

# Audit Quality Report 2023

Enhancing trust in audit

October 2023

This Audit Quality Report covers our audit quality arrangement and monitoring activity over the past 12 months.

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.

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Corresponding in Welsh will not lead to delay.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.  
This document is also available in Welsh.

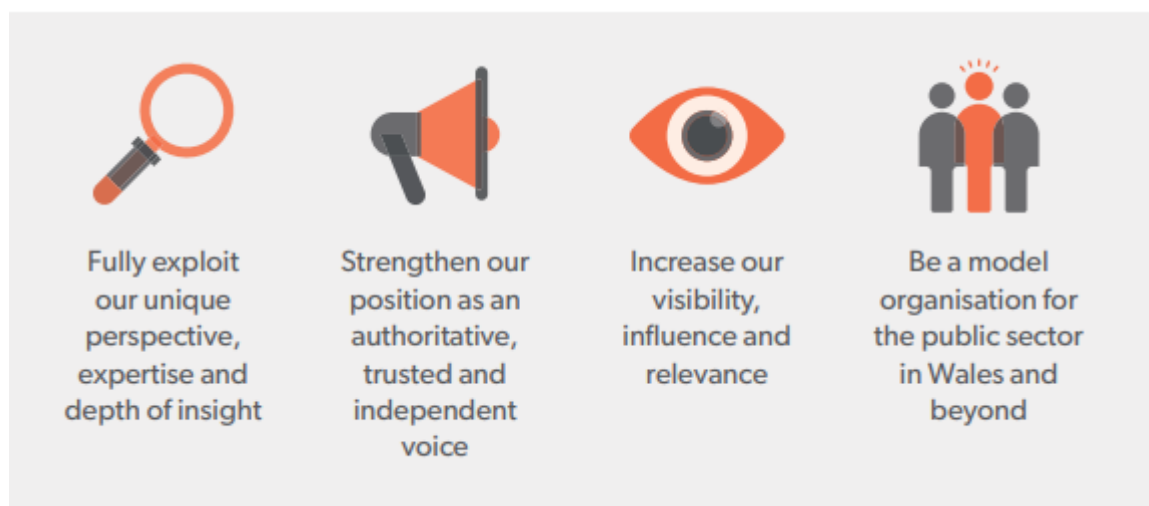
# About Audit Wales

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?



## What are our ambitions?



You can find out more about Audit Wales in our [Annual Plan 2023-24](#) and [Annual Report and Accounts 2022-23](#).

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# Audit founded on public interest

The writer David Houle has predicted that the 2020s will be the 'most disruptive decade in history'. He observes, compared to 150,000 years of human history, that the 'industrial' age (from steam engines to telephones) can be measured over about 250 years, while the 'information age' (from the mainframe computer to the smart phone) took approximately 50 years. In the coming decade alone, scientists predict ever increasing advancement in fields such as:

- neuroscience in mapping the human brain, which has the potential to transform the treatment of mental health;
- genomics and gene editing to alter DNA mutations that can lead to serious disease; and
- machine learning, artificial intelligence and robotics, which could transform business and commerce, healthcare management, customer support and transportation (though the use of autonomous vehicles and drones).

If these predictions are correct, then this pace of change will create challenges for public services and governments that will not be successfully addressed without trust.

However, according to a 2022 OECD survey<sup>1</sup>, 49.2% of those surveyed in Great Britain had low or no trust in the national government compared to 34.8% who had high or moderately high trust. According to this OECD report:

'Historical data show that it takes a long time to rebuild trust when it is diminished; it took about a decade, for example, for public trust to recover from the 2008 [financial] crisis. This is why countries urgently need to invest in re-establishing trust to tackle the policy challenges ahead.'

We continue to believe that audit has a significant role to both support and hold government to account over the coming decade and beyond and to help re-build trust as our society comes to terms with recent disruption, and adapts to change.

If we are to be seen and accepted as the trusted commentator our society desires, we need to continue to build a culture focused on the highest standards of audit quality, which concentrates on the right areas; does so in an efficient, modern and cost-effective way; makes the most of emerging technology; and reports in a clear, balanced, and emphatic way - themes that Ann-Marie explores further in her introduction, 'Delivering modern and efficient audit that focuses on those things that matter to our society'.

The reputation of the audit profession continues to be damaged as a result of large financial sanctions<sup>2</sup> for poor audit quality imposed by the Financial Reporting Council (FRC); the characterisation of the system of local government audit in England by the Public Accounts Committee (PAC)<sup>3</sup> as being 'close to breaking point' and getting worse;

<sup>1</sup> [OECD \(2022\), Building Trust to Reinforce Democracy: Main Findings from the 2021 OECD Survey on Drivers of Trust in Public](#)

<sup>2</sup> [FRC Annual Enforcement Review 2023](#)

<sup>3</sup> [PAC: Unacceptably high backlog in local government audit system may get worse before improving - Committees - UK Parliament](#)

and international incidents, such as the leaking and misuse in Australia of confidential government tax plans by one of the major audit firms<sup>4</sup>.

