

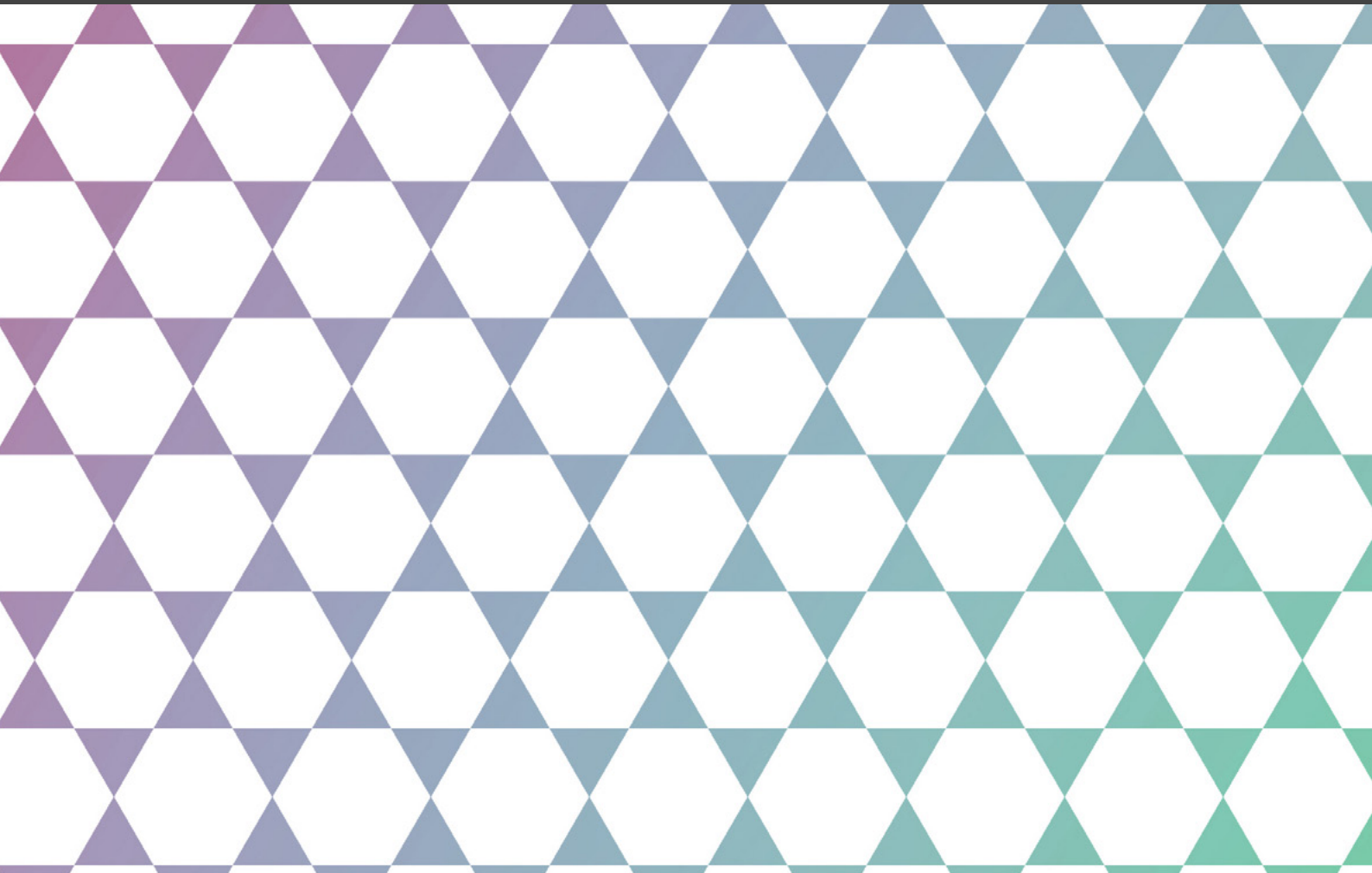
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Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Code of Audit Practice of the Auditor General for Wales



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



# Consultation on the Code of Audit Practice of the Auditor General for Wales

## Overview

This consultation invites views and comments on a draft Code of Audit Practice of the Auditor General for Wales. Following consultation, a final version of the Code will be issued and published by the Auditor General.

If you require this publication in an alternative format and / or language, or have any questions about its content, please contact us using the details below. We welcome correspondence in Welsh and English and we will respond in the language you have used. Corresponding in Welsh will not lead to delay.

## How to respond

Please respond by completing the response form available at this link by **26 March 2018**. You can complete the form in either Welsh or English.

Alternatively, please send us your response in writing by post or email using the details below.

Code Consultation  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

Email: [info@audit.wales](mailto:info@audit.wales)  
Telephone 02920 320 500

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 access to information legislation (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, you should tell us why you regard the information you have provided as confidential. If we receive a request for disclosure of 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 or the Wales Audit Office.

