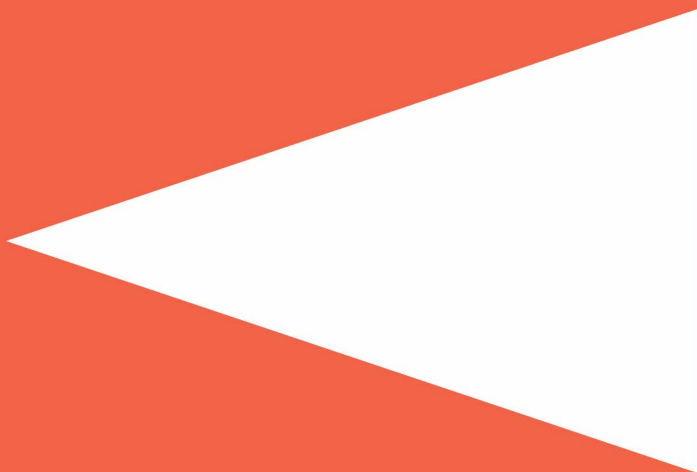


Audit Quality Report 2024

Strengthening trust in audit

November 2024



This Audit Quality Report outlines our audit quality arrangements and unwavering commitment to delivering and investing in high-quality audit services. It provides our audited bodies, the wider public and the Finance Committee with a clear view of the robust measures we employ to ensure the highest levels of integrity and excellence. The report details the results of our monitoring activities for a sample of accounts audits relating to the 2022-23 financial year, together with a sample of performance audit reports published in the 2023 and early 2024 calendar years.

Audit Wales is the 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 Wales Audit Office in sections where legal precision is needed.

If you require this publication in an alternative format and/or language, or have any questions about its content, please contact us using the details below.

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

Ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome correspondence and telephone calls in Welsh and English.

Corresponding in Welsh will not lead to delay.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

This document is also available in Welsh.

About Audit Wales

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

Our purpose

 Assure people that public money is being managed well

 Explain how that money is being spent

 Inspire the public sector to improve

Our vision

Increase our impact by:


Fully exploiting our unique perspective, expertise and depth of insight

Strengthening our position as an authoritative, trusted and independent voice


Increasing our visibility, influence, and relevance

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

Our areas of focus

 A strategic, dynamic, and high-quality audit programme

 A targeted and impactful approach to communications and influencing

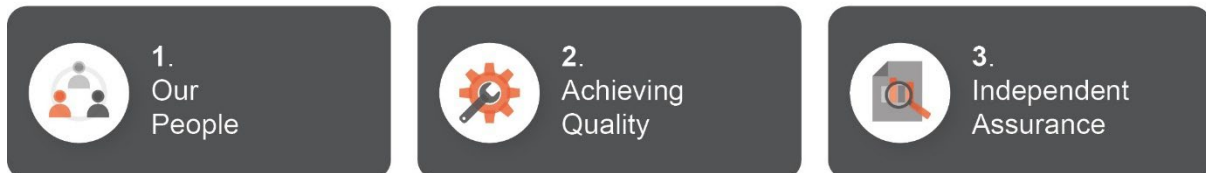
 A culture and operating model that enables us to thrive

You can find out more about Audit Wales in our [Annual Plan 2024-25](#) and [Annual Report and Accounts 2023-24](#)

Report Highlights

Audit Quality Arrangements

Our commitment to audit quality in Audit Wales is absolute. We use a **three lines of assurance model** to demonstrate how we achieve this:



Audit Quality Outcomes



Target Met: 100% of all 7 files selected for external cold review met our KPI target of 2 (generally acceptable) or above

International Standard on Quality Management (ISQM 1)



We **successfully implemented** a new quality standard to enhance our system of quality management

Our independent external reviewers concluded that the System of Quality Management **appears generally appropriate** for the size and nature of the organisation

Looking Forward

We continue to monitor whether further **developments** are needed to our three lines of assurance model.



Potential development areas include reviewing our accounts technical **support model**; **platform automation**; and

considering whether we can and should **use AI** to enhance our work and impact

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Building Lasting Confidence and Trust in Quality

In today's rapidly evolving public sector landscape, the importance of audit quality cannot be overstated. The public sector, UK companies and individuals across society continue to face major upheaval and uncertainty: from climate change to digital disruption; from significant pressures on public finances to the lingering vestiges of high inflation and interest rates; and, from the change of emphasis of a new UK government to the uncertainty of elections in Wales and Senedd reform in 2026.

At the heart of our commitment to the people of Wales lies an unwavering belief that audit will continue to have a significant role in holding Welsh public bodies to account in the face of these challenges: a commitment that is underpinned by principles of trust, confidence and transparency.

The forewords to our Audit Quality Reports over the past three years chronicle the initial planned, and subsequently significantly delayed, reform of audit. In July 2024, the new Government, through the King's Speech, announced that it intended to bring forward a draft Audit and Governance Reform Bill. In the absence of any significant detail, it is not clear how a new act will directly impact on Audit Wales.

However, we remain committed to applying best professional practices to all our work to ensure that our quality continues to be of a high standard; our work remains impactful; and as an organisation we continue to offer value for money to the Welsh taxpayer.

To do this, we believe therefore that we must be:

- a learning organisation: one that is open to new ideas; uses quality and other processes to continue to evolve; and, has a leadership that reinforces learning – one that embraces a culture of continuous improvement and that allows us to adapt and respond to our rapidly evolving landscape.
- ready, willing and safely able to exploit technological developments across various digital frontiers, including data analytics; artificial intelligence and machine learning; and automation.
- able to navigate the complexities of the modern audit landscape with a diverse, skilled, and agile workforce. We must be capable of attracting, developing, and retaining a workforce and ensuring that is well-supported to meet the challenges we are facing.