If we are to achieve our ambition of being a trusted commentator, the audit profession needs to act with a sense of urgency, a unity of purpose and with a renewed vigour to regain its 'noble status'<sup>5</sup>.

We are rightly proud of our public sector audit model in Wales: a model founded on public interest; cemented by the skill, objectivity, and integrity of our people; and capped by our independence.

As Chair and Auditor General we have a shared and absolute commitment to audit quality and are determined to protect the reputation of our audit model from damaging external influences while also playing a part in supporting the wider profession.

In this Audit Quality Report, we set out how we are working to achieve this and to better serve the public interest.



**Adrian Crompton**

Auditor General for Wales



**Dr Kathryn Chamberlain**

Chair, Wales Audit Office

<sup>4</sup> [PwC Australia sacks eight partners over tax leak scandal | Reuters](#)

<sup>5</sup> Sarah Rapson, Acting CEO and Executive Director of Supervision

# Delivering modern and efficient audit that focuses on those things that matter to our society

As Adrian and Kate highlight, the opportunities and challenges we face as a society are quite significant. Our response as auditors needs to be far reaching, forward focused and founded on the highest standards of international professional practice.

My role as Executive Director Audit Services is to put in place arrangements to achieve these highest standards and to work with leadership colleagues to create an environment in which audit quality can flourish.

A culture absolutely committed to audit quality has to be the bedrock on which we build. I was therefore delighted to host in April the Audit Wales Audit Quality Symposium 2023, an event designed to reinforce our leadership commitment to quality. This event allowed colleagues to hear from leading figures from the public sector audit profession, including from the FRC, ICAEW and our public audit forum partners and to discuss some of the major, emerging issues we are grappling with as a profession. I was truly heartened to read Sian Davies' thoughts on the Symposium (paragraph 27) and the message she took away that our ambition is '...to ensure quality is at the heart of all our work.' I wholeheartedly agree.

As Sian also mentions, we heard from Gareth Davies, Comptroller and Auditor General, about the importance of quality based on trust, a theme that truly resonates with the messages delivered by Adrian and Kate. Gareth also spoke about the challenges being faced by the accounting and audit profession to deliver a huge backlog of local government audits in England.

The alarming backlog of local government audits in England, some dating back to 2015-16 and exacerbated by the COVID-19 pandemic, means that there were approximately 630 late audit opinions at November 2022<sup>6</sup>. A key component for achieving high-quality and impactful audit work is timeliness of reporting. Public confidence, transparency and democratic accountability rely on a timely and robust audit function.

Delays in audit certification make it much more challenging to assess whether value for money is being achieved. According to the PAC<sup>6</sup>, these delays risk governance issues being identified too late in £100 billion of local government spending. As a result, we have seen a number of serious failings in England, such as the systemic weaknesses that resulted in Thurrock Council losing £1.3 billion of public money due to a series of failed investments.

In response to these major problems, the Department for Levelling Up, Housing and Communities has proposed a wide range of measures including the use of widespread qualifications and disclaimers of opinion to eliminate the backlog.

I fully recognise the intractable problems facing the English local government system at the moment, but I am concerned about the implications of such drastic measures for the

<sup>6</sup> 'Timeliness of local audit reporting' – Committee of Public Accounts (PAC), House of Commons (June 2023)

wider public audit profession. More than ever, we must strive to ensure that we protect and promote the value and importance of public audit in Wales.

During the year, we have taken significant strides to continue to evolve our audit approaches and to invest in their development.

We are committed to designing a performance audit work programme that is dynamic, targeted, and impactful as set out in our Five-Year Strategy. To support the Strategy, we have developed an indicative forward programme, shaped by stakeholder feedback that will focus on four themes:

- tackling inequality
- responding to the climate and nature emergency
- service resilience and access
- well managed public services

We have also adopted International Organisation of Supreme Audit Institutions (INTOSAI) professional standards to continue to enhance the clarity and impact of our reports.

Our revised audit of accounts approach, supported by a new audit platform, is designed to identify and respond to risks more effectively so that our teams can focus more efficiently on the more important areas in the accounts. Looking forward, our ambition is to automate some audit processes and to continue to develop our data analytic tools to better support the quality and efficiency of our work.

These changes represent far reaching and ongoing change programmes for all our audit teams. I know how unsettling such change can be.

To be successful, these change programmes require clarity of vision, which I believe the Symposium helped to support; they require committed leadership, which I know my director team and I are determined to provide; and they will require all parts of Audit Wales working towards one objective.

