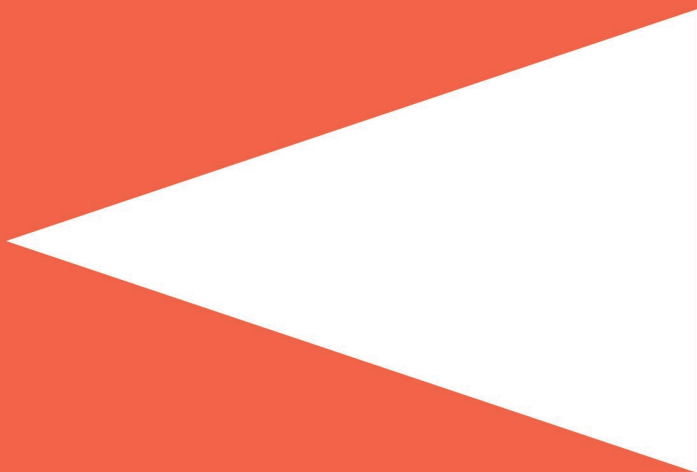


# Audit Quality Report 2022

Building trust in audit

October 2022



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.

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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Corresponding in Welsh will not lead to delay.

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

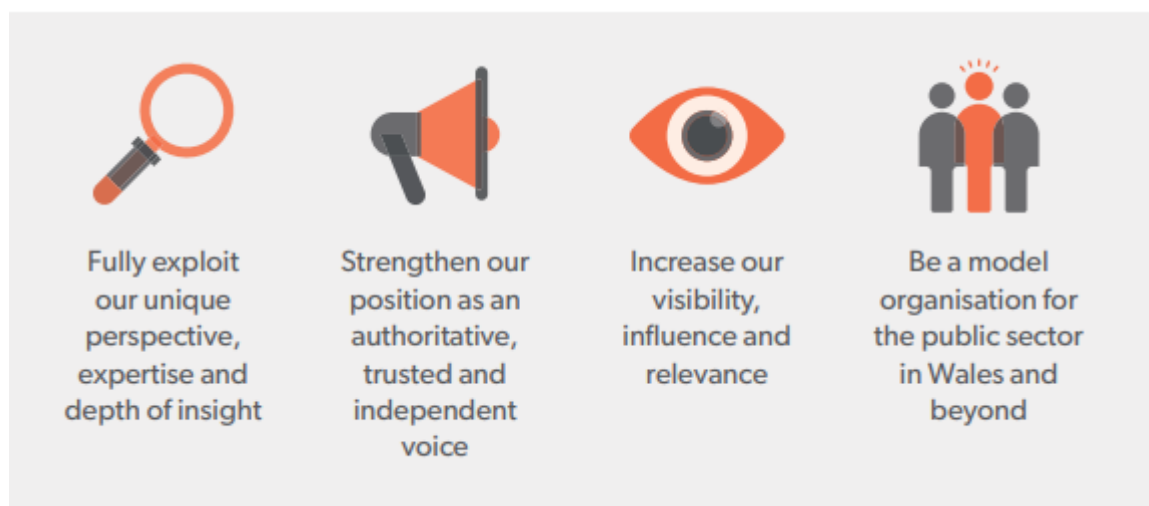
# About Audit Wales

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 2022-23](#).

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# The importance of audit quality

In our foreword to our Audit Quality Report 2021, we emphasised that audit has a significant role to both support and hold government to account as it dealt with one of the biggest peacetime agendas government has faced. Over the past year, those challenges have widened as fuel shortages and the rising cost of living have added even greater urgency and complexity to the business of government.

As auditors we need to be able to respond effectively to these challenges. In the past year, we have published our new five-year strategy<sup>1</sup>, which identifies three areas of focus where we will prioritise our actions:

- strategic, dynamic and high-quality audit programme.
- targeted and impactful approach to communications and influencing.
- a culture and operating model that enables us to thrive both now and in the future.

