



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Consultation Document

Part 1: Draft Code of Audit Practice of the Auditor General for Wales

Part 2: Draft Statement of Practice of the Auditor General for Wales for local government improvement audit, assessment and special inspection functions

Overview

This consultation invites views and comments on two separate but related documents:

- a draft Code of Audit Practice of the Auditor General for Wales; and
- a draft Statement of Practice which describes how the Auditor General intends to exercise local government improvement audit, assessment and inspection functions.

Following consultation, a final version of the Code will be issued and published by the Auditor General. A final version of the Statement will be prepared and provided to the Welsh Ministers for their approval, before being published.

How to respond

Please respond by 31 January 2014.

Response forms can be sent to the following address:

Code and statement consultation
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Or completed electronically and sent by e-mail to info@wao.gov.uk

If you require this publication in an alternative format and/or language please contact us using the details provided above or by telephone on 029 2032 0500.

Publication of responses – confidentiality and data protection

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (chiefly the Freedom of Information Act 2000, but also the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want any information you provide to be treated as confidential, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give any assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Auditor General.

Personal data will be processed in accordance with the Data Protection Act. Where such data falls within the scope of a request for information from another person, the provisions of the 1998 and 2000 Acts will need to be considered in the particular circumstances. While no situation can be prejudged, this is likely to mean that information concerning senior officials and public figures is likely to be disclosed while the names and addresses of ordinary members of the public are likely to be withheld.

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Foreword by the Auditor General



In response to new legal requirements, and taking account of the strategic priorities for our approach to public audit for the next three years, I propose to enhance and extend the underlying set of principles for those carrying out work on my behalf.

My proposals are laid out in two documents, which I have brought together for the purposes of this consultation:

- a draft Code of Audit Practice that prescribes the way in which my audit and certain other functions are to be carried out; and
- a draft Statement of Practice that describes the way in which my local government improvement audit and assessment functions must be exercised.

Both documents are designed to complement International Standards on Auditing and both embody what appears to me to be best professional practice.

I firmly believe that the revised set of principles proposed in this consultation will allow us to maximise the contribution auditors can make to democratic accountability; helping the people of Wales know whether public money is being managed wisely, and public bodies in Wales understand how to improve outcomes.

I look forward to receiving your views on my proposals.

Huw Vaughan Thomas

Auditor General for Wales

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Part 1: Code of Audit Practice

This Code prescribes how auditors must carry out the Auditor General for Wales' audit and certain other functions

- 1 The Auditor General is the statutory external auditor of most of the Welsh public sector. The Public Audit (Wales) Acts 2004 and 2013, the Government of Wales Acts 1998 and 2006, alongside a range of other legislation, provide the statutory basis for the Auditor General to carry out his or her work.
- 2 The Auditor General is also the Accounting Officer for the Wales Audit Office, which employs staff and procures other resources that enable the Auditor General to carry out the Auditor General's functions.
- 3 The Public Audit (Wales) Act 2013 provides that the Auditor General must issue a code of audit practice, which prescribes the way in which the Auditor General's audit functions (alongside certain other functions) are to be carried out, and embodies what appears to the Auditor General to be best professional practice. This Code of Audit Practice (this Code) fulfils that purpose and replaces the Code that was in effect from 1 April 2010 under the Public Audit (Wales) Act 2004.
- 4 In particular, this Code is designed to complement International Standards on Auditing and recognised standards and guidance that are regarded as best professional practice, such as that issued by the Financial Reporting Council and by professional bodies.
- 5 The functions to which this Code relates may be carried out by the Auditor General or may be delegated to others¹. Consequently, in this Code the terms 'auditor' and 'auditors' apply collectively to:
 - a the Auditor General;
 - b employees of the Wales Audit Office; and
 - c any person who provides audit services to the Wales Audit Office.
- 6 Schedule 1 of this Code prescribes the way in which certain other functions of the Auditor General are to be carried out. Some of these functions are included as specified by the 2013 Act, and some are included on a voluntary basis.
- 7 The Annex to this Code summarises in a flowchart how this Code must be applied to audit and to certain other functions of the Auditor General, and outlines the functions to which the provisions of this Code apply on a statutory basis.
- 8 The Auditor General will issue supplementary guidance on the application of this Code, including arrangements for how compliance with this Code will be assessed.
- 9 Under the Local Government (Wales) Measure 2009, the Auditor General must prepare a statement of practice that describes the way in which he or she intends to exercise the Auditor General's local government improvement assessment, improvement information and planning audit and associated reporting and co-ordination functions. The Auditor General has prepared such a statement (see Part 2 of this consultation). The Statement does not form part of this Code but has been prepared in such a way that it is aligned with it.

¹ The Auditor General must prepare a scheme to wholly or partly delegate any of the Auditor General's functions to an employee of the Wales Audit Office or a person who provides services to the Wales Audit Office

The purpose of public sector audit is to report on the stewardship of public money and in the process provide insight and promote improvement

