

PRACTICE NOTE 10: AUDIT OF FINANCIAL STATEMENTS OF PUBLIC SECTOR BODIES IN THE UNITED KINGDOM (REVISED)

FEEDBACK STATEMENT

Introduction

1. The Public Audit Forum (PAF)¹ has been designated by the Financial Reporting Council (FRC) as a 'SORP-making body' for the purposes of maintaining and updating Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN 10). Under 'SORP-making body' arrangements PAF is responsible for preparing and consulting on revisions to PN 10 prior to seeking the FRC's endorsement that there is nothing within the Practice Note that is inconsistent with auditing standards or the FRC's wider objectives.
2. The previous version of PN 10 was issued in 2010. In recent years, public sector audit has been subject to significant legislative and regulatory changes within the devolved administrations and in respect of local audit arrangements in England. Following initial discussions between all the relevant public audit agencies and with other key stakeholders, including the FRC, PAF published an exposure draft of the proposed revision of PN 10 to ensure that the guidance is up-to-date and appropriately reflects the legislative and regulatory frameworks as well as public sector auditing practice across the UK.
3. PAF has engaged with various interest groups throughout the project, including the FRC, public audit agencies, audit firms, representative bodies for the preparers of the financial statements (representing central and local government), public sector-related forums and professional bodies. Feedback from these groups has been considered in the preparation of the exposure draft and the final version of the guidance.
4. In June 2016, PAF issued a consultation paper setting out the proposed revisions to PN 10. The exposure draft was open for public consultation on the PAF website for three months.
5. Further background to the proposed revisions to the Practice Note and the rationale for PAF's responses to comments are set out in the invitation to comment.

Responses to the consultation

6. The public consultation on the exposure draft of Practice Note 10 closed on 23 September 2016. Fifteen responses were received from:
 - Audit firms: 6
 - Professional bodies and audit regulators: 3
 - Local government sector: 3
 - Health sector: 2
 - Education sector: 1
7. A list of respondents is given in the Annex. Copies of the responses are available on the PAF website. A summary of the main points raised in the responses received is given below. The proposed tracked changes are set out in the accompanying revised version of the exposure draft. Each change

¹ PAF comprises the heads of the national public audit agencies in the UK, which are the National Audit Office, Audit Scotland, the Northern Ireland Audit Office, and the Wales Audit Office.

corresponds to the relevant 'PAF response' stated in this document. PAF would like to thank all the respondents for taking time to respond to the consultation and contributing to aligning this Practice Note with current audit practices in the public sector.

8. Overall, respondents were positive about the need to revise the Practice Note and changes proposed by the PAF in the exposure draft. Six respondents agreed with all consultations questions and raised no further comments. Other respondents provided comments which are reflected in this paper under each consultation question, together with the PAF responses to these comments.
9. PAF has also received feedback from stakeholders during the consultation period through participations in meetings of various public sector-related groups, forums and societies. One comment received was that it would be helpful to audit practitioners to have additional guidance on how to present the regularity opinion in the auditor's certificate or report, given recent changes to the structure of the report in ISA (UK) 700.

PAF response (a): We decided to include additional guidance on this matter in Part 2: The audit of regularity in respect of placement of the regularity opinion in the audit report.

Question 1

To reduce duplication, detailed information that is already included in relevant auditing standards (apart from the objectives and public sector interpretations retained for context), financial reporting frameworks and legislation have been taken out and referred to in the document. **Do you consider it is appropriate to remove this material and include only public sector specific guidance on the application of the ISAs (UK and Ireland) and the audit of regularity? If not, please describe in broad terms what other contextual information and guidance you would like to see and why such content would be an improvement?**

10. All respondents agreed with PAF's decision to reduce duplication in the Practice Note and welcomed changes made to prepare a more user-friendly and accessible document for practitioners.
11. One respondent commented that in some cases, it may be necessary to provide more context, where information from the previous PN 10 was deleted. For example, in the section on ISQC 1, it may be useful to explain that 'contracted-out' and 'by appointment' arrangements apply to public audit agencies.

