

CONSULTATION ON PRACTICE NOTE 10 (REVISED 2024): SUMMARY OF RESPONSES AND PROPOSED AMENDMENTS

Issued December 2024

INTRODUCTION

The [consultation](#) on the exposure draft of the 2024 revision of Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom* (PN 10) closed on 20 September 2024. This document summarises the responses to the consultation and the amendments the Public Audit Forum (PAF) proposes to make to the final draft as a result.

LIST OF RESPONDENTS TO CONSULTATION

We received two responses to the consultation, which have been published on the PAF website, from the following interested parties:

- [BDO LLP](#)
- [Grant Thornton UK LLP](#)

SUMMARY OF RESPONSES BY CONSULTATION QUESTION

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?**

Respondents considered the new guidance was appropriate and helpful.

One respondent suggested 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 the regularity opinion, to address instances when auditors may disclaim their opinion on regularity due to having disclaimed the true and fair opinion, but may have nevertheless identified additional matters in relation to which they would normally modify their opinion on regularity.

PAF response: We have added a new paragraph 2-86B to guide auditors to apply the principles of paragraphs 27 and A24 of ISA (UK) 705 in this scenario.

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?**

Respondents considered that the new guidance was useful and consistent with ISA (UK) 600.

One respondent suggested providing practical examples of applying ISA (UK) 600, particularly on working with component auditors in situations (as sometimes found in local authority audits, for example) where the group consists of one large parent company and other significantly smaller subsidiaries.

PAF response: The PAF's view is that any issues arising from a scenario where subsidiaries are significantly smaller than the parent are not specific to the public sector.

Materials to assist auditors with applying ISA (UK) 600 to groups of various compositions may be found in the application guidance to the standard, including, for example:

- guidance on the determination of components at which to perform audit work (paragraph A51); and
- guidance on the impact on the determination of component performance materiality of the extent of disaggregation of the financial information across components and the relative significance of a component to the group (paragraphs A118 and A119).

Question 3: 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?**

Respondents felt that Part 2 provided generally appropriate guidance on the audit of regularity.

Both respondents suggested that additional guidance be provided on the potential impact on the regularity opinion of statutory financial targets, such as those placed on Integrated Care Boards and NHS Trusts. One respondent commented that clearer guidance should be provided on the application of materiality for the regularity opinion in such situations: for example, where unadjusted misstatements would move the performance statement from a surplus to a deficit position. This respondent felt that in such a situation, it would be inappropriate to qualify the regularity opinion based on a deficit which would otherwise be immaterial.

PAF response: The issue of statutory financial targets as described is specific to the NHS sector, rather than UK public sector entities more generally.

Practice Note 10 already provides guidance on materiality for the audit of regularity (paragraphs 2-33 to 2-37) which is suitable for general application, including noting that the auditor's assessment of what is material is a matter of judgement and includes both quantitative and qualitative considerations (paragraph 2-34B).

We have, however, brought the respondents' specific comments to the attention of those responsible for drafting separate guidance provided to the NHS sector.

The other respondent suggested that the section on planning and performing audit procedures on regularity should include guidance for auditors to consider whether any value-for-money (performance audit) work had identified any material irregular transactions.

PAF response: We have amended paragraph 2-47 to suggest that the auditor may have regard to any matters they are made aware of as a result of value-for-money or performance audit work relating to the audited entity.

The same respondent suggested that the guidance on considering the results of internal audit work which covers controls over compliance with laws and regulations or regularity should provide additional guidance for auditors to enquire with internal audit as to whether they are aware of any potentially material irregular transactions, as internal audit might conceivably not perform work on irregular transactions they were aware of, or be prevented by management from doing so.

PAF response: We have amended paragraph 2-60 to note that the auditor may incorporate enquiries on regularity issues into the auditor's enquiries with internal audit.

Question 4: The consultation draft includes other changes, as outlined in the Annex to the [Invitation to Comment](#). 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 respondents raised comments on the other changes outlined in the Invitation to Comment.

Question 5: Are there any other changes you believe would be appropriate? If so, what changes would you like to see made and why?

One respondent suggested that clarification be included as to when the current version of Practice Note 10 is effective from, indicating that it was not clear in previous instances (such as the introduction of the 'continued provision of service' approach to going concern) which audits of financial statements new guidance should be applied to.

PAF response: The PAF's view is that this point is addressed by the Preface, which indicates that Practice Note 10 is based on auditing standards, legislation and regulations which were in effect at 1 September 2024 (this date is amended for each new iteration). Each section in Part I which provides guidance on applying an ISA (UK) specifies the specific version of the ISA (UK) covered by the guidance, and the ISAs (UK) themselves specify their own effective dates.

The Preface also notes that *"Entities or work complying with this SORP shall apply the auditing standards applicable at the relevant reporting date (which does not preclude early application when permitted). When the current edition of this SORP predates a change in legislation or auditing standards and a conflict is thereby created, or other developments lead to a conflict, the affected provisions of this SORP cease to have effect."*

The other respondent suggested that guidance be provided on the impact of the proposed backstop for local government, including on regaining assurances in periods following those where opinions have been disclaimed.

PAF response: The PAF's view is that it is more appropriate to provide such guidance through local-audit-specific fora such as the Local Audit Reset and Recovery Implementation Guidance (LARRIGs).

The Preface has been updated to highlight the guidance currently included in the section on ISA (UK) 570 (paragraph 1-147) for the auditor to have regard to guidance issued by relevant authorities, such as guidance notes issued in accordance with the [Local Audit and Accountability Act 2014](#).

Question 7: The Auditor General for Wales and the Wales Audit Office 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?**

No comments were raised by respondents in relation to this question.

AMENDMENTS MADE (SUBJECT TO FRC APPROVAL)

Subject to approval of the final draft Practice Note 10 from the Financial Reporting Council, the PAF has made the amendments indicated in the *PAF responses* above to reflect comments received as part of the consultation and related discussions, in addition to minor typographical changes.