- 10 In a democracy, governments are accountable to the public and their elected representatives. To facilitate this accountability, the public and their representatives must be adequately informed about the activities of the government and its use of public funds; they need information which is timely, impartial, accurate, comprehensive and clear.
- 11 Independent audit of the activities of government and of the use of public funds by those charged with stewardship of those funds is an essential component of democratic accountability. External auditors independently examine whether public money is being managed wisely and is properly accounted for. Public sector audit involves more than an opinion on the accounts. It also covers issues such as regularity (whether public money is being used for approved purposes), propriety (how public business is being conducted) and value for money. Auditors carry out this work on behalf of the public and in the public interest. It is not part of auditors' functions to question the merits of government policy, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy.
- 12 Audit adds value to society by:
 - a providing assurance on the governance and stewardship of public money and assets;
 - b offering insight on the extent to which resources are used wisely in meeting people's needs; and
 - c identifying and promoting ways by which the provision of public services may be improved.
- 13 However, external audit cannot act as a substitute for governments' and other public bodies' own responsibilities, and does not replace the need for public bodies to obtain legal or other professional advice and to put in place effective internal control arrangements, including arrangements for internal audit². It is for public bodies to ensure that their 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 effectively³.
- 14 The Auditor General is responsible for the annual external audit of the majority of public money spent in Wales, including those funds that are voted on annually by the National Assembly. Elements of this funding are passed by the Welsh Government to the NHS in Wales and to local government.
- 15 Each year the Auditor General, with assistance from the Wales Audit Office, delivers an extensive but proportionate programme of external audit work, in accordance with the Auditor General's statutory powers and duties. The overall programme includes audits of accounts, value for money examinations and studies, local government improvement audits and assessments, certification of grant claims and subsidies, and facilitation of the National Fraud Initiative.
- 16 Good practice is identified from across the full breadth of audit work and is disseminated through the Good Practice Exchange (a web-based resource, freely available to anyone) and other media including shared learning seminars.

² The internal audit function of a public body should carry out assurance and consulting activities designed to evaluate and improve the effectiveness of that body's governance, risk management and internal control processes.

³ For further information please see the *Statement of the responsibilities of the Auditor General for Wales and of the bodies that he or she audits* on our website.

Five principles underpin the audit work of the Auditor General – being public focused, independent, proportionate, accountable and sustainable

- 17 Alongside specific legal and professional requirements, five widely recognised principles underpin the audit work of the Auditor General. Auditors must carry out their work consistently in accordance with these principles.

Public focus

- 18 External audit is carried out on behalf of the public and is done in the public interest. The scope of public sector audit is wider than in the private sector and is essential to the process of holding public bodies to account. The public has a legitimate stake in audit work and should be engaged with its processes. Outputs from audit work must be accessible, timely, evidence-based and relevant to stakeholders.

Independent

- 19 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 relevant ethical standards and considerations. Auditors must not be constrained by any particular interest in undertaking their work, and should report in public without fear or favour.

Proportionate

- 20 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. Auditors are required to undertake certain tasks and must obtain the information and explanations necessary to provide sufficient evidence to meet their responsibilities, but they are not expected to review all aspects of audited bodies' arrangements, systems or records.

Accountable

- 21 Public sector auditors are publicly funded and are accountable for the stewardship of the resources provided to them. They must carry out their work economically, efficiently and effectively. Auditors 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 undertaken.

Sustainable

- 22 Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs. Audit work must be undertaken with regard to sustainable development as a central organising principle for strategic decisions. Through their work, auditors must have due regard to the need to promote social justice, equality, and the enhancement of the natural and cultural environment.

Question 1

Do you agree with the five principles which we propose should underpin our audit work?

The General Code – this prescribes the way auditors must carry out their functions

23 In accordance with the five principles laid out in this Code, the following will apply.

24 When carrying out their work, auditors must comply with auditing and ethical standards currently in force and as may be amended from time to time⁴, and that appear to the Auditor General to be relevant. Auditors must also have regard to related guidance and advice where this appears to the Auditor General to be relevant.

25 Auditors must undertake their work in accordance with any further guidance issued by the Auditor General and with regard to the Auditor General's strategic objectives.

26 The Auditor General is required to report to the National Crime Agency⁵ any instance of dealings in the proceeds of crime (money laundering) that auditors encounter during the course of their work. Auditors must therefore throughout the course of their work maintain an open mind as to the possibility of persons dealing in the proceeds of crime and report any knowledge or suspicion to the Wales Audit Office Money Laundering Reporting Officer. Auditors must also ensure that,

during the course of their work, they comply with other specific reporting requirements⁶.

Planning

27 Auditors must plan and document the planning of their work. They must:

- a have a sound understanding of the relevant underpinning audit legislation and professional auditing standards;
- b have an overall understanding of the laws, regulations, policies, guidance and models of governance that apply to the bodies they audit;
- c carry out initial scoping work, including obtaining the views of relevant stakeholders, to inform the design of audit work;
- d have regard to any correspondence received from the public or other interested parties, including disclosures received from individuals employed by audited bodies⁷, about matters relevant to the Auditor General's functions;

e conduct an analysis of the issues and risks that are relevant to the audit and, with the exception of opinion audit work (which is governed by auditing and ethical standards), organise their work around a relevant and structured set of questions;

f design a fieldwork methodology to gather information in a consistent way at a local, regional and national level as appropriate, but not limited by expectations of uniformity;

g have regard to the fact that public services may be delivered through a range of collaborative arrangements, including partnerships and contracts, and consider how to follow public money across such arrangements;

h have regard to the wider systems of audit, inspection and regulation of public bodies, and:

i have regard to any protocols that the Auditor General or Wales Audit Office agrees with other external review bodies and any associated guidance⁸; and

⁴ Including International Standards on Auditing and other internationally recognised standards

⁵ Under the Money Laundering Regulations 2007

⁶ Such as those required under the Companies Act 2006

⁷ Under the Public Interest Disclosure Act 1998, the Auditor General is a 'prescribed person' who can receive whistle-blowing disclosures from individuals employed by audited bodies in respect of the proper conduct of public business, value for money and fraud and corruption in relation to the provision of public services

⁸ For example, Estyn, the Care and Social Services Inspectorate Wales, Healthcare Inspectorate Wales and the Wales Audit Office have signed a strategic agreement on collaborative working

- ii where appropriate, establish effective co-ordination arrangements with other external review bodies to share information, make best use of overall resources, avoid duplication and to ensure that demands on audited bodies are minimised;
- i have due regard to sustainable development as a central organising principle for strategic decisions, the need to eliminate discrimination, advance equality of opportunity and foster good relations⁹, and to treating the Welsh and English languages on an equal basis¹⁰;
- j discuss the audit plan with audited bodies at an early stage wherever possible, including anticipated costs and how they can contribute to the delivery of an efficient audit, for example, through timely and effective production of required working papers and by responding fully and promptly to requests for information; and
- k review the plan throughout the audit and update as necessary.

