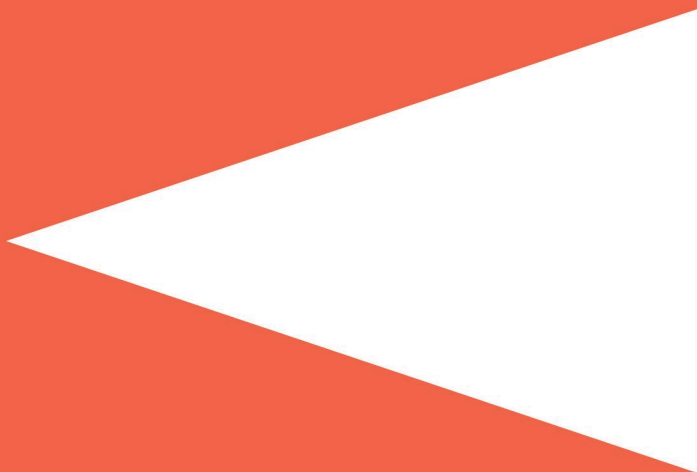


Audit Quality Report 2021

Building trust in audit

October 2021



This Audit Quality Report covers our audit quality arrangement and monitoring activity over the past 12 months and includes in **Appendix 1** statutory transparency reporting information in relation to the Auditor General's audit of a public interest entity.

Audit Wales is the non-statutory collective name for the Auditor General for Wales and the Wales Audit Office, which are separate legal entities with their own legal functions. Audit Wales is not a legal entity. Consequently, in this Report, we make specific reference to the Auditor General or the Wales Audit Office in sections where legal precision is needed.

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.

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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

Ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome correspondence and telephone calls in Welsh and English.

Corresponding in Welsh will not lead to delay.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

This document is also available in Welsh.





About Audit Wales

On behalf of the people of Wales, we examine public spending and identify ways to improve public services. Our work supports the effective scrutiny of public money by the Senedd and locally elected representatives. We are entirely independent of government.

What do we do?

Assure	Explain	Inspire
		
the people of Wales that public money is well managed	how public money is being used to meet people's needs	and empower the Welsh public sector to improve

What are our ambitions?

			
Fully exploit our unique perspective, expertise and depth of insight	Strengthen our position as an authoritative, trusted and independent voice	Increase our visibility, influence and relevance	Be a model organisation for the public sector in Wales and beyond

You can find out more about Audit Wales in our [Annual Plan 2021-22](#).

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The importance of audit quality

The past 18 months have seen exceptional upheaval to our daily lives as we have lived through the changing restrictions required to deal with the COVID-19 pandemic. We have needed our public servants to respond to unprecedented challenges, which they have done with selfless resolve and commitment. As we emerge from the pandemic, our public services face ever greater challenges with a public health crisis; an economic crisis; and a crisis brought about climate change.

However, the lessons of history tell us that in responding to such adversity we can find better and radical solutions to the challenges we face when we are prepared to rethink old ideas, maintain an innovative mindset, and seize the initiative.

Effective, trusted, and transparent government is critical to this effort. But globally, trust in government and government institutions has been in steady decline over many years.

Audit, therefore, has a significant role in supporting government to respond to one of the biggest peacetime agendas it has faced: we have an essential duty to hold government to account: to shine a light where it needs to be shone and to help build confidence and trust in government where it is deserved.

In our [Annual Plan 2021-22](#) we outline our ambition to be an authoritative, trusted and independent voice. A voice that:

- provides assurance about whether post-pandemic governance arrangements are effective and whether recovery plans are robust;
- explains how well Wales is responding to the challenges we face and outlines the further challenges that lie ahead; and
- inspires public bodies to develop new and innovative solutions while replicating the pace of change seen during the pandemic.

But, in recent times we have also seen an unprecedented public focus on audit and audit quality.

In the private sector, the Brydon, Kingman, and Competition Markets Authority reviews (see **Part 1**) have made sweeping recommendations for reform in response to high-profile corporate failures. The UK Government's recent response in its consultation on trust in audit and governance proposed profound changes to our historical understanding of audit.

Nor has the public sector escaped criticism with the Westminster Public Accounts Committee stating that, 'Without urgent action from government, the audit system for local authorities in England may soon reach breaking point.'

While the public sector audit model in Wales is different and, in our view more robust, we must not be complacent. We are not immune to the winds of change set to sweep across the audit profession. If we are to succeed in the ambitions we outline it is imperative that our work is of the highest standards and deserving of trust.

It is for this reason that that we have a shared and absolute commitment to audit quality with a relentless focus on the continuous improvement of that quality, and on the need to respond to the ever-increasing demands on, and expectations of, audit.

The Wales Audit Office Board is responsible for providing resources and employing staff to allow the Auditor General to carry out his work. In line with our commitment to audit

quality a fundamental question the Board asks when taking any major decision is, 'What could this mean for audit quality?' In so doing we put audit quality at the heart of our organisational decision-making.

We are well aware that the audit profession is at a watershed. We are determined to play our part in leading the debate about the future shape of audit and to take ownership and responsibility for developing our audit model in line with developments in the wider audit profession.

We believe that trust in audit can only be achieved through open and transparent dialogue about where we are, where we need to get to, and how we plan to get there.

Through this Quality Report therefore, we set out where we are on our audit quality journey. We believe we have a good story to tell but there is more we want and, indeed, must do. This will require ongoing investment. Challenges lie ahead, but we are resolute that we will respond to them with vigour, with a sense of purpose and with pace to continue to develop trust in our work and in Audit Wales.



Adrian Crompton

Auditor General for
Wales



Lindsay Foyster

Chair of the Wales
Audit Office

My vision for audit

Introduction

As the Auditor General and Wales Audit Office Chair highlight, achieving high standards of audit quality is essential to realising our ambitions as Audit Wales.

