

PRACTICE NOTE 10: AUDIT OF FINANCIAL STATEMENTS AND REGULARITY OF PUBLIC SECTOR BODIES IN THE UNITED KINGDOM (REVISED 2020)

INVITATION TO COMMENT

Deadline for response: Monday 31 August 2020

Mae'r ddogfen hon hefyd ar gael yn Gymraeg | This document is also available in Welsh.

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 and Regularity 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. PAF is now inviting comments on the accompanying exposure draft of revised PN 10 following agreement from the FRC to consult publicly on the proposed changes.

BACKGROUND

3. PN 10 sets out how auditors of public sector bodies in England, Scotland, Northern Ireland and Wales apply auditing standards to their work on financial statements. The aim of the Practice Note is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. PN 10 also provides guidance on the approach to the audit of regularity.
4. The Practice Note focuses on the audits of financial statements and so is not relevant to public sector audit work on, for example, arrangements to secure value for money in the use of resources. Such work is subject to specific requirements in relevant Codes of Audit Practice and other guidance issued by the public audit agencies across the UK.
5. PN 10 was last revised in 2016 and there is a need to ensure the Practice Note is updated to take account of changes to International Standards on Auditing (ISAs). ISA 540 *Accounting Estimates* and ISA 570 *Going Concern* takes effect for periods commencing on or after 15 December 2019 and changes have been made to the draft Practice Note to reflect the updated standards. The draft PN 10 also includes additional guidance on defining the scope of the framework of authorities.
6. Following on from this 2020 revision, we intend to keep PN 10 under regular review to consider each year whether any further revisions are needed. For example, during this period, changes are likely to be needed to reflect the revised ISA 315 *Identifying and Assessing the Risks of Material Misstatement* and the introduction of International Standards on Quality Management (ISQMs) to replace International

¹ The Forum's members are Audit Scotland, the National Audit Office (NAO), the Northern Ireland Audit Office (NIAO) and the Wales Audit Office (WAO).

Standard on Quality Control I (ISQC I). Further iterations of PN 10 will respond to changes in standards as appropriate.

IMPACT ASSESSMENT

7. As a Practice Note is guidance to support best practice, and is not prescriptive, PAF has not completed a separate impact assessment. This is because the revised Practice Note does not impact on the level of auditor's work-effort required under auditing standards and because the level of work effort required in relation to regularity, where this required, reflects existing practice and does not include additional procedures.

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8. The accompanying exposure draft has two main parts:
 - Part 1: Application of International Standards on Auditing (UK)
 - Part 2: The audit of regularity
9. While these parts provide the main content on which respondents to this consultation will wish to focus, it would also be helpful to have any other comments on the material in the proposed PN 10 including the glossary.
10. The annex to this consultation document includes a more detailed summary of the revisions to PN 10 together with the rationale for the specific changes that are being proposed.
11. You are invited to provide comments in response to the following consultation questions, but please add any other additional comments that you think it would be helpful for PAF to consider when finalising the proposed revisions to PN 10.
12. Comments from all interested parties are welcomed. PAF particularly invites comments from those representing users of public sector financial statements.

CONSULTATION QUESTIONS

Question 1: This version of Practice Note 10 includes extensive changes to the section on ISA 570 *Going Concern*. **Do you consider the revised draft provides appropriate and useful guidance on applying the revised standard? What changes should be made, if any?**

Question 2: Guidance is included for the case where the reporting framework requires the other information to be "fair, balanced and understandable" (ISA 720). **Does this paragraph set out an appropriate audit response for this circumstance?**

Question 3: The guidance in the section on ISA 560 *Subsequent Events* has been re-ordered and clarified. **Do you consider the revised draft provides appropriate and useful guidance on applying the revised standard? What changes should be made, if any?**

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?**

Question 5: This version of Practice Note 10 has been drafted with the intention that further iterations be issued over the coming years to take account of further standards and guidance that will be released, as well as

the result of wider developments in the auditing profession. **Do you consider that this approach is appropriate? What aspects, if any, of current developments not yet included should be incorporated into this version of the Practice Note?**

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

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?**

COMMENTING ON THE PROPOSALS

13. PAF has established a project team to develop the revisions to PN 10. PAF's project team would prefer to receive letters of comment in an electronic form that facilitates "copy and paste". These may be sent by e-mail to:

PracticeNote10@public-audit-forum.org.uk

or

NodynYmarfer10@public-audit-forum.org.uk

14. Responses should be sent so as to be received **no later than 5pm on Monday 31 August 2020**. All comments will be regarded as being on the public record unless otherwise requested.
15. Consultation responses may be provided in either English or Welsh.

