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Public Audit Forum
157-197 Buckingham Palace Road
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Dear Sirs,

Consultation on the 2022 revision of Practice Note 10

Thank you for your invitation to comment upon the 2022 revision of Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom.

Our detailed responses are set out in the Appendix to this letter. Please feel free to contact Ben Sheriff (bsheriff@deloitte.co.uk) if there are any matters you wish to discuss from our comments.

Yours sincerely

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<u>Appendix: Response to Consultation Questions</u>

Question 1: This version of Practice Note 10 includes changes to the section on ISA (UK) 320 (Revised June 2016) Materiality in planning and performing an audit concerning the determination of materiality for the financial statements as a whole and the materiality level(s) to be applied to specific classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. Further guidance is also provided in Part 2 on the determination of a separate materiality threshold for the regularity opinion. **Do you consider the revised draft provides appropriate and useful guidance on applying materiality to the audit of public sector financial statements and regularity? What changes should be made, if any?**

We welcome the increased flexibility in the revised draft to consider the specific circumstances of audited bodies.

We would suggest editing example 5 to make it clearer that the income and expenditure transaction streams to which a lower materiality level would be applied will have related balance sheet accounts. We would suggest amending as follows:.

> "Example 5: the audited entity's accounts include high-value property, plant and equipment assets, but its day-to-day decision making focuses on much lower-value expenditure and income transaction streams – the auditor determined materiality for the financial statements as a whole using gross assets as a benchmark and also determined a materiality level to be applied to most or all expenditure and income transaction streams (including related balance sheet items and disclosures), for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. The materiality for the financial statements as a whole would be used in testing e.g. property valuations and related valuation movements or pension scheme balances and related income statement movements. ~~The materiality level applied to expenditure and income transaction streams may also apply to assets or liabilities in respect of which management decisions are more frequently made than the larger account balances (for example, working capital balances or actively-managed investments)."~~

As a typographic point, we note that paragraph 1-86 ends in a colon.

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Question 2: The previous section on ISQC (UK) 1 has been replaced by guidance on applying ISQM (UK) 1 in the public sector, including for contracted-out audits. **Does this section provide appropriate and useful guidance on quality management arrangements for statutory and contractor auditors of public sector entities? What changes should be made, if any?**

While we recognise the need for consideration of ISQM 1 requirements around service providers, we note that audit firms typically do not need to provide 'service provider reports', and that the arrangements in place around contracted out audits are likely to enable public sector audit bodies to obtain the information required without significant additional information requests. As a provider, we note that our decisions about the attractiveness and pricing of work as a contractor auditor will be affected by the extent of information required and cost of reporting under this requirement.

We note that paragraph 1-2 still refers to ISQC (UK) 1.

Question 3: The section on ISA (UK) 315 includes additional examples of inherent risk factors that may be particularly relevant to public sector entities. **Are these example inherent risk factors relevant to public sector audits and do they encompass the common areas of inherent risk that are particular to public sector entities?**

We have no comments on this area.

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 have no comments on this area.

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?**

The changes proposed will assist auditors, though the range of public sector bodies means that auditors will need to continue to consider wider factors in many cases. Given this diversity of circumstance and entity, we have no further suggestions.

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

Following the National Audit Office's revisions to Auditor Guidance Note 1 in September 2022, we note the revised guidance says:

- "If the work is being undertaken for an Integrated Care System (ICS), the 70% cap should be calculated in the context of the combined fee for all of the local NHS bodies within the ICS footprint irrespective of which body or bodies make the payment for the work.

As drafted, this suggests that if auditing one body in an ICS our of five, with an audit fee of £200k, then the fee cap for doing work for the ICS that impacts the body is £200k x70% = £140k.

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The alternative interpretation would be to divide the non-audit fee between the number of affected entities. So e.g. a £250k piece of work would be apportioned £250k/5 = £50k per entity, which would then be compared to the audit fee and the 70% cap for each entity.

We would welcome discussion of the practical application of the Ethical Standard and the AGN01 in these circumstances.

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 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?**

We have not become aware of anything in the consultation draft that undermines the requirements of the Welsh Language Standards, or identified any revision which could be made to further support the use of the Welsh Language.