Unsurprisingly, therefore, since I was appointed as Executive Director Audit Services in March 2021 my unwavering focus has been on our arrangements for ensuring that we are delivering high quality audit and on our processes for monitoring that quality. We use a Three Lines of Assurance model (see **Part 2**) to describe the totality of those arrangements. Ensuring all the elements within that model are operating effectively and in tandem is the key to achieving the quality standards to which we aspire.

Our people

Our people are at the heart of those arrangements. Achieving high standards of audit quality relies upon talented and engaged individuals committed to achieving that quality. We must therefore be able to attract, develop and retain the right people if we are to realise our ambitions. We must be focused on creating a wide and varied work experience where auditors take pride in their work; where that work adds value to our society and is personally stimulating for those carrying it out; and, where our people are able to develop new knowledge and skills and to grow and progress as individuals.

Fundamental to my vision therefore is evolving our workforce model to ensure that all our staff – from our new entrants to our senior leaders – are engaged with our vision and have high-class opportunities to develop and progress within Audit Wales.

Carrying out our work

If we are to realise these ambitions we must carry out our work in the right way – in a way that builds confidence that our findings and recommendations are founded on a robust body of audit evidence.

We are currently working towards the introduction in 2022 of new auditing standards for our accounts audit work and the first time adoption of the [performance audit standards / principles](#) issued by the International Organisation of Supreme Audit Institutions (INTOSAI) for our performance audit work (see **Part 2**).

My vision is that we seize these opportunities to further modernise the ways in which we carry out our work; to focus on the right areas and, in so doing, to make the audit process as efficient as it can be; and to ensure that all our findings are underpinned by a robust body of audit evidence.

Audit technology

It is imperative that we are embracing the potential of new technologies and that we are equipping our staff with the knowledge, skills, and confidence to make the most of the potential of these technologies.

We are continuing to invest in audit technology (**Part 2**). Our initial three-year data analytics project is now a key part of our broader digital transformation programme in Audit Wales. We are working on a suite of tools and applications to embed data analytics into our work and into new forms of interactive reporting. Our planned online IT platform for all our audit work will support our drive to achieve audit quality and more integrated working across Audit Wales.

Essential to my vision is ensuring that we harness the potential of new technologies to improve audit efficiency, obtain better audit evidence and to offer greater insight.

Audit quality

We describe in **Part 2** the arrangements we have in place to monitor the quality of our work, including new quality managements that we are working to adopt by December 2022. We describe in **Part 3** the outcomes of the formal elements of that work.

I very much welcome and endorse the Independent Commentary by our Executive Director Corporate Services on our audit quality arrangements. We have a good base on which to build but there is more we want and need to do.

My vision is that we use the opportunity afforded by the new quality management standards, and the introduction of the INTOSAI standards, to further elevate our quality management system so that it is trusted to ensure the quality of our work and to support open and transparent reporting on that quality.

Our work

If we are to make the impact we desire we need to be focusing in the right areas and delivering audit outputs that achieve that impact.

During the COVID-19 pandemic we emphasised the need to work with and support public bodies to deal with the challenges our society was facing. We must continue to work in this more collaborative way. We also delivered elements of our work in different and more creative ways, such as our [COVID learning project](#). And we must continue to innovate to develop more effective ways to do our work. Retaining both these elements is essential to realising our ambitions while continuing to provide constructive and independent challenge to our audited bodies as they work to recover from the pandemic.

We are also changing how we report on our work. We want to be an authoritative, clear, trusted, and independent voice that inspires and empowers innovation. Our reports will therefore be clearer, more direct and will resonate with a wider audience.

The essence of my vision is that we deliver high-quality, timely, accessible, and relevant work to provide robust assurance about public services; to clearly explain the issues

public bodies are dealing with; and, to provide constructive support to inspire those services to improve for our current society and for our future generations.

Developments in the wider profession

Looking at developments in the wider audit profession we appear to be at a turning point for the profession with the potential for seismic and historic change. Our work and the public audit model in Wales are not immune from these developments. Nor should they be. It is essential therefore that we influence the ongoing debate about the future direction of the audit profession; that we are prepared to learn from developments in other parts of the profession; and, are willing to ensure that the particular requirements of Wales and the public sector are heard and understood by policy makers.

My overriding vision for the future of audit is that the public audit model in Wales remains relevant and robust; accords with best professional practice across the globe; and is rightly deserving of trust. We owe it to the people of Wales to achieve this vision and must continue to invest to deliver the high-quality audit our society needs.



Ann-Marie Harkin

Executive Director
of Audit Services

Independent commentary

Introduction

I set out below the annual report I am required, as the Executive Director Corporate Services and Chair of our Audit Quality Committee, to provide to the Auditor General and the Wales Audit Office Board on:

- the adequacy of resources committed to our audit quality arrangements; and
- the effectiveness of those arrangements.

As outlined elsewhere in this Report we are seeing a significant and increasing focus on audit and on the quality of that audit. As the Auditor General and our Chair outline, audit quality is at the core of everything we want to achieve as Audit Wales. It is therefore essential that we maintain high standards of audit quality if we are to preserve and enhance our position as an authoritative, trusted, and independent voice.

Adequacy of resources

I have been concerned over recent years about the level of resource available to support and develop our audit quality arrangements. These concerns, which are reflected in our strategic risk register for our audit of accounts work, emanate from delays in reviewing and restructuring the team responsible for managing our audit quality activity and in subsequently filling those vacancies.

I was therefore pleased to see an expanded establishment for the team come into effect from 1 April 2021 and to see subsequent recruitment to those unfilled vacancies. I was also pleased to see further investment in the team and in audit quality more widely by the Executive Director for Audit Services immediately following her appointment in March 2021.

