



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

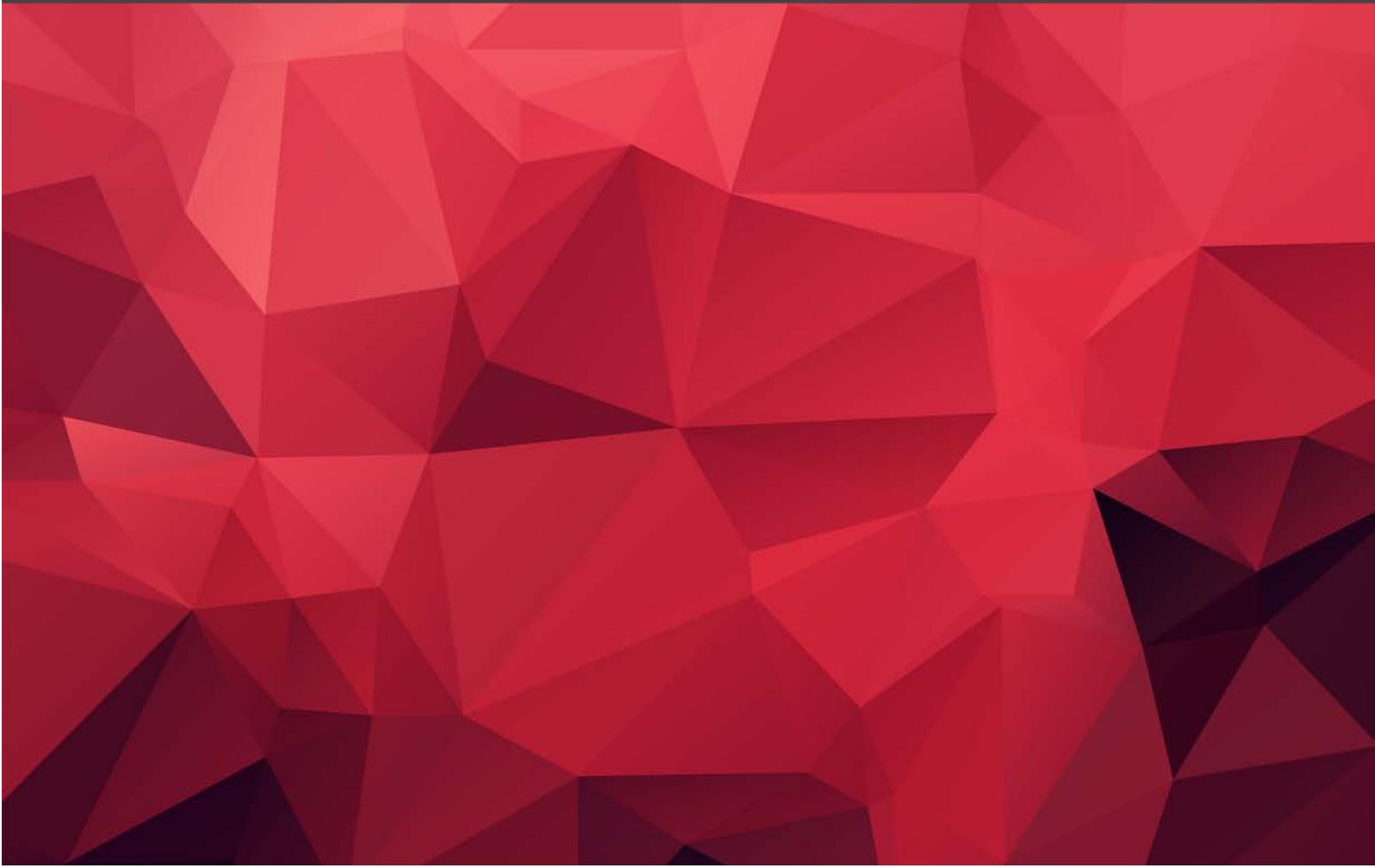
Archwilydd Cyffredinol Cymru
Auditor General for Wales

Statement of Responsibilities of the Auditor General for Wales and of the Bodies he Audits in Relation to Financial Statements – **Wales Audit Office**

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The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at info.officer@audit.wales.

The person who delivered the work was Anthony Barrett.

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This Statement sets out the respective responsibilities of the Auditor General and the bodies he audits in relation to the audit of financial statements.