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



In response to new legal and professional requirements, and taking account of the three-year strategy and priorities set out in the Annual Plan I have jointly published with the Wales Audit Office Board, I propose to enhance and update the underlying set of principles for those carrying out work on my behalf.

My proposals are laid out in a revised draft of the Code of Audit Practice that prescribes the way in which my audit and certain other functions are to be carried out. Through this update I am also responding to the commitment I gave to the Finance Committee that I would review my Code annually.

I attach the utmost importance to the quality of work conducted on my behalf. This revised draft Code is designed to achieve high standards of audit quality, complement International Standards on Auditing and embodies what appears to me to be best professional practice.

I will undertake work to discharge my new responsibilities under the Well-being of Future Generations (Wales) Act 2015 and I will explore how the sustainable development can be meaningfully incorporated into my planned work programmes. I will also ensure that the Code is applied when carrying out audit functions under the Act.

I firmly believe that the revised set of principles proposed in this consultation will allow me to further enhance the contribution my auditors and I can make to democratic accountability; helping the National Assembly and people of Wales know whether public money is being managed wisely.

I look forward to receiving your views on my proposals.

**Huw Vaughan Thomas**

Auditor General for Wales

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# Code of Audit Practice

## This Code prescribes how my audit and certain other functions must be discharged

- 1 I am 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 including the Well-being of Future Generations (Wales) Act 2015, provide the statutory basis for my work. Further information about the statutory basis for my work can be found in 'A guide to Welsh public audit legislation'.
- 2 The Public Audit (Wales) Act 2013 provides that I must issue a code of audit practice, which prescribes the way in which my audit functions (alongside certain other functions) are to be carried out, and embodies what appears to me to be best professional practice. This Code of Audit Practice (the Code) fulfils that purpose and replaces the Code that was issued on 1 April 2014.
- 3 The functions to which this Code relates may be carried out by me or may be delegated to others<sup>1</sup>.
- 4 The term 'my auditors' as used in this Code, applies to:
  - a employees of the Wales Audit Office; and
  - b any person that the Wales Audit Office has contracted with to provide services for me.
- 5 Schedule 1 of this Code prescribes the way in which certain other of my functions are to be carried out. Some of these functions are included as specified by the 2013 Act, and some are included because I consider such inclusion is appropriate.
- 6 Schedule 2 to this Code prescribes the way in which the audit of 'small bodies' will be undertaken.
- 7 Schedule 3 to this Code outlines the functions to which the provisions of this Code apply on a statutory basis. I will also apply the provisions of this Code to my sustainable development principle examinations.
- 8 I will issue from time to time supplementary guidance to my auditors on the application of this Code, including arrangements for how compliance with this Code will be assessed.

<sup>1</sup> I must prepare a scheme to wholly or partly delegate any of my 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

- 9 In a democracy, government is 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 government and its use of public funds; they need information which is timely, impartial, accurate, comprehensive and clear.
- 10 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 (whether public business is being conducted in a way that meets Parliament's, the National Assembly's and public expectations) and value for money. Auditors carry out this work on behalf of the public and in the public interest. It is not part of my, or my auditors' functions to question the merits of government policy, but we may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy.
- 11 Audit adds value to society by:
  - a providing assurance<sup>2</sup>, where merited, or, where not merited, reporting issues of concern, regarding the conduct of public business and the stewardship of public money and assets;
  - b offering insight into 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.

2 'Assurance' in the context of public audit refers to a statement of confidence, for example, that the accounts of a public body present a true and fair view, or, more generally, that matters are as they should be.

- 12 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 audit<sup>3</sup>. 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 effectively<sup>4</sup>.
- 13 I am responsible for the external audit of the majority of public money spent in Wales, including income and expenditure voted annually by the National Assembly. Significant elements of this funding are passed by the Welsh Government to the NHS in Wales and to the local government.
- 14 Each year, with assistance from the Wales Audit Office, I deliver an extensive but proportionate programme of external audit work, alongside certain other functions, in accordance with my 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 data matching. This programme will now also incorporate sustainable development examinations to discharge my duty under the Well-being of Future Generations (Wales) Act 2015.
- 15 Good practice is identified from across the full breadth of audit work and is disseminated through the Wales Audit Office's Good Practice Exchange (a free web-based resource) and other media including shared learning seminars.

<sup>3</sup> 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.

<sup>4</sup> For further information please see the Auditor General's Statements of Responsibility on our website.



## Four principles underpin my audit work – being public focused, independent, proportionate and accountable

- 16 Alongside specific legal and professional requirements, four widely recognised principles underpin my audit work. My auditors must carry out their work consistently in accordance with these principles.

### Public focus

- 17 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 that of the private sector and is essential to the process of holding public bodies to account. The interests of the public and their representatives are paramount in public sector audit work, and they should therefore be engaged with its processes. Outputs from public sector audit work must be accessible, timely, evidence-based and relevant to stakeholders.

