

Dear Sir / Madam,

Please see our comments below on the Practice Note 10 Consultation...

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?

For many local authorities, where the value of PP+E assets in the Balance Sheet is usually around double the amount of gross expenditure in the Comprehensive Income and Expenditure Statement, a typical benchmarking exercise based on 1.5% of gross expenditure would project material misstatement of the PP+E balance of 0.75% against the "true" figure. This is well beneath the tolerance implied by the Accounting Code and unnecessarily onerous on the audit process. As a result of these circumstances, we consider that the amendments and additions need to be better written to secure the necessary change in general practice that guarantees materiality levels will not be set on this basis.

This is particularly important in making sure that materiality is set in comprehensive consideration of both the value of the items in the financial statements and their potential significance to users and not just their potential significance. The key consideration is the sensitivity of users to potential misstatements in different balances or transactions before the misstatements would influence their decision-making. E.g. an Authority with very low levels of debt would be unlikely to have users making economic decisions based on transactions, account balances or disclosures reflecting 0.75% of PP+E, other than Value for Money considerations, which are audited separately now anyway.

Question 2: The previous section on ISQC (UK) 1 has been replaced by guidance on applying ISQM (UK) 1 in the public sector, including for contracted-out audits.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? It is good to emphasise quality management in order to uphold the high principles of auditing and financial reporting, but not at the expense of large amounts of time achieving it. Timeliness is also part of quality management. i.e. The longer an audit takes the less relevant the final audited financial statements are to its users. What changes should be made, if any? Add a time consideration to quality management.

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 question whether a wide range of stakeholders who may have disparate interests and needs as users of financial statements are an inherent risks of material misstatement for LA's. Also, 'an entity is likely to be wound up, reorganised, merged, sold or privatised' would more accurately be reflected as, 'a component is likely to be wound up, reorganised, merged, sold or privatised'. A LA is only likely to be reorganised.

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? [No comment](#)

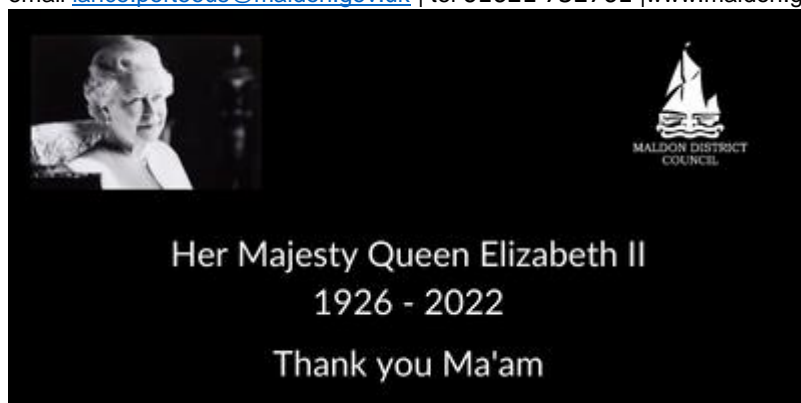
Question 5: The consultation draft includes other changes, as outlined in the Annex below. Do the other changes that have been proposed contribute to the objective of providing useful and appropriate guidance for public sector auditors? If not, how could these be improved? [No comment](#)

Question 6: Are there any other changes you believe would be appropriate? If so, what changes would you like to see made and why? [No comment](#)

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? [No comment](#)


Kind regards,  
Lance

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**Maldon District Council**

Our Vision: Sustainable Council, Prosperous Future

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