Fieldwork

28 While carrying out fieldwork, auditors must:

- a carry out their work professionally in accordance with relevant legislation, auditing standards and with guidance issued by the Auditor General;
- b liaise effectively with any relevant internal audit functions in line with international auditing standards;
- c obtain such information as is necessary, using relevant legal rights of access to provide answers to any required questions and to meet statutory and professional responsibilities;
- d capture and consider the views, experiences and concerns of service users, providers and other relevant stakeholders, as appropriate;
- e work efficiently, placing reliance on work previously undertaken by the Auditor General, alongside robust self-evaluation activity, the work of internal audit and that of other external review bodies, whenever possible and appropriate;

- f review whether audited bodies have properly considered any related matters that have been identified previously, including by internal audit, the Auditor General and other external review bodies, and whether recommended actions have been implemented;
- g obtain information in a way that facilitates benchmarking, performance comparison of outcomes and the identification of good practice, wherever possible;
- h ensure that all data received or obtained is held securely and in compliance with statutory and other requirements relating to the collection and other processing of information;
- i communicate regularly with audited bodies and ensure that emerging findings are discussed at the appropriate level and in a timely way, as necessary; and
- j document and share information with other auditors on issues arising from their work that could have a bearing or significance on other audit work being undertaken by the Auditor General, or inform future programmes of audit work.

⁹ As laid out in the Equality Act 2010 and the *Strategic Equality Plan* of the Wales Audit Office

¹⁰ As laid out in the *Welsh Language Scheme* of the Wales Audit Office

- 29 The Auditor General has extensive legal rights of access to information and documents which are important for the proper exercise of the Auditor General's functions. The Auditor General will take a rigorous approach towards enforcing such rights, since the obstruction of access rights fetters auditors' ability to properly carry out their work and drives up the costs of that work.
- 30 To avoid any potential misunderstanding when it appears that access rights are being obstructed by any person, auditors will communicate the relevant rights to the person in question. If the person still seeks to obstruct access following this communication, the Auditor General will pursue legal action to gain access to the relevant documents and recover any associated costs.

Reporting

- 31 After concluding fieldwork, auditors must:
- a draw evidence-based conclusions about the outcomes of fieldwork and answer any questions that the work set out to address;
 - b consider whether their conclusions are consistent with those arising from the work of internal audit or other external review bodies, where appropriate;
 - c determine the key messages and the structure of the outputs through which they will be reported;
 - d offer audited bodies and relevant third parties the opportunity to comment on the factual accuracy of the findings, as appropriate;
 - e make recommendations for improvement, where relevant, which, in the auditor's judgement, are:
 - i useful, specific and practicable and focused on the interests of the public;
 - ii consistent with sustainable development; and that
 - iii take account of the anticipated costs of implementation and report where these are likely to be significant;
 - f produce outputs that:
 - i comply with statutory and professional reporting requirements;
 - ii are accessible, timely, clear and concise;
 - iii are written in plain language, avoiding jargon and technical terms, wherever possible;
 - iv only identify individuals, whether by name, job title or other information, to the extent that it is necessary to provide a proper report;
 - v are open about the scope and limits of the work;
 - vi where possible and appropriate, identify and quantify potential savings and efficiencies, alongside common risks faced by public bodies in Wales and elsewhere; and
 - vii include or make reference to examples of good practice, as appropriate;

- g encourage and challenge service providers to improve, including through taking ownership of audit findings and recommendations and giving consideration to any examples of good practice;
 - h emphasise that any weaknesses or risks identified are only those which have come to their attention during their work and may not be all that exist; and
 - i ensure that audit knowledge and learning can be made available to a wide range of stakeholders and beneficiaries, to maximise the potential impact and value of the work.
- Following up**
- 32 After reporting on their findings, auditors must:
- a where appropriate, request a response from relevant parties to their findings and recommendations, and state whether they are satisfied that findings and recommendations have been properly considered¹¹;
 - b monitor any actions taken in response to their recommendations;
- c comment, as necessary and through appropriate channels, on progress made on implementing recommendations, and on recommendations that have not been properly considered or acted upon;
 - d have regard to any further correspondence received from the public or other interested parties, including any further disclosures received from individuals employed by audited bodies, about matters relevant to the audit findings and recommendations;
 - e seek to identify additional opportunities for sharing audit knowledge and learning, including via organisations, providers and networks who are active in the field of knowledge transfer, as appropriate;
 - f where relevant and useful, make case study examples of good practice and innovation available for addition to the content of the Good Practice Exchange;
 - g where appropriate, relevant and useful, proactively offer commentary and insight from audit work to public sector policy-makers and working groups;
 - h initiate further audit work, where it is considered necessary to meet statutory responsibilities;
 - i respond positively to the results of quality monitoring, reviews of their work by the Auditor General and other review bodies, and external stakeholder feedback, including that received from audited bodies; and
 - j reflect on their work and use the learning to inform future programmes of audit work and to further improve audit processes and methodologies.

Question 2

Do you agree with the content of the proposed General Code which prescribes the way auditors must plan, carry out, report and follow up on their work?

¹¹ Responsibility for implementing recommendations, and the mechanisms through which this is done, lies solely with the audited body

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

33 In addition to the General Code and in accordance with the principles of being public focused, independent, proportionate, accountable and sustainable, the following will apply in full unless specified by the Auditor General (see paragraph 41).

Audit of accounts and value for money examinations and studies

34 The Auditor General issues reports on the accounts of public service bodies that he or she audits. Audit reports include an opinion on:

- a whether the financial statements properly present, present fairly or give a true and fair view of, as appropriate, the financial affairs of the body;
- b whether the financial statements have been prepared properly in accordance with relevant legislation, directions and applicable accounting standards; and
- c the regularity of the transactions, at bodies where this is required.