### Independent

- 18 Audit must be, and be seen to be, independent. It must be carried out with integrity and in a way that is objective and impartial. It must therefore be carried out in accordance with relevant ethical standards and considerations. Neither I nor my auditors should be constrained by any particular interest in undertaking our work, and should report in public without being influenced by fear or favour.

### Proportionate

- 19 Service providers need to be given enough space to deliver services to a high standard, while being subject to sufficient, but not excessive, levels of scrutiny. Striking this balance is an important part of my and my auditors' judgements in determining the nature, scope, scale and duration of audit work. My auditors are required to undertake certain tasks and must obtain the information and explanations necessary to provide sufficient evidence to meet my responsibilities, but they are not expected to review all aspects of audited bodies' arrangements, systems or records.

### Accountable

- 20 Public sector auditors are publicly funded and are accountable for the stewardship of the resources provided to them. They must carry out their work in accordance with international and national standards, where relevant, and must work economically, efficiently and effectively. I and my auditors must be sufficiently transparent in our activities, in accordance with the legal framework that we work in, so that all parties understand the particular purpose for which audit is being undertaken.

- 21 My auditors will need to consider how to apply the sustainable development principle of the Well-being Future Generations (Wales) Act 2015 in accordance with guidance I will issue from time to time.
- 22 Applying the sustainable development principle means acting in a manner that seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. In order to act in that manner, public bodies must adhere to the 'five ways of working', which are as follows:
- a Looking to the long-term so that they do not compromise the ability of future generations to meet their own needs.
  - b Taking an integrated approach so that public bodies look at all the well-being goals in deciding on their well-being objectives.
  - c Involving a diversity of the population in the decisions that affect them.
  - d Working with others in a collaborative way to find shared sustainable solutions.
  - e Understanding the root causes of issues to prevent them from occurring.<sup>5</sup>

## Consultation Question 1

To what extent do you agree with the four principles which I propose should underpin my audit work?

<sup>5</sup> Section 5 Well-being of Future Generations (Wales) Act 2015

## This Code prescribes the way my auditors must carry out my functions

- 23 In addition to adhering to the four principles laid out in this Code, my auditors must comply with the following requirements in carrying out all their work:
- a ensure that the work is conducted in accordance with quality standards that I set out from time to time in guidance;
  - b comply with ethical standards currently in force and as may be amended from time to time, and that appear to me to be relevant;
  - c have regard to my strategic objectives and to further guidance and advice provided by me; and
  - d liaise effectively, where appropriate, with regulators and any relevant internal audit functions.
- 24 I am required to report to the National Crime Agency<sup>6</sup> any instances or suspicions of dealings in the proceeds of crime or terrorist financing (money laundering) that my auditors and I encounter during the course of our work. My 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's Money Laundering Reporting Officer. My auditors must also ensure that, during the course of their work, they comply with other specific reporting requirements<sup>7</sup>.
- 25 My auditors must also:
- a consider sustainable development and how to apply the sustainable development principle<sup>8</sup>;
  - b protect and promote human rights<sup>9</sup>;

6 Under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2007

7 Such as those required under the Companies Act 2006 and the Charities Act 2011

8 In this Code, 'sustainable development' has the same meaning as that of section 2 of the Well-being of Future Generations (Wales) Act 2015, ie it means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle (see section 5 of the 2015 Act), aimed at achieving the well-being goals (see section 4 of the 2015 Act).

9 The Auditor General and Wales Audit Office have a duty to protect the Article rights from the European Convention on Human Rights, brought into UK law by the Human Rights Act 1998

- c treat the Welsh language no less favourably than the English language and comply with the Welsh Language Standards imposed on me<sup>10</sup> and, as far as is relevant to the exercise of my functions, the Welsh Language Standards imposed on the Wales Audit Office (such as in respect of the provision of reception service);
- d plan and document their work, including ensuring that they:
  - i have a sound understanding of the legislation concerning the function that they are exercising;
  - ii have an overall understanding of the legislation, policies, guidance and models of governance that apply to the bodies they audit;
  - iii where the function being exercised results in a report, select or design methods of examination that provide sufficient relevant and reliable evidence to provide a report.
- e discuss the planned audit work with the relevant audited bodies at an early stage wherever possible, including the issues and risks that are relevant to the audit, the expected costs<sup>11</sup> and how audited bodies 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;
- f 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;
- g inform third parties whose rights and interests may be materially affected by work that is to be undertaken under the audit plan of those aspects of the plan that are likely to affect them; and
- h review the planned work throughout the audit and update as necessary.

<sup>10</sup> Imposed under the Welsh Language (Wales) Measure 2011 and regulations thereunder.