I fully believe that by working as one team that Audit Wales can deliver to the people of Wales a modern and efficient audit that focuses on those things that matter to our society



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

Audit quality is, and must remain, 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. I was therefore delighted to support and contribute to the Audit Wales Quality Symposium this year, which showcased our commitment to audit quality.

## Effectiveness of arrangements

I believe that we have well-established arrangements in place to monitor the quality of our audit work, and that we are continually working to strengthen those arrangements. We have been successful in agreeing a new four-year contract for external audit quality monitoring with the Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW). It is great to continue working with QAD to provide us with necessary independent assurance over the quality of our audit work. I am pleased to see the extension of the review programme to cover our performance audit work following the successful pilot last year.

During the year, I have observed the implementation of new audit approaches which will serve to enhance the rigour and efficiency of our audit work. These new approaches have been supported by a programme of training and technical implementation guidance. I have also noted progress being made in implementing our system of quality management and new initiatives to create an audit quality development plan. I look forward to monitoring these developments through the Audit Quality Committee.

## Adequacy of resources

I outlined in our Audit Quality Report 2022, that I was pleased to see the very good progress that was made across a range of major initiatives due to our investment in audit quality and the recruitment drive to address historical resourcing shortfalls.

I am confident that the recent restructure of the audit of accounts support function will further strengthen their ability to work collaboratively as a team (although I note it continues to recover from the lack of investment in the function) and to foster close working relationships with a number of internal and external stakeholders.

Expectations around audit quality continue to grow. It is imperative therefore that we maintain our focus on audit quality, on responding to increasing regulatory expectations and on ensuring sufficient resource is available to continue to realise our ambitions to deliver high quality audit work. I will therefore continue to monitor, and report as necessary, on the adequacy of our evolving arrangements and of the resources committed to support those arrangements.



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**Kevin Thomas**

Executive Director of  
Corporate Services

# Part 1: Overview of Audit Wales

## Our role and purpose

- 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 Assure, Explain, Inspire: Our Strategy 2022-27 describes the path we are taking towards reaching our full potential as a driver of change and improvement at the heart of public services and democratic accountability in Wales. Through our strategy, we are focussing on three key areas:
  - strategic, dynamic and high-quality audit programme;
  - targeted and impactful approach to communications and influencing; and
  - culture and operating model that enables us to thrive both now and in the future.

## What we do

- 4 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, locally elected representatives and those charged with governance in the bodies we audit.
- 5 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.
- 6 Together, as Audit Wales, we audit around £26 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.
- 7 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.
- 8 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.

- 9 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



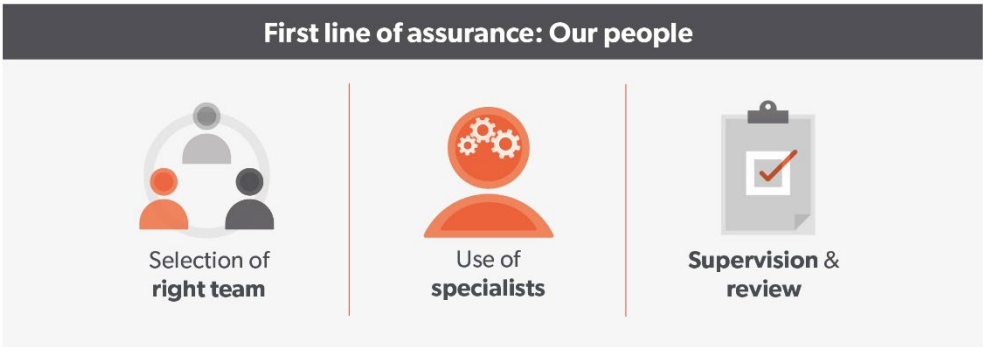
Source: Audit Wales Annual Plan 2023-24

# Part 2: Achieving audit quality

## How we achieve audit quality

- 10    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 committed teams who take personal responsibility for achieving audit quality and who are supported in the right way.
- 11    Newly introduced international quality management standards<sup>7</sup> place great emphasis on integrating audit quality into our culture, strategy, operational activities, and all business processes.
- 12    We must create an environment that enables and supports teams to perform high quality audits. Therefore, we need to be proactive in responding to changes in the nature and circumstances of Audit Wales and our audits.
- 13    We use a three lines of assurance model to demonstrate how we achieve this.

Exhibit 2: our three lines of assurance model

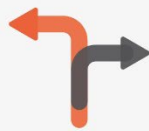


<sup>7</sup> International Standard on Quality Management (UK) 1- quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements.