35 Auditors will provide reasonable assurance that the related 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, including the regularity of transactions at bodies where this is required; and
- c satisfy all relevant accounting presentation and disclosure requirements.

36 Auditors will, where required, review and report on the Whole of Government Accounts return.

37 Auditors will provide assurance on the effectiveness of governance arrangements and, where appropriate, on other issues of public interest. To this end, auditors will:

- a review governance statements to confirm that these are not inconsistent with the audited financial statements and other information of which they are aware; and

b report, as appropriate, on matters that might not be material to the audit opinion but which are of public interest, such as financial standing, standards of conduct and the efficiency and effectiveness of:

- i governance arrangements and systems of internal control;
- ii financial systems; and
- iii arrangements for the prevention and detection of fraud and irregularities, bribery and corruption.

38 In working to satisfy the Auditor General that a local government or NHS 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. For local government bodies, auditors will also place reliance on the following sources of assurance:

- a the results of the audit work undertaken on the financial statements, the effectiveness of governance arrangements and on other issues of public interest;

- b 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 work carried out under the Local Government (Wales) Measure 2009;
 - c the results of the work of internal audit and of other external review bodies where appropriate and relevant to the auditor's responsibilities; and
 - d any other work that addresses matters not covered by the above, and which the auditor considers necessary to discharge their responsibilities.
- 39 Plans and results of audit work undertaken on the financial statements 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:
- a an audit planning document;
 - b oral and written reports or memoranda to appropriate individuals on the results of, or matters arising from, specific aspects of the auditor's work;
 - c a report to those charged with governance summarising the findings and conclusions of the auditor;
 - d an audit report including the auditor's opinion(s) on the financial statements;
 - e certification that the audit of the accounts has been completed in accordance with statutory requirements; and
 - f a related substantive report if the auditor's opinion is qualified¹² or if the Auditor General wishes to report on any matter.
- 40 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, statements of reasons following objections raised by local authority electors, responses to correspondence, and feedback on an exception basis where any of the information reviewed indicates significant failures to perform the General Equality Duty on the part of audited bodies.
- 41 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 must carry out their work in accordance with guidance issued by the Auditor General. In carrying out the audit of small bodies with either annual income or annual expenditure below a financial limit determined by the Auditor General from time to time, auditors must apply Schedule 2 of this Code if directed to do so by the Auditor General.
- 42 The Auditor General has powers to examine the economy, efficiency and effectiveness (together known as value for money) with which public service bodies, individually or collectively, use their resources, and to make recommendations for improving value for money. The Auditor General may also undertake other types of examinations and studies.
- 43 In relation to local government bodies, the Auditor General has duties to undertake studies each financial year to enable the Auditor General to make recommendations for improving:

¹² As opposed to an unqualified opinion, which is expressed when the auditor concludes that the financial statements give a true and fair view, are properly presented or are presented fairly (as appropriate), in all material respects and in accordance with the applicable financial reporting framework

- a value for money in the discharge of functions of Welsh improvement authorities¹³;
 - b value for money in the provision of services by other local government bodies; and
 - c the financial or other management of local government bodies.
- 44 The Auditor General also has duties to undertake value for money studies of the impact of statutory provisions and Welsh Ministers' directions and guidance on local government bodies. The Auditor General may also undertake other studies relating to the provision of services by local government bodies, and may undertake benefit administration studies for the Secretary of State.
- 45 These functions may be exercised, in combination if necessary, across different types of bodies, to examine public spending irrespective of who delivers the services. The results from value for money examinations and studies (other than those undertaken solely in relation to local government bodies) may be presented to the National Assembly and considered by its Public Accounts Committee.
- 46 In relation to the Auditor General's examination and study functions, the Auditor General will consider, among other things, the following in deciding what work to undertake:
- a levels of public interest and concern¹⁴;
 - b the scale of the issues and the circumstances and risks involved;
 - c whether the work is timely;
 - d whether the lessons learned are likely to be transferable; and
 - e the potential value of the work in terms of monetary savings, improved services and improved management or governance.
- 47 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, or in the case of studies that do not concern value for money, to undertake such analysis as is fit for purpose. Where applicable, this will extend to assessing the effectiveness of governance arrangements, including any service delivery partnerships and collaborative working arrangements.
- 48 The Auditor General will seek and take account of the views of people who represent the interests of protected groups¹⁵ in deciding what examinations and studies to undertake. In deciding the coverage of any examinations and studies that are relevant to the General Equality Duty, and in devising fieldwork for such projects, auditors must seek the views of people that represent the interests of protected groups, so as to take account of the needs of those groups.

Certification of claims and returns

- 49 If required to do so by a relevant body¹⁶, the Auditor General must make arrangements for certifying:
- a claims or returns for grants, subsidies or contract payments received from governments and public authorities;
 - b returns for non-domestic rating contributions; and

¹³ County and county borough councils, National Park authorities and fire and rescue authorities in Wales are collectively defined as 'improvement authorities' in the Local Government (Wales) Measure 2009

¹⁴ Including in particular the views of the National Assembly's Public Accounts Committee and local government, where relevant

¹⁵ As defined by the Equality Act 2010

¹⁶ 'Relevant bodies' are as set out in paragraph 20 of Schedule 8 to the Government of Wales Act 2006