<sup>11</sup> Fees for audit work will be charged in accordance with a scheme prepared by the Wales Audit Office and approved by the National Assembly

- 26 My auditors must also perform the Public Sector Equality Duty, ie have due regard in the exercise of my functions for the need to eliminate discrimination, advance equality of opportunity and foster good relations<sup>12</sup>. In order to perform that duty, my auditors must:
- a consult with relevant stakeholders on how to take account of this duty when planning and designing audit work;
  - b provide training to staff to support them in dealing with the diverse needs of stakeholders in performing audit work;
  - c publish audit outputs in a form that complies with appropriate accessibility standards;
  - d report audit findings in a style that reflects the audience;
  - e report on equality and diversity issues where appropriate; and
  - f support other public bodies in their scrutiny of equality and diversity.
- 27 I have extensive legal rights of access to information and documents which are important for the proper exercise of my functions. My auditors must take a rigorous approach towards enforcing such rights, since the obstruction of access rights fetters their ability to properly carry out their work and increases the costs of that work.
- 28 To avoid any potential misunderstanding when it appears that access rights are being obstructed by any person, my auditors must communicate the relevant rights to the person in question. If the person still seeks to obstruct access following this communication, my auditors must, where I consider appropriate, pursue legal action to gain access to the relevant documents and recover any associated costs.

<sup>12</sup> As laid out in the Equality Act 2010 and the Strategic Equality Plan of the Auditor General for Wales and Wales Audit Office

- 29 My auditors must comply with the following respective requirements when undertaking work on my behalf across the following functions:
- a satisfaction that bodies are making proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
  - b the Audit of accounts;
  - c the certification of claims and returns;
  - d value for money examinations and studies; and
  - e sustainable development principle examinations.

### Proper arrangements for securing economy, efficiency and effectiveness in the use of resources<sup>13</sup>

- 30 In order to enable me to be satisfied that a local government or NHS body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources ('value for money'), and to conclude accordingly, my auditors must develop an annual programme of work for that purpose at each such body. The programme must be based on an assessment of the risks of the body not making proper arrangements, with the work focusing on the areas of greatest risk.
- 31 The programme must include review of the design of significant arrangements to secure value for money, and, where appropriate given the assessment of risk, testing of the operating effectiveness of those arrangements. As testing in one year may have ongoing relevance to the assessment of risk and other review work, the depth of coverage may vary from year to year.
- 32 In designing the programme, my auditors must consider both corporate and service level arrangements, including strategic planning, financial planning, performance and risk management, workforce planning, asset management, collaborative working and overall governance.
- 33 In reviewing arrangements for securing value for money, my auditors must pay particular attention to good governance and management practice, and must follow any additional guidance that I may issue from time to time.

<sup>13</sup> This section of my Code will come into effect for 2018-19 years of account.

- 34 To the extent that they are relevant to arrangements for securing value for money, my auditors must have regard to the following:
- a the results of the audit work undertaken on the financial statements, including related work such as review of the annual governance statement and correspondence regarding the audited body;
  - b the results of other work I may carry out, including value for money examinations and studies, sustainable development principle examinations (under section 15 of the Well-being of Future Generations (Wales) Act 2015), certification of claims and returns, and data matching exercises;
  - c the results of the work of internal audit and of external review bodies where appropriate;
  - d the findings of my work in previous years where that remains relevant; and
  - e any other work that addresses matters not covered by the above, and which my auditors consider necessary for me to discharge my responsibilities.
- 35 Where compatible with statutory and professional requirements, when undertaking work to examine arrangements, I will seek to integrate it with the delivery of other work of the types listed above.
- 36 My auditors' work should be designed to provide sufficient assurance to enable me to satisfy myself in all significant respects that NHS and local government bodies have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.
- 37 Based on the work carried out, I will report my conclusions on each NHS and local government body each year, with separate substantive reports where there are notable issues.

## Audit of accounts

- 38 I issue reports on the accounts of the public bodies that I audit. Audit reports include an opinion on:
- a whether the financial statements properly present 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 accounting standards; and
  - c the regularity<sup>14</sup> of the transactions of bodies that are subject to scrutiny by the National Assembly by virtue of their accounts (or their parent body's accounts) being laid before the National Assembly.
- 39 When carrying out work on my behalf, auditors must comply with auditing and ethical standards in force<sup>15</sup>, as notified by me in guidance as appearing to me to be relevant. My auditors must also have regard to related guidance and advice issued by me, or on my behalf.
- 40 Except for bodies covered by Schedule 2 to this Code, my auditors must undertake their work so that I am able provide reasonable assurance that the related financial statements:
- a are free from material misstatement, whether caused by fraud 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.
- 41 For bodies covered by Schedule 2 to this Code, my auditors must undertake their work in accordance with that Schedule.
- 42 I am also required to give an audit opinion on the annual Tax Statement prepared by the Welsh Revenue Authority. This statement summarises information about the collection and allocation of tax revenue under devolved Welsh tax powers. I will audit this statement in accordance with applicable auditing standards as I interpret them to meet the reporting requirements set out in the Financial Reporting Manual issued by the Relevant Authorities.