PAF response (b): We added a clarification in paragraph 5 that a 'statutory auditor' in the context of this paragraph is a public audit agency. We have reviewed the draft Practice Note and have not identified other cases where additional context is required.

We added the following text in the introduction: *"where this document is silent on certain aspects of the auditing requirements, users should refer to relevant auditing standards"*.

12. One of the responses highlighted that further reduction of duplication can be achieved by removing the objectives of each ISA and ISQC as practitioners would refer directly to the relevant standards, where required for the conduct of their audits.

PAF response (c): We considered deleting the objectives but agreed on balance to retain these because they provide helpful and brief context for users of the PN 10. This treatment is consistent with other practice notes and more importantly, provides context for each ISA and ISQC which is helpful to practitioners. We, therefore, propose to retain these.

Question 2

The information on local audit and devolved administrations arrangements was updated to reflect changes in legislation and to refer to relevant Codes of Audit Practice. **Do you consider that the guidance in Part 1: Application of International Standards on Auditing (UK and Ireland) is appropriate, sufficient and applicable to all parts of the public sector? If not, what changes would you like to see made and why?**

13. All respondents were generally supportive of the guidance included in Part 1: Application of International Standards on Auditing (UK and Ireland).
14. One respondent commented that paragraphs 24 (regarding discretionary appointments of engagement quality control reviewers) and paragraphs 90-91 (in respect of shared service providers) do not add any further application guidance to what is currently already included within ISAs.

PAF response (d): We decided to retain these paragraphs. Paragraph 24 provides additional context for the previous two paragraphs by recognising that the appointment of engagement quality control reviewers at the discretion of the auditor is also applicable in the public sector. Paragraphs 90 and 91 provide useful and relevant examples in respect of the application of ISA 402 in the public sector.

15. Two respondents raised comments in respect of ISA 240 guidance and suggested that:
 - paragraph 46 should consider cases where the risk of fraud in revenue recognition can be rebutted but revenue is material, for example when the amount of revenue is pre-determined;
 - paragraph 47 should be rephrased to clarify that there is no new requirement for a presumed risk of fraud in expenditure recognition; and
 - paragraph 48 should be amended to clarify that the auditor should consider the risk of material external fraud rather than identify such cases on an individual transaction basis.

PAF response (e): We decided to rephrase paragraphs 46 and 47 to clarify that the risk of fraud in revenue recognition can be rebutted not only when revenue is immaterial and that this guidance does not introduce a new requirement to consider the risk of fraud in expenditure recognition. We consider paragraph 48 to be sufficiently clear that benefit or prescription claims are examples of external fraud and the paragraph does not introduce any additional requirements, especially for those audits where external fraud is unlikely to be material.

16. One of the respondents requested additional clarification and examples on having wider regard to laws and regulations in respect of the relevant auditing framework (paragraph 55). Another respondent suggested that paragraph 42 should refer to the need for firms to be registered with a recognised supervisory body and individual auditors to obtain Key Audit Partner status.

PAF response (f): In paragraph 55, we clarified that this may be applicable to the audits of entities subject to a relevant code of audit practice. 'Wider regard' would be a consideration of any issues identified in that work that may need to be reported as part of ISA 250A. We believe that additional guidance in paragraph 42 is not required as it is not a public sector-specific interpretation.

17. One of the comments was in relation to paragraph 71. The respondent stated that the guidance should be clear on when public sector bodies need to apply any of the additional requirements for listed entities and/or Public Interest Entities (PIEs).

PAF response (g): We will rephrase paragraph 71 to clarify that there are no additional requirement introduced here but auditors may consider whether it is appropriate to communicate on matters relating to the auditor's independence having regard to the interest and expectations of relevant stakeholders.