- c any other return which legislation requires the Auditor General to make arrangements for (a current example being that for teachers' pension contributions).
- 50 Auditors must design certification work within the requirements of statute and to provide a proportionate degree of assurance that grant claims and returns are fairly stated and in accordance with specified terms and conditions. The Auditor General will encourage grant-paying bodies to agree appropriate certification arrangements before they make certification a condition of a grant or return.
- 51 Depending on the circumstances, certification may not be the most effective means of providing assurance. Auditors must inform grant-paying bodies that certification should only be required where there is a clear justification for it, rather than as a matter of course. The Auditor General will provide advice to grant-paying bodies seeking certification on the most effective means of obtaining assurance.
- 52 Where grant-paying bodies have decided to require certification, auditors will exercise discretion in meeting their obligations and will make a judgement on certification arrangements in specific cases, having considered:
- a the particular circumstances of a scheme and the sums involved;
 - b the level of assurance sought and potential alternative sources of assurance available;
 - c the robustness of the criteria to be applied; and
 - d the nature or extent of the work required.
- 53 In undertaking certification work, auditors must follow the requirements of the Certification Instruction agreed between the Auditor General and the grant-paying body. Wherever practicable, auditors must integrate their certification activities with their audit of accounts and value for money examination and study work.
- 54 Auditors must also consider whether any of the information reviewed when undertaking certification work indicates significant failures to perform the General Equality Duty on the part of public service bodies, and will provide feedback on this on an exception basis.

Exercising audit functions of the Comptroller and Auditor General

- 55 The Secretary of State may provide for audit functions of the UK Comptroller and Auditor General to be transferred to, or become a function also of, the Auditor General for Wales.
- 56 When exercising such audit functions, auditors must carry out their work in accordance with the principles of being public focused, independent, proportionate, accountable and sustainable. Auditors will use the approach prescribed in the General Code for planning, carrying out, reporting and following up on their work.

Question 3

Do you agree with the content of the Specific Code which further prescribes the way auditors must carry out particular functions, as part of a co-ordinated approach to audit work?

Schedule 1: Certain other functions

Providing advice and assistance to the Public Accounts Committee and other committees of the National Assembly

- 57 The National Assembly's Public Accounts Committee (the Committee) considers reports prepared by the Auditor General on the accounts of the Welsh Government and other public bodies, and on the economy, efficiency and effectiveness with which resources are employed in the discharge of public functions. The Committee may then issue its own reports on matters raised in reports prepared by the Auditor General, and lay those reports before the National Assembly¹⁷.
- 58 The recommendations set out in Committee reports may be directed at any part of the public sector. However, the remit of the Committee does not include holding local government bodies to account. The Welsh Government is required to respond formally to the Committee's reports, to say whether or not it accepts the recommendations and, if accepted, how the recommendations will be implemented. The Welsh Government's response will include responses to Committee recommendations directed at itself, Welsh Government Sponsored Bodies and NHS bodies.

- 59 The Committee may seek the Auditor General's advice or assistance on the adequacy of the Welsh Government's response to its recommendations. In providing such advice or assistance, auditors must ensure that the Auditor General's independence and integrity will not be compromised, or be perceived to be compromised.
- 60 Where Committee reports include recommendations for audited bodies, auditors will bring those recommendations to the attention of relevant officers and non-officers, for example, in updates to local audit committees or their equivalent.
- 61 Where the Committee decides not to issue its own report on matters raised in a report prepared by the Auditor General, it may still invite the Welsh Government to respond to the recommendations set out in the Auditor General's report. In these circumstances, auditors will independently advise the Committee on the adequacy of the Welsh Government's response to the Auditor General's recommendations.

- 62 Other committees of the National Assembly may also seek the Auditor General's advice or assistance on the adequacy of the Welsh Government's response to the Auditor General's or their own recommendations. Again, in providing such advice or assistance, auditors must ensure that the Auditor General's independence and integrity will not be compromised, or be perceived to be compromised.

Exercising supervisory functions of Welsh Ministers

- 63 The Welsh Ministers may, with the consent of the Auditor General and after consulting the Wales Audit Office, provide for any of their supervisory functions of public bodies to be exercised on their behalf by, or transferred to, the Auditor General. Supervisory functions are functions of examining, inspecting, reviewing or studying financial or other management arrangements or the ways in which public bodies discharge their functions.
- 64 When exercising such supervisory functions, auditors will carry out their work in accordance with the principles of being public focused, independent, proportionate, accountable and sustainable. Auditors will use the approach prescribed in the General Code for planning, carrying out, reporting and following up on their work.

¹⁷ For further information please see the *Standing Orders of the National Assembly for Wales*

65 Statute provides that, if directed to do so by the Welsh Ministers, the Auditor General will prepare a report on the exercise of any transferred supervisory function, and will lay the report before the National Assembly. Again such reporting will be done in accordance with the General Code.

Providing advice and assistance to registered social landlords

66 The Auditor General may¹⁸, if he or she thinks it appropriate, provide advice or assistance to a registered social landlord in Wales for the purpose of the exercise by the registered social landlord of its functions.

67 In considering whether it is appropriate to provide such advice or assistance and, if applicable, in providing such advice or assistance, the Auditor General will have particular regard for the need to protect audit independence. The Auditor General will also have regard to the desirability of making good use of public resources, including audit expertise.

Disclosing information obtained in the course of a study in respect of a registered social landlord to the Welsh Ministers

68 The Auditor General may¹⁹ disclose to the Welsh Ministers information obtained by auditors in the course of a study in respect of a registered social landlord. In order to help the Welsh Ministers be efficient and effective regulators, auditors must consider the relevance of information that they obtain in the course of studies in respect of registered social landlords to the Welsh Ministers' regulatory functions.

69 Where auditors identify relevant information, they must share it with the Wales Audit Office's Information Officer for onward transmission to the relevant Welsh Government officials, subject to data protection and human rights considerations. Auditors must keep records of such information sharing. Except where it would be prejudicial or likely to be prejudicial to the Welsh Ministers' regulatory functions, auditors should also inform the relevant registered social landlords of the information to be shared, checking its accuracy with them insofar as is reasonably practical.