<sup>14</sup> See paragraphs 43 and 44

<sup>15</sup> Including International Standards on Auditing and other internationally recognised standards



- 43 Where bodies are subject to scrutiny by the National Assembly by virtue of their accounts (or their parent body's accounts) being laid before the Assembly, my auditors must design and undertake audit work on my behalf so as to address the concept of regularity and to allow me to provide an opinion on the regularity of the transactions to which the accounts relate. Regularity, as set out in 'Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom' issued by the Public Audit Forum and endorsed by the Financial Reporting Council, is the concept that transactions that are reflected in the financial statements of an audited entity must be in accordance with the relevant framework of authorities. Such frameworks include
- a authorising legislation;
  - b parliamentary, including National Assembly, authorities, such as budget motions passed by the National Assembly; and
  - c administrative authorities, such as delegations, and guidance, such as the Welsh Government's publication 'Managing Welsh Public Money'.
- 44 The provision of the regularity opinion is of central importance to the democratic control of public finances. One of the key functions of the National Assembly is the approval, following scrutiny, of budget motions to authorise the use by the Welsh Government and other bodies, of public resources. In order to complete the cycle of control, it is necessary that the National Assembly receives reports on whether the resources it has voted have been used in accordance with its intentions. The provision of an opinion on the regularity of transactions (the regularity opinion) must therefore entail work to conclude on whether the transactions are in accordance with the relevant framework of authorities.
- 45 My auditors must, where required, also review and report on the Whole of Government Accounts return.

- 46 Plans and results of audit work undertaken on the financial statements will be reported via a range of appropriate outputs. I, or my auditors, may issue the following and other outputs during 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 my work;
  - c a report to those charged with governance summarising my findings and conclusions;
  - d an audit report including my 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 my audit opinion is qualified<sup>16</sup> or if I wish to report on any matter.
- 47 Where reports of the Assembly's Public Accounts Committee include recommendations for audited bodies, or other information relevant to them, my auditors must bring those recommendations and that information to the attention of relevant persons, for example, in updates to local audit committees or their equivalent.
- 48 Where making a substantive report, the requirements of paragraph 64 of this Code apply to such a report as if it were a report on a value for money examination or study.
- 49 Auditors must exercise my audit functions so as to enable me to issue further outputs in accordance with relevant legislation and guidance, such as:
- a reports made in the public interest;
  - b statements of reasons following objections raised by local authority electors;
  - c responses to correspondence; and
  - d feedback on an exception basis where any of the information reviewed indicates significant failures to perform the Public Sector Equality Duty or protect and promote human rights on the part of audited bodies.

<sup>16</sup> 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

- 50 My auditors must work to assist me in my duty to consider whether to issue public interest reports to draw the public's attention to circumstances where, in my opinion, a public body has misspent substantial amounts of money, has poor governance arrangements or has acted outside its legal powers and duties.

## Certification of claims and returns

- 51 If required to do so by a relevant body<sup>17</sup>, I 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
  - c any other return which legislation requires me to make arrangements for (a current example being that for teachers' pension contributions).
- 52 My auditors must design certification work within the requirements of statute. I will encourage grant-paying bodies to agree appropriate certification arrangements with me before they make certification of claims (and any related performance returns) a condition of funding. Depending on the circumstances, my auditors must provide one or both of the following outputs:
- a a certificate setting out their conclusion so as to provide a proportionate degree of assurance that grant claims and returns are fairly stated and in accordance with specified terms and conditions; or
  - b a narrative report of their findings having performed a set of procedures which have been agreed with the grant-paying body.
- 53 Certification may not be the most effective means of providing assurance. My auditors must therefore inform grant-paying bodies that certification should only be required where there is a clear justification for it<sup>18</sup>, rather than as a matter of course. I may provide advice to grant-paying bodies seeking certification on the most effective means of obtaining assurance.

<sup>17</sup> 'Relevant bodies' are as set out in paragraph 20 of Schedule 8 to the Government of Wales Act 2006

<sup>18</sup> Key factors that must be considered when determining whether there is justification for certification include the overall value and terms and conditions of the scheme, the level and types of risks associated with the project activity and the likely costs of the auditors' work

- 54 Where grant-paying bodies have decided to require certification, my auditors must exercise discretion as to the most appropriate way of meeting their obligations, 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 financial and service delivery criteria to be applied; and
  - d the nature or extent of the work required.
- 55 In undertaking certification work, my auditors must follow the requirements of the Certification Instruction agreed between me and the grant-paying body. Wherever practicable, my auditors must integrate their certification activities with their audit of accounts and value for money examination and study work.
- 56 My auditors must also consider whether any of the information reviewed when undertaking certification work indicates significant failures to perform the Public Sector Equality Duty or protect human rights on the part of public service bodies. My auditors must provide feedback on this, where appropriate, on an exception basis.