As the Strategy identifies, developing the right culture is essential to allow us to thrive and therefore to achieve high standards of audit quality. In its December 2021 publication about audit firm culture<sup>2</sup> the Financial Reporting Council (FRC) highlighted the importance of a purpose-led culture, founded on audit quality and maintaining trust at its core. This is fundamental to what we hold to be true for Audit Wales.

If we are to be seen and accepted as a trusted commentator, we need to continue to build a culture focused on quality. This has never been more important than now when leading firms globally are facing record fines for deficiencies in their audit quality; in two instances, for providing false and misleading documents and information to regulators<sup>3</sup>; and, in the USA, for supporting cheating in elements of professional examinations<sup>4</sup>.

We believe that while the public sector audit model in Wales is very different, it is also in our view more robust: our independence is enshrined in legislation; our audit teams have a shared focus on the public good and the highest standards of integrity; and, as outlined in this report we are investing, and will continue to invest, in audit quality. It is pleasing to see and hear the positive feedback we receive from ICAEW's Quality Assurance Department (see **Part 3**): in part, about their generally good findings in relation to our audit work; but also, about our organisational willingness to learn and to develop.

We can never be complacent. We must continue to develop and to adopt best professional practices; and must also continue to put audit quality at the heart of our

<sup>1</sup> [Assure, Explain, Inspire. Our strategy 2022-27](#)

<sup>2</sup> [Audit Firm Culture: Challenge. Trust. Transformation](#)

<sup>3</sup> [Sanctions against KPMG and others in connection with Regeneris & Carillion audits](#)

<sup>4</sup> [Ernst & Young to Pay \\$100 Million Penalty for Employees Cheating on CPA Ethics Exams and Misleading Investigation](#)

organisational decision-making. And we must be open about the challenges we face and how we plan to overcome those challenges, which we set out to do in this Report.

In recent months, we have been in discussions with both the UK and Welsh Governments about the potential establishment of a more formal framework for the independent supervision of the quality of the work of auditors general. 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. In that spirit of transparency we will therefore continue to engage constructively in these conversations.

We hope through this report, and through the messages we outline above, that we continue to build confidence and trust in the quality of our work.



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**Adrian Crompton**

Auditor General for  
Wales



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**Lindsay Foyster**

Chair of the Wales  
Audit Office

# Focusing on quality to build trust and confidence

High standards of audit quality are essential to realising our ambitions as Audit Wales and for building trust and confidence in our work. My fundamental focus as Executive Director of Audit Services is on driving the development of our arrangements for delivering high quality audit and on our processes for monitoring that quality.

The **first line of assurance** in our Three Lines of Assurance model is **our people**. Achieving high standards of audit quality relies upon us being able to recruit, retain and develop talented and engaged individuals committed to achieving audit quality. One of the big challenges we faced earlier in the period covered by this report was filling vacancies across Audit Services. I am pleased that we have been largely successful in filling those vacancies, but major challenges remain. Media reports and recruitment studies repeatedly highlight a shortage of applicants for vacancies right across the audit, accounting and other professional services – which mirrors our recent experience – with many firms significantly enhancing their remuneration packages to gain a competitive advantage in the market. We are currently developing a workforce plan for Audit Services that will have the development of our people at its core. It is only through investing in our people and giving them opportunities to develop and flourish that we can ensure we have the skills we need both today and in the future.

Through our **second line of assurance** we put in place **policies, tools, learning and development, guidance and leadership** to support our audit teams in achieving those standards of audit quality to which we aspire. In the past year we have invested in our technical support function, which is central to much of what we need to put in place to support our audit teams. And through that support function – working with others right across Audit Wales (and with counterparts in the other UK audit agencies) – we have focused on developing our audit approaches through implementing new risk-based standards for our audit of accounts<sup>5</sup> work and introducing new professional standards for our performance<sup>6</sup> audit work. Adopting new standards brings elements of unfamiliarity and change for audit teams which has the potential to adversely impact audit quality results in the short term.