We continue to be rightly proud of our public sector audit model in Wales and are unwavering in our commitment to audit quality. If we are to build lasting confidence and trust in quality we must continue and renew our efforts to embrace continuous learning; harness the power of digital technology; and, to invest and develop our workforce.



Adrian Crompton
Auditor General for Wales



Dr Ian Rees
Chair of the Wales Audit
Office

Audit Quality: Developing a Roadmap for Continuing Success

My role as Executive Director of Audit Services is to put in place arrangements to achieve the highest standards of international professional practice and to create an environment in which audit quality can flourish.

Against the backdrop of significant changes in the past two years to our audit approaches, I was delighted with the outcome of the Quality Assurance Department (QAD) file review results summarised in **Part 3** of this report: with 100% of all files reviewed meeting our quality target.

This result is even more impressive, when viewed against the recruitment and retention challenges we have experienced in recent times along with our desire to return to pre-pandemic audit timetables.

In response to the recruitment challenges we have experienced, we have been largely successful in expanding our trainee and apprentice schemes and in recruiting to fill vacant posts. This has placed additional demands on us to provide support and training to new colleagues, in which we are investing, thus illustrating how the three lines of assurance operate together effectively.

These achievements also highlight the commitment, dedication and professionalism of our staff, for which I am hugely grateful.

I was also delighted that we were able to strengthen our Audit Quality Committee arrangements by expanding the Committee membership (from one to three independent members) with one of the independent committee members (Suzanne Jones) also assuming the role of Chair.

Over the past year we have continued to make progress across a number of other fronts, including:

- putting in place a new Audit Wales Workforce Strategic Plan;
- developing arrangements to bring forward our accounts and local performance work;
- ongoing work to fully embed ISA 315 and INTOSAI standards and to realise efficiencies from implementing these new standards;
- ongoing work to embed ISQM 1 risk management processes into our Audit Wales arrangements; and
- increasing the focus on financial analysis and outcomes in our work; developing a better approach to following up work and audit recommendations; and making reports easier to read and meet our audience needs.

A major highlight for us as an organisation in 2024 was to see so many colleagues come together in April for our all-staff conference, 'Setting the Stage for our Future', with numerous lively and engaging discussions about the future shape of audit.

I wholeheartedly support and agree with Ian and Adrian's ambition for us to be a learning organisation and one that is focused on developing our use of digital technologies, supported by an agile and skilled workforce.

To that end we have commenced work on an audit development 'roadmap'. This 'roadmap' will draw together developments impacting on our audit work and the response needed, including future skills and digital development; areas where investment may be needed; along with our benefits realisation strategy.

Building on the successes I have outlined and others, I fully believe that the 'blueprint' we are developing will help deliver the vision Ian and Adrian set out in their foreword: 'Building Lasting Confidence and Trust in Quality'.



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 of Corporate Services, and a member 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 our all-staff, forward-looking conference in April this year, entitled 'Setting the Stage for our Future' and to witness at the conference the exceptional enthusiasm and commitment of our staff.

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 also continue to work with the QAD of the Institute of Chartered Accountants in England and Wales (ICAEW) to provide us with necessary independent assurance regarding the quality of our audit work.

During the year, I observed that we have continued to embed our new audit approaches to support the rigour and efficiency of our audit work, which have been supported by an ongoing programme of training and technical implementation guidance. I have also noted further progress being made in implementing our system of quality management as we strive to embed the audit quality management standard (ISQM 1) (**paragraphs 86 to 94**) into our 'business as usual' arrangements.

I look forward to continuing to monitor these and other developments through the Audit Quality Committee.

Adequacy of resources

I outlined in our Audit Quality Reports for 2022 and 2023, that I was pleased to see the good progress that was being made across a range of major initiatives due to our investment in audit quality.

However, as Suzanne outlined in her case study (**paragraph 83**), the pace of change and level of regulatory change and expectations places demands on our support arrangements with increasing calls for ongoing investment. I believe that we recognise these pressures and are seeking to respond to these demands where this is necessary.

Overall, while there are ongoing challenges, I believe that we are well-placed to continue to make progress. I will, however, continue to monitor, challenge and report as necessary, on the adequacy of our evolving arrangements and of the resources committed to support those arrangements.



Kevin Thomas

Executive Director of
Corporate Services

Part 1: Overview of Audit Wales

Our purpose is to assure people that public money is being managed well, explain how that money is being spent, and inspire the public sector to improve

- 1 Independent audit of the activities of government and the use of public funds is an essential component of democratic accountability. Auditors carry out their work on behalf of the public in a way that is objective and impartial.
- 2 The [Auditor General for Wales](#) is the statutory external auditor for 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.
- 3 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.
- 4 Together, as Audit Wales, we audit around £27 billion of income and expenditure, which is over a quarter of Welsh GDP.
- 5 [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.

We undertake local and national audit work across a broad range of public bodies

- 6 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.
- 7 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.

- 8 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.
- 9 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.
- 10 We are committed to working closely with the other UK audit agencies through the Public Audit Forum, and with our colleagues at the other main external review bodies in Wales, to enhance the efficiency and the collective impact of our work. We are also proud to represent Wales on the international audit stage, including at EURORAI events.