18. Two respondents commented on the section of the guidance on materiality (paragraphs 84-86) and suggested that:

- it may be useful to include additional guidance on using separate materiality levels for certain balances or specific transactions, especially where the audited body has significant infrastructure assets or public sector housing; and
- use of assets as a benchmark is not consistent with the previous version of this Practice Note and may be confusing for practitioners. Significant assets may be dealt with more effectively using separate materiality levels for certain balances or specific transactions.

PAF response (h): Paragraphs 84 and 85 were taken directly from the application guidance in ISA 320, therefore we are not in a position to amend this text. We consider that assets or liabilities may be used as benchmarks for materiality (where the audited entity's main role is to manage assets and liabilities, not provide services). However, we agree that additional guidance on this and use of separate materiality levels for certain balances or specific transactions may be helpful. Therefore, we have added four illustrative examples in paragraph 86.

19. One respondent commented on paragraph 93 that it is the audited body's responsibility to make necessary arrangements with their service provider to provide assurance to the auditor.

PAF response (i): We will rephrase paragraph 93 to clarify that these arrangements are necessary but they are ultimately the responsibility of the audited body.

20. One comment referred to paragraph 107 on the successor auditor's access to prior year audit documentation. The respondent suggested that common practice amongst audit firms is for a successor auditor to review the audit file rather than obtain copies of audit documentation from the previous auditor.

PAF response (j): PAF recognises that the actual practice varies across the sector. We decided to include the following sentence: "successor auditors are typically provided with access to perform a review of the prior year audit file" and retaining other ways of fulfilling the ISA requirements as further examples. PAF has also consulted other audit firms on the common practices and it was suggested that in the public sector, it is particularly important to consider the need to produce group accounts. Additional text was added to paragraph 171.

21. One of the respondents requested further clarification on the circumstances when the audited body relies on the estimates produced by another entity (paragraph 115). The respondent suggested adding an example of the audits of local government pension funds. The respondent stated that it would be useful for the PN10 to state that where the auditor of the entity providing the accounting estimate has been contacted by the auditor of the public sector body, that they have a responsibility to respond to the request appropriately and promptly.

PAF response (k): An example suggested by the respondent (local government pension funds) was considered to be more relevant to use of the work of the management expert (actuary). PAF decided not to provide examples of the estimates produced by another entity as these are often specific to individual entities. PAF considered the request to state the responsibilities of the auditor of the entity to provide evidence supporting an accounting estimate. However, we are conscious that this could be seen as an additional requirement and PN 10 provides only application guidance on existing requirements. We believe that the responsibility to respond to the auditor's request is that of the audited body and it should have appropriate arrangements in place with the entity providing the accounting estimate and its auditor to provide sufficient and appropriate evidence to support the accounting estimate.

22. One respondent suggested that paragraphs 128 and 140 on consideration of events after the reporting date, once an audit opinion has been given, are not consistent with Auditor Guidance Note 07 issued by

the National Audit Office for local auditors in England. Additionally, paragraph 128 should specify that the financial statements referred to here are “audited financial statements”.

PAF response (l): We believe that there is no inconsistency between those two documents. AGN 07 specifies what needs to be done if a matter comes to the auditor’s attention but does not require any further audit procedures once the audit opinion is issued. Paragraphs 128 and 129 provide sufficient guidance in this respect that is consistent with AGN 07. We will add “audited” in paragraph 128 to provide further clarification that the guidance refers to the “audited financial statements”.