## Second line of assurance: Arrangements for achieving audit quality



**Audit Platform**



**Guidance**



**Learning &  
Development**



**Technical  
Support**



**Ethics**



**Culture**



**Leadership**

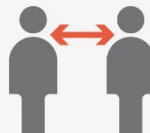
## Third line of assurance: Independent assurance



**EQCRs**



**Cold reviews**



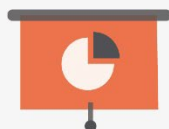
**Peer review**



**External  
monitoring**



**Themed reviews**



**Root cause analysis**



**Audit Quality  
Committee**

Source: Audit Wales

- 14 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.
- 15 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.
- 16 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

- 17 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.
- 18 We operate well-defined recruitment processes to ensure that all our staff have the necessary competence and capabilities to carry out their work. For audit of accounts work we have established professional entry routes with new applicants joining as either AAT apprentices or ICAEW trainees. For performance audit work we have structured approaches for internal and external assessment to ensure that staff have the required performance audit skill and experience.

*"I am coming to the end of my AAT apprenticeship and have secured a role as an Audit Trainee following the completion of my Level 4 Diploma in Professional Accounting. This year, I was awarded Apprentice of the Year in the 2023 North Wales Apprenticeship Awards. The support from my colleagues has been crucial to my success. The apprenticeship scheme that Audit Wales offers has enabled me to get experience working on all stages of audit with public sector bodies, whilst also gaining an accountancy qualification."*

**Eleri Davies**  
Apprentice

- 19 One of the challenges we continue to face – along with professional services organisations in general - is increased market demand for suitably qualified and experienced staff at all grades. We are developing our workforce planning to respond to these external market pressures.
- 20 For all accounts 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. In performance audit, these responsibilities are usually carried out by the person assigned the role of second reviewer, a director or manager with director oversight.

- 21 There will be occasions where aspects of our work involve highly specialist areas. In these instances, we engage with suitably qualified external experts to provide additional support for our work. In accounts audit work this includes the review of pension actuarial assumptions and of property valuations. We plan to provide training to groups of staff to develop more specialist skills and expertise in these more complex areas.
- 22 In performance audit work, we frequently engage with specialists and organisations with relevant expertise to inform our work. Recent examples of this include, engaging with cyber-resilience experts to support our work on cyber resilience in the public sector; and engaging with the Equality and Human Rights Commission (EHRC), including using its guidance, to help shape our review of the approach to equality impact assessment across public bodies in Wales.

## **Second line of assurance: arrangements for achieving audit quality**

### **Leadership and culture**

- 23 A key area of focus within our strategy is to strengthen our leadership capabilities across the organisation. We have developed a bespoke People Manager Development programme which aims to help managers build trust within their teams. The programme is designed to help people managers coach, support, encourage, develop, listen, performance manage, provide feedback, and have challenging conversations. This is an important component for achieving our desired high-quality ambitions.
- 24 The Executive Director Audit Services is responsible to the Auditor General for the quality of all our audit work, including that performed by Audit Wales 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 management system;
  - providing regular, open, and clear messages to staff about the importance of audit quality; and
  - establishing clear lines of responsibility for audit quality.



- 25 The Executive Director Audit Services is supported by audit directors and the wider leadership team in discharging these responsibilities and achieving audit quality.
- 26 Central to the success of our strategy is a persistent focus on ensuring the quality of our audit work. 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. It is imperative for our leadership to create the conditions for staff to thrive and engage.
- 27 During the year, we held an all-day symposium where we arranged a series of workshops and invited external speakers to focus on the importance of audit quality and the impact that our audit work has in the public sector.

*"The quality symposium felt like a positive restatement of our important contribution to the public sector and a day to focus on how we make sure that contribution is as good as it can be. The keynote speaker, Gareth Davies, Comptroller and Auditor General at the National Audit Office was a highlight for me. His reflections on quality and how that is based on trust will stay with me for a long time. His points about the importance of timeliness in audit and professionalism in all our interactions with external bodies also resonated with me. Later in the day, a stakeholder panel of audited bodies provided positive feedback on our helpful contribution to their own improvement efforts, describing Audit Wales as a key part of the ethical framework in Wales and a 'steadfast true north.' I left the symposium feeling positive that Audit Wales is taking steps to ensure quality is at the heart of all our work."*

**Sian Davies**  
Senior Auditor

## Ethics

- 28 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.
- 29 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.
- 30 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 reigning Monarch on nomination of the Senedd. Auditors General are appointed for a fixed eight-year period and may only be relieved of office by the Monarch 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.

- 31 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.
- 32 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.
- 33 In addition to work where the Auditor General is appointed by statute such as the audit of accounts and examinations under the Well-being of Future Generations (Wales) Act 2015, he may from time to time undertake some work by agreement. We have established policies and procedures to ensure that non-statutory 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.
- 34 Where we have historically engaged with private firms to undertake 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.
- 35 We have a Rotation Policy that 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 Audit Wales and the requirements of the Ethical Standard.
- 36 Staff receive training to reinforce awareness of our independence policies and procedures.