Exhibit 1: our core work

 <p style="margin: 0;">Undertaking local audit work at over 800 public bodies, including:</p> <ul style="list-style-type: none"> • Audits of accounts • Local performance audit work • Sustainable development principle examinations 		 <p style="margin: 0;">Delivering a programme of national studies</p>		
 <p style="margin: 0;">Certifying grant schemes worth approaching £1.5 billion</p>	 <p style="margin: 0;">Supporting effective scrutiny including the work of the Senedd committees</p>	 <p style="margin: 0;">Sharing good practice and audit learning to support public service delivery</p>	 <p style="margin: 0;">Facilitating the detection of fraud and error through the National Fraud Initiative</p>	 <p style="margin: 0;">Approving around £2 billion of payments out of the WCF every month</p>

Source: Audit Wales Annual Plan 2024-25

Part 2: Achieving audit quality

Why is audit quality important?

- 11 Audit quality is the bedrock upon which all our work is built and on which our reputation is founded. High quality audit:
- builds trust and confidence in the work we undertake and in the bodies we audit;
 - helps ensure that audited bodies adhere to laws and regulations;
 - can uncover potential risks and weaknesses in a body's internal controls and value for money arrangements, allowing for timely corrective actions;
 - provides confidence in information used by bodies to make decisions; and
 - promotes transparency and accountability.

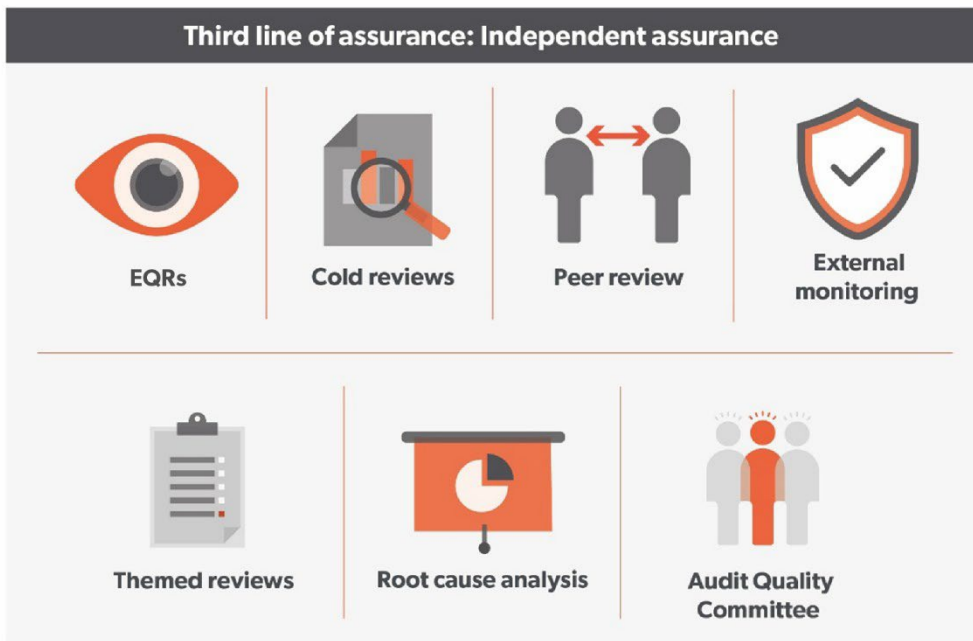
How we achieve audit quality?

- 12 Expectations of audit quality continue to increase. High quality audit requires committed teams who take personal responsibility for achieving audit quality and who are supported in the right way. Our relentless focus on transparency, accountability and continuous improvement reaffirms our dedication to fostering trust and confidence in our audit services.
- 13 International quality management standards¹ place great emphasis on integrating audit quality into our culture, strategy, operational activities, and all business processes (see **paragraph 86-94**).
- 14 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.
- 15 We use a three lines of assurance model to demonstrate how we realise our commitment to audit quality.

¹ 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.

Exhibit 2: 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 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,

our recruitment process includes a structured assessment of the candidate's skills and experience.

- 21 In July 2024, we finalised a new Strategic Workforce Plan covering July 2024 to June 2027. Against a wide range of external and internal challenges, the Plan identifies Audit Wales' workforce priorities for the next three years to support high quality audit work. In the first year, the Plan will focus on the following priorities:
- talent management and succession planning
 - skills development
 - backlog in delivery – recruitment, retention, increasing capacity
 - organisation design, roles and resourcing
- 22 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.
- 23 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.

'The environment in which our audited bodies operate is becoming increasingly complex as a result of the requirements of professional standards; the impact of the climate emergency; digital transformation; and is compounded by the challenging outlook for public services. As auditors we need to be able to respond to these challenges and ensure that we continue to obtain sufficient appropriate audit evidence, which includes obtaining expert advice from specialists such as actuaries and valuers.

We have been on a journey in commissioning such 'auditor's experts' – recognising the need to always balance demands on the public purse. We are pleased with the arrangements we have put in place and that we are able to respond to the expectations of regulators and drive real value from these engagements.'

Kate Havard
Audit Manager

24 In performance audit work, we frequently engage with specialists and organisations with relevant expertise to inform our work, including our audit criteria. For example, as part of our work on income diversification for National Park Authorities in Wales we engaged with officers from other National Park Authorities in the United Kingdom to identify alternative approaches. We also utilised good practice on programme management and risk management from sources including the Chartered Institute for Public Finance and Accounting (CIPFA) to develop our Affordable Housing audit criteria.

We work closely with the Future Generations Commissioner for Wales to co-ordinate our respective programmes of work and share knowledge and expertise. For example, the Commissioner's team have provided training and advice and informed the development of audit criteria. We also regularly share our insights and audit findings with the Commissioner. This included engaging as he developed his strategy and programme of work.