In order to mitigate these risks our revised audit approaches are supported by bespoke audit platforms, built using Microsoft 365 functionality, which are specially tailored to our particular needs. The launch of our new audit approaches and platforms is also underpinned by extensive learning and development programmes and planned ongoing support to equip our audit teams with the knowledge and confidence they need to use these tools to achieve high standards of audit quality.

<sup>5</sup> ISA (UK) 315, Identifying and Assessing the Risks of Material Misstatement for audit of accounts work

<sup>6</sup> INTOSAI standards for performance audit work

Through our **third line of assurance**, we obtain **independent assurance** over the effectiveness of the first two lines of assurance and help to identify opportunities for continued improvement. In the past year, we have enhanced, and are continuing to develop, our arrangements for obtaining independent assurance, including:

- expanding the quality review programme of our audit of accounts by the Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW);
- extending QAD review on a pilot basis to our performance audit work for the first time;
- developing root cause analysis (RCA) processes to effectively understand the barriers to achieving audit quality (and to learn how to better share areas of identified good practice); and
- investing in developing a new system of quality management in line with ISQM 1<sup>7</sup> (ahead of the 15 December 2022 implementation date).

My overriding vision for the public audit model in Wales is that it remains relevant and robust; accords with best professional practice across the world; and is rightly deserving of confidence and trust. We owe it to the people of Wales to achieve this vision. We can only do this if we build on the strong foundations we already have in place; work to identify and adopt best professional practice from across the global profession; and continue to invest to deliver the high-quality audit our society needs and deserves.



**Ann-Marie Harkin**

Executive Director  
of Audit Services

<sup>7</sup> ISQM 1, Quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements



# 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.

## Effectiveness of arrangements

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). I was pleased to see the successful completion of the extended programme of accounts reviews by QAD and confirmation that this will continue for reviews of 2021-22 audits.

I was also pleased to see the extension of the QAD review programme to cover our performance audit work on a pilot basis for the first time and that the Executive Director Audit Services plans to extend that pilot for a further year.

I have observed during the year that good progress has been made in implementing new professional standards to underpin our accounts and performance audit work which will serve to enhance the rigour of that work. I have also noted progress being made in implementing a new system of quality management, to be effective from 15 December 2022. I look forward to supporting the embedding of this new system through the Audit Quality Committee.

## Adequacy of resources

I outlined in our Audit Quality Report 2021 my historical concerns about the level of resource available to support and develop our audit quality arrangements. In that report, I also reflected on recruitment by the Executive Director Audit Services to respond to this situation and on our investment in audit quality more widely.

Following this investment, and as outlined above, I have been pleased to see the very good progress that has been made across a range of major initiatives to enhance our audit quality arrangements.