23. Five respondents commented on the going concern section of the guidance and suggested that:

- it would be helpful to remind auditors of the need to ensure there is adequate disclosure of the basis of preparing accounts on the going concern basis as well as disclosure of any material uncertainties;
- PN 10 should refer to the fact that, in the first instance, management is responsible for the assessment of going concern which the auditor of the public sector body then needs to review;
- it would be useful to clarify how the audited body and the auditor should respond where there is an intention to dissolve or wind-up an entity, or part of an entity, but that the proposal has not yet reached a formal parliamentary (or equivalent) decision;
- it may be helpful to emphasise the responsibility of the entity to make an appropriate disclosure in respect of guarantees (paragraph 147);
- references to ISA 570 in paragraph 149 and 150 should be updated as these were renumbered when the new ISAs (UK) were introduced; or it should be stated what the requirements are in the Practice Note;
- PN 10 should clarify that failing to break-even does not in itself indicate a going concern issue, and suggest consideration of other areas of auditor’s work on “understanding an entity’s ability to meet obligations as they fall due”;
- paragraph 155 should clarify that the need to obtain evidence of support is based on the assessment of forecasts, available resources and material uncertainties;
- for paragraphs 156 and 157, it is worth noting however that NHS Improvement has indicated that from 2015-16 it will no longer provide letters of support for NHS Trusts;
- the confirmation of support in itself would not automatically require disclosure in the accounts or the auditors’ report;
- paragraph 156 should clarify how confirmation of support relates to the ISA 570 requirements for assessing disclosures and whether there is a material uncertainty by way of an emphasis of matter paragraph (assuming such matters are adequately disclosed in the financial statements); and
- in paragraph 157, failure to obtain confirmation of support should be dealt with in the disclosures and, where required an emphasis of matter, rather than as a limitation of scope requiring a modified opinion or reporting a fundamental uncertainty.

PAF response (m): We consider that the requirements to ensure adequate disclosure in relation to the basis of preparation and to review management’s assessment of going concern are already included in ISA 570 but we decided to include these requirements in the guidance to provide further context and avoid confusion.

We decided to add the suggested clarification on guarantees disclosures and consequences of failing to break-even.

We removed the references to specific paragraphs in ISA 570 and repeated these requirements in the guidance for context.

We rephrased paragraphs 155-157 to take into account revised auditing standards (reporting of material uncertainty) and current practice (obtaining confirmations of support as part of evidence of going concern).

We clarified that sections on reporting of material uncertainty have been revised due to the revised auditing standards.

24. One respondent commented that paragraph 192 should clarify that the consistency opinion should only refer to information published together with the financial statements and not extent to information published outside of the annual report.

PAF response (n): We have reviewed the text and concluded that the paragraph is sufficiently clear on this point.

Question 3

This Practice Note was updated to reflect recent changes to the auditing standards. **Do you believe that the appropriate guidance is included in Part 1: Application of International Standards on Auditing (UK and Ireland) in relation to the application of the revisions to ISAs (UK and Ireland)? If not, what changes would you like to see made and why?**

25. All respondents agreed that the guidance included in Part 1: Application of International Standards on Auditing (UK and Ireland) in relation to the application of the revisions to ISAs (UK and Ireland) is appropriate.
26. Two respondents highlighted that the revised ISAs issued in June 2016 should only refer to the UK and not the UK and Ireland, reflecting the role of the FRC as the single competent authority for the UK, but not for Ireland.

PAF response (o): We amended all references to ISAs (UK and Ireland) and replaced these with ISA (UK). We also stated that references to an ISA/ISQC (UK) should be taken as meaning the equivalent ISA/ISQC (UK and Ireland) until the revised ISAs (UK) and ISQC 1(UK) are adopted.

27. One respondent stated it would be helpful to provide additional context in respect of auditing non-current assets in the public sector (paragraph 116), for example, where one auditor engages an expert to provide assurance to a number of entities on the professional valuation of assets or pension scheme.

PAF response (p): We decided to include these examples to provide additional guidance for practitioners. However, we added these to a different section as we believe they are more relevant to ISA 620 than ISA 540.

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?**

28. All respondents were supportive of guidance included in Part 2: The audit of regularity. Five respondents provided comments in respect of this consultation question.
29. Some respondents commented that it would be useful to provide further background on different levels of assurance in the audit of regularity, in particular for the audit of academies, sixth form colleges and further education colleges. Some funding bodies also specify the form of regularity report required for auditors. One of the respondents suggested that the scope of PN 10 should be extended to include assurance engagements other than audits, specifically in relation to regularity. Where the scope cannot be extended, the respondent suggested that PN 10 should explicitly state to what extent guidance may

be useful to such engagements and refer to ISAE 3000 (revised), the ICAEW Assurance Sourcebook and/or the ICAEW publication on audit versus other forms of assurance.