I remain concerned about our capacity to respond to the level of external developments while also responding to a backlog of work that has built up in the team. I support the Executive Director for Audit Services' continued focus on audit quality and on ensuring sufficient resource is available to continue to realise our ambitions to deliver high quality audit work.

Effectiveness of arrangements

Notwithstanding the resource pressures noted above, I believe we have well-established arrangements in place to monitor the quality of our audit of accounts work, including a contract for external monitoring with the Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) (see **Part 3** of this report).

There has however been a lack of resource committed to performance audit quality management since the retirement in summer 2019 of the manager previously responsible for those arrangements. As a result, there has been limited performance audit quality review over that period and limited activity to support the development of performance audit quality arrangements. I am pleased to see the Executive Director for Audit Services'

intention to adopt INTOSAI performance audit standards / principles for our performance audit work – which I believe will provide a more effective framework for evaluating the quality of that work – and the appointment of a new Performance Audit Quality Manager from 1 July 2021 (and a Performance Audit Lead from August 2021).

I note that the timing of all our quality review work was variously impacted by the COVID-19 pandemic and by the resource shortfalls I have outlined above but that the review programme is now complete.

I believe that the pilots instigated by the Executive Director for Audit Services to expand the QAD review programme in 2021 will help strengthen further all our quality monitoring activity, including its timeliness. If successful, I would like to see those arrangements continue for future years.

I have been delighted to chair our new Audit Quality Committee over the past year and would like to place on record my thanks to the Committee's independent professional members – Pamela McCreedy and Suzanne Walsh – for their excellent contribution to the Committee's work over this period. I believe the Committee, its independent membership and the Wales Audit Office Chair's role as a link to our Board on audit quality will all make a major contribution to ensuring the continued rigour and further development of our audit quality arrangements and help to further enhance confidence in those arrangements.

Looking forward, the agenda is hugely challenging. We need to respond – and be seen to respond – to society's increasing expectations of audit. We need to be ready and able to react to potential changes in the audit landscape arising from the UK Government's consultation on trust in audit. And we need to continue to implement by December 2022 the Financial Reporting Council's new quality management standards while also continuing to evolve our audit quality arrangements more generally. As the Executive Director for Audit Services outlines, all of this will require investment and I will continue to monitor and report as necessary on the adequacy of the resources committed to audit quality and on the adequacy of our evolving arrangements.



Kevin Thomas

Executive Director of
Corporate Services

Part 1: Overview of Audit Wales

Who we are and what do

- 1 The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector. The Auditor General is responsible for the audit of most of the public money spent in Wales, including the funds that are voted annually by the Senedd. Significant elements of this funding are passed by the Welsh Government to the NHS and local government in Wales.
- 2 The Wales Audit Office, which is constituted as a statutory board, is responsible for providing resources, such as staff, for the exercise of the Auditor General's functions, and for monitoring and advising the Auditor General.
- 3 The Auditor General's functions include auditing accounts and undertaking local performance audit work at a broad range of public bodies, alongside conducting a programme of national value-for-money examinations and studies. These functions may be exercised in combination if necessary, across different types of bodies, to examine public spending irrespective of who delivers the services.
- 4 Together, as Audit Wales, we audit around £21 billion of income and expenditure, which is over a quarter of Welsh GDP. Increasingly, we are considering the stewardship of human and natural resources alongside our consideration of financial resources and the way in which public bodies account for their use.
- 5 We also identify good practice from across the full breadth of our audit work and disseminate this through a range of media, including blogs, podcasts and shared learning seminars and webinars.
- 6 We undertake our work in accordance with the Auditor General's Code of Audit Practice. The Code prescribes the way in which audit and certain other functions are to be carried out and embodies what the Auditor General considers to be best professional practice.
- 7 We also work closely with other UK audit agencies and with the other main external review bodies in Wales to enhance the collective impact of our work.

Exhibit 1: our core work



8 More information about our work programme is available in in our [Annual Plan 2020-21](#).

Our strategic ambitions

Exhibit 2: our strategic ambitions



Fully exploit our unique perspective, expertise and depth of insight

- Maximise the power of our unique insight through more integrated team working and knowledge sharing.
- Search proactively for synergies and trends within the information that we hold.
- Focus on what matters most and will make the biggest difference to the public and public bodies.



Strengthen our position as an authoritative, trusted and independent voice

- Bring trusted commentary and evidence to the fore on the right issues at the right time.
- Ensure we clearly lay out the facts and concisely explain why we have arrived at a particular conclusion or interpretation.
- Be alert and responsive to new opportunities to share audit knowledge and insight where it can add value.



Increase our visibility, influence and relevance

- Have an overtly outward focus and engage in a way that resonates with a wide range of audiences.
- Influence the thinking and behaviour of others and shape the wider public debate.
- Seek and be receptive to ideas and lines of thought from outside Wales and outside the public sector.



Be a model organisation for the public sector in Wales and beyond

- Since we form audit judgements on others, make sure we consistently practise what we preach.
- Provide clear, consistent and authentic leadership and increase the pace of our decision making.
- Empower people throughout the organisation to come up with new ideas and effect positive change.

The COVID-19 pandemic

- 10 For so many organisations the past 18 months have been extremely difficult as we have lived through the daily challenges of the pandemic. During this time, our overriding focus in Audit Wales has been on staff welfare and wellbeing – both in Audit Wales and in the bodies we audit. We adopted a mantra of Self – Family – Work to underline this approach.
- 11 In the early stages of the pandemic, as public services managed their immediate response, we suspended on-site work at audited bodies, revised our deadlines and expectations, and moved all of our staff to home working so that we could continue to engage remotely.