However, 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

## 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



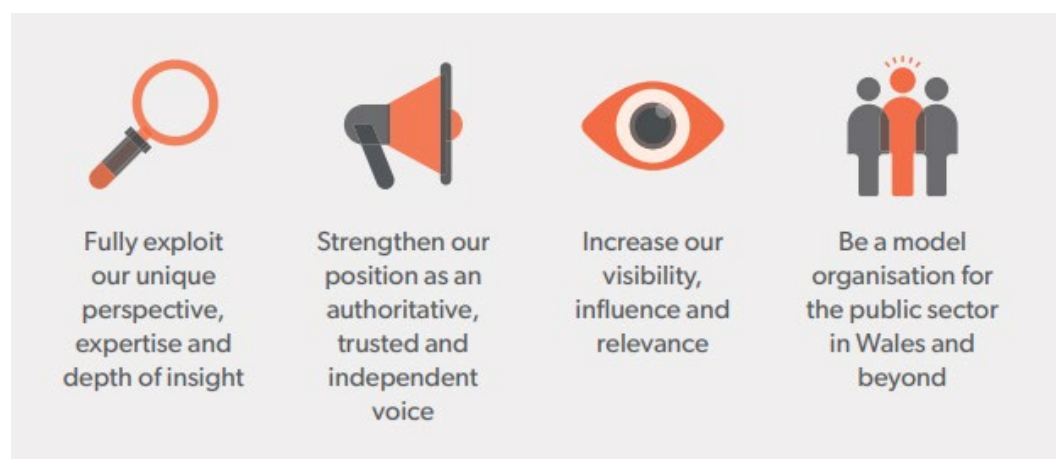
Source: Audit Wales Annual Plan 2022-23

- 8 More information about our work programme is available in our [Annual Plan 2022-23](#).

## Our strategic ambitions

- 9 As summarised in **Exhibit 2**, we have identified four broad ambitions for our business. Collectively, they describe 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.

## Exhibit 2: our strategic ambitions



Source: Audit Wales Annual Plan 2022-23

## Developments in the wider audit profession

- 10 In March 2021, the UK Government published a 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.
- 11 In May 2022, the UK Government published its response to this consultation on strengthening the UK's audit, corporate reporting and corporate governance system. This response notes that implementing change in a proportionate and cost-effective manner will involve '... a range of actors – not just government – taking forward multiple strands of reform over a period of several years.'
- 12 The UK Government has determined that efforts to improve the informativeness and quality of audit are best taken forward by the proposed new regulator - Auditing, Reporting and Governance Authority (ARGA). We will continue to monitor these developments.
- 13 The original consultation document made proposals about the independent supervision of the quality of the work of the UK auditors general. The UK Government's response indicates that it will work with government, audit and legislative bodies in the UK to respond to this proposal. We are currently in discussion with the Welsh and UK governments about this proposal.

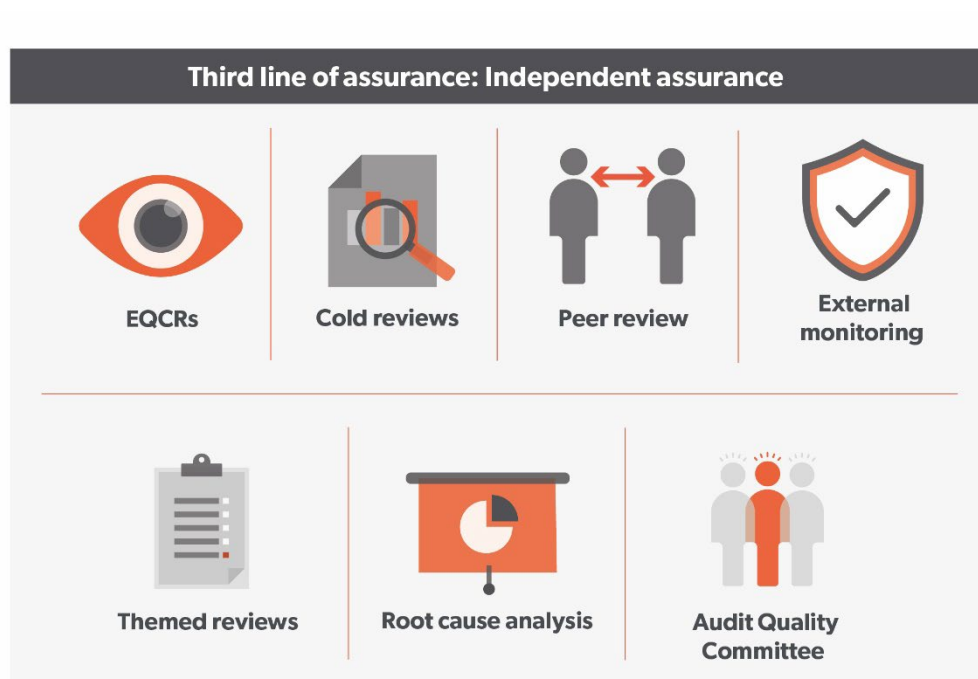
# Part 2: Achieving audit quality

## How we achieve audit quality

- 14
- We describe in **Part 1** of this report how 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.
- 15
- We use a three lines of assurance model to demonstrate how we achieve this.

