



PracticeNote10@public-audit-forum.org.uk

Grant Thornton UK LLP

2 Glass Wharf

Temple Quay

Bristol

BS2 0EL

T +44 (0) 117

305

7600

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Consultation Document on the Revision of Practice Note 10: Audit of Financial Statements and regularity of Public Sector Bodies in the United Kingdom (revised 2024)

Thank you for giving us the opportunity to comment on the Public Audit Forum's exposure draft for the 2024 revision of *Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10)*

Overall, we are very supportive of the proposals within the exposure draft and have included some suggestions where areas could be further clarified. Our detailed responses to the consultation questions listed on the invitation to comment are set out below.

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 additional guidance on going concern and regularity reporting of the auditor disclaiming their opinion on the financial statements are appropriate and useful. We do not suggest any changes to this revision of Practice Note 10.

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**

The guidance is useful in applying the revisions to ISA (UK) 600 to the audit of public sector entities. The guidance is now consistent with ISA (UK) 600 on using the work of component auditors and on combined financial statements which include the financial information prepared by a large number of components whose financial information is individually immaterial but whose financial information is material in aggregate to the group financial statements.

Practice Note 10 should provide practical examples of applying ISA (UK) 600, particularly working with component auditors in situations where the group consists of one large parent company and other significantly smaller subsidiaries. In Local Authority audit, the single entity is almost always at least 90% of the Group and the guidance in Practice Note 10 needs to recognise this nuance in applying ISA (UK) 600 to the public sector.

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?

We consider that the guidance in Part 2: The audit of regularity is generally appropriate, sufficient, and applicable to all parts of the public sector. However, we stress that guidance on materiality when evaluating irregular transactions within the audit of regularity specifically at Integrated Care Boards and NHS Trusts needs to be clearer. This needs to stress that the concept of materiality applies to the audit of regularity and for example, in a multi-billion-pound Integrated Care Boards, a surplus of £1000 versus a deficit of £1000 is not material to the users of the accounts. Materiality levels in these organisations are high, despite very common instances of low surplus levels and as such an unqualified financial statements opinion is often appropriate despite unadjusted audit misstatements. The guidance should cover the impact of unadjusted audit misstatements from the financial statements audit on the regularity opinion where if adjusted, it would move an entity's reported position from a surplus to a deficit. Given materiality applies to the regularity opinion, qualifying a regularity opinion due to unadjusted errors that push an entity into a deficit of £1 feels to us inappropriate. As such Practice Note 10 should make clear that it should be a matter of auditor judgement as to the regularity opinion should be qualified.

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?

We have no comments on the other changes to Practice Note 10 which have been proposed.

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

The proposed Practice Note 10 is silent on the impacts of the proposed local government backstop and how auditors can begin to regain assurance over the recovery period. There are several areas where a lack of assurance in prior periods will impact the audit opinions for 2023/24 onwards. Further guidance on expected procedures to recover assurance is vital in supporting the sector to recover. This includes areas such as building assurance on reserves driven by CIES transactions and what additional considerations should be applied when entities have a Housing Revenue Account to ensure there is no material misstatement between the General Fund and HRA. Examples identifying how risk assessment can be utilised in guidance would support firms in developing approaches to these issues. Guidance on the application of materiality and performance in audits where prior period/(s) have been subject to backstops would also be beneficial. We understand that the NAO is working separately on Local Audit Reset and Recovery Implementation Guidance (the LARRIGs) and an alternative option would be to set out guidance in full in the LARRIG and include cross references in PN10."

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 through 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?

We have no comments on this area.

I hope these responses are constructive and helpful. If you would like to discuss any of them further, please do not hesitate to contact me.

Yours sincerely

Grant Thornton UK LLP.

Barrie Morris
For and behalf of Grant Thornton UK LLP
Partner