- 13 We also developed new approaches to the way in which we engaged with audited bodies. One such example was our 'COVID-19 learning project'. The focus of this project was to help public bodies capture and share what they were learning in real time around issues such as managing the demand for services and the importance of agile communication and engagement.
- 14 As we recover from the pandemic, we now need to ask what does good governance look like in the future. What can we learn from the pandemic experience to support quicker and more flexible decision making without losing that essential element of public and political scrutiny that sharpens and improves the decision making of public bodies.
- 15 Looking forward, our audit work will have a dual focus: working with and supporting public bodies to deal with the challenges our society faces – and to retain what worked well during the pandemic – while continuing to hold them to account to ensure they achieve good value for money supported by strong and transparent governance arrangements.

Developments in the wider audit profession

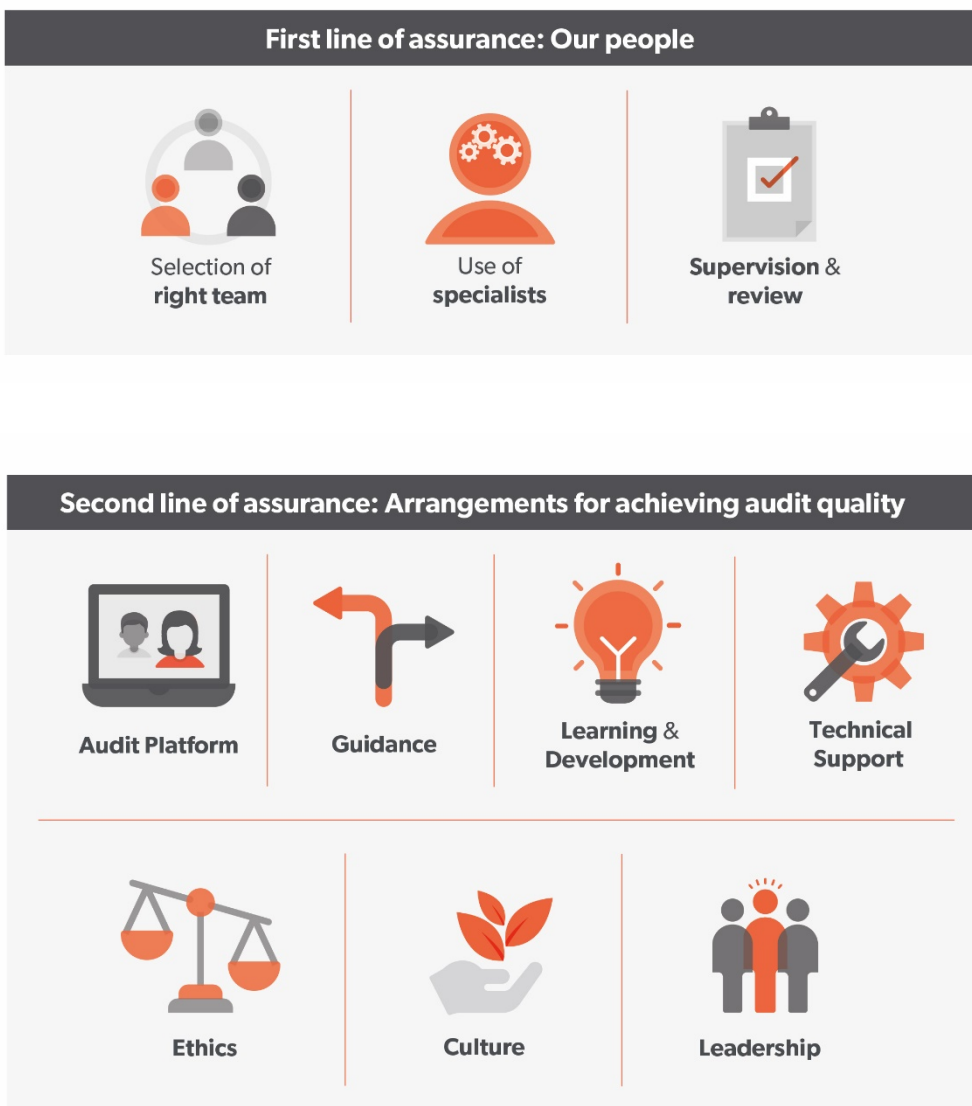
- 16 In March 2021, the UK Government published its consultation document **Restoring trust in audit and corporate governance**. This responded to the recommendations made in Government commissioned reviews undertaken by Sir John Kingman, Sir Donald Brydon and the Competition and Markets Authority on the need to strengthen different aspects of the corporate governance and audit regimes and the regulation of auditors in the private sector.
- 17 Although aimed at the corporate sector there are potential wide-ranging implications for the whole audit profession. In responding – as Audit Wales and jointly with the other UK auditors general – we have urged the Government to consult with the public sector to understand how its proposals could impact on the whole audit profession.
- 18 Local government audit arrangements in England have also come under scrutiny following a review by Sir Tony Redmond and the UK Government's response. While not directly impacted by this review, we are concerned about the potential impacts for the wider audit profession with both the Redmond Review and a hearing by the Westminster Public Accounts Committee describing the local audit market in England as 'fragile'.
- 19 These various reviews reflect increasing expectations of audit – and the quality of that audit – in our society as corporate structures become ever more complex; as the demand for public services continues to increase; and as we work to recover from the profound impacts of the COVID-19 pandemic.

Part 2: Achieving audit quality

How we achieve audit quality

- 20 We describe in **Part 1** of this Report how society’s expectations of audit quality continue to increase. According to the Victorian writer and philosopher, John Ruskin, ‘Quality is never an accident. It is always the result of intelligent effort.’ This is equally true of audit quality. High quality audit requires high quality and committed teams who take personal responsibility for achieving audit quality and who are supported in the right way.
- 21 We use a three lines of assurance model to demonstrate how we achieve this.

Exhibit 3: our three lines of assurance model



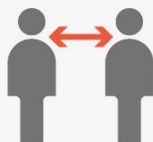
Third line of assurance: Independent assurance



EQCRs



Cold reviews



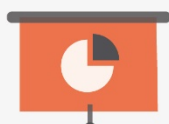
Peer review



External monitoring



Themed reviews



Root cause analysis



Audit Quality Committee

- 22 The **first line of assurance** is formed by our staff and management who are individually and collectively responsible for achieving the standards of audit quality to which we aspire. They need to have the necessary knowledge, skills, and support to do this.
- 23 The **second line of assurance** is formed by the policies, tools, learning and development, guidance, and leadership we provide to our staff to support them in achieving those standards of audit quality.
- 24 The **third line of assurance** is formed by those activities that provide independent assurance over the effectiveness of the first two lines of assurance and help to identify opportunities for continued improvement.

First line of assurance: our people

- 25 Having the right staff with sufficient time to undertake audit work is critical to achieving audit quality. It is equally essential that those staff adopt a questioning and sceptical approach and accept personal responsibility for the quality of their own work.
- 26 We operate well-defined recruitment processes to ensure that all our staff have the necessary competence and capabilities to carry out their work. For our audit of accounts work we have established professional entry routes with new applicants joining as either AAT apprentices or ICAEW trainees.
- 27 One of the challenges we currently face is increased market demand for newly qualified accountants and auditors. We are reviewing our workforce model to enhance our ability to retain staff at this grade.

- 28 For all audit work, we assign responsibility to an engagement lead who is responsible for the overall direction of that work and for ensuring that the audit team has the necessary knowledge, skills, and experience to undertake the work. The engagement lead is also responsible for ensuring that audit team members receive the right supervision and support to undertake their work.
- 29 There will be occasions where aspects of our work involve highly specialist areas, eg review of pension actuarial assumptions. In these instances, we engage with suitably qualified external experts to provide additional support for our work in these particular areas. The development of in-house specialists in certain areas is currently an area we are focusing on as we respond to the ever-increasing complexity we face in carrying out our work.

Second line of assurance: arrangements for achieving audit quality

Leadership and culture

- 30 The Executive Director Audit Services is responsible to the Auditor General for the quality of all our audit work, including that performed by Wales Audit Office staff and external contractors. She ensures 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.
- 31 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.

Ethics

- 32 Through the Auditor General's Code of Audit Practice we adopt and apply the Ethical Standard issued by the Financial Reporting Council to all our work.
- 33 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.

- 34 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 Senedd. 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.
- 35 Our Code of Audit Practice and our staff Code of Conduct reinforce the importance of independence and objectivity to our work. All 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.
- 36 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.
- 37 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.
- 38 Where we have historically engaged private firms undertake to work on behalf of the Auditor General they have been 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.
- 39 We have 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 the Auditor General's work, the relatively small size of the Wales Audit Office and the requirements of the Ethical Standard.
- 40 Training is provided to staff on a regular basis to raise awareness of our independence policies and procedures.

Audit guidance and tools

- 41 An important component of achieving audit quality is establishing standardised approaches to carrying out our work.

- 42 Our performance audit work is undertaken in accordance with our Performance Audit Delivery Manual. We are currently reviewing and updating this Manual to base it on the standards / principles for performance audit issued by the International Organisation of Supreme Audit Institutions (INTOSAI). As part of our introduction of INTOSAI standards / principles we are reviewing all our current performance audit processes and evaluating our quality control arrangements at key points in that process.
- 43 Our Financial Audit Delivery Manual provides a framework for carrying out all our audit of accounts work. We are currently updating this Manual to take account of fundamental changes to auditing standards, which have effect for our 2022-23 audits.
- 44 We also issue certification instructions that set out guidance on undertaking grants certification work.
- 45 Through our methodologies we 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 (see **audit platforms**), which again promote audit consistency and quality.
- 46 We continue to develop and use a range of data analytic and other computerised tools in undertaking our work to allow us to effectively interrogate large volumes of complex data and to present our findings in more visually accessible formats. We plan to accelerate that programme in the next 18 months.

Technical support

- 47 All our auditors are supported by our dedicated Audit Development and Guidance team, which provides expert guidance and advice on a range of technical and professional issues. As the Executive Director Corporate Services notes in his Independent Report, there has been a lack of capacity in this team for some time as reflected on strategic risk register. All posts in the team's establishment will be filled by October 2021 and the Executive Director Audit Services has allocated additional 18-month funding to the team to invest in critical development work.

Audit platforms

- 48 We currently use a commercial audit platform to record our audit of accounts work and a SharePoint-based system for our performance audit work. We have developed a new SharePoint-based system for our audit of accounts work to align our systems for all our audit work. The new SharePoint system will be piloted on a number of 2021-22 audits ahead of a planned full roll-out for 2022-23 audits.
- 49 The use of such platforms allows us to increase consistency in documentation and audit approaches and to build in quality checks within our systems.

50 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.

Learning and development

51 We continue to invest heavily in staff learning and development to enhance the professional skills and knowledge of our staff. All staff are provided with a typical allowance of ten days per annum to support their professional learning and development.

52 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.

53 The results of our quality monitoring processes (see **Third line of assurance**) are shared with staff and responses to any issues identified are built into our learning and development programmes as necessary.

54 The delivery of learning and development has been a challenge during the pandemic, but we have moved to virtual classroom delivery and online learning in response to this challenge. While this form of delivery can be effective in many circumstances, it is particularly challenging for new starters and trainees and apprentices who require greater face-to-face coaching and support. We have prioritised the need for trainees to have that face-to-face contact in our return to office strategy as we work to recover from the disruption caused by the COVID-19 pandemic.

55 Our personal development processes have been accredited as appropriate continuing professional development (CPD) systems for our staff by the Institute of Chartered Accountants in England and Wales (ICAEW), the Association of Certified Chartered Accountants (ACCA), the Chartered Institute of Public Finance Accountants (CIPFA) and the Association of Accounting Technicians (AAT).

56 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.

57 We also have a post-project learning process for major projects (including audits) 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.

58 Over the coming year, as we implement new audit quality standards (below), we will be developing a new root cause analysis process, which is a systematic method for identifying the primary causes of a problem. This will be an opportunity to review our approach to post project learning.

Third line of assurance: independent assurance

Cold reviews

59 Cold reviews are reviews of whole audits or audit projects undertaken once that work has been completed to assess compliance with prescribed quality standards. These reviews are assessed against a four-point scoring system as described in **Part 3** of this report.

60 We have a formal policy of rotational cold reviews for our audit of accounts work with audits selected for review in accordance with the following principles:

- each engagement lead is normally reviewed at least every two years (although this tends to be annual in practice); and
- each audit manager is normally reviewed at least every four years.

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

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

63 We also operate a rotational approach to reviews of performance audit projects, aiming to achieve representative coverage of senior team members, our audited bodies, and the types of audit projects.

64 We have historically operated a performance audit report peer review process with the other UK audit agencies, but the operation of this process was interrupted by the COVID-19 pandemic. We are planning to re-establish this process.

External Monitoring

65 We are currently in our third contract for external quality monitoring of audit of accounts work with the Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW). QAD are the largest

regulator of companies audit in the UK and the regulator of local government audit in England.

- 66 In most years QAD have carried out two full file reviews (approximately half of our accounts audit directors each year) in addition to other work.
- 67 We are extending the scope of QAD reviews and have agreed with QAD that they will review one 2020-21 audit for each of our four accounts audit directors. This review programme will be our formal 2020-21 cold review programme and QAD will score those reviews for the first time.
- 68 Historically, QAD's remit has been limited to reviewing our audit of accounts work. We have however commissioned QAD to carry out work on a pilot basis to review a sample of performance audit work during 2021, in order to obtain an external perspective on the adherence of that work to our quality standards.

Themed reviews

- 69 Themed reviews are unscored reviews of audit of accounts work which look at particular issues across a number of audits. These could focus on how effectively a new auditing standard has been applied in practice; an emerging issue being identified across the profession; or areas of interest or concern in Audit Wales. In the past year, our themed review work encompassed going concern in small companies; the audit of large estimates; the audit of service organisation information; and the audit of parliamentary accountability statements. They are intended as learning exercises to identify if further training, guidance, or other support is needed.

Engagement Quality Control Reviews (EQCRs)

- 70 EQCRs are reviews of audit files, or parts of audit files undertaken prior to the audit being completed. They are carried out by peer directors and may be required in a number of circumstances, such as where a new engagement lead is in place; where a qualified audit report is proposed; where the engagement lead requests a peer review of a technical or complex issue; or, where there was a quality issue in previous years. These reviews are not scored. Rather, they are carried out to focus on areas of risk and to allow any issues of concern to be resolved prior to the audit opinion being given. Our 2020-21 EQCR work included reviews of audits of an interim Director; a number of proposed audit report modifications; the review of our single public interest entity audit (see **Appendix 1**); and consistency checks relating to common COVID-19 related issues.

Audit Quality Committee

- 71 The Audit Quality Committee was established in 2020 to strengthen our audit quality framework with a view to increasing the transparency of, and enhancing confidence in, those arrangements. The Committee – which meets quarterly in line with its work programme is made up of:
- Audit Wales' Executive Director Corporate Services (Chair);
 - Audit Wales' Executive Director Audit Services;
 - Audit Wales' financial audit and performance audit technical directors;
 - Audit Wales' audit quality managers; and
 - an independent professional member – Suzanne Walsh - a director with the Northern Ireland Audit Office¹.
- 72 The Committee's specific objectives are to support us in ensuring that:
- the arrangements Audit Wales has in place to manage and monitor audit quality are effective and in line with international quality standards;
 - the work of the Auditor General is of an appropriate quality standard and meets the requirements set out in Audit Wales guidance and professional standards (where applicable); and
 - audit quality continues to improve in line with best professional practice.
- 73 The Committee is specifically responsible for providing the Auditor General with assurance that appropriate resources are in place to support management, monitoring and improvement of audit quality in Audit Wales. This is achieved by the Executive Director Corporate Services' Independent Report, which forms part of this Quality Report.

Audit Quality Board Link

- 74 The Wales Audit Office Chair has agreed to act as a Board Quality Link to support the Board in developing a fuller understanding of our audit quality arrangements, of the challenges we face to achieving audit quality and to enhance the transparency of those arrangements and the challenges we face.
- 75 We believe this role is an important component of our ambition to achieve continuous improvement in audit quality.

New quality management standards

- 76 Significant changes to our quality management arrangements will need to be made in response to three new or revised quality standards all of which take effect from 15 December 2022.

¹ The initial independent member was Pamela McCreedy, the former Chief Operating Office of the Northern Ireland Audit Office.

