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To whom it may concern

**Consultation on PRACTICE NOTE 10: AUDIT OF FINANCIAL STATEMENTS AND REGULARITY OF PUBLIC SECