

Public Audit Forum. Consultation on the 2022 revision of Practice Note 10

September 2022

About the Local Government Association

1. The Local Government Association (LGA) is the national voice of local government. We are a politically led, cross party membership organisation, representing councils from England and Wales.
2. Our role is to support, promote and improve local government, and raise national awareness of the work of councils. Our ultimate ambition is to support councils to deliver local solutions to national problems.
3. This response has been cleared by the lead members of the LGA's Resources Board and we are happy for it to be made public.

General points

4. As is outlined in the [announcement of the consultation](#), Practice Note 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 consultation proposes changes to the practice note; the last time changes were made was in 2020. The consultation makes it clear that it welcomes comments from all interested parties, including those representing users of public sector financial statements. We would see ourselves as such a body, representing both users and preparers of local authority financial statements.
5. That said, the practice note includes a lot of technical detail that is primarily written for auditors and we have not previously commented on its content, or on recent consultations on changes to it. The reason we feel the need to comment this time is not because we have concerns over the approach taken by the Public Audit Forum to date, but because local audit is currently in crisis, and we would welcome any action that can be taken to help provide solutions that can alleviate the effects of the crisis.
6. The reasons for this crisis and for the longer-term problems with local audit are complex and have a number of causes which will take time to address. They require a concerted response from a range of stakeholders including Central Government, the audit firms, the regulators and CIPFA. We do not expect the Public Audit Forum to solve these problems, it is certainly beyond its remit. However, we have identified two points in Practice Note 10 that we believe could be strengthened to help contribute to solutions.
7. The first point relates to "ISA (UK) 320 (Revised June 2016): Materiality in planning and performing an audit" and specifically to example 5 on page 35. This quotes an example where "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". Many local authorities will fall into this category and some of the current problems with local

audit are perceived to stem from auditors having to spend time on figures for what appear to be high value assets but where the value of the asset plays little or no role in the decision making or accountability of the local authority (the most obvious example being infrastructure assets such as roads). In example 5 the suggestion is that the auditor determined materiality would use gross assets and also a level applied to most or all income and expenditure transaction streams. It may be helpful if the example quoted were to be more specific. A stronger focus on, and materiality related to, matters that more closely relate to decision making would seem to be both sensible and helpful in addressing at least one current area of concern in local audit and enabling auditors to prioritise their time accordingly. It would be helpful to make it clear that it is acceptable for auditors to assess that what is material for income and expenditure transactions streams that are of interest to decision makers (and also local residents) will not necessarily be the same level of materiality assessed for high value assets that play no role in local decision making.

8. The second point where the practice note could help alleviate some of the problems relates to "ISA (UK) 540: Auditing accounting estimates and related disclosures". This is not an area where the consultation is proposing changes, however, we believe it could be improved and suggest a review would be helpful. Paragraph 1-114 on page 40/41 covers "Non-current assets in the public sector". Examples quoted for such assets include "hospitals, schools, bridges or rail and road networks". Problems with the audit of valuation of local roads (infrastructure assets) is an aspect of the current crisis in local audit, so any clarity here that can help solve that problem would be welcome. The current draft acknowledges that information may not be available to allow valuation at fair value. It would be helpful, particularly in the light of the comments made on materiality above, if this section could be enhanced and clarified to allow and encourage auditors to take a practical approach to such valuations, particularly for assets such as local roads where the book value of the asset has no impact on service delivery and is of little or no interest to decision makers or to stakeholders whose interests are wider than the pages of the annual accounts.
9. We hope these points are helpful and that consideration can be given to strengthening the practice note. We would be happy to discuss in more detail if that would be helpful.

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