

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Transparency Report 2016



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Transparency Report 2016

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Introduction

The report forms part of a suite of reports, which when taken together, provide similar information to that which private-sector audit firms are required to publish in their 'transparency reports'. We are not subject to these transparency reporting requirements, but are committed to the principle of transparency in all that we do.

The first section of this report – About the Wales Audit Office/Auditor General – provides references to where we already publish information about our governance and financial arrangements (information which private-sector firms are required to include in their 'transparency reports' as it is not provided elsewhere).

We are committed to achieving high standards of audit quality in all our work in order to provide members of the public with assurance that our work can be relied upon and that the messages we provide are robust and evidence-based. The remaining parts of the report are designed to explain at a high level the arrangements we had in place during the period 1 January 2016 to 30 July 2016 to achieve these objectives.

About the Wales Audit Office/Auditor General

Information about the Wales Audit Office and the Auditor General is set out in a range of public documents available on our website. These include our:

- [Annual Report and Accounts 2015-16](#)
- [Annual Plan 2016-17](#)
- [Interim Report 2016](#)
- [Code of Practice Governing the Relationship between the Auditor General for Wales and the Wales Audit Office](#)
- [Auditor General for Wales Code of Audit Practice and Statement of Practice 2014](#)

Information about our governance and financial arrangements is available within these documents as illustrated in the following table.

Legal Structure	Governance Arrangements	Financial Information	Remuneration of Wales Audit Office Board and Senior Management
The Code of Practice Governing the Relationship between the Auditor General for Wales and the Wales Audit Office summarises the statutory roles of the Auditor General and the Wales Audit Office and the relationship between them.	A summary of the governance structure of the Wales Audit Office is set out in the Governance Statement published in our Annual Report and Accounts.	Information about the income and expenditure of the Wales Audit Office is detailed in our Annual Report and Accounts.	Information about the remuneration, and the remuneration bases of Wales Audit Office Board Members and Senior Management, is set out in our annual Remuneration Report published in our Annual Report and Accounts.



Quality Control Framework

Our quality control system has been designed to comply with the quality control standards of the Financial Reporting Council.

Our Management Committee is of the view that this quality framework is operating effectively, and that the arrangements are continuing to develop as set out in this report.

Tone at the top

The Assistant Auditors General for Financial Audit and Performance Audit are respectively responsible to the Auditor General for audit quality within their own practices. They ensure that audit quality is at the forefront of what we do through:

- setting personal standards for audit quality, and leading by example;
- embedding audit quality into our strategies, culture, values, code of conduct, and audit methodologies;
- promoting the importance of audit quality through our performance appraisal system;
- providing regular, open and clear messages to staff about the importance of audit quality; and
- establishing clear lines of responsibility for audit quality.

Our culture is one committed to continuous improvement and to supporting our staff to achieve that improvement, through learning and development and our performance management arrangements.

Audit methodology and tools

An important component of achieving audit quality is establishing standardised approaches to carrying out our work. We have developed consistent methodologies for all our work, as follows:

- the Performance Audit Delivery Manual provides a framework for carrying out all our performance audit work;
- the Financial Audit Delivery Manual provides a framework for carrying out all our accounts opinion work; and
- a suite of certification instructions provides guidance on undertaking grants certification work.

All our audit methodologies emphasise the importance of audit quality and the role of all members of staff in achieving expected levels of audit quality.

These methodologies are designed to establish a baseline for applying consistent judgements and procedures to all our audit work, and are supported by documentation and record management systems, which again promote audit consistency and quality.

We also use a number of other computerised tools in undertaking our work to allow us to effectively interrogate large volumes of complex data.

While standardisation in audit approaches serves to enhance audit quality, it cannot replace the need for effective auditor scepticism and judgement. Through our learning and development programmes, we continue to promote these skills while also updating our audit methodologies to embed best practices and to take account of new professional developments.

Similarly, private firms also use standardised methodologies and tools.

All our auditors, including private firms, are supported by dedicated technical functions which provide expert guidance and advice on a range of technical and professional issues.



Auditor independence

One key characteristic of auditors is the requirement that we be independent from those whom we audit. This includes not just the delivery of audit work but the independence of appointments as well. This independence supports our exercise of professional scepticism and enables us to objectively arrive at conclusions without being affected by influences that could compromise our professional judgement.

The Auditor General is the statutory external auditor of most of the Welsh public sector. The office is independent of government and appointments are made by the Queen on nomination of the National Assembly for Wales. Auditors General are appointed for a fixed eight-year period and may only be relieved of office by the Queen in very limited circumstances. The Auditor General's remuneration is a direct charge on the Welsh Consolidated Fund, which serves to preserve the independence of the office.

We have published a Code of Conduct which reinforces the importance of the independence and objectivity to our work. All of our staff are required to make an annual declaration of independence in which they identify any connections with the bodies we audit that might impair their independence. Where any such impediments are identified, appropriate action is taken to mitigate potential conflicts of interest to an acceptable level. Such action can include preventing staff from working on certain audits or restricting the scope of involvement an individual may have with a particular audit.

A separate Code of Conduct is in place for Board members who are required to declare any interests they may have in any issue, and may be required to withdraw from meetings where that issue is being considered.

