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Dear Sir/Madam

**Invitation to comment: Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (Revised 2024)**

We are pleased to respond to this invitation to comment.

Our detailed responses to the consultation questions are set out in the Appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact Simon Turner at the email address provided above.

Yours faithfully

*Simon Turner*

Simon Turner  
Director  
For and on behalf of BDO LLP

***Question 1: New guidance has been added on consequences for going concern and regularity reporting of the auditor disclaiming their opinion on financial statements. Do these additions provide appropriate and useful guidance on additional actions for auditors to take where they disclaim their opinion on financial statements? What changes should be made, if any?***

The new guidance added in paragraph 1-181 in respect of going concern reporting is helpful, particularly with regard to the backstop arrangements being put in place for local government audits which, in some instances, will likely result in auditors issuing disclaimer of opinions on financial statements. The wording of paragraph 1-181 is clear and enables auditors to proceed with issuing a disclaimer of opinion, where appropriate, without having to consider whether the continued provision of service approach to going concern has any impact on their reporting.

The new guidance added in paragraph 2-86A in respect of regularity reporting is also helpful. The rationale provided as to why the auditor should disclaim their opinion on regularity when they disclaim their opinion on the financial statements is sensible and reasonable. There may be instances where auditors disclaim their opinion on the financial statements but have identified additional matters for which they would normally modify their opinion on regularity. Given that paragraph 2-84 requires auditors to apply the principles of ISA (UK) 705 when modifying the audit opinion on regularity, we suggest that paragraph 2-86A be expanded to remind auditors to comply with paragraphs 27 and A24 of ISA (UK) 705 when issuing a disclaimer of opinion on regularity:

*Paragraph 27: Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof*

*Paragraph A24: An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.*

***Question 2: This version of Practice Note 10 includes changes to the section on ISA (UK) 600, reflecting changes in the September 2022 revision of the standard. Do you consider the revised draft provides appropriate and useful guidance on audits of group financial statements in the public sector? What changes should be made, if any?***

No comment.

***Question 4: The section on the audit of regularity reflects existing practice in the public sector. Do you consider that the guidance in Part 2: The audit of regularity is appropriate, sufficient and applicable to all parts of the public sector? If not, what changes would you like to see made and why?***

Overall, the section on regularity is appropriate and sufficient. However, we would like to raise the following matters for consideration:

- Paragraphs 2-43 to 2-50 cover 'Planning and performing audit procedures' in respect of regularity. Where auditors are required to report in respect of value for money arrangements (VfM), it may be worth including a procedure for auditors to consider whether their VfM work has identified any material irregular transactions

- Some public sector bodies are required to meet annual financial targets that are prescribed by legislation, e.g. the financial duties placed on Integrated Care Boards by the NHS Act 2006. It may be helpful to expand the section on the audit of regularity to encompass such financial duties, given that failure to comply with them normally results in a modified opinion on regularity
- Paragraph 2-26 states that the auditor should consider the results of any relevant internal audit work which covers controls over compliance with laws and regulations or regularity. It may be helpful to expand the section on the audit of regularity to include a procedure that auditors consult internal audit to establish whether they are aware of any potentially material irregular transactions. The purpose of this procedure is to address the scenario in which internal audit are aware of a potentially material irregular transaction but have not performed any work in respect of it, possibly because management has prevented them from undertaking such work.

***Question 5: The consultation draft includes other changes, as outlined in the Annex below. Do the other changes that have been proposed contribute to the objective of providing useful and appropriate guidance for public sector auditors? If not, how could these be improved?***

No comment.

***Question 6: Are there any other changes you believe would be appropriate? If so, what changes would you like to see made and why?***

It would be helpful if Practice Note 10 could clarify when it is effective from. Each International Standard on Auditing (UK) has an effective date, but this information appears not to be included in Practice Note 10. When previous revised versions of Practice Note 10 have been released, the absence of an effective date has generated debate as to which audits of financial statements they should be applied to. As an example, when a previous version of Practice Note 10 introduced the 'continued provision of service approach' in respect of going concern, it was not clear which audits of financial statements it should be applied to. We understand that Practice Note 10 is guidance to support best practice, rather than being prescriptive. However, we believe that including an effective date would provide greater clarity on its implementation for public sector auditors. If it is for auditors to determine which audits they should apply revised versions of Practice Note 10 to, it would be helpful if Practice Note 10 could confirm this.

***Question 7: The Auditor General for Wales and Audit Wales are required to comply with Welsh Language Standards that provide for the Welsh language not to be treated less favourably to the English language in Wales and for individuals to be able to access public services in Wales though the Welsh or English languages. Do you consider there to be anything in this consultation draft that undermines these requirements? Do you consider there is any revision that could be made to support the use of the Welsh language?***

No comment.