PAF response (q): PAF considered the scope of PN 10 and concluded that the Practice Note is not intended to cover other assurance engagements that may be designed to report on regularity. This guidance only covers bodies that are required by legislation to have a regularity audit. Academies and other similar types of entities that are subject to 'limited assurance engagements' are not required to have an audit of regularity under legislation but must comply with funding obligations or grant conditions determined by a relevant funding body. Therefore, it should not be confused with the audit of regularity. We rephrased paragraph 3 to clarify this point and refer the auditors of academies and college corporations to more appropriate guidance on assurance engagements.

30. Other comments suggested that:

- guidance should clarify which public sector bodies (as defined in the glossary) the guidance in Part 2 refers to;
- there should be further references to Managing Public Money (MPM) to emphasise that it underpins the accountability arrangements for public sector bodies and is often a part of the framework of authorities. The definitions of regularity and propriety should include reference to definitions given in MPM and refer to HM Treasury's 'regularity, propriety and value for money' handbook;
- the use of the term 'central government' in paragraphs 7 and 71 may be misleading as academy trusts are classified as being within the central government boundary but are not required to have an audit of regularity;
- in paragraph 7, it may be useful to add clarification on the integrated approach to auditing in many parts of the public sector by using the following wording: 'with audit testing for the true and fair audit opinion supplemented by additional work in respect of regularity'. It may be also useful to add that the audits of regularity and financial statements would normally be done by the same person;
- reference to regularity of income should be more explicitly stated in the guidance as section 9.2.3 of the Academies Accounts Direction refers to both income and expenditure. In addition, it would be beneficial to include more reference to propriety and why it is out of scope;
- paragraph 12 should take into account different levels of materiality (both audit materiality and regularity materiality) when planning and performing the audit procedures;
- paragraph 19 should not include "previous experience" or "discussions with staff employed" as ways of identifying the framework of authorities as these are weak sources of evidence and auditors should be encouraged to refer to source documentation;
- in paragraphs 26 and 27, it would be useful to provide examples of the types of scenarios that these two paragraphs are intended to cover;
- paragraph 32 should focus on applying a qualitative judgement to determine an appropriate threshold for certain classes of transactions and specific areas of the regularity audit, rather than set one lower quantitative threshold for regularity;
- paragraphs 36 and 40 focus too much on inherent risk and this section should also refer to local risk factors, such as changes in accounting officer/chief financial officer or changes to the scheme of delegation or major accounting systems. The respondent commented that the table in paragraph 39 detracts from the discussion in the document and should be shown in an annex;
- within paragraph 37, it would be useful to include, as an additional consideration, the experience and knowledge the auditor has previously gained from prior periods;

- in paragraph 39, the table of issues raised in relation to risk and mitigating controls should be expanded with an introductory paragraph highlighting significant issues with short bullet points. The current four highlighted risks would then follow as possible examples of some of these points. For certain types of body, inherent risks to regularity might include cash flow problems, pressures to misstate performance information, or internal changes of the accounting officer / trustees / key management. In addition, in the example of services delivered through third parties, we consider that this should be expanded to include the monitoring of the solvency of the third party supplier;
- paragraph 40 the reference to certain risks requiring 'special audit consideration' may be confusing for practitioners and 'particular focus' should be used instead;
- paragraph 41 should state that the auditor's risk assessment is also an important consideration to determine the nature, timing and extend of audit procedures;
- the section on planning and performing audit procedures could be expanded to include guidance on sampling procedures and requirements for documenting the evidence (separately from the review of financial statements). The respondent also commented that the statement on analytical procedures in paragraph 47 seems to contradict guidance in paragraph 80;
- in paragraph 48, the wording should be updated to remove the word 'substantive' as it covers examples, such as a review of financial statements or management accounts. Another respondent suggested that paragraph 48 should include additional guidance on using the accounting officer's statement as audit evidence;
- within paragraph 51, the wording should be updated to make it clear that the auditor's responsibility is to gain an understanding of the differences between relevant European and UK legislation, and their impact on the audit of the entity;
- within paragraph 65, it is unclear what the 'results of the quality control review' is intended to cover in this context, and it would be useful to clarify and provide appropriate examples;
- paragraph 75 should explain that where corrective action had been taken in cases of non-compliance, the regularity report should be modified as the entity was not complying with the framework of authorities at the time; and
- paragraphs 81 to 85 should outline the minimum required content of the regularity opinion.

