



CODE OF AUDIT PRACTICE OF THE AUDITOR GENERAL FOR WALES

Issued 27 January 2024

ICAEW welcomes the opportunity to comment on the Consultation on Revision of the Code of Audit Practice of the Auditor General for Wales (the Code) published by Audit Wales on 18 November 2024, a copy of which is available from this [link](#).

ICAEW supports the proposed revisions to the Code

- We believe that the revisions will enable greater consistency across how audit teams operate and should be beneficial for audit quality.

We welcome the strengthening and reemphasising of provisions on professional scepticism and audit independence

- The importance of applying professional scepticism and maintaining audit independence are detailed throughout key auditing and ethical standards.
- We therefore welcome the proposed revisions to the Code that strengthen key provisions in these areas and bring the Code into alignment with recent updates to auditing standards.

The revised Code could benefit from defining some specific terminology

- Further defining 'proportionate consideration' when considering correspondence from the public may assist auditors in understanding how to manage such issues.
- Setting out a process that auditors should adhere to when considering an objection, similar to that detailed within the National Audit Office's Code of Audit Practice for local audit in England, would also be beneficial.

INTRODUCTION

1. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 169,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.
2. This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 14,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.
3. We previously submitted [evidence](#) on 8 April 2022 to the Audit Wales consultation regarding their work programme for the future. We also submitted [evidence](#) on 7 March 2024 to the National Audit Office's consultation regarding their updated Code of Audit Practice for local audit in England.
4. For questions on this submission please contact our Public Sector team at representations@icaew.com quoting REP 7/25.

KEY POINTS

5. ICAEW welcomes this consultation by Audit Wales regarding their revised Code of Audit Practice of the Auditor General for Wales. We agree with the changes proposed to the Code.
6. We believe that the changes will bring the Code closer in line with terminology used by ethical standards such as the FRC's Ethical Standard and ICAEW's Code of Ethics, and with auditing standards such as ISA (UK) 315 and ISA (UK) 200. The changes also mirror ISQM (UK) 1, which we consider to be essential as the standard sets out the key quality management metrics that a firm should assess when completing an audit of financial statements or other assurance engagements.
7. The updated changes to the Code should also promote greater consistency across the way in which auditors operate, highlighting an increased emphasis on proportionality, as well as specifically detailing that auditors should apply professional scepticism in their work.
8. We think the Code could benefit from defining terminology surrounding 'proportionate consideration' more clearly and could also benefit from setting out more explicitly the process that auditors should follow when considering objections from the public. This would further promote consistency in how auditors operate and provide clarity for the public in how their objections or correspondence will be reviewed by audit teams.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

Do you agree with the overall increased emphasis on proportionality in relation to audit work?

9. We agree with the overall increased emphasis on proportionality in relation to audit work, particularly regarding how the Code underlines how auditors must take a risk-based approach when making good use of resources.
10. Such emphasis mirrors revised ISA (UK) 315, which requires the auditor's approach to the audit to be risk-led. Thus, higher levels of scrutiny are required where there is a higher level of audit risk identified, with appropriate audit procedures being designed and implemented in response to assessed risks of material misstatement. More auditor time and resource are therefore needed over areas of higher assessed risk than lower assessed risk, with such an approach leading to more focused, efficient and higher-quality audits.
11. The Code's increased focus on proportionality therefore is welcome and appropriately reflects existing auditing standards. We especially support the section of the Code which states that 'auditors are not expected to review all aspects of audited bodies' arrangements, systems or records,' as this is often a misconception amongst stakeholders and does not reflect the reality of auditors' responsibilities.

Question 2

Do you agree with the new explicit requirement for auditors to apply professional scepticism in their work?