Exhibit 3: our three lines of assurance model





Source: Audit Wales

- 16 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.
- 17 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.
- 18 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

- 19 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.
- 20 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.

'I have just completed my final year as an AAT apprentice at Audit Wales and have recently transitioned onto the ICAEW graduate trainee scheme. I was humbled to receive the Student of the Year Award for AAT Level 4 at college. My colleagues have been instrumental in helping me through my training and development so far. I am looking forward to gaining more experience at Audit Wales.'

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**Alice Taylor**

Audit Trainee

- 21 One of the challenges we continue to face – along with professional services organisations in general - is increased market demand for newly qualified accountants and auditors. We are reviewing our recruitment activities to raise awareness and attract more applicants and are developing measures to enhance our ability to retain staff.
- 22 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.
- 23 There will be occasions where aspects of our work involves highly specialist areas, for example, the review of pension actuarial assumptions and of property valuations. In these instances, we engage with suitably qualified external experts to provide additional support for our work. The development of in-house specialists who will receive in-depth training 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

- 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 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.
- 25 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

- 26 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.
- 27 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.
- 28 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 King or 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 King or 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.
- 29 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.
- 30 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.
- 31 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.

- 32 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.
- 33 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 Audit Wales and the requirements of the Ethical Standard.
- 34 Training is provided to staff on a regular basis to raise awareness of our independence policies and procedures.

## **Audit guidance and tools**

- 35 An important component of achieving audit quality is establishing standardised approaches to carrying out our work.
- 36 Our performance audit work is undertaken in accordance with our Performance Audit Delivery Manual. We are updating this manual to base it on the performance audit standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI). As part of our implementation of INTOSAI standards we have reviewed all our current performance audit processes and evaluated our quality control arrangements at key points in that process.
- 37 We are undertaking work – based on international research and good practice - to improve the audit impact of our work. In the first phase of this work, we are focusing on:
- developing a strategic work programme;
  - writing good recommendations;
  - follow up of previous audit recommendations; and
  - post project learning.

'Writing good recommendations relies on effective critical thinking and analysis, which we have made a priority in our 2022-23 Learning and Development programme. As part of this, in July Audit Scotland delivered a professional scepticism and judgement workshop to our health performance audit team.

Participants told us they found the workshop valuable and were keen to put the ideas into practice when analysing evidence and creating recommendations.

We now intend to work further with Audit Scotland to deliver this workshop to all performance audit colleagues.'

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**Gareth Jones and Katherine Simmons**

Audit Leads

- 38 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.
- 39 We also issue certification instructions that set out guidance on undertaking grants certification work.
- 40 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.
- 41 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.

'The Analytics Assisted Audit (AAA) tool, developed by our Data Analytics team, can run key audit tests and presents the results clearly to highlight any anomalies in the data which could indicate a risk of material misstatement. Whilst developing the revised accounts audit approach for 2022-23, I am liaising with the data analytics team on how AAA can be used to enhance the more risk-based approach which includes understanding in greater depth how figures flow into accounts.'

**Amy Lord**  
Audit Lead

## Technical support

- 42 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 and supports the learning and development of our audit teams.

## Audit platforms

- 43 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 has been piloted on several 2021-22 audits ahead of a planned full roll-out for 2022-23 audits.
- 44 The use of such platforms allows us to increase consistency in documentation and audit approaches and to build in quality checks within our systems.
- 45 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

- 46 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 an indicative allowance of ten days per annum to support their professional learning and development.
- 47 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 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.
- 48 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.
- 49 Our personal development processes have been accredited as an appropriate continuing professional development (CPD) system 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).
- 50 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.
- 51 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.
- 52 Over the coming months, as we implement new audit quality standards (below), we will be developing a new root cause analysis (RCA) policy and process, which is a systematic method for identifying the primary causes of a problem. As we design this process we have completed a small number of RCA pilots, which has enabled us to develop our thinking about RCA.