## **Audit guidance and tools**

- 37 An important component of achieving audit quality is establishing standardised approaches to carrying out our work.
- 38 We carry out our performance audit work using our Performance Audit Delivery Manual (PADM). We have updated this to reflect the performance audit standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI). Our new PADM introduced in January 2023, places a greater emphasis on the use of audit criteria. These represent the reasonable and attainable standards of

performance against which we assess the economy, efficiency, and effectiveness of an audited body's activities.

*"The national studies team is currently undertaking a review of the Welsh Government's progress in increasing the supply of affordable housing. The team has developed audit criteria to help us evaluate Welsh Government's progress. Sharing those criteria with the Welsh Government during the project set up has led to a greater shared understanding of the information that the team requires to successfully deliver the review."*

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**Mark Jeffs**

Audit Manager

- 39 We are undertaking work – based on international research and good practice - to improve the audit impact of our work. The first phase of this work has supported the development of our strategic audit work programme and improvements to our project learning, including piloting an in-house app to make the process more effective. Other related work includes improving the way we write our audit recommendations and how we follow up previous audit recommendations.
- 40 A new audit of accounts approach updates the extant Financial Audit Delivery Manual and was implemented this year in response to the revised International Standard on Auditing 315 (UK)<sup>8</sup>. This represented a fundamental change to our approach with the revised standard aiming to drive a more consistent risk assessment, improved audit quality and efficiency, and a greater emphasis on professional scepticism. Our approach, which was developed in partnership with Northern Ireland Audit Office, places a greater emphasis on audit risk ensuring teams complete targeted testing. The roll out was supported by in-depth learning and development activities to all staff who undertake accounts audits, continued implementation support and guidance on the approach embedded within audit files.

*"The new approach has provided a well-structured and focused framework within which to plan and deliver our risk-based audit. The changes involved a deeper dive into the audited bodies accounting records, IT systems and information flows. This required a greater degree of my auditor judgement and scepticism to ensure that an appropriate testing plan was designed to address the key risks identified. I found it challenging, certainly at the outset, and highly*

<sup>8</sup> ISA (UK) 315 (Revised July 2020) Identifying and Assessing the Risks of Material Misstatement

*worthwhile. The audit team and I had to be bold and quickly learn to let go of some past, and sometimes longstanding, audit approaches.*

*I feel that all the changes have and will help to strengthen our audit quality. We are all learning, it's unlikely to be perfect this year, and we will no doubt make improvements to shape future iterations of the approach. My experience has certainly been greatly helped by the regular engagement with many colleagues, in sharing our issues and experiences, and challenging each other in a thought-provoking way."*

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**Steve Stark**

Audit Lead

- 41 We also issue instructions that set out guidance on undertaking grants certification work.
- 42 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.
- 43 We continue to develop and embed a range of data analytic and other computerised tools in our financial audit work to allow us to effectively interrogate and risk assess large volumes of transactional data to improve audit quality.
- 44 In performance audit, we continue to use tools to make our audit process more efficient including document search tools and evidence capture tools.
- 45 We published several external data tools including NHS Finances, Poverty in Wales, and the NHS waiting times to present our audit findings in more visually accessible formats and increase engagement with our work.

## Technical support

- 46 All our auditors are supported by our dedicated Human Resources team and Audit Development and Guidance team, who provide expert guidance and advice on a range of technical and professional issues and supports the learning and development of our audit teams.
- 47 We have strengthened our technical support by establishing a distinct research and development function. By identifying a clearer medium-term picture of the horizon and drawing together different parts of our overall work programme, we aim to enhance the impact of our audit work.

- 48 We strive to maintain and foster close working relationships and networks with several internal and external stakeholders including professional institutes and other public sector audit agencies. We aim to maximise opportunities to share learning and knowledge to continually improve and ensure that we influence wider decision making that could impact public sector audit in Wales. We have worked with other public audit agencies to develop our methodologies, jointly sharing guidance and learning from our experiences of embedding new and revised professional standards. We have also liaised with professional institutes to understand the key changes and the impact of forthcoming changes to continuing professional development requirements.

## Audit platforms

- 49 We currently use a SharePoint-based system for all our accounts, grants, and performance audit work. We introduced our performance audit SharePoint platform in 2019 and all new team members receive a full SharePoint induction. We are now developing a workflow that will integrate our new INTOSAI based audit process into the platform.
- 50 Following an extensive pilot exercise, we have now fully implemented SharePoint for all accounts and grants audit work. Our new platform improves consistency of audit approaches and provides inbuilt quality checks. Our new platform gives us the ability to adopt best practices and new professional developments in our audit methodologies both now and in the future.