ANNEX: SUMMARY OF CHANGES FROM 2016 VERSION

Section	Updates
Name	The Practice Note has been re-named to include a reference to regularity.
Contents page	Updated for other content changes.
Preface	Amended commentary on the updates made since the previous revision of PN 10.
ISQC 1	Included a reference to paragraph A57 of ISA 240 covering the situation when the public sector auditor may not have the option to withdraw from the engagement.
ISA 240	Updated the references to the latest version of the Money Laundering regulations.
ISA 250A	Updated the references to the latest version of the Money Laundering regulations. Added a clarification from the new regulations that a report to the MLRO is not to be taken as a breach of any restriction on the disclosure of information.
ISA 320	Provided examples of areas where auditors may consider setting a lower materiality threshold.
ISA 540	Updated the title of the standard. Updated the objectives to be consistent with the new version. Added a section on inherent risk factors relevant to the public sector, with examples.

	<p>Added a section on the use of external information sources.</p> <p>Updated the examples of non-current assets in the public sector.</p> <p>Replaced the statement that measurement at fair value may not be possible in some rare cases with a statement that the methods employed may be different from more common techniques.</p>
ISA 560	<p>Re-ordered and clarified the guidance on determining the date the financial statements are authorised for issue and the date the financial statements are issued. Clarified that the guidance on the date of issue in paragraphs 5 and A5 of ISA 560 can be applied to entities such as local government bodies that do not present their accounts to a legislature. Clarified that central government financial statements are considered to be issued on the date of laying rather than the date of despatch for laying.</p> <p>Clarified that the statement that <i>“In the public sector, the issue of the auditor’s statutory audit opinion marks the end of the audit and once the financial statements have been issued they cannot be revised and the auditor’s report cannot be reissued”</i> does not apply for all public sector engagements.</p>
ISA 570	<p>Updated the objectives to be consistent with the new version.</p> <p>Amended the guidance previously in paragraph 145 of Part I of the 2016 version to remove reference to the 2016 revision of the standard.</p> <p>Added a section on ‘Planning the approach to going concern’. Under this section, the public sector auditor determines the way ISA 570 will be applied based on whether or not the reporting entity’s financial reporting framework presumes going concern in the event of anticipated continuation of provision of the services provided by the entity. If the financial reporting framework does so, the public sector auditor applies a ‘Continued provision of service approach’.</p> <p>Added sections on the ‘Continued provision of service approach’, which explains how in this situation the public sector auditor applies the ISA 570 requirements on ‘risk assessment procedures and related activities’ and on ‘evaluating management’s assessment’.</p> <p>Removed the guidance previously in paragraph 151 of Part I of the 2016 version on consideration of the foreseeable future (this previously stated certain requirements of the ISA which have now been superseded).</p> <p>Amended the guidance previously in paragraph 158 of Part I of the 2016 version to cover the situation where the auditor reports on how they evaluated management’s assessment on going concern and the auditor’s judgement is based on third-party confirmations from a financial backer.</p> <p>Added a section on references in the auditor’s report to going concern to cover the new requirements for certain entities to report on the going concern approach in the auditor’s report.</p>
ISA 600	<p>Added a section on combined financial statements of components that have no parent.</p>
ISA 700	<p>Updated the guidance previously in paragraph 179 of Part I of the 2016 version to reflect that fact that ISA 701 is no longer a new standard.</p>
ISA 720	<p>Added a paragraph on the situation when the reporting framework requires that the other information presented is “fair, balanced and understandable”.</p> <p>Added a paragraph on statutory other information, on which the auditor is required to express a positive statement in the auditor’s report.</p>
Part 2	<p>Added a section on the framework of authorities included in the auditor’s report to provide guidance on how the auditor determines what are relevant authorities for the purpose of the regularity opinion.</p>

	Added to the section on materiality additional examples of potentially qualitatively material areas and clarified that these areas are not limited to the examples given.
General	Minor typographical and formatting changes. Paragraph numbering has been updated to distinguish between Parts 1 and 2.