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Statement of Responsibilities

Introduction

- 1 The Auditor General is the statutory external auditor of the financial statements prepared by:
 - Local government bodies as defined by the Public Audit (Wales) Act 2004
 - Local NHS Wales bodies
 - The National Assembly for Wales Commission
 - The Welsh Government (including the summarised accounts of NHS Wales)
 - A wide range of other public bodies that are either sponsored by, or related to, the Welsh Government
- 2 There are also certain accounts for which the Auditor General is the external auditor by agreement, rather than by statute.
- 3 The Auditor General is responsible for preparing a Code of Audit Practice (the Code), which prescribes the way in which auditors are to carry out their functions.
- 4 This Statement supports the Code and assists audited bodies by summarising the respective responsibilities of the Auditor General and of the audited body.
- 5 Throughout this document, the terms **auditor** and **auditors** apply collectively to:
 - The Auditor General
 - Employees of the Wales Audit Office
 - Any other person who provides audit services on behalf of the Wales Audit Office

Overall responsibilities

The Auditor General's responsibilities

- 6 The functions of the Auditor General are defined in legislation covering individual audits. The way in which auditors are to exercise those functions is set out in the Code, which prescribes the way in which the Auditor General's audit functions (alongside certain other functions) are to be carried out, and embodies what appears to the Auditor General to be best professional practice. Nothing in this Statement is intended to limit or extend those responsibilities. In particular because the Auditor General must not prejudice his independence, the audit role does not include providing financial or legal advice, or consultancy to audited bodies.

Ad hoc requests for auditors' views

- 7 There may be occasions when audited bodies will seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors will be as helpful as possible, but are precluded from giving a definite view in any case because auditors:

- must not prejudice the Auditor General's independence by being involved in the decision-making processes of the audited body; and
 - are not financial or legal advisers to the audited body.
- 8 In response to such requests, auditors can be expected to offer only an indication as to whether anything in the information available to them at the time of forming a view is likely to cause them to consider recommending to the Auditor General a particular course of action. Any response from auditors to such a request should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any particular course of action.
- 9 The Auditor General or his representatives may participate as observers in the various working, project and task groups established by audited bodies to assist in deliberations as far as they are able to do so: for example by drawing attention to good practice elsewhere; by identifying possible omissions in approach; and, more generally, by acting as 'critical friends'. However, they will not take part in the determination of policy or decision making and will not seek to play a part in the direct implementation of policy.

The responsibilities of management and those charged with governance

- 10 Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring both that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.
- 11 In discharging these responsibilities, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on these arrangements in any annual published statement relating to their review of the effectiveness of the system of internal control (eg an annual governance statement).

Access to information

- 12 The body's management is responsible for providing auditors with:
- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - additional information that the auditor may request from management for the purpose of the audit; and
 - unrestricted access to persons within the audited body from whom the auditor determines it necessary to obtain audit evidence.

- 13 The Auditor General has wide-ranging rights of access to documents and information in relation to his audit functions. Such rights apply not only to documents and information held by the body and its members and staff, but also to the body's partners and contractors, whether in the public, private or voluntary sectors. These are accompanied by statutory restrictions on the disclosure of information obtained in the course of the audit or inspection, subject only to certain exemptions. A summary of the [Auditor General's access rights](#) is on the Wales Audit Office website.

Audit of financial statements

Objective and scope of the audit

- 14 The Auditor General will conduct his audit in accordance with the Code and auditing and other standards issued or adopted by the Financial Reporting Council.
- 15 In carrying out the audit, the Auditor General will have regard to the concept of materiality. Subject to this concept, the Auditor General provides reasonable assurance that the financial statements:
- are free from material misstatement, whether caused by fraud or other irregularity or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- 16 With the exception of local government bodies and charities the audit also includes work on:
- The regularity of income and expenditure
 - The remuneration report
- 17 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures undertaken will depend on auditor judgement about the risks of material misstatement of the financial statements, whether due to fraud or error, and the most effective means of obtaining assurance over those risks.
- 18 The auditor will evaluate significant financial systems and the associated internal financial controls, and will draw any weaknesses identified to the attention of the audited body, but cannot be expected to identify all weaknesses that may exist.
- 19 The auditor will examine selected controls, transactions and balances on a test basis and will also evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and judgements made by management as well as evaluating the overall presentation of the financial statements.
- 20 The inherent limitations of an audit, together with the inherent limitations of internal control, result in an unavoidable risk that some material misstatements may not be

detected, even though the audit is properly planned and performed in accordance with auditing standards.

- 21 Taking into account the knowledge of the audited body gained through financial statements work, the auditor will also review whether the governance statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. The auditor is not required to consider whether the governance statement covers all risks and controls, nor required to form an opinion on the effectiveness of the body's corporate governance arrangements or risk and control procedures.
- 22 In carrying out work on the financial statements, auditors will:
- plan to complete work and meet agreed deadlines;
 - maintain close liaison with the audited body; and
 - provide appropriate and adequate resources, and assign responsibilities to staff with the relevant expertise and experience.