Referring matters related to social security to the Secretary of State

70 The Auditor General may²⁰ refer to the Secretary of State any matter arising from a local government audit or study if it appears that the matter may be relevant for the purposes of any of the Secretary of State's social security functions. Auditors undertaking local government work must consider the relevance of information that they obtain in the course of that work to the Secretary of State's social security functions.

71 Where auditors identify relevant information, they must share it with the Wales Audit Office's Information Officer for onward transmission to the relevant UK Government officials, subject to data protection and human rights considerations. Auditors must keep records of such information sharing. Except where it would be prejudicial or likely to be prejudicial to the Secretary of State's functions, auditors should also inform the relevant local government bodies of the information to be shared, checking its accuracy with them insofar as is reasonably practical.

¹⁸ Under section 145D of the Government of Wales Act 1998

¹⁹ Under section 145C(8) of the Government of Wales Act 1998; this provision reflects the fact that the Welsh Ministers are the regulators of registered social landlords

²⁰ Under section 51 of the Public Audit (Wales) Act 2004; this provision helps the Auditor General's work to be used for the benefit of social security functions

Participating with ‘observer status’ on external working groups

- 72 The Auditor General is often asked to provide representatives to sit on and add value to external working groups by providing a unique and impartial perspective on how well public services are being delivered and how they could be improved. Auditors representing the Auditor General on working groups will act only as observers. They will not be a member of the group itself but will seek to assist in deliberations as far as they are able to do so by drawing attention to related audit findings, recommendations and examples of good practice. In particular, they will not be party to the determination or implementation of policy arising from the group’s activities.
- 73 Auditors must ensure that their participation as observers on working groups does not fetter the Auditor General in any way in the conduct of the Auditor General’s various audit functions.

Directing the publication of local government performance information

- 74 The Auditor General may give direction to local government bodies to publish information which will facilitate making value for money and performance comparisons.
- 75 In giving such a direction, the Auditor General will:
- a identify the type(s) of local government body to which the direction applies;
 - b identify the financial year(s) in relation to which the information is to be published;
 - c specify or describe the activities to which the information is to relate and the form in which it is to be published;
 - d send a copy of the direction to every local government body on which duties to publish performance information are imposed, no later than 31 December in the financial year which precedes the financial year in relation to which the information is to be published; and

- e publish the direction in a manner appropriate for bringing it to the attention of members of the public and their representatives.

- 76 Before giving such a direction, the Auditor General will consult relevant associations of local government bodies and any other persons he or she sees fit. The Auditor General will also have regard to the need to make good use of public resources, including audit expertise, and the importance of public focus, particularly with a view to the engagement of the public in the management of public resources.

Data matching

- 77 The Auditor General may conduct data matching exercises for the purposes of preventing and detecting fraud.
- 78 In order to support Welsh public bodies in their fight against fraud, the Auditor General runs the National Fraud Initiative (NFI) in Wales on a biennial basis. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions.

- 79 The NFI in Wales is run in collaboration with NFI exercises in England, Scotland and Northern Ireland to enable data to be matched across national boundaries. To ensure consistency of approach and to minimise duplication of effort, the Auditor General will continue to co-operate with other national audit agencies, including on joint development of new data matching modules, sharing data processing arrangements and sharing resources such as staff and technical guidance.
- 80 All participants in data matching exercises such as the NFI, 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*.

Question 4

Do you agree with the proposed content of Schedule 1 of this Code, which prescribes the way in which certain other functions must be carried out?

Schedule 2: The audit of small bodies

- 81 Auditors of small bodies²¹ will undertake an examination of the annual accounts and additional information and explanation provided by the body in order to enable the Auditor General to be satisfied that:
- a the accounts are prepared in accordance with legislative requirements;
 - b proper practices have been observed in the compilation of the accounts; and
 - c the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 82 Auditors will meet their responsibilities, in accordance with guidance issued by the Auditor General, by:
- a reviewing compliance with the legislative requirements for the preparation of the annual accounts;
 - b carrying out a high-level analytical review of financial and other information provided to the auditor; and
 - c reviewing such additional information and explanation as is necessary to provide sufficient evidence that the body has maintained effective governance arrangements and an adequate system of internal control and internal audit throughout the financial year.
- 83 Where, on the basis of the auditor's review, the auditor requires further evidence in relation to any relevant matter, additional testing must be undertaken to address the auditor's concerns.
- 84 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. On the basis of their review, auditors provide assurance that no matters have come to their attention giving cause for concern that:
- a the accounts and other information provided do not properly present or present fairly the financial affairs of the body;
 - b the accounts and other information provided are not in accordance with the specified requirements; and
 - c relevant legislative and regulatory requirements have not been met.