Second line of assurance: arrangements for achieving audit quality

Leadership and culture

25 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.

26 The Executive Director Audit Services is supported by audit directors and the wider leadership team in discharging these responsibilities and achieving audit quality.

27 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.

'Connecting the whole organisation to the importance of audit quality has been a priority for the Executive Leadership Team (ELT) during 2023-24. As illustrated through the three lines of assurance model, everyone in the organisation impacts on audit quality: our audit services teams, our corporate teams and our communication and change teams.

2023-24 saw us being more purposeful in relation to this. Feedback in the annual People Survey in 2022 indicated that some in the organisation felt the value of their work was not widely understood or appreciated. ELT committed to take action to address this. Bi-annual ELT Roadshows drew attention to and celebrated how each element of the business contributes to the delivery of our high-quality audit. This was also the emphasis of an all-staff event in April 2024 'Setting the stage for our future'. The thinking behind the all-staff event was to:

- deliver an event so that people could reconnect, build new relationships, and bring people from across Audit Wales together in-person for the first time since 2019 (pre-Covid).
- create a sense of 'One Audit Wales' – focus on our core business, highlighting the importance and value of audit as a profession.

It is vital that we continue to build bridges across the organisation to achieve maximum impact. It really is a case of the whole being greater than the sum of the parts.'

Anne-Louise Clark

Executive Director of Communications and Change

- 28 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 effective conversations. This is an important component for achieving our desired high-quality ambitions.
- 29 We have also participated in an Aspiring Leaders programme in conjunction with other UK audit agencies, which supports the talent management and succession planning in our Strategic Workforce Plan.

Ethics

- 30 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.
- 31 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.

- 32 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.
- 33 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.
- 34 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.
- 35 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.
- 36 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.
- 37 We have a rotation policy which is currently under review 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.
- 38 Staff receive training to reinforce awareness of our independence policies and procedures.

'Following a hiatus caused by Covid, in 2023-24 we rolled out face-to-face ethics training to all Audit Wales staff and board members. These intensive two-hour plus sessions included coverage of the Ethical Standard 2019, the ethical codes of the accounting institutes and the Audit Wales Codes of Conduct. We tailored the sessions towards the needs of particular work groups, such as performance auditors, and we required staff to answer questions throughout the sessions. At the end we set short practical case studies to test engagement and retention. We placed particular emphasis on the importance of senior management providing an appropriate culture for sound ethical practice, including coverage of ethical concerns in our internal whistleblowing arrangements. And given the particular additional aspects of integrity, objectivity and independence in public service, we included coverage of the Nolan principles and such things as the pitfalls of personal political activity on social media.'

Martin Peters

Head of Law and Ethics

Audit guidance and tools

- 39 An important component of achieving audit quality is establishing standardised approaches to carrying out our work.
- 40 We carry out our performance audit work using our Performance Audit Delivery Manual (PADM). In 2023, we updated PADM to reflect the International Organisation of Supreme Audit Institutions (INTOSAI) performance audit standards. These represent the reasonable and attainable standards of performance against which we assess the economy, efficiency, and effectiveness of an audited body's activities. In 2024, we evaluated our application of the new PADM including a survey of users. Colleagues welcomed the additional emphasis on audit planning, and the training and support provided. The evaluation identified a lack of clarity around some review processes, which have now been simplified and will be reflected in our new workflow.

'The new PADM makes us stop and think about what we're doing and why. This includes being clear about the legislative basis for our work and whether and how an audit will discharge the Auditor General's responsibilities under the Well-being of Future Generations Act. Also, the relevance of the sustainable development principle.

The new PADM has resulted in audit teams contacting me for support and advice and this is helping us achieve our aim of integrating the examinations alongside our wider work. Critically, by having more of these conversations we're strengthening our thinking and making the connections between the sustainable development principle and value for money. This is shown in our

published work – recent examples include the [Digital Strategy Review](#) across local government, and the [Affordable Housing](#) and [Active Travel](#) national studies.’

Catryn Holzinger

Well-being of Future Generations Manager

- 41 The impact of our audit work remains a key part of audit quality – this is influenced in part by the projects we select, the recommendations we make and how we evaluate project delivery. We have:
- established a strategic audit work programme, which draws on internal and external stakeholder engagement.
 - held a workshop on ‘making an impact’ at the staff conference delivered by the Audit Development and Guidance (AD&G) team and the Communications team.
 - provided training and guidance on drafting and tracking audit recommendations, including SMART recommendations linked to intended impact. We have also standardised audit teams’ use of the Management Response Form (MRF) to obtain a response from audited bodies to any performance audit recommendations.
 - piloted a new project learning tool, which has identified the need for more efficient evaluation processes and for reflection over the life of an audit or project. See Learning and Development for further detail.
 - piloted a post-audit quality survey to capture the views of audited bodies about the quality of individual performance audit projects. Stakeholder responses received were useful and supplemented our own evaluation of local audits. The pilot will be expanded to more audits over the coming year.
 - engaged with an external provider to undertake a thorough revision of our approach to report writing. The revision aims to increase clarity around the purpose of reports, our audiences and our intended impact; and make our writing process more efficient. Phase 1 is complete. This included our external provider reviewing our outputs and templates, meeting with staff and reporting their findings to a senior stakeholder group. Phase 2– developing new guidance, style & templates is underway, with Phase 3 – training and roll out planned for early 2025.