PAF response (r): In response to each of the comments raised, PAF concluded that:

- we believe that paragraph 7 appropriately explains which types of public sector bodies can be subject to the regularity opinion and as such would be within the scope of PN 10;
- we clarified that an integrated audit approach needs to "be supplemented by additional testing of regularity, where necessary" in paragraph 7. We also added that it would normally be the same person conducting financial statement and regularity audit;
- we added an additional explanation in the footnote on the role of MPM document. Some public sector bodies that are subject to an audit of regularity are not required to apply MPM. As this guidance is intended for all public sector audit practitioners, we need to keep it at a sufficiently high level so that it can be appropriately interpreted for individual circumstances. We decided not to refer to MPM definitions of regularity and propriety as these are not applicable to all public sector bodies covered by PN 10;
- we amended the definition of 'central government' in the glossary to reflect that in the context of PN 10 central government does not include academies and college corporations;
- we consider that regularity of income and propriety are adequately covered in paragraphs 7 and 9 respectively;

- we agree that the auditor should take into account the materiality for the audit of financial statements in setting the materiality for the audit of regularity but it is the latter materiality that is then used to plan and perform the audit procedures in respect of regularity. The audit opinion on regularity is distinct from the true and fair opinion, therefore the auditor should use the materiality set for the regularity audit (unless the materiality levels for the audit of financial statements and regularity are the same). Therefore, we do not consider it necessary to revise the guidance as suggested by the respondent;
- we considered that there are enough examples provided in paragraphs 26 and 27;
- we believe that paragraphs 32 and 33 provide sufficient guidance in respect of materiality and cover the areas raised in the comment, i.e. qualitative considerations, lower thresholds for certain balances;
- we believe that paragraphs 36 to 40 provide an adequate focus on risk assessment in respect of regularity. We decided not to add suggested examples of 'local risk factors' as these are risks to the overall control environment rather than regularity. We decided to retain the table within the text as it flows from the text in previous paragraphs and, if retained in an annex, would detract users from the rest of the document;
- we decided to add 'prior experience of the auditor' as one of the factors in paragraph 37;
- paragraph 39 states that these are examples of risks of material irregularity and provides sufficient background before the table. We do not think it would be appropriate for the Practice Note to cover risks specific to particular types of body, such as academies which are not subject to reasonable assurance based opinions on regularity. The examples mentioned are evidence of weaknesses in the internal control environment rather than specifically risks of material irregularity;
- we believe that the term 'special audit consideration' is appropriately used in paragraph 40 as it reflects a need to plan a specific response to address the risk of material irregularity;
- we think that including guidance on sampling procedures and documenting evidence would not be within the spirit of PN 10 which is principles-based and could undermine the auditor's right to exercise his/her judgment. Paragraph 47 does not contradict paragraph 80 as the latter paragraph refers to use of the work performed on the risk of fraud under ISA 240 rather than regularity;
- we do not think it would be appropriate to guide the auditors to use the accounting officer's statement as audit evidence under reasonable assurance engagements although it may be a reasonable approach under limited assurance engagements. The list of sources of audit evidence is not exhaustive and in addition to that, paragraph 45 refers to findings from the Governance Statement review;
- we replaced the term 'substantive' to 'audit' in relation to procedures performed in paragraph 48 and specify that the auditor should only gain an understanding of difference between EU and UK regulations in paragraph 51;
- quality control in paragraph 65 covers the results of the audit review- whether the certificate/report issued by the auditor is of sufficient quality. We consider that this term is self-explanatory and do not propose to add any further clarification in this paragraph;
- we think it is not appropriate to modify the opinion on regularity if corrective action on non-compliance was taken. The corrective action would normally result in making income or expenditure regular and should not affect the regularity opinion; and
- we consider that there is sufficient guidance on the content of the regularity opinion in paragraph 81 as it is dependent on the legislative requirements for the audit of regularity.