*"The SharePoint platform for the Audit of Accounts provides us with flexibility and adaptability in our work. The platform allows us to easily modify and add tests to reflect the individual circumstances of the audited body, and to respond to audit risks identified. It also helps to facilitate our model of hybrid working, by allowing multiple team members to work on a single area simultaneously, as well as allowing reviewers to access all areas of the file in real time."*

**Anwen Worthy**  
Audit Lead

- 51 Using Microsoft Office 365, we have created a tool that has been fundamental to the delivery of community council audits. The tool is used for data entry, automation of audit tests, evidence gathering, recording of audit procedures and certification. An interactive Power BI report linked to the tool provides live management information on the status of the audits.

## Learning and development

52 We continue to invest heavily in learning and development to enhance the professional skills and knowledge of our staff. Staff are provided with an indicative allowance of ten days per annum to support their professional learning and development. This includes a tailored training programme for our trainees and apprentices designed to augment their development whilst working towards achieving their professional qualifications.

53 Our annual learning and development programmes contain two main elements:

- compulsory elements - these are designed to ensure that all staff receive training in new and key technical and core skill areas relevant to their roles; and
- 'on-demand' elements - these are identified from staff member's performance development reviews with their line manager and are designed to support an individual's personal development.

Staff can fulfil their learning and development needs through the 70-20-10 model. This involves learning 70% from experiential learning and from doing, 20% from others through observing, coaching and mentoring and 10% from formal training like courses, reading and online learning.

54 We are committed to continuous learning and are using the results and comments from our people survey to shape our approach to learning and development.

55 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.

56 A major part of our learning programmes in the past year has focused on updates to our audit of accounts and performance audit methodologies, which included collaboration with Audit Scotland to deliver training on professional scepticism to support our performance audit work.

57 Our personal development processes have been accredited as an appropriate continuing professional development (CPD) system for our staff by the Association of Certified Chartered Accountants (ACCA), the Chartered Institute of Public Finance Accountants (CIPFA) and the Association of Accounting Technicians (AAT).

58 We assess the effectiveness of our investment in professional development. For example, we expect line managers to discuss the effectiveness of any learning and development activities and how it has been applied in practice.

59 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.

60 We are developing in-house a project learning app to capture learning over the life of a project. Project teams will use the tool to identify strengths, areas for improvement and share learning. The tool will allow learning action points to be logged centrally, tracked and analysed for themes. This will help us to identify learning and development needs more effectively.

## Third line of assurance: independent assurance

### External Monitoring

- 61 We are currently in our third contract for external quality monitoring with the Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW). QAD is the largest regulator of companies audit in the UK and the regulator of local government audit in England.
- 62 We summarise in the next section – Cold Reviews – the work undertaken for us by QAD in the past year.

### Cold reviews

- 63 Cold reviews are reviews of whole audits to assess compliance with prescribed quality standards. They are carried out after the audit is finished. These reviews are assessed against a four-point scoring system as described in **Part 3** of this report.
- 64 We have a formal policy of rotating 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.
- 65 We also aim to achieve representative coverage taking account of audit sectors, body size and complexity.
- 66 For our 2021-22 audit of accounts, this review programme was undertaken by QAD.
- 67 For performance audit we operate a rotational approach to cold reviews. Our method means that all performance audit managers will receive a cold review within a three year period. In addition we aim to achieve representative coverage of audit directors, audited bodies, and the types of audits.

- 68 Historically, QAD's remit has been limited to reviewing our audit of accounts work. In 2022, we successfully piloted use of QAD for external reviews of performance audit work.
- 69 For 2023, we fully adopted external review of performance audit. These reviews were carried out by QAD using the same scoring scale as the audit of accounts reviews. We undertook post-project learning exercises with some teams involved with the reviews to improve and enhance the process going forward.

*"Cold review is an important part of our three lines of assurance model. External cold review has brought several benefits compared with our previous method of internal cold review. For example:*

- *Providing greater consistency and confidence in the results because the reviewer is an independent third-party.*
- *Going beyond compliance to provide a value-added focus to reviews.*
- *Leveraging the assessor's depth and wealth of knowledge to identify successful practices and opportunities for improvement.*
- *Raising the internal profile of quality review activity.*

*We have used QAD's findings from the pilot and this year's programme to help develop our learning and development programme and other quality support activities e.g. themed reviews."*

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**Tom Haslam**  
Audit Manager

- 70 We outline QAD's overall findings in **Part 3**.
- 71 We participate in a network of audit agencies from across the UK and Ireland. This includes an annual programme of peer review of some performance audit reports. We intend to use the results from these reviews as part of our INTOSAI related work on updating our reporting templates and writing approach.

## Themed reviews

- 72 Themed reviews are unscored reviews of audit work which look at particular issues across several audits. All our themed reviews have been undertaken internally. 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. They are intended as learning exercises to identify if further training, guidance, or other support is needed.



- 73 Recent themed reviews have included the audit of accounting estimates and engagement lead responsibilities on smaller and less complex accounts audits. Also, this was the first year we undertook a performance audit related themed review of information and data governance.