'At the 2024 Staff Conference we held a workshop looking at 'what impact means to us in Audit Wales and why does it matter?' There was a discussion on the definition of impact and the ingredients for creating positive impact. Attendees found that our work has impact when it makes a difference, is relevant and relatable (importance) and is visible. There were many examples of where we have had impact both nationally and locally. We can achieve more impact if we are timelier, reach a wider audience, and are bolder and braver. The greater the impact, the more confident we can be that our work is making a difference to the people of Wales. The workshops scratched the surface, but there is more that we can do – how we measure impact is an area to look at in more detail.'

Gareth Phillips

Head of Communications

- 42 This was the second year of implementing a new audit of accounts approach in response to the revised International Standard on Auditing 315 (UK)². 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 now places greater emphasis on audit risk ensuring teams complete targeted testing.
- 43 In early 2024, teams received refresher training on the key principles of the approach to further aid implementation. This included reflecting on the learning points from 2022-23 based on staff feedback and an internal review of audit files. Additional tools were also released for teams this year, such as further testing templates designed to address assertions for specific account areas.
- 44 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.

² ISA (UK) 315 (Revised July 2020) Identifying and Assessing the Risks of Material Misstatement

'The implementation of the new audit approach led to an overhaul of the methodology we applied to our audit of grant expenditure in my main audit. We analysed grant expenditure by type of scheme, which allowed us to focus on the particular risks in each scheme, and then select the assertions we viewed as most relevant to that risk.

This approach paid dividends – we identified accounting errors, and highlighted where the grant processes could be strengthened to the client. Moving into 2023-24, we are building on the foundations we laid in 2022-23 and are reflecting on our methodology to testing these grants. Our new approach has allowed us to be brave and focus on the audit assertions where we judge errors are most likely to occur.

The new approach has empowered us to risk assess different areas of grant expenditure, resulting in a more focused audit, and achieving efficiency gains in terms of testing time.'

Matthew Bowen

Senior Auditor

- 45 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.
- 46 In performance audit, several tools have been launched or updated for auditors' use including the Health Risks Tool (HEART) that provides analyses of key datasets to inform risk assessments of local health boards and trusts; and a redeveloped LG Context and Performance (LG CaP) data tool. The LG CaP includes the latest data on key service performances, alongside contextual information and financial data. This has a range of uses, including supporting our financial sustainability work. We will be delivering specific training on the use and presentation of data during autumn 2024.
- 47 Artificial Intelligence (AI) is developing at pace across the audit profession. To keep up with wider developments we are exploring the use of AI in our audit work if it can demonstrate improvements in audit quality and/or efficiency, subject to maintaining the relevant safeguards. Introducing AI into our audit work is a priority in the Audit Services Business Plan. We are experimenting with a small number of projects, including using AI for document summarisation and scoping a study.

Technical support

- 48 All our auditors are supported by our dedicated Audit Development and Guidance team, who provide expert guidance and advice on a range of technical and professional issues and, with our HR team, support the learning and development of our audit teams.
- 49 We strengthened our technical support by establishing a distinct research and development function in 2022. The team continues to develop our approach to horizon scanning which includes conducting early research to support the development of our audit work programme. This work helps us to focus our audit work to achieve greater impact and share good practice, for example, our recent work on effective audit committees.
- 50 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.
- 51 We have also undertaken a fundamental review of the professional resources we make available to our staff, eg professional subscriptions – re-focusing some and expanding the scope of others to provide greater support to audit teams.

Audit platforms

- 52 We currently use bespoke Microsoft 365-based systems for all our accounts, grants, and performance audit work. Our platforms support consistency of audit approaches and provide inbuilt quality checks. It gives us the ability to adopt best practices and new professional developments in our audit methodologies both now and in the future.
- 53 We have developed a performance audit workflow, which will mirror our new PADM. By introducing this technology, we aim to maintain and improve audit quality, improve productivity and efficiency and support progress monitoring. In 2024 we successfully piloted the prototype and roll out will occur in 2025.
- 54 We also have in place an electronic platform to manage the work we undertake on over 700 town and community council audits.

Learning and development

- 55 We continue to invest heavily in learning and development to enhance the professional skills and knowledge of our staff. For example, we have entered into a new contract with an external supplier to support and enhance our in-house training offering for accounts audit work. Under this contract we have already

commissioned in depth training on group audit and accounting; sustainability reporting; audit of insurance contracts; ISA 315 top-up training; and general changes to financial reporting standards.

- 56 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.
- 57 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.
- 58 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.
- 59 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.
- 60 A major part of our learning programmes in the past year has focused on embedding our new INTOSAI auditing standards. For performance audit, this has included:
- continuing to deliver relevant sections of our learning and development plan; and
 - repeating earlier compulsory training for new or returning colleagues.
- 61 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).
- 62 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.
- 63 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.

64 We have an in-house project learning tool to capture learning over the life of a project, which is in the final phase of development. It will enable more accurate current project learning and more timely responses to identified issues. The project learning tool has been piloted with teams from across Audit Wales and their feedback is being used to inform the final product. 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

- 65 We are currently in our third contract for external quality monitoring with the QAD of the ICAEW. QAD is the largest regulator of companies audit in the UK and the regulator of local government audit in England.
- 66 This has been an area of significant and ongoing investment through extending the number of accounts audits reviewed and introducing QAD review of our performance audit work.
- 67 We summarise in the next section – Cold Reviews – the work undertaken for us by QAD in the past year.

Stakeholder feedback

- 68 In March 2024, we undertook a short stakeholder survey with audited bodies. This was designed to supplement the independent surveys we ran in 2023 which aimed at the general public and a range of other stakeholders. The overall messages are similar – our stakeholders value our independence, the quality of the work we do and our working relationships.³

Cold reviews

- 69 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.