In addition to the statutory work that the Auditor General is required to undertake, he may from time to time undertake some non-statutory work. We have established policies and procedures to ensure that such work is only undertaken where we have the capacity and capability to do that work, and where accepting such an appointment would not impair the statutory independence of the Auditor General.

Private firms undertaking work on behalf of the Auditor General are required to have similar arrangements in place to monitor and manage any potential threats to independence to the audits that they undertake. We have procedures in place to monitor the effectiveness of those arrangements.

The Auditor General has also issued a Rotation Policy which governs how long senior members of staff can be involved with the direction of any particular audit. The policy seeks to achieve a balance between the mostly non-discretionary nature of our work, its small workforce, and the requirements of ethical standards.

Training is provided to staff on a regular basis to raise awareness of our independence policies and procedures.

Continuing professional education of auditors

We continue to invest heavily in staff learning and development to enhance their professional skills and knowledge. On average, we allow an annual 10-day allowance for each member of staff to support their professional learning and development.

Our annual learning and development programmes contain two main elements:

- mandatory programmes: these are designed to ensure that all staff receive training in new and key technical and core skill areas relevant to their particular roles; and
- 'on-demand' learning: this is identified from performance development reviews by individuals with their line managers, and is designed to support the personal development of individuals.

Our personal development processes have been accredited by the Institute of Chartered Accountants in England and Wales (ICAEW) as an appropriate CPD system for our staff who are members of that Institute.

The effectiveness of our investment in professional development is subject to ongoing review and assessment. In particular, periodic assessments are undertaken between individuals and their line managers of the effectiveness of the learning and how it has been applied in practice.

We also operate a post-project learning approach to all major projects which seeks to reinforce our aim of being a learning and sharing organisation that strives continually to improve. This post-project learning process focuses on considering what we can learn from the way the project was delivered and promotes consideration of:

- what worked well;
- what could have been improved;
- how did it feel;
- evidence of impact; and
- lessons for the future.

Private firms also attend our mandatory training programmes, to ensure consistency amongst all those undertaking work for the Auditor General.

Monitoring

We have established quality monitoring arrangements across both financial audit and performance audit to ensure that we are achieving the standards of audit quality we expect in all our work. These are outlined below.

Financial audit

A policy of rotational review has been adopted in financial audit – accounts opinion and grants certification – and in-house audits are selected for review in accordance with the following principles:

- each engagement lead is normally reviewed at least every two years; and
- each audit manager is normally reviewed at least every three years.

We also aim to achieve representative coverage of the bodies we audit taking account of audit sectors, body size and complexity.

A number of these reviews are undertaken by counterparts from the other UK audit agencies, namely Audit Scotland and the Northern Ireland Audit Office.

Over the past three years, the Practice has also enhanced its arrangements by using the Quality Assurance Department (QAD) of the ICAEW to independently review quality arrangements across the Practice. We have published an annual summary of the QAD's findings on our website. We are currently finalising a new contract that provides for quality review services plus training for in-house quality reviewers and expert guidance on developing our audit methodology.

Performance audit

We use a range of different approaches within performance audit to assess whether our work has complied with the standards we have laid out in our quality framework. These included:

- ex-post reviews of a sample of performance audit products that are selected for review in accordance with the following principles:
 - each engagement lead is normally reviewed every year; and
 - each audit manager is normally reviewed at least every three years.
- peer reviews of a sample of national reports;
- feedback on national reports and annual programmes of performance audit work from stakeholder surveys;
- an assessment of the quality of our written outputs from an analysis of performance audit editing and screening activity;
- an analysis of delivery to time and budget; and
- performance group learning and development activities.

In order to carry out the peer reviews highlighted above, we have established reciprocal arrangements with the National Audit Office, Audit Scotland and the Northern Ireland Audit Office to review a sample of our national reports each year.

Private sector firms

We also contract with private-sector audit firms to deliver some financial and performance audit work on behalf of the Auditor General. These firms are contractually required to establish their own quality control frameworks to ensure that their work is undertaken to appropriate quality standards. We have in place arrangements to monitor whether those standards are being met and have appropriate remedies in place should those standards not be achieved.

Whole-of-firm arrangements

The Assistant Auditors General for Financial and Performance Audit are also jointly responsible for monitoring whether appropriate support arrangements (including in relation to independence arrangements) are in place across the Wales Audit Office to realise the standards of audit quality we expect to achieve. To this end they work in collaboration with the Director of Corporate Services who is responsible for advising the Auditor General and the Board on the quality control framework which has been established within the Wales Audit Office and the Director of Finance who has responsibility for HR (including our recruitment and appraisals processes).

Reporting

The outcomes of this review work are reported to the director committees for each practice and are shared with all members of staff to support our aspiration of continuous improvement.

Monitoring and reporting on audit quality

One of the key performance indicators we measure in line with our Annual Plan is:

- The proportion of audits that are delivered in accordance with required quality standards.

This indicator includes both work undertaken by the two in-house practices (performance and financial audit) and work undertaken by private-sector firms.

We set a target for this indicator of achieving 100 per cent compliance for the audits assessed as part of the quality monitoring work described above.

We publicly report our performance against this target twice a year in our Interim Report and our Annual Report (see 'About the Wales Audit Office/ Auditor General' for links to these reports).



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