Exhibit 4: new quality management standards

ISQM 1 - Quality Management at Firm Level	<p>The standard introduced requirements for a new pro active system of quality management which moves away from the policy driven requirements of current standards.</p> <p>The standard also introduces a new requirement to put in place root cause analysis processes.</p>
ISQM 2 - Engagement Quality Reviews	<p>This standard deals with the appointment, eligibility and responsibilities of 'peer reviewers' as required by ISQM 1.</p>
ISA 220 - Quality Management at Audit Level	<p>This standard replaces an existing standard, but amongst other changes places enhanced requirements on the engagement lead role for individual audits.</p>

Part 3: Audit quality outcomes

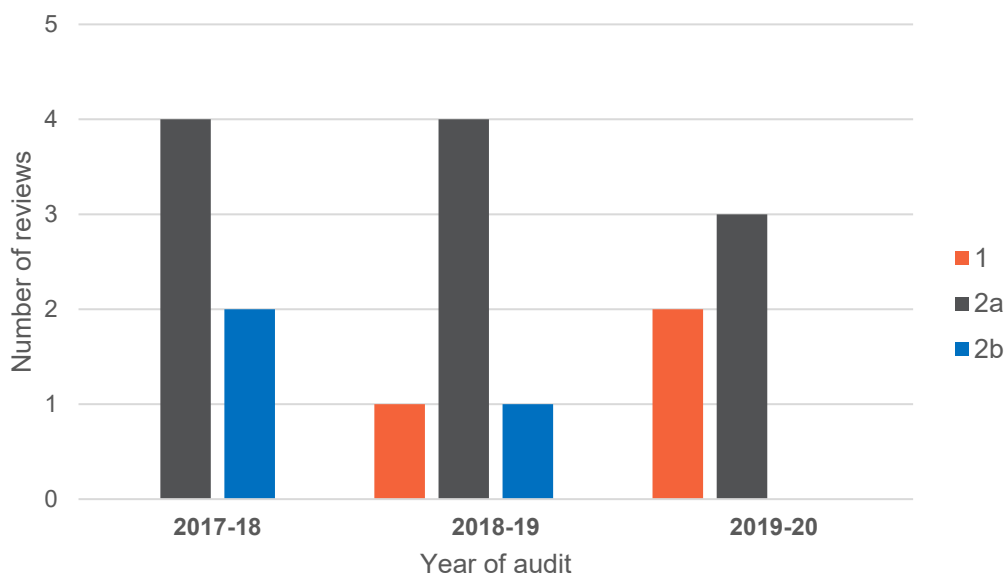
Cold reviews

- 78 We describe in **Part 2** of this report the cold review processes we have in place to evaluate the quality of completed audits.
- 79 We summarise below the outcome of those reviews, using the following four-point scoring system.
- 1 – Good
 - 2a – Limited improvement required
 - 2b – Improvements required
 - 3 – Significant improvements required
- 80 Audit Wales' Key Performance Indicators (KPIs) are that:
- 100% of audits sampled should be assessed as 2b, or above; and
 - 90% as 2a or above.

Audit of accounts cold review outcomes

- 81 The audit of accounts cold review outcomes are presented below by financial year of audit.

Exhibit 5: audit of accounts cold review outcomes



83 Outturn against our KPIs was as follows:

Exhibit 6: audit of accounts – KPI comparison

KPI	Target	2017-18	2018-19	2019-20
Assessed as 2b or above	100%	100%	100%	100%
Assessed as 2a or above	90%	67%	83%	100%

84 No consistent themes were identified by the 2019-20 cold reviews, other than the need for documentation to be clearer in certain instances, which is reflected in the scores for the year.

85 While the trend illustrated above is positive, it only reflects a sample of audits selected for review in any particular year. However, we believe that the trend is consistent with our ongoing investment in audit quality, our audit approach and in supporting learning and development.

Audit of Accounts: QAD reviews

86 QAD reviewed two 2019-20 audits, which were not scored. However, QAD concluded that:

‘Overall, the audit work we reviewed was of a good standard, with both of the engagements reviewed being generally acceptable.’

87 The key issues identified by QAD for both audits were:

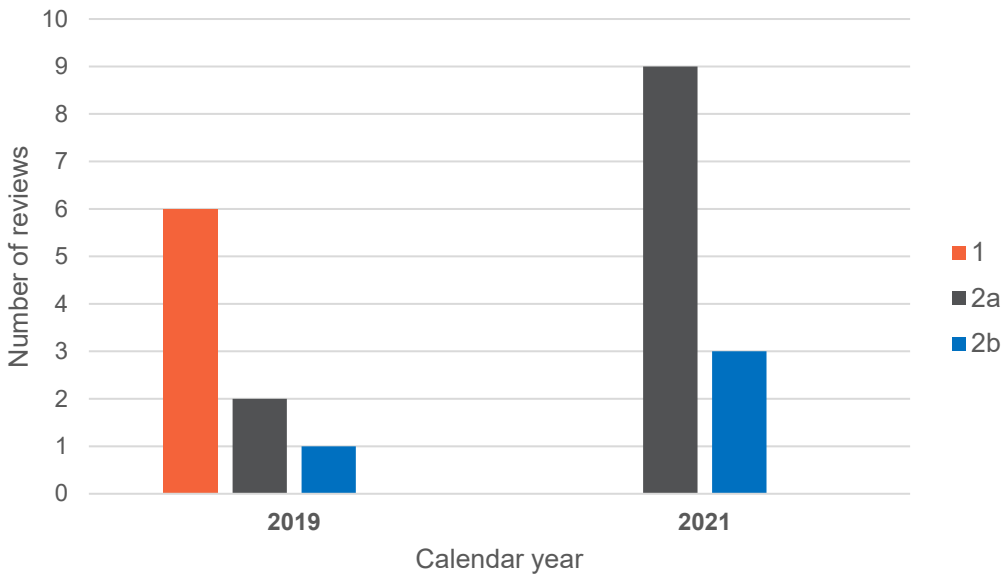
- a need to document the conclusion of the teams’ work more clearly on the risk of fraud and error in expenditure; and
- ensuring that where substantive procedures are performed at an interim date, audit teams undertake adequate testing of the remaining part of the year of audit.