³ We issued the 2024 survey to all the main bodies we audit and received an overall response rate of 35%. This is a similar response rate to previous surveys. When drawing out messages from the feedback we were mindful of the fact the response rate is relatively low.

- 70 We operate a rotational approach to cold reviews, ensuring that all audit managers are reviewed at least every three to four years. Similarly, each engagement director will normally be reviewed annually.
- 71 We aim to achieve representative coverage over time of audit sectors, audited bodies and complexity.
- 72 The QAD programme focused on accounts audits relating to the 2022-23 financial year and performance audit reports reported/completed in 2023 and early 2024.
- 73 We outline QAD's overall findings in **Part 3**.
- 74 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 work on updating our reporting templates and writing approach.

Themed reviews

- 75 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.
- 76 Recent themed reviews have included evaluating a sample of audit of accounts files to understand how the revised approach for 2022-23 (see **paragraph 42**) was being implemented. This informed the refresher training on the audit approach which was delivered in early 2024. The review identified some points which were consistent with cold reviews performed by QAD (see **paragraph 105**).
- 77 In 2023 we undertook a performance audit related themed review of information and data governance. This was an opportunity to understand current practice and identify key learning points. In 2024 we issued updated restricted folder guidance and an online training package to help auditors comply with data protection law.

Root Cause Analysis

- 78 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.
- 79 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:

- undertaken an evaluation of our RCA approach and five RCA pilots.
- established and developed an RCA Facilitator Group – a group of staff selected from across the organisation who possess key RCA delivery skills. This group has begun an enhanced RCA learning pathway and has started delivering RCA activities.
- developed guidance and processes to support effective RCA delivery. This includes an RCA log to track delivery and RCA process/templated tools to support the quality of activities.

‘Audit Wales’s policy is to undertake an RCA when external quality review scores an audit engagement as 3 or 4. In 2023 QAD scored one local audit as 3 (improvement required). We completed an RCA in January 2024.

The RCA allowed the audit team (supported by an RCA facilitator) to reflect on the root causes of issues identified by the QAD review. This helped the audit team and AD&G to consider which issues were specific to the audit and which would be relevant to similar audits to develop appropriate actions.

Identified root causes included the tension between centrally determined and locally tailored audits, clarity on the audit scope, the need to strengthen guidance/training on documentation and report writing. Many of the actions identified during the RCA have already begun.

The process was undertaken in a supportive way, with a continuous improvement focus.’

Gary Emery
Audit Director

Engagement Quality Reviews (EQRs)

80 EQRs 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 several 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.

Audit Quality Committee

- 81 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;
 - Audit Wales' Executive Director of Audit Services;
 - Audit Wales' financial audit and performance audit technical directors;
 - Audit Wales' audit quality managers and leads; and
 - three independent professional members, one of whom, acts as the Chair.
- 82 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.
- 83 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 Audit Quality Report.

'Audit Wales established its Audit Quality Committee in 2020 to advise and support its Executive Directors on matters relating to quality. This was a novel way of enhancing governance structures to provide constructive challenge of quality arrangements and results. I have enjoyed being an independent member of the Committee since 2021, and recently took up the role of Chair of the committee when a decision was taken to appoint two additional independent members. I believe that these appointments have further enhanced the effectiveness of the committee.

The current quality arrangements in place in Audit Wales reflect the strong emphasis that the Auditor General and his Executive Leadership Team place on the quality of work produced. As Chair of the Quality Committee, I have been hugely impressed with the level of commitment and dedication demonstrated by the staff in delivering high quality audit work. The high standard that Audit Wales holds itself to applies equally to both financial audit and performance audit and this is evidenced by the results reported to the committee and recorded in this report.

The ongoing pace of change in the world of audit is unprecedented with significant challenges such as resourcing; auditing sustainability reporting; digitalisation and the increased use of artificial intelligence. It is no surprise, therefore, that auditing standards focus strongly on the quality of audit evidence. Again, I have been impressed with the level of priority that Audit Wales places on future proofing the organisation to remain agile in responding to future challenges.'

Suzanne Jones

Director – Northern Ireland Audit Office

Chair – Audit Wales Audit Quality Committee

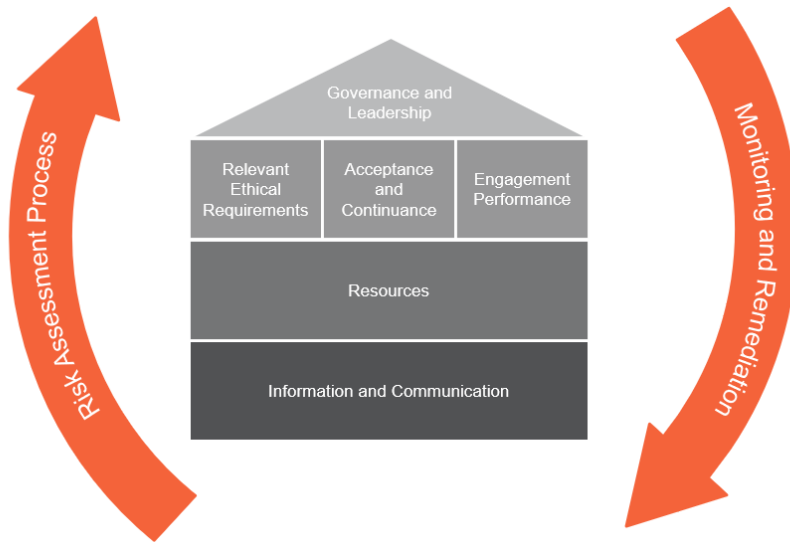
Audit Quality Board Link

- 84 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.
- 85 We believe this role is an important component of our ambition to achieve continuous improvement in audit quality.