12. While we would expect that auditors are already applying professional scepticism in their work, we agree that it makes sense for this to be explicitly expressed as part of the Code.
13. Professional scepticism is a critical part of the auditing process; it invokes having a questioning mind and being alert to conditions which could indicate material misstatement due to fraud or error. Technological developments, such as the increasing use of generative artificial intelligence, arguably make it of greater importance than ever before.
14. The requirement to exercise professional scepticism is already expressed under auditing and other professional standards. For example, ISQM (UK) 1 requires an audit firm to establish quality objectives that address the performance of quality engagements, which includes engagement teams exercising appropriate professional judgment and, where applicable to the type of engagement, the use of professional scepticism.
15. ISA (UK) 200 also makes it a specific requirement for the auditor to 'plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.' The standard adds that 'the auditor shall maintain professional scepticism throughout the audit,' highlighting the importance of it being applied throughout the planning, fieldwork and completion stages.
16. ICAEW's Code of Ethics also refers to the exercise of professional scepticism, noting its use and the five fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour, as 'interrelated concepts.' As such, complying with the five fundamental principles supports the exercise of professional scepticism throughout the course of the audit, underlining how critical its application is.

Question 3

Do you agree with the strengthened provisions for independence?

17. We agree with the strengthened provisions for independence within the proposed Code. Independence in an audit is a key condition for achieving an effective, high-quality audit. A lack of independence creates audit risk as it may mean that the auditor is unduly influenced, or may be seen to be unduly influenced, in their decision-making and professional judgment.

18. We particularly welcome the reference to ethical and professional standards in paragraph 21. This reference reinforces the need to be independent, and to maintain objectivity and integrity as set out by the FRC's Ethical Standard and ICAEW's Code of Ethics within their overarching and fundamental principles.

Question 4

Do you agree with the particular emphasis on proportionality and efficiency in relation to dealing with correspondence from the public and the related functions of giving electors the opportunity to ask questions and considering objections?

19. We agree with the particular emphasis on proportionality and efficiency in relation to dealing with correspondence from the public. However, we believe that the Code could benefit from defining proportionate consideration or by providing a set of criteria for auditors to consider when assessing correspondence, as well as from setting out a process that auditors should follow when considering objections from the public.
20. It is important to remember that government, and other service providers across the public sector, must be subject to appropriate levels of scrutiny from the general public and other relevant parties. This is a key element of the democratic process that aims to ensure that public bodies are held accountable for public money spent in performing their functions.
21. However, there is a risk of potentially vexatious objections that create resource implications for preparers and audit firms, increased audit fees for the audited bodies, and delays in publishing audited financial statements that are disproportionate to the matters raised.
22. We therefore concur with the emphasis on proportionate consideration in such circumstances. However, defining proportionate consideration more clearly or providing criteria for auditors to consider may help to ensure that there is consistency in the way in which auditors deal with correspondence from the public. Any definition or criteria created would need to balance the essential democratic right of the public to inspect local government accounts, against the need for Audit Wales to exercise their key functions in an efficient manner.
23. For objections, the process that auditors should follow could be similar to paragraph 5.7 of the [NAO Code of Audit Practice](#), which states that:
 - “When considering eligibility, the auditor should use best endeavours to determine whether the objection is eligible within one week of receipt;
 - when exercising their discretion whether or not to consider the objection, the auditor should use best endeavours to reach their decision and to inform the objector and the authority of their decision within one month of determining eligibility; and
 - where the auditor decides to consider the objection, use best endeavours to complete their work and inform the objector and the authority of their decision within six months of their decision to accept the objection for consideration. Where the auditor is not able to decide the objection within six months, they should inform the objector and the authority and provide a further update on progress every three months until the objection is decided.”
24. Setting out such a process would not only promote consistency across audit teams but would also clarify to the public how their objection will be managed by Audit Wales.

Question 5

Do you have any comments on any of the other proposed changes to the Code?

25. We are supportive of the other proposed changes to the Code.
26. We especially agree with the additional references made to the Ethical Standard throughout, as well as how the Code now specifically refers to how auditors must perform the Public Sector Equality Duty in their work.

Question 6

Do you have any comments on whether any of the proposed changes to the Code could affect people sharing protected characteristics or wish to highlight any other potential equality impacts?

27. We have no additional comments to make.