness (together known as value for money) with which public service bodies use their resources, and to make recommendations for improving value for money.
- 36** In relation to local government bodies, the Auditor General must undertake or promote studies to enable him/her to make recommendations for improving value for money in their discharge of functions and management. He/she may also undertake or promote other types of local government studies.
- 37** These functions may be exercised, in combination if necessary, across different types of bodies, to examine public spending irrespective of who delivers the services. This type of work is often described as 'whole system' or 'cross cutting'. It is particularly important that auditors share knowledge and work collaboratively when carrying out this type of work.
- 38** In relation to his/her study functions, the Auditor General will consider, among other things, the following in deciding what work to undertake:
- levels of public interest and concern⁹;
 - the scale of the issues and the circumstances and risks involved;
 - whether the lessons learned will be transferable;
 - whether the work is timely; and
 - whether it is better to work solely or with others.
- 39** Auditors will comply with Auditor General guidance and advice when undertaking value for money examinations and studies work.
- 40** For any particular examination or study, auditors will use the approach prescribed in the General Code to develop a fieldwork methodology that enables them to determine the extent to which value for money has been achieved or may be improved. Where applicable, this will extend to enabling auditors to make a judgement on the effectiveness of any service delivery partnerships and collaborative working arrangements.
- 41** Auditors will place reliance on relevant outputs from other work carried out by the Auditor General and appointed auditors, including work carried out under the Local Government (Wales) Measure 2009, alongside the work of other external review bodies.
- 42** The outputs from value for money work will be reported and made available to as wide a range of stakeholders and beneficiaries as possible. Alongside making recommendations for improvement, auditors will seek to identify opportunities for shared learning and highlight examples of good practice and innovation.
- 43** After a study is completed, auditors will monitor the response to their recommendations. They will also monitor the outcomes of any actions taken in response to their recommendations, and may undertake follow-up studies where appropriate.

Certification of claims and returns

- 44 If required, the Auditor General must make arrangements for certifying claims and returns in respect of grants paid or subsidies made to public service bodies. Certification work is designed to provide reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.
- 45 However, depending on the circumstances, certification may not be the most effective means of providing assurance. Therefore, before making such arrangements, the Auditor General will provide bodies requesting certification with advice on the most effective means of obtaining assurance.
- 46 Where bodies do require certification, the Auditor General will exercise discretion in meeting these obligations and will make a judgement on certification arrangements in specific cases, having considered:
- the particular circumstances of a scheme and the sums involved;
 - the level of assurance sought and potential alternative sources of assurance available;
 - the robustness of the criteria to be applied; and
 - the nature or extent of the work required.
- 47 The Auditor General will encourage grant-paying bodies to agree appropriate certification arrangements with him/her before certification is made a condition of grant.

Data matching

- 48 The Auditor General may conduct data matching exercises for the purpose of assisting in the prevention and detection of fraud.
- 49 All participants in data matching exercises carried out by, or on behalf of the Auditor General will undertake their work in accordance with *The Code of Data Matching Practice of the Auditor General for Wales*.

Schedule 1: The audit of small bodies

- i Auditors of small bodies should undertake an examination of the annual accounts and additional information and explanation provided by the body. Auditors should meet their responsibility by:
 - reviewing compliance with the legislative 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.
- ii 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.
- iii 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.