Implementation of International Standard on Quality Management (ISQM 1)

- 86 ISQM1 deals with a firm's (including Audit Wales') responsibilities to design, implement and operate a system of quality management (SoQM) for audits.
- 87 ISQM1 required firms to implement a SoQM by 15 December 2022 founded on the following components as illustrated below in **Exhibit 3**:
- risk assessment process
 - governance and leadership
 - relevant ethical requirements
 - acceptance and continuance of client relationships and specific engagements
 - engagement performance
 - resources
 - information and communication
 - the monitoring and remediation process.

Exhibit 3: system of quality management



Source: Audit Wales

- 88 The ISQM 1 components, broadly reflect the elements of our three lines of assurance model described above.
- 89 ISQM 1 requires us to annually evaluate the effectiveness of the system of quality management, initially by 15 December 2023.
- 90 Our evaluation was informed by various activities, including risk assessment workshops, monitoring our risk registers, the outcomes of audit file quality reviews, root cause analysis exercises and consultation with AD&G on audit issues.
- 91 Our overall conclusion was that:
‘The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved.’
- 92 This conclusion was reported to the Audit Quality Committee and Executive Leadership Team in early 2024.
- 93 While our overall evaluation was that our SoQM provided ‘reasonable assurance’ that its objectives were being achieved, there were some areas where development was required, and actions are in progress. Principal amongst our finding is embedding the standard as ‘business as usual’ rather than being managed as a separate exercise.
- 94 QAD also completed an evaluation of the SoQM, which is summarised in **Part 3**.

Future development of the three lines of assurance model

- 95 We continue to monitor where further development of the three lines of assurance model may be needed. We are also considering how we might set out such developments in the form of a 'roadmap' to provide a holistic view of developments and of potential new future investment needs.
- 96 Developments which are planned or under consideration include:
- reviewing our technical support model to broaden our pool of technical expertise and support succession planning;
 - reviewing whether there is a need to commission further auditors' experts in specialist areas;
 - enhancing our approach to group audits;
 - exploring the potential for further automation within our audit platforms and other supporting processes; and
 - considering whether we can and should use AI to further develop our work.

Part 3: Audit quality outcomes

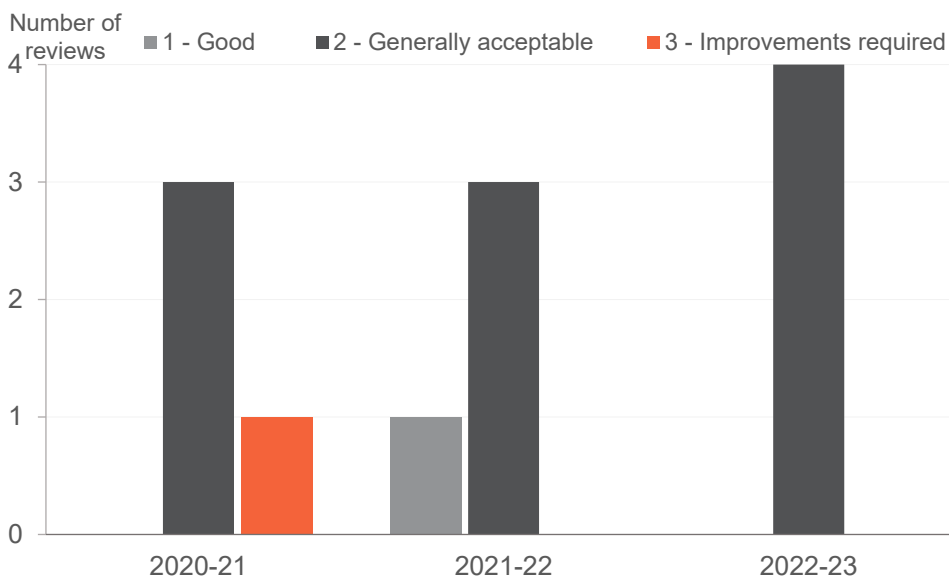
Cold reviews

- 97 We describe in **Part 2** of this report the cold review processes we have in place to evaluate the quality of completed audits.
- 98 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
- 99 Audit Wales’ current target is that 100% of audits sampled should be assessed as 2 or above.

Audit of accounts cold review outcomes

100 As set out in **Part 2**, QAD undertook the cold review programme for 2022-23 audit of accounts. The results of those reviews are presented in **Exhibit 4** by financial year of audit.

Exhibit 4: audit of accounts cold review outcomes by audit year from 2020-21 to 2022-23



Source: Audit Wales

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

Exhibit 5: audit of accounts – target comparison

KPI	Target	2020-21	2021-22	2022-23	Three-year average
Assessed as 2 – generally acceptable - or above	100%	75%	100%	100%	92%

Source: Audit Wales

102 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.’

103 QAD identified some areas for improvement in the sample of files reviewed and a common theme related to how audit teams are applying the new methodology relating to risk assessment procedures and how these procedures direct the amount of testing performed.

104 The new methodology relating to risk assessment procedures, with its greater emphasis on greater bespoke risk identification and assessment, was a major shift for the Practice, where there had been historical reliance on defined substantive procedures.

105 As noted in **paragraph 76** members of the central AD&G team undertook an internal themed review in late 2023 on the application of revised ISA 315 for our 2022-23 audits, and identified the same theme highlighted by QAD.

106 As a result, we delivered further training in this area to support 2023-24 audit planning. This built on training we had delivered previously, including in February 2022 (conducted by a well-known external trainer); a range of ISA 315 bite sized videos on key concepts (including risk identification and assessment) issued in the second half of 2022; and three-day training events in early 2023 to support the launch of the new ISA 315 audit approach.