## Value for money examinations and studies

- 57 I have powers to examine the economy, efficiency and effectiveness (together known as value for money) with which public bodies, individually or collectively, use their resources, and to undertake studies designed to make recommendations for improving value for money. I may also undertake other types of studies of local government bodies.
- 58 In relation to local government bodies, I have duties to undertake studies each financial year designed to enable me to make recommendations for improving:
- a value for money in the discharge of functions of Welsh improvement authorities<sup>19</sup>;
  - b value for money in the provision of services by other local government bodies<sup>20</sup>; and
  - c the financial or other management of local government bodies.

<sup>19</sup> 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

<sup>20</sup> Section 13 of the Public Audit (Wales) Act 2004 defines those local government bodies which are not Welsh Improvement Authorities, eg Police Authorities and Community Councils.

- 59 I also have duties to undertake value for money studies of the impact of statutory provisions and Welsh Ministers' directions and guidance on local government bodies. I 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.
- 60 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 and some studies relating to health bodies) will usually be presented to the National Assembly and considered by its Public Accounts Committee or by another committee of the National Assembly.
- 61 In relation to my examination and study functions, I will consider, among other things, the following in deciding what work to undertake:
- a the public interest;
  - b the views of the public and its representatives<sup>21</sup>;
  - c the scale of the issues and the circumstances and risks involved;
  - d whether the work is timely; and
  - e the potential value of the work in terms of monetary savings, improved services and improved management or governance, and whether the lessons learned are likely to be transferable.
- 62 For any particular examination or study, my auditors must use the approach prescribed in this Code to develop fieldwork methods that enable 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, subsidiaries, contracts and collaborative working arrangements.

<sup>21</sup> Including in particular the views of the National Assembly's Public Accounts Committee and local government, where relevant

- 63 I will seek and take account of the views of people who represent the interests of protected groups<sup>22</sup> in deciding what examinations and studies to undertake. In deciding the coverage of any examinations and studies that are relevant to the Public Sector Equality Duty, and in devising fieldwork for such projects, my 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. I will also seek and take account of the views of stakeholders in designing my programme of audit work.
- 64 My auditors must apply the following principles in carrying out value for money examinations and other studies:
- a Work efficiently to maximise use of resources, minimise duplication of work and minimise demands on audited bodies by for example:
    - i sharing relevant information internally within the Wales Audit Office and with contractors that could have a bearing or significance on other audit work being undertaken by me or to inform my future programmes of work;
    - ii sharing relevant information with external review bodies;
    - iii placing due reliance on work previously undertaken by:
      - my auditors
      - any audit body's internal audit function
      - any audited body's self-evaluation
      - other external review bodies
  - b Help public services learn from each other by identifying opportunities to capture audit knowledge and learning to share with:
    - i the Wales Audit Office's good practice exchange
    - ii relevant external review bodies
    - iii other relevant beneficiaries
  - c Where appropriate, relevant and useful, offer commentary and insight from audit work to public sector policy-makers and working groups.

<sup>22</sup> As defined by the Equality Act 2010

- d At any point in the course of an audit examination, have regard to any correspondence<sup>23</sup> received from the public or other interested parties, including any disclosures received from individuals employed by audited bodies<sup>24</sup>, about matters relevant to my functions, and/or the audit findings and recommendations.
- e At all points in the course of an audit examination, communicate with audited bodies and relevant third parties to discuss any aspect of the audit work at an appropriate level and in a timely manner.

## Planning

- 65 My auditors must plan and document the planning of their work. They must:
- a have a sound understanding of the relevant underpinning audit legislation;
  - b have an overall understanding of the legislation, policies, guidance and models of governance that apply to the bodies they audit;
  - c carry out initial scoping work, to inform the design of audit work;
  - d conduct an analysis of the issues and risks that are relevant to the audit and where appropriate organise their work around a relevant and structured set of questions; and
  - e design fieldwork methods to meet the requirements below.

## Fieldwork

- 66 When carrying out and documenting the results of fieldwork, my auditors must:
- a undertake sufficient relevant collection of evidence to enable reliable conclusions to be drawn;
  - b seek sufficient expert advice where examining matters in which they are not themselves expert;
  - c where appropriate, capture and consider the views, experiences and concerns of service users, providers and other relevant stakeholders;

<sup>23</sup> Correspondence from the public or other interested parties that raises concerns about public business can inform our work by identifying issues for further investigation. Auditors must respond to public concern promptly and in a fair, objective and professional manner.

<sup>24</sup> Under the Public Interest Disclosure Act 1998, the Auditor General is a 'prescribed person' who can receive whistle-blowing disclosures from the 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.

- d review whether audited bodies have properly considered significant relevant matters that have been identified previously by me and other external review bodies, and whether recommended actions have been implemented; and
- e obtain information in a way that facilitates benchmarking, performance comparison of outcomes and the identification of good practice, wherever possible.