## Third line of assurance: independent assurance

### External Monitoring

- 53 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.

54 We summarise in the next section – Cold Reviews – the work undertaken for us by QAD in the past year.

## Cold reviews

55 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.

56 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.

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

58 For our 2020-21 audits, this review programme was undertaken for us by QAD.

59 We 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. This programme has been undertaken by reviewers from Audit Wales.

60 The outcomes of both these programmes are reported in **Part 3**.

61 Historically, QAD's remit has been limited to reviewing our audit of accounts work. However, we commissioned QAD to carry out work on a pilot basis to review a sample of performance audit work from the past year. These reviews were not scored. The purpose of this pilot was to obtain an external perspective on the adherence of our performance audit work to our quality standards and best professional practice.

62 We outline QAD's overall findings from these pilots in **Part 3**.

63 We participate in a network of audit agencies from across the UK and Ireland. This includes an annual programme of peer reviewing some performance audit reports.

## Themed reviews

64 Themed reviews are unscored reviews of audit of accounts work which look at particular issues across several 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.

65 Recent themed review work has 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)

- 66 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.
- 67 Our 2021-22 EQCR work included reviews of audits of a newly appointed Director; a number of proposed audit report modifications; and consistency checks relating to issues common to several audit bodies.

## Audit Quality Committee

- 68 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.
- 69 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.
- 70 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

- 71 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.

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

## **New quality management standards**

- 73 Significant changes to our quality management arrangements will need to be made in response to new / revised quality standards, which take effect from 15 December 2022.
- 74 As far as practicable these standards will be applied to all our work through the Auditor General's Code of Audit Practice.
- 75 We have developed an implementation plan and are making good progress in developing a new system of quality management by this target date.

'Responding to the challenges of an increasingly complex audit ecosystem means that we need to take an integrated whole system approach to proactively managing risks to achieving audit quality. We need to embed high audit quality into our culture, strategy and all of our operational activities. I am currently in the process of assessing tailored risks using a bottom-up approach with colleagues from across the organisation. I am also liaising with our counterparts across the UK to benchmark outputs and ensure that our newly designed processes accord with best professional practice.'

**Aneesha Ali**

Audit Lead



# Part 3: Audit quality outcomes

## Cold reviews

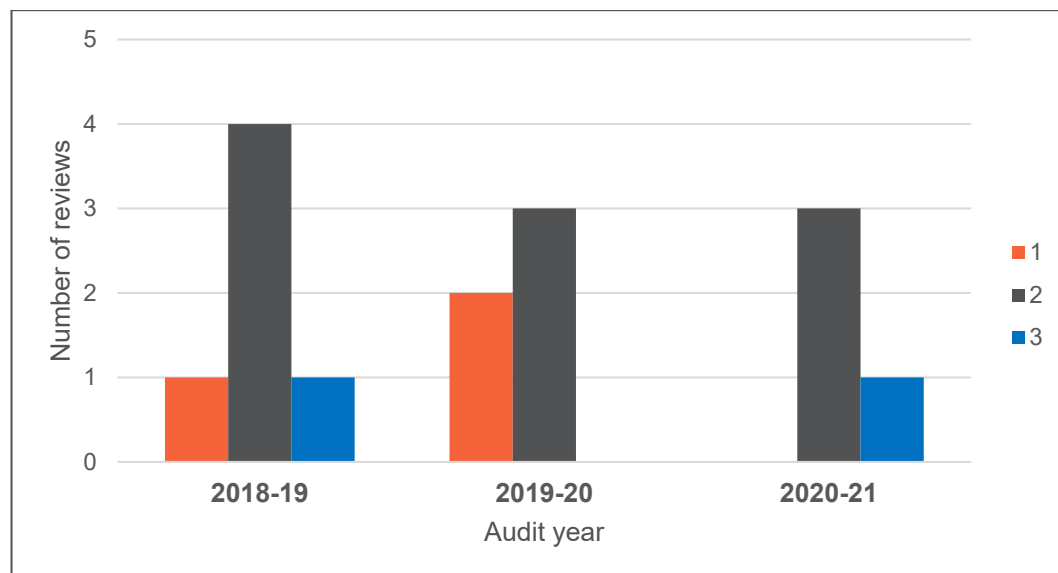
- 76 We describe in **Part 2** of this report the cold review processes we have in place to evaluate the quality of completed audits.
- 77 We summarise below the outcome of those reviews, using a four-point scoring system<sup>8</sup>:
- 1 – Good
  - 2 – Generally acceptable
  - 3 – Improvements required
  - 4 – Significant improvements required
- 78 Audit Wales' current target is that 100% of audits sampled should be assessed as 2 or above.