Question 5

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

31. Four respondents provided comments for this consultation question. The remaining nine respondents had no additional comments or stated that no further changes to the Practice Note are required.
32. One respondent commented that there should be clearer highlighting (for example by using a grey background) when referencing the standards, to enable a user to be able to distinguish clearly between the ISAs (UK) and ISQC1 extracts and the PN10 application guidance.

PAF response (s): The guidance is currently with our design and publishing team which aims to make it more visually engaging and accessible to users. We will feed these comment into these considerations.

33. One comment stated that within the preface, there is reference to auditing standards, legislation and regulations which were 'in effect at 1 September 2016' which creates ambiguity over the use of auditing standards that were issued on 17 June 2016.

PAF response (t): Paragraph 6 of the preface explains that the guidance reflects the auditing standards issued on 17 June 2016. The specific reference to the 1 September 2016 is relevant not only to the auditing standards but also to legislation and regulations issued before that date.

34. Two of the respondents commented that it would be helpful if the current public sector environment and the context in which auditors are now working is reflected in the introduction. For example, while auditors will always use professional scepticism in their work, there are pressures on management arising from funding reductions with implications for the risk environment. Therefore, in the current financial and operating environment, auditors may be required to exercise their professional scepticism even further.

PAF response (u): We consider that it is not necessary to include the description of the current public sector environment in the introduction as auditors would consider these and other relevant factors as part of understanding the entity and its environment. Not every public sector entity is affected by the current public sector environment in the same way. The guidance may also quickly become out of date if circumstances change and we believe that it is not the role of PN 10 to determine these circumstances for the auditors.

35. One respondent suggested that it would be helpful to include a web link for the reference to the classification of public sector by the Office of National Statistics. Another respondent stated that there may be bodies not classified by ONS as public sector but handling a significant value of public funds that could be within the scope of PN 10, e.g. college corporations. Another respondent suggested that it would be helpful to include within PN10, reference to the FRC's wider objectives in relation to public sector for clarity. The respondent's view is that PN10 should apply to all parts of the public sector and this could be more explicit in the paper.

PAF response (v): We added additional information on this ONS publication and its reference: <http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/publicsectorclassificationguide>. The preface clarifies that this Practice Note is applicable to the audits of entities defined by the ONS as public sector bodies. Auditors of bodies, which handle public funds but are not classified as public sector, may consider it appropriate to use this guidance, where applicable but are not required to do so. We believe that it is not necessary to include the reference to the FRC's wider objectives in the guidance as the preface and introduction provide sufficient context for public sector audit. No additional text is proposed.

Annex: Respondents to the consultation

Audit firms:

Grant Thornton

KPMG

PwC

BDO

MHA MacIntyre Hudson

Mazars

Professional bodies and audit regulators:

CIPFA

ICAEW

Public Sector Audit Appointments Limited

Local government sector:

Forest Heath District Council and St Edmundsbury Borough Council

Central Bedfordshire Council

Society of District Council Treasurers

Health sector:

NHS Improvement

Healthcare Financial Management Association

Education sector:

Funding Agencies Shared Services Team (representing the Education Funding Agency and the Skills Funding Agency)