



Response to the consultation on Practice Note 10 (revised 2022) exposure draft

Introduction

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. This is our response to the Public Audit Forum's [invitation to comment](#) on *Practice Note 10: audit of financial statements and regularity of public sector bodies in the United Kingdom (revised 2022)*.

The response has been drafted by members of HFMA's Governance and Audit Committee and Accounting and Standards Committee. It is submitted from the HFMA in its capacity as a representative organisation.

Response

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 agree that the additional examples and expanded guidance provided in paragraphs 1-87, 1-88 and 2-24A are helpful in setting out when it might be appropriate to determine a materiality level or levels to be applied to particular classes of transactions, account balances or disclosures. Specific reference to those with major infrastructure assets, high value property plant and equipment assets and pension liabilities is particularly relevant to the public sector and therefore we welcome the specific inclusion.

However, in the public sector, including the NHS, expenditure is commonly the most appropriate measure to set overall materiality. As set out in paragraph 1-87, auditors may consider setting a lower materiality threshold for certain balances, transactions or disclosures. Paragraph 1-88 then says that there may be instances in the public sector where setting an overall benchmark based on large assets and liabilities may be appropriate. It would be helpful to be explicit as to whether or not PN10 would allow for a higher level of materiality to be set for certain balances, transactions or disclosures. For example, although expenditure may be the most appropriate overall materiality level, a higher level may be more appropriate for assessing areas such as property, plant and equipment or pensions. Is this approach acceptable?

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?**

We agree the updated guidance to reflect the application of ISQC (UK) 1 supports the requirement to design and implement systems of quality management in compliance with the standard by 15 December 2022.

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 agree with the additional inherent risk factors included that may be particularly relevant to public sector entities and find it helpful that these have been explicitly set out in the 2022 PN10 update.

In considering the entity and its environment, paragraph 1-73 refers to situations where 'management may not have control over certain decision that are made. Matters that may be relevant include understanding the ability to make unilateral decisions, and the ability of other public sector entities to control of influence the entity's mandate and strategic direction.' With the enactment of the Health and Care Act in July 2022, this is particularly relevant for NHS organisations working more closely – in formal and informal partnerships – across a geographical area (in integrated care systems (ICSs)) to deliver the local integrated care partnership (ICP) strategy while meeting its financial targets as individual organisations and across the system.

Paragraph 1-79 refers to inherent risk factors that may be particularly relevant to public sector entities. This includes complexity; subjectivity; change; uncertainty and a susceptibility to misstatement due to management bias or other fraud risk factors. These are particularly relevant within the NHS which faces significant financial pressure and structural change. Inherent risks arise from the nature of the NHS financial framework which includes: annual limits (both revenue and capital) and the inability to carry forward balances; examples of late notifications of allocations at the year-end; and a number of material financial statement entries based on judgements and estimates. These are specific to the NHS financial framework and therefore can often be forgotten when considering overall public sector arrangements. These risks and their link to an increased level of audit work required to meet the regulatory requirements of the Financial Reporting Council (FRC) are explored in the HFMA's recent briefing, [The NHS external audit market: an update on current issues](#).

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 agree that the section on the audit of regularity remains appropriate, sufficient and applicable and welcome the additional paragraphs relating to materiality, as referred to in question 1 above.

It is worth highlighting that increased system working in the NHS is a potential area of difficulty for auditors. In particular, auditors may feel they do not have sufficient sight of, and evidence for, financial and performance information across the system that will impact on regularity. This is complicated further with organisations within a system working under different frameworks (for example, local authorities, NHS bodies and voluntary organisations).

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?**

Other changes are welcome and do provide useful and appropriate guidance for public sector auditors. In particular:

- the additional material on going concern with the specific example that ‘auditors of local authorities have regard to guidance notes issued in accordance with the Local Audit and Accountability Act 2014’ is helpful in addressing historic challenges in auditing going concern in the NHS
- the addition of the section on the revised ethical standard 2019 is helpful in a climate of increased financial pressure. The HFMA has recently updated its paper [Ethical standards: roles and responsibilities of the NHS accountant](#), in recognition of the importance for NHS finance professionals to maintain ethical standards.

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

We have not identified any further proposed changes to raise.

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 identified any specific issues.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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