### Audit of accounts cold review outcomes

- 79 As set out in **Part 2**, the audit of accounts cold review programme for 2020-21 audits was undertaken by QAD. In previous years that programme was undertaken by Audit Wales reviewers. The results of those reviews are presented in **Exhibit 4** below by financial year of audit.

<sup>8</sup> We have adopted the new QAD / FRC scoring system summarised in paragraph 76. However, for historical comparison purposes, previously reported scores equate to this framework as follows: 1=1; 2a= 2, 2b= 3 and 3=4.

#### Exhibit 4: audit of accounts cold review outcomes



Source: QAD

- 80 One audit of accounts did not meet our target of all audits being assessed as 2 or above. Where this happens we consider what further actions we need to take, which may include further reviews if we are concerned there the identified issues applied across our wider audit work along with follow up in the following year to confirm that the issues have been addressed.
- 81 QAD scored this audit as a 3, because there were several areas where some improvement was required rather than a single issue of major concern. The issues did not impact on the appropriateness of the audit opinion. A pilot root cause analysis was therefore undertaken on the audit. This identified a range of learning for the audit team, Audit Wales and the wider profession..

'Receiving an 'Improvement required' rating on an audit which you've worked hard on difficult issues, is tough to take. So the team and I welcomed a 'Root Cause Analysis,' involving our quality and technical colleagues, to help us all understand what, why and how we could improve. The sensitive and objective review identified root causes, gave the audit team confidence in their work, quick wins, and some key learning for our Audit Wales approach.'

**Clare James**  
Engagement Lead

82 Outturn against our current target is summarised in **Exhibit 5**.

**Exhibit 5: audit of accounts – target comparison**

KPI	Target	2018-19	2019-20	2020-21	Three-year average
Assessed as 2 or above	100%	83%	100%	75%	87%

Source: Audit Wales

83 QAD's overall finding about our audit of accounts work was that:

'Overall, the audit work we reviewed continued to be of a good standard, with all but one engagement reviewed being generally acceptable.'

84 A theme identified by the 2020-21 QAD cold reviews related to the audit of asset valuations. We have introduced new procedures to enhance our audit approach in this area for 2021-22 audits and are exploring other measures for subsequent years.

85 The audit approach to asset valuations has been an area of increased focus across the profession for several years. The accounting framework for public sector assets is currently being reviewed by HM Treasury.