## Reporting

67 After concluding fieldwork, my auditors must:

- a either draw evidence-based conclusions from their fieldwork or present findings of fact;
- b consider whether their conclusions are consistent with those arising from the work of internal audit or other external review bodies;
- c determine the key messages and the structure of the outputs through which they will be reported;
- d provide audited bodies and relevant third parties fair opportunity to answer any criticism and comment on the factual accuracy of the findings – relevant parties must be given sufficient time taking account of the volume of material presented and the importance of the issues to their interests – where the requirement to provide sufficient time to respond conflicts with administrative or statutory deadlines, the requirement to provide sufficient time prevails;
- e make recommendations for improvement, where relevant, which, in the auditor's judgement, are:
  - i useful, specific and practicable, and in the public interest; and
  - ii consistent with sustainable development and the sustainable development principle (as defined at paragraph 22) and take account of the expected costs and challenges 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 rigorous, timely, clear and concise;
  - iii are accessible and 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 fully comprehensible report covering the relevant issues;
  - v are open about the scope and limits of the work;
  - vi where possible and appropriate, identify and quantify potential savings and efficiencies, alongside likely costs and risks faced by public bodies in Wales and elsewhere; and
  - vii include or make reference to examples of notable improvement and good practice, as appropriate.
- g encourage and challenge service providers to improve, including through their taking ownership of audit findings and recommendations and giving consideration to any examples of good practice; and
- 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.

68 After reporting on their findings, my auditors must:

- a request a response from audited bodies and relevant parties to my report findings and recommendations, and state in submissions to PAC or local audit committee whether they are satisfied that findings and recommendations have been properly considered<sup>25</sup>;
- 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; and
- d initiate further audit work, where they consider it necessary to meet statutory responsibilities.

<sup>25</sup> Responsibility for implementing recommendations, and the mechanisms through which this is done, lies solely with the audited body

## Sustainable Development Principle examinations

- 69 Section 15 of the Well-being of Future Generations Act (Wales) 2015 requires me to carry out examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle when:
- a setting well-being objectives; and
  - b taking steps to meet those objectives.
- 70 I must carry out such an examination of each public body at least once during a five year period.<sup>26</sup> Before the end of the period I must report on the results of those examinations to the National Assembly.
- 71 In carrying out such an examination I will consult the Future Generations Commissioner for Wales (the Commissioner). I will also take into account any advice or assistance given to the public body, or any review of and recommendations made to the body, by the Commissioner.
- 72 The requirements of paragraph 64 of this Code apply to such examinations as if they were a value-for-money examination or study.

<sup>26</sup> The five year period begins on the date falling one year before the date on which an ordinary general election is to be held under section 3 of the Government of Wales Act 2006, and ends on the date falling one day and one year before the date on which the next such election is to be held.

## Exercising audit functions of the Comptroller and Auditor General

- 73 The Secretary of State may provide for audit functions of the UK Comptroller and Auditor General (C&AG) to be transferred to me, or to become my functions (while also remaining functions of the C&AG).
- 74 When exercising such audit functions, my auditors must carry out their work in accordance with the principles of being public focused, independent, proportionate and accountable and must follow the other applicable requirements set out in this Code.

## Consultation Question 2

- a) To what extent do you agree with the content of the proposed Code which prescribes the way auditors must support me in discharging my functions?
- b) How do you think my Code could be developed to further reflect my responsibilities in relation to the sustainable development principle?

## Schedule 1: Certain other functions

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

- 75 The National Assembly's Public Accounts Committee (the Committee) considers reports that I prepare 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 that I raise in reports, and lay those reports before the National Assembly<sup>27</sup>.
- 76 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.
- 77 As with other public bodies, it is open to the Committee to seek professional, technical and administrative assistance from me and the Wales Audit Office. In particular, the Committee may seek my advice on the adequacy of the Welsh Government's response to its recommendations. In providing advice or assistance, my auditors must ensure that my independence and integrity are not be compromised, or be perceived to be compromised.
- 78 As set out at paragraph 48, where Committee reports include recommendations for audited bodies, my auditors must bring those recommendations to the attention of relevant persons, for example, in updates to local audit committees or their equivalent.
- 79 Where the Committee decides not to issue its own report on matters raised in a report I have prepared, it may still invite the Welsh Government to respond to the recommendations set out in that report. In these circumstances, I may advise the Committee on the adequacy of the Welsh Government's response to my recommendations.

<sup>27</sup> For further information please see the **Standing Orders of the National Assembly for Wales**

- 80 Other committees of the National Assembly may also seek professional, technical and administrative assistance from me, including my advice on the adequacy of the Welsh Government's response to my or their own recommendations. Again, in providing such advice or assistance, my auditors must ensure that my independence and integrity are not compromised, or perceived to be compromised.