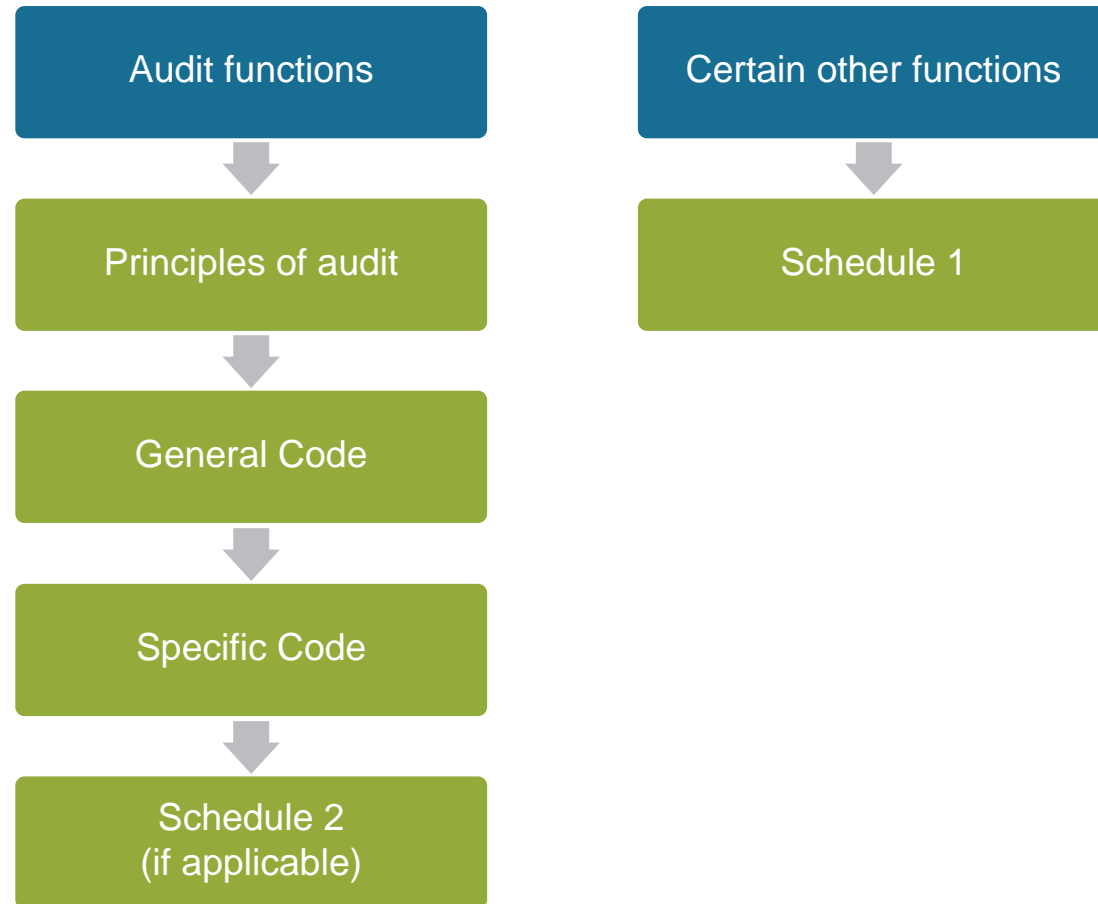
Question 5

Do you agree with the proposed approach to the audit of small bodies prescribed in Schedule 2?

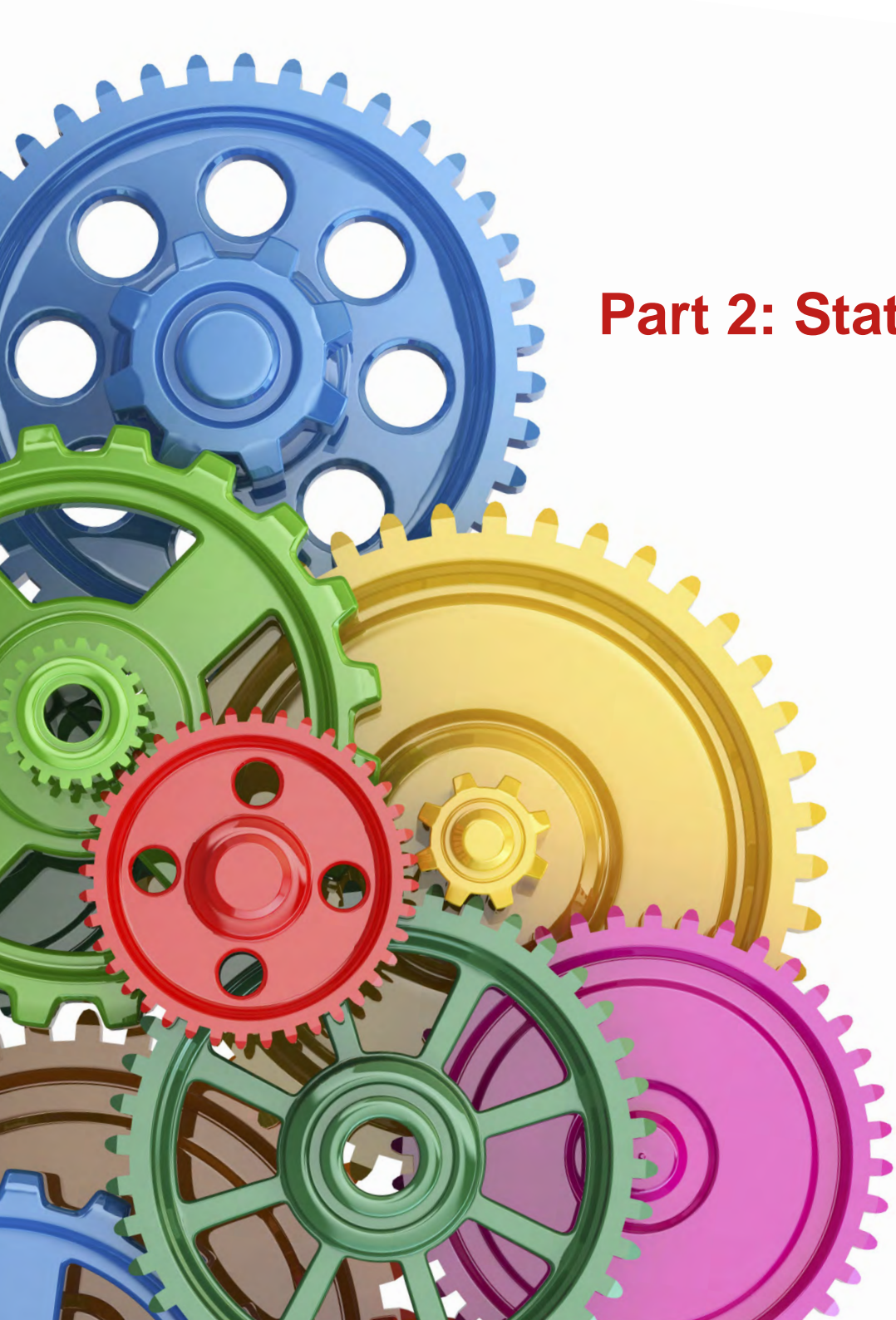
²¹ Bodies with either annual income or annual expenditure below a financial limit determined by the Auditor General

Annex: The application of this Code and its scope in terms of functions

85 The following flowchart summarises how this Code must be applied to audit and certain other functions of the Auditor General.