*“To meet our data protection duties, audit teams must store information correctly. Each audit in our document management system contains a restricted folder, accessible only to audit team members. This ensures that staff only access personal and sensitive information as necessary to fulfil audit requirements. We support this approach through training and guidance.*

*This year, we carried out a thematic review of audit teams’ compliance with our restricted folder guidance. We sampled 16 audits, which covered all performance audit managers. The results show that staff understand and use the restricted folder well. We did find some inconsistencies across teams, which we will address by amending our guidance and providing e-learning.”*

**Gareth Jones**

Audit Lead

**Yazmin Steelandt-Humphries**

Data Protection Officer

## Root Cause Analysis

- 74 Root Cause Analysis (RCA) is a collective term that describes a wide range of approaches, tools, and techniques used to identify the primary causes of outcomes. Part of the RCA process is to identify appropriate actions to prevent recurrence of negative outcomes and promote recurrence of positive outcomes. RCAs are designed to reveal opportunities for continued improvement and encourage learning and development.
- 75 Our aim is to build quality monitoring RCA activities into routine processes. RCAs will take place where we have identified issues or positive outcomes that would benefit from further exploration. To help determine our RCA approach and policy, we have:
- Increased our RCA knowledge by establishing an internal RCA stakeholder group and engaging with other audit institutions.
  - Undertaken five RCA pilots – three covering identified issues that had emerged within different teams within the organisation and two looking at positive outcomes.
  - Begun identifying specific learning and development activities to build RCA skills and capacity.

*“RCA helps us understand the underlying issues - not just the symptoms - and use this to prevent future issues or to repeat successes. The RCA pilots are already achieving positive impacts on our business processes, ensuring similar incidents are less likely, and providing assurance that actions underway will address the issue’s root causes.*

*RCA skills and techniques can also be used during audit delivery. For example, making sure our recommendations are targeted at root causes not symptoms. We’ve delivered four workshops to approximately 60 auditors on the principles and application of RCA approaches.”*

**Katherine Simmons**

Audit Lead

## Engagement Quality Control Reviews (EQCRs)

- 76 EQCRs are reviews of accounts 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.
- 77 Our 2021-22 audit year EQCR work included reviews of proposed audit report modifications including the audit of the Welsh Government and Betsi Cadwaladr University Health Board. We also carried out consistency checks relating to issues common to several audit bodies.

## Audit Quality Committee

- 78 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 of Corporate Services (Chair);
  - Audit Wales’ Executive Director of 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 Office.
- 79 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.

80 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 of Corporate Services' Independent Report, which forms part of this Quality Report.

### **Audit Quality Board Link**

- 81 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.
- 82 We believe this role is an important component of our ambition to achieve continuous improvement in audit quality.

# Part 3: Audit quality outcomes

## Cold reviews

- 83
- We describe in **Part 2** of this report the cold review processes we have in place to evaluate the quality of completed audits.
- 84
- We summarise below the outcome of those reviews, using a four-point scoring system:
- 1 – Good
  - 2 – Generally acceptable
  - 3 – Improvements required
  - 4 – Significant improvements required
- 85
- Audit Wales’ current target is that 100% of audits sampled should be assessed as 2 or above.

### Audit of accounts cold review outcomes

- 86
- As set out in **Part 2**, QAD undertook the cold review programme for 2021-22 audit of accounts. The results of those reviews are presented in **Exhibit 3** by financial year of audit.

**Exhibit 3: audit of accounts cold review outcomes by audit year from 2019-20 to 2021-22**



Source: QAD

87 Outturn against our current target is summarised in **Exhibit 4**.

**Exhibit 4: audit of accounts – target comparison**

KPI	Target	2019-20	2020-21	2021-22	Three-year average
Assessed as 2 or above	100%	100%	75%	100%	92%

Source: Audit Wales

88 All audit files reviewed met our quality target and QAD's overall findings were as follows:

'Overall, the audit work we reviewed continued to be of a good standard, with all engagements reviewed being either good or generally acceptable.'

89 QAD identified some areas for improvement in the sample of files reviewed and a common theme related to the reliance on the work of another auditor or expert. We have invested in additional auditor's experts in key areas, including property valuations and pension valuations. We have also needed to be mindful of the cost to the public purse and other external factors, including HM Treasury's Thematic Review of Non-investment Asset Valuation for Financial Reporting Purposes.