86 QAD identified some areas of good practice across the audit of accounts files reviewed as follows:

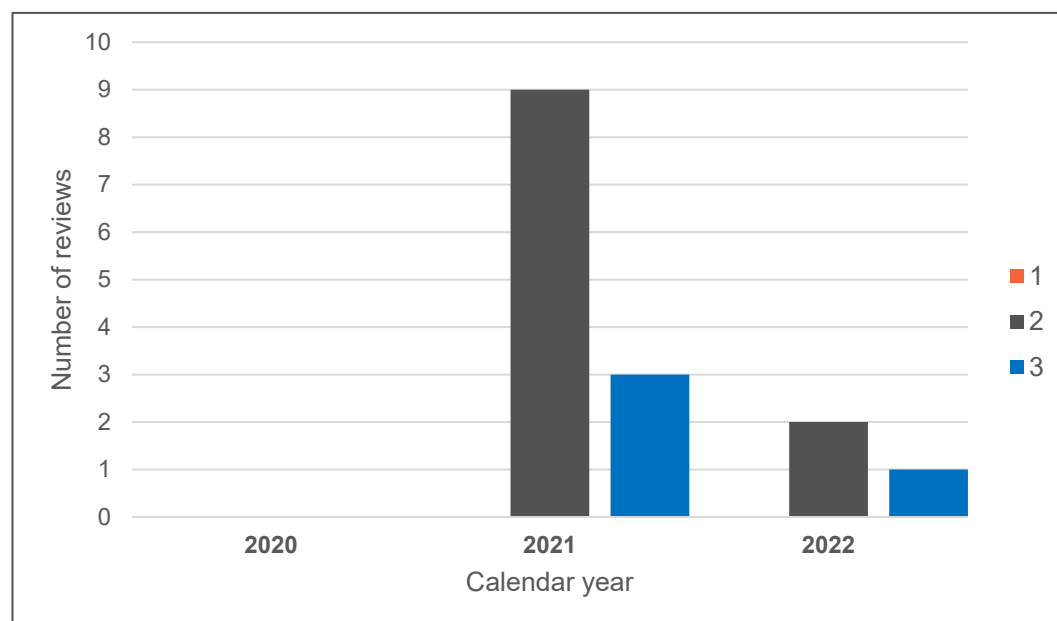
- 'Clear documentation of the journal selection process;
- A clearly articulated testing strategy;
- A clearly set out and well documented audit file;
- Consideration of both income and expenditure when determining the risk of fraud in revenue recognition at the planning stage;
- Detailed systems notes; and
- Clear documentation of the discussion at the engagement team planning meeting and the actions arising from this meeting.'

**Performance audit cold review outcomes**

87 Performance audit work does not necessarily coincide with a particular financial year. The outcomes of the cold reviews undertaken by Audit Wales reviewers are

presented in **Exhibit 6** below by reference to the calendar years in which the cold reviews were completed and reported.

#### Exhibit 6: performance audit cold review outcomes



Source: Audit Wales

- 88 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.
- 89 Outturn against our current target is summarised in **Exhibit 7**.

#### Exhibit 7: performance audit – target comparison

KPI	Target	2020	2021	2022	Three-year average
Assessed as 2 or above	100%	N/A	75%	67%	73%

- 90 For 2022, we sampled four audits and scored three of them. For two audits most of the cold review measures were met and there were limited concerns in relatively isolated areas. The third audit met some of the cold review measures, but more gaps or weaknesses were evident.
- 91 The fourth audit was not scored, but received a narrative judgement because it was not a standard performance audit. We plan to use what we have learnt from this review to develop an alternative quality regime suitable for such outputs in future.
- 92 This year we supplemented the in-house programme by piloting external review of performance audits using QAD. For two additional performance audits, QAD provided a non-scored narrative summary, reflecting the fact that this was a pilot exercise.
- 93 QAD's overall findings for the performance audit reviews were as follows. 'On both performance audits, there is an opportunity to strengthen the report output by:
- having a clear understanding of who the report's target audience is;
  - identifying a set of audit criteria on which the focus of the report can be assessed;
  - critically assessing the evidence gathered against these criteria; and
  - reframing the recommendations to ensure that they are impactful, the prioritisation is clear, and the relevant parties understand what implementing the recommendation will, should or could achieve.'
- 94 QAD also identified some good practice in evidence collation and use of SharePoint functionality to support the audit trail.

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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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