- 86 The provisions of this Code apply to the following functions on a statutory basis:
- a Examining any accounts or statements of accounts that fall to be examined by the Auditor General in accordance with provision made by, or by virtue of, an enactment.
 - b Carrying out, undertaking or promoting value for money studies or examinations in accordance with provision made by or by virtue of an enactment.
 - c Those functions contained in, or transferred to the Auditor General under, the following provisions of the Government of Wales Act 1998:
 - i Section 145A(2) (undertaking or promoting other studies relating to the provision of services by certain bodies);
 - ii Section 145C(8) (disclosing information obtained in the course of a study in respect of a registered social landlord to the Welsh Ministers);
 - iii Section 145D (providing advice and assistance to a registered social landlord);
 - iv Section 146 (transfer of functions of the Comptroller and Auditor General in respect of certain bodies to the Auditor General); and
 - v Section 146A (transfer etc. to the Auditor General of supervisory functions of Welsh Ministers in respect of certain bodies).
 - d Those functions contained in the following provisions of the Public Audit (Wales) Act 2004:
 - i Part 2 (audit of local government bodies in Wales);
 - ii Section 45 (conducting, or assisting the Secretary of State in conducting, benefit administration studies); and
 - iii Section 51 (referring matters related to social security to the Secretary of State).
 - e Those functions contained in the following provisions of Schedule 8 to the Government of Wales Act 2006:
 - i Paragraph 17 (access to documents); and
 - ii Paragraph 20 (certification of claims, returns etc. at the request of a body).



Part 2: Statement of Practice

This Statement describes how auditors must exercise the Auditor General for Wales' local government improvement audit, assessment and special inspection functions

- 87 Under the Local Government (Wales) Measure 2009 (the Measure), the Auditor General for Wales must prepare a statement of practice that describes the way in which he or she intends to exercise improvement audit and assessment functions. Those functions are:
- a undertaking improvement information and planning audits, to review whether improvement authorities²² have discharged their duties for publishing improvement planning and performance information;
 - b carrying out improvement assessments, to determine whether improvement authorities are likely to comply with legal requirements to make arrangements to secure continuous improvement in the exercise of their functions; and
 - c co-ordinating and reporting on improvement audit and assessment work.
- 88 This Statement of Practice (this Statement) fulfils that purpose and has been prepared in a way that accords with the principles set out in the Measure - namely that the Auditor General will exercise the Auditor General's improvement audit and assessment functions:
- a consistently between different improvement authorities;
 - b proportionately so as not to impose an unreasonable burden on improvement authorities; and
 - c with a view to assisting improvement authorities to comply with their duties in relation to securing continuous improvement.
- 89 In certain circumstances, the Auditor General may decide, or be requested by Welsh Ministers, to carry out special inspections of improvement authorities' compliance with their duties in relation to securing continuous improvement. The Auditor General has voluntarily expanded this Statement so that it also applies to the Auditor General's special inspection work.
- 90 The functions to which this Statement relates may be carried out by the Auditor General or may be delegated to others²³. Consequently, in this Statement the terms 'auditor' and 'auditors' apply collectively to:
- a the Auditor General;
 - b employees of the Wales Audit Office; and
 - c any person who provides services to the Wales Audit Office.
- 91 The Auditor General will issue supplementary guidance on the application of this Statement, including arrangements for how compliance with this Statement will be assessed.

²² County and county borough councils, National Park authorities and fire and rescue authorities in Wales are collectively defined as 'improvement authorities' in the Measure

²³ The Auditor General must prepare a scheme to wholly or partly delegate any of the Auditor General's functions to an employee of the Wales Audit Office or a person who provides services to the Wales Audit Office

Auditors must carry out local government improvement audit, assessment and special inspection work in accordance with the principles and general approach prescribed in the Auditor General's Code of Audit Practice

92 As part of a co-ordinated approach to audit work and to accord with the principles set out in the Measure, when exercising local government improvement audit, assessment and special inspection functions, auditors must:

- a carry out their work in accordance with the principles of being public focused, independent, proportionate, accountable and sustainable, as laid out in the Auditor General's Code of Audit Practice; and
- b use the approach prescribed in the General Code section of the Code of Audit Practice for planning, carrying out, reporting and following up on their work.

93 For each financial year, the Auditor General is required to produce a timetable for each improvement authority setting out the dates and times during which, in his or her opinion, the Auditor General and other relevant external review bodies should undertake their functions (in relation to the authority). Before producing such timetables, auditors will consult with the relevant external review bodies. When producing such timetables, auditors will seek to ensure that the needs of the relevant external review bodies in

terms of the proper exercise of their functions are accommodated, and that unreasonable burden is not placed on improvement authorities. Auditors must subsequently take all reasonable steps to adhere to such timetables. This timetabling will not, in any way, constrain or fetter the Auditor General or other external review bodies in reaching their conclusions and reporting on their findings.

94 Each year when carrying out improvement assessments, auditors will assess whether improvement authorities have given due regard to sustainable development as a central organising principle for strategic decisions, and have taken the General Equality Duty into account, in their arrangements to secure continuous improvement.

95 If the Auditor General thinks it appropriate in the light of an improvement audit, assessment or special inspection, he or she may make recommendations to the Welsh Ministers to provide assistance to an improvement authority or to give it a direction. Auditors will clearly outline the rationale for making such recommendations, based on improvement audit, assessment or inspection findings.

Question 6

Do you agree with the proposed approach to exercising local government improvement audit, assessment and special inspection functions described in the draft Statement of Practice?