### Exercising supervisory functions of Welsh Ministers

- 81 The Welsh Ministers may, with my consent and after consulting the Wales Audit Office, provide for any of their supervisory functions of public bodies to be exercised on their behalf by me, or transferred to me. 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.
- 82 When exercising such supervisory functions, my auditors must carry out their work in accordance with the principles of being public focused, independent, proportionate and accountable. My auditors must adhere to the principles set out in this Code for planning, carrying out, reporting and following up on their work.
- 83 Statute provides that, if directed to do so by the Welsh Ministers, I must prepare a report on the exercise of any transferred supervisory function, and must lay the report before the National Assembly. Again such reporting will be done in accordance with this Code.

### Providing advice and assistance to registered social landlords

- 84 Where I think it appropriate I may<sup>28</sup> 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.
- 85 In considering whether it is appropriate to provide such advice or assistance and, if applicable, in providing such advice or assistance, I will have particular regard for the need to protect audit independence. I must also have regard to the desirability of making good use of public resources, including audit expertise.

<sup>28</sup> Under section 145D of the Government of Wales Act 1998

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

- 86 I may<sup>29</sup> disclose to the Welsh Ministers information obtained by my 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, my 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.
- 87 Where my 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. My 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, my auditors must 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

- 88 I may<sup>30</sup> 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. My 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.
- 89 Where my 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. My 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, my 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.

29 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

30 Under section 51 of the Public Audit (Wales) Act 2004; this provision helps my work to be used for the benefit of social security functions

## Participating with 'observer status' on external working groups

- 90 I am 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. Any of my auditors representing me on working groups must act only as observers. They cannot be a member of the group itself but may 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 must not be party to the determination or implementation of policy arising from the group's activities.
- 91 My auditors must ensure that their participation as observers on working groups does not fetter me in any way in the conduct of my various audit functions.

## Directing the publication of local government performance information

- 92 I may give direction to local government bodies to publish information which may facilitate making value for money and performance comparisons.
- 93 In giving such a direction, I must:
- 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.

- 94 Before giving such a direction, I must consult relevant associations of local government bodies and any other persons I see fit. I must 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

- 95 I may conduct data matching exercises for the purposes of preventing and detecting fraud.
- 96 In order to support Welsh public bodies in their fight against fraud, I run a data matching exercise known as 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.
- 97 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, I 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.
- 98 All participants in data matching exercises such as the NFI, carried out by, or on my behalf, must undertake their work in accordance with The Code of Data Matching Practice of the Auditor General for Wales.

### Consultation question 3

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



## Schedule 2: The audit of small bodies

- 99 Where I specify, the following principles will apply to the audit of small bodies.
- 100 Auditors of small bodies<sup>31</sup> must undertake an examination of the annual accounts and additional information and explanation provided by the body in order to enable me 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.
- 101 Auditors must meet their responsibilities<sup>32</sup>, in accordance with guidance issued by me, 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, an adequate system of internal control and internal audit, and has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, throughout the financial year.
- 102 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.

<sup>31</sup> Bodies with either annual income or annual expenditure below a financial limit determined by me and set out in guidance that I issue from time to time

<sup>32</sup> In the case of local government bodies, auditors must ensure that they meet the duties of section 17 of the Public Audit (Wales) Act 2004

- 103 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.
- 104 The auditor may also issue further outputs in accordance with relevant legislation and guidance. Though not exhaustive, this may include:
- a reports made in the public interest;
  - b statements of reasons following objections raised by local authority electors;
  - c responses to correspondence; and
  - d feedback on an exception basis where any of the information reviewed indicates:
    - i that the audited body has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; or
    - ii significant failures by the audited body in performing the Public Sector Equality Duty or protecting and promoting human rights.

## Consultation question 4

To what extent do you agree with the proposed approach to the audit of small bodies prescribed in Schedule 2?

## Schedule 3: Scope of the Code

105 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).

- 106 While not required by statute, I have also decided that, the provisions of this Code apply to:
- a the Auditor General's sustainable development principle examinations done under section 15 of the Well-being of Future Generations (Wales) Act 2015; and
  - b to the specified aspects of professional, technical and administrative services provided by agreement under section 19 of the Public Audit (Wales) Act 2013, such as advice to the Public Accounts Committee.

## Consultation questions

- 1 To what extent do you agree with the four principles which I propose should underpin my audit work?
- 2 (a) To what extent do you agree with the content of the proposed Code which prescribes the way auditors must support me in discharging my functions?  
  
(b) How do you think my Code could be developed to further reflect my responsibilities in relation to the sustainable development principle?
- 3 To what extent do you agree with the proposed content of Schedule 1 of this Code, which prescribes the way in which certain other of my functions must be carried out?
- 4 To what extent do you agree with the proposed approach to the audit of small bodies prescribed in Schedule 2?

In the response form you will be asked to select your response to each question from the following options.

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree

It would be helpful if you could provide supporting comments alongside your responses.

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

We welcome telephone calls in  
Welsh and English.

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

Rydym yn croesawu galwadau  
ffôn yn Gymraeg a Saesneg.

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)