107 Following the draft QAD report we carried out briefing sessions with accounts directors and managers to explore this issue further and to highlight the QAD findings. As a result, our practitioner groups commenced a piece of work to compare risk assessment across ongoing 2023-24 audits.

108 Building on this activity and previous training, further training will be arranged for the start of the 2024-25 audit round, to include training from our external training supplier (VantagePoint) supplemented by practical training led by AD&G.

109 QAD also identified some areas of good practice as follows:

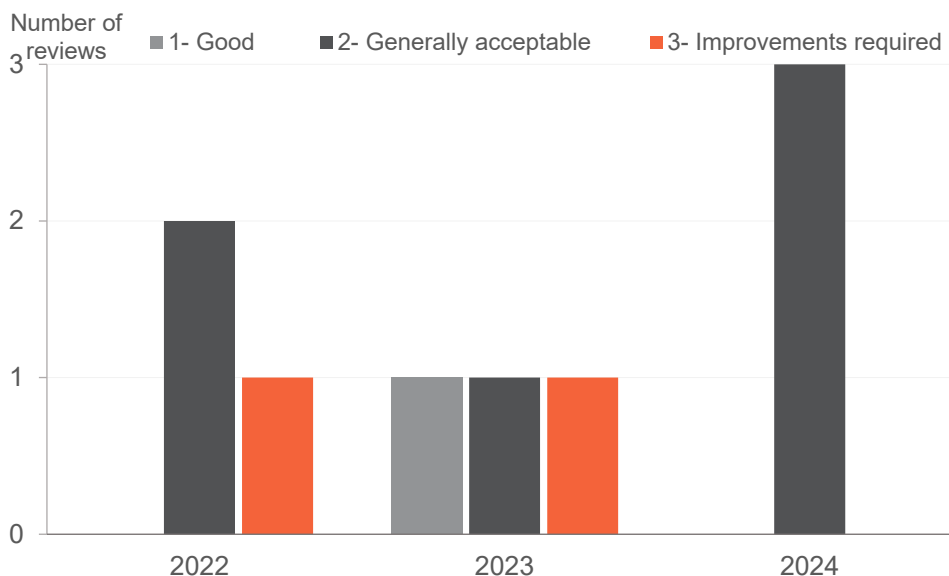
- 'thorough and clearly set out understanding of the entity; and
- clear consideration and conclusion of audit risks, for example:
 - follow up issues raised by the IT auditor;
 - assessment of the impact of prior year misstatement; and
 - the calculation of an estimate as a proportion of performance materiality, to quantify the risk of material misstatement.'

Performance audit cold review outcomes

110 Performance audit work does not necessarily coincide with a particular financial year. QAD undertook the performance audit cold review programme in 2024.

111 The outcomes of the cold reviews presented in **Exhibit 6** refer to the calendar years in which the cold reviews were completed.

Exhibit 6: performance audit cold review outcomes by calendar year from 2022 to 2024



Source: Audit Wales

112 Outturn against our current target is summarised in **Exhibit 7**.

Exhibit 7: performance audit – target comparison

KPI	Target	2022	2023	2024	Three-year average
Assessed as 2 – generally acceptable - or above	100%	67%	67%	100%	78%

Source: Audit Wales

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

‘The performance audit files reviewed demonstrated a generally good level of compliance with the INTOSAI standards.’

114 QAD noted scope for improvement in documenting engagement lead oversight; fraud and materiality considerations; and independence considerations for all members of the engagement team.

115 We analysed QAD’s findings, and have taken the following action in response:

- we have updated some of the templated documents within our audit manual with prompts to remind teams to document their consideration of issues required by the INTOSAI standards. We will feed these findings into our forward learning and development plan where appropriate.
- some of the review team’s findings related to our outputs such as clarity, structure and style. Earlier this year we started a project with an external partner to do this. We will feed QAD’s findings into the project’s workings.
- QAD comments on more consistent review and supervision. The current model of supervision and review was introduced by our new audit manual and is therefore still relatively new to colleagues. We have begun to communicate the need to improve supervision and review to all members of performance audit teams. We will also feed these findings into our forward learning and development plan where appropriate.

116 QAD identified some areas of good practice as follows:

- use of structure and wording that aided the understanding and accessibility of the report; and

- clear consideration of the appropriateness of an evidence source (in this case minutes) to support the basis of their findings and conclusions.






System of Quality Management

- 117 QAD also completed a review of our work done to implement ISMQ 1. Their overall conclusion was that:
- ‘The System of Quality Management appears generally appropriate for the size and nature of the organisation.’
- 118 QAD identified areas for improvement which could strengthen our SoQM. These improvement areas echoed some of the findings we identified as part of the annual evaluation exercise.
- 119 As the system of quality management evolves and as we implement further developments to the system, we will take advice from our Audit Quality Committee (see **paragraph 82**).

Supporting you

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.

Visit our website to find:

	our <u>Good Practice</u> work where we share emerging practice and insights from our audit work in support of our objectives to assure, to explain and to inspire.
	our <u>newsletter</u> which provides you with regular updates on our public service audit work, good practice, and events.
	our <u>publications</u> which cover our audit work completed at public bodies.
	information on our indicative <u>forward performance audit work programme 2023-2026</u> which is shaped by stakeholder engagement activity and our picture of public services analysis.
	various <u>data tools</u> and <u>infographics</u> to help you better understand public spending trends including a range of other insights into the scrutiny of public service delivery.

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