*"The expectations of regulators of audit quality are driving the need for greater investment in professional services to support our audit work, such as property valuations and actuarial reviews of pension liabilities.*

*We have invested for 2022-23 audits to establish a baseline to enhance our understanding in these highly technical and complex areas.*

*Building on these experiences, we will be assessing the value of this investment and developing a strategy for obtaining future assurance in such key risk areas. Part of this strategy is to build on this work and develop more specialist skills and expertise across audit teams in these areas."*

**Terry Jones**

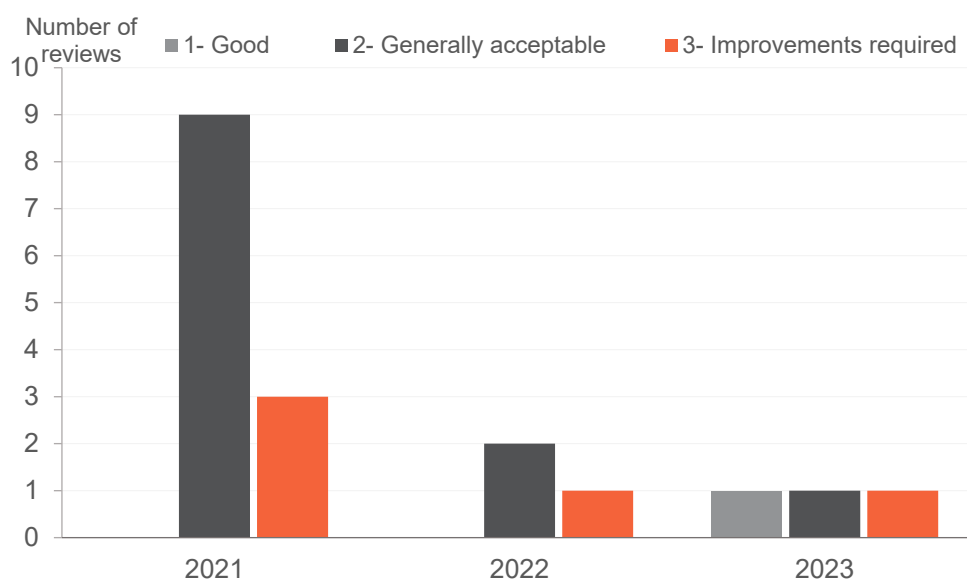
Technical and Quality Manager

- 90 QAD identified some areas of good practice as follows:
- 'Clear documentation (including the agreement to the fixed asset register and the links to work performed);
  - Good evidence of the new Engagement Lead holding a meeting with the Audit Manager and the Audit Lead to discuss the key issues; and
  - Points raised by the consulting actuary for follow-up had been clearly addressed.'

## Performance audit cold review outcomes

- 91 Performance audit work does not necessarily coincide with a particular financial year. In 2021 and 2022 we carried out and scored cold reviews internally. As stated in **Part 2**, in 2022 we also piloted external reviews of performance audit work by QAD, which were unscored. The pilot was successful and in 2023, QAD undertook and scored all performance audit cold reviews.
- 92 As part of our move to external cold review we reduced the total number of cold reviews each year to one per audit director. This was consistent with our audit of accounts cold review approach and our aim to cold review each performance audit manager once in a three year period.
- 93 The outcomes of the cold reviews presented in **Exhibit 5** refer to the calendar years in which the cold reviews were completed and reported.

### Exhibit 5: performance audit cold review outcomes by calendar year from 2021 to 2023



Source: Audit Wales (2021 and 2022), QAD (2023)

94 Outturn against our current target is summarised in **Exhibit 6**.

**Exhibit 6: performance audit – target comparison**

KPI	Target	2021	2022	2023	Three-year average
Assessed as 2 or above	100%	75%	67%	67%	70%

Source: Audit Wales

95 Two of our performance audit files met our 2023 cold review target. In relation to the third cold file review, QAD identified areas where we can strengthen our future approach to those reviews we deliver across all audited bodies in a specific sector. We have changed the local government team to ensure all thematic work is managed and delivered by a central team. This approach will ensure consistency and build a stronger knowledge of the audit subject matter. The central team will develop the audit methodology, facilitating a stronger approach to planning and developing audit criteria, which should increase impact at both a national level and locally within individual councils. The structural changes to the local government team should ensure closer links with national studies audit activity reducing the risk of duplication and supporting a more collaborative approach. We are also reviewing the council Annual Risk Assessment (ARA) methodology to strengthen the risk-based approach to conducting local government thematic work.

96 QAD's overall findings for the performance audit reviews were as follows:

- 'On the whole we found that the performance audits complied with the requirements of the PADM (audit manual).
- Audit Wales is in a transitional phase to implementing INTOSAI standards in relation to their performance audit work.'

97 In addition, QAD found some good practice within each of the performance audit files reviewed. This included:

- Clear audit questions alongside the use of positive indicators (equivalent to audit criteria for the purpose of this review), which the report adequately addressed.
- Evidence grids showing a clear audit question hierarchy, with a logical structure and order and relevant prompts to enable a deeper level of questioning.





- Clear recording of how comments to the draft report were reviewed and, where applicable, addressed.
- Well defined work that stayed within the scope set.



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	information on our <b><u>forward performance audit work programme 2023-2026</u></b> which is shaped by stakeholder engagement activity and our picture of public services analysis.
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