The responsibilities of management and those charge with governance

- 23 The financial statements, which comprise the published accounts of the body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Auditor General's audit work does not relieve management and those charged with governance of their responsibilities which include:
- the preparation of the financial statements and annual report in accordance with applicable accounting standards and guidance;
 - the keeping of proper accounting records;
 - ensuring the regularity and lawfulness of financial transactions; and
 - securing value for money in the use of resources.
- 24 The body's management will provide the Auditor General with written representations to confirm:
- that it has fulfilled its responsibilities for the preparation of the financial statements;
 - that all transactions have been recorded and are reflected in the financial statements;
 - the completeness of the information provided for the purposes of the audit; and
 - other audit evidence relevant to the financial statements or specific assertions in the financial statements if the auditor deems it necessary or if required by auditing standards.

- 25 Where applicable, the body is also responsible for preparing and publishing in accordance with the relevant guidance/regulations a governance statement.
- 26 In preparing their financial statements, bodies are responsible for:
- preparing realistic plans for the preparation of the statements that include clear targets and achievable timetables;
 - assigning responsibilities clearly to staff with the appropriate expertise and experience;
 - providing necessary resource to enable delivery of the plan;
 - maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
 - ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
 - ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor.
- 27 If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may not be able to commence the audit as planned and, consequently, may be unable to meet the agreed audit timetable. The audit fee is calculated on the basis that the draft financial statements and detailed working papers are provided to an agreed timetable and are of an acceptable standard. If information is not provided to this timetable, or is provided to an unacceptable standard, the auditor will charge additional fees for any extra work that is necessary.
- 28 Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication accurately presents the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. If the audited body wishes to distribute electronic copies of the financial statements and the auditor's report on those financial statements to its stakeholders, it must ensure that these are presented accurately. The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's written consent. The examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements. The auditor cannot be held responsible for changes made to the financial statements and the auditor's report after the initial publication.

Reporting the results of audit work

Audit certificate and report

29 The Auditor General provides:

- an audit report including his opinion on the truth and fairness and proper preparation of the financial statements; and
- for local government bodies, a certificate that the audit of the accounts has been completed in accordance with statutory requirements.

30 The auditor will consider, in preparing the audit report, whether:

- proper accounting records have been kept by the audited body, and proper returns adequate for the audit have been received from any third parties;
- the audited body's financial statements are in agreement with the accounting records and returns;
- the auditor has obtained all the information and explanations which they consider necessary for the purposes of their audit; and
- the information given in a report of which the financial statements form a part is consistent with the financial statements.

31 The audit report will, where applicable, include reporting on, or make reference to any report by the auditor on:

- the governance statement; and
- the exercise of any statutory reporting requirements of the Auditor General including the regularity of income and expenditure and the proper preparation of the remuneration report.

32 The auditor also has a responsibility to report if the financial statements do not comply in any material respect with the relevant financial reporting framework insofar as it is relevant to the circumstances of the audited body, unless, in the auditor's opinion, non-compliance is justified.

33 In determining whether or not a departure is justified, the auditor considers:

- whether a departure is required in order for the financial statements to present fairly or give a true and fair view; and
- whether any departure made has been adequately disclosed in the accounting statements.

Reports in the public interest

34 The Auditor General must consider whether or not any matter has been brought to his attention during the course of the audit that should be reported in a report in the public interest. The need for such reports may arise at any point during the audit process.

Reports to management and those charged with governance

- 35 The auditor also provides:
- a planning document;
 - oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of audit work; and
 - an annual audit letter (or equivalent).
- 36 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and the responsibilities of auditors, as set out in the Code and as further explained in this Statement. Matters raised by auditors will be drawn from those that come to their attention during the audit.
- 37 The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.
- 38 Annual audit letters and reports are addressed to members of the audited body and are prepared for the sole use of the body. Auditors do not have responsibilities to officers or members in their individual capacities (other than in the exercise of auditors' specific powers and duties in relation to matters relating to electors' rights in local government) or to third parties who choose to place reliance upon the reports from auditors.

Grant claims and returns – certification

- 39 The Auditor General makes certification arrangements in accordance with the framework set out in the separate **Statement of Responsibilities of grant-paying bodies, authorities, the Auditor General and appointed auditors in relation to claims and returns**. The responsibility for ensuring the completion, accuracy and completeness of grant claims and returns lies with the audited body.
- 40 Grant-paying bodies may require independent examination as a condition of their acceptance of claims and returns, and may ask the Auditor General to make arrangements for auditor certification of claims and returns. While the Auditor General has a statutory duty to make certification arrangements if a relevant audited body requests him to do so, he will have regard to what it is appropriate, practically and professionally, to expect the certification process and auditors to do before making certification arrangements. The Auditor General will encourage grant-paying bodies to agree appropriate certification arrangements before certification is made a condition of grant.

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