88 Neither of these issues raises concern about the robustness of the audit opinion.

Performance audit cold review outcomes

- 89 Performance audit work does not necessarily coincide with a particular financial year. Cold review outcomes are therefore presented below by reference to the calendar years in which cold reviews were completed and reported.
- 90 No reviews were reported in 2020 owing to a resource gap following the retirement of the Quality Manager, a desire to review and improve the review process and a wish to align the performance and audit of accounts review cycles to support integrated reporting.

Exhibit 7: performance cold review outcomes



91 Outturn against our KPIs was as follows:

Exhibit 8: performance audit – KPI comparison

KPI	Target	2019	2020	2021
Assessed as 2b or above	100%	100%	N/A	100%
Assessed as 2a or above	90%	89%	N/A	75%

92 The reviews reported in 2021 reflect developments to our Performance Audit cold review process to better align our approach to the INTOSAI principles for performance audit (see **Part 2**). This represented quite a significant increase in expectations compared to previous years – and accounts for the downward trend illustrated above – but we believe the changes we are putting in place will enhance the quality of our Performance Audit work in the longer term.

Appendix 1: Transparency report disclosure requirements

As the auditor of a public interest entity the Auditor General is required to publish a transparency report that includes details of the auditor's:

- legal structure and ownership;
- governance structure;
- internal quality control systems; and
- quality assurance and independence practices.

The table below sets out how the Auditor General complies with the transparency reporting disclosures required by Article 13 of Regulation (EU) 537/2014, which forms part of the law of England and Wales, by virtue of section 3 of the European Union (Withdrawal) Act 2018, and as amended by the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019/177.

Exhibit 9: transparency report disclosures

Requirement	Response
A description of the legal structure and ownership of the statutory auditor, if it is a firm.	The Auditor General for Wales is the statutory auditor. The Auditor General is a corporation sole.
Where the statutory auditor or the audit firm is a member of a network: i. a description of the network and the legal and structural arrangements in the network; ii. the name of each member of the network that is eligible for appointment as a statutory auditor, or is eligible for appointment as an auditor in an EEA State or in Gibraltar; iii. for each of the members of the network identified under paragraph (ii), the countries in which they are eligible for appointment as auditors or in which they have a registered office, central administration, or a principal place of business; and iv. the total turnover of the members of the network identified under paragraph (ii) resulting from statutory audit work or equivalent work in the EEA States or Gibraltar.	Not applicable. The Auditor General is not the member of a network.

Requirement	Response
<p>A description of the governance structure of the statutory auditor if it is a firm.</p>	<p>Not applicable, the Auditor General is not a firm. However, the governance framework of the Wales Audit Office is summarised on page 65 et seq of our 2020-21 Annual Report and Accounts.</p>
<p>A description of the internal quality control system of the statutory auditor and a statement by the management body on the effectiveness of its functioning.</p>	<p>See Part 2 of this report for a description of Audit Wales' internal quality control system. It is the view of the Audit Wales' Executive Leadership Team that the system gives us reasonable assurance that our internal quality control system is functioning effectively.</p>
<p>An indication of when the last quality assurance review referred to in Article 26 of Regulation (EU) 537/2014 was carried out.</p>	<p>The results of our latest review of cold reviews are summarised in Part 3 of this Report.</p>
<p>A list of public interest entities for which the statutory auditor carried out statutory audits during the preceding financial year.</p>	<p>During 2020-21, the Auditor General audited one public interest entity – Swansea Council.</p>
<p>A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted.</p>	<p>Our independence practices are described in Part 2 of this report. We confirm that the practices operated for 2020-21 audits.</p>
<p>A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006.</p>	<p>As described in Part 2, we have in place accredited CPD arrangements to ensure that we continue to maintain the knowledge and skills necessary to discharge our responsibilities.</p>

Requirement	Response										
<p>Information concerning the basis for the remuneration of members of the management body of the statutory auditor, where that statutory auditor is a firm.</p>	<p>The Auditor General is not an audit firm. However, information about the remuneration of the Auditor General, members of the Board and senior management of the Wales Audit Office are summarised in the Remuneration Report contained in our 2020-21 Annual Report and Accounts.</p>										
<p>A description of the statutory auditor's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) of Regulation (EU) 537/2014.</p>	<p>Directors and staff working on public interest entities are rotated at least every five years.</p>										
<p>Where not disclosed in its accounts, information about the total turnover of the statutory auditor, divided into the following categories:</p> <ul style="list-style-type: none"> i. revenues from the statutory audit of accounts of public interest entities and members of groups of undertakings whose parent undertaking is a public-interest entity; ii. revenues from the statutory audit of accounts of other entities; iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor; and iv. revenues from non-audit services to other entities. 	<p>A breakdown of our income is included in notes 1 and 2 of our 2020-21 Annual Report and Accounts.</p> <p>The planned fee for the 2020-21 audit of Swansea Council is as follows:</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">Audit of Council's accounts</td> <td style="text-align: right;">237,000</td> </tr> <tr> <td>Performance audit</td> <td style="text-align: right;">99,310</td> </tr> <tr> <td>Grants certification</td> <td style="text-align: right;">30,000</td> </tr> <tr> <td>Port Authority annual return</td> <td style="text-align: right;">1,887</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">£368,197</td> </tr> </table>	Audit of Council's accounts	237,000	Performance audit	99,310	Grants certification	30,000	Port Authority annual return	1,887	Total	£368,197
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Audit Wales has developed a range of resources to support the scrutiny of Welsh public bodies and to support those bodies in continuing to improve the services they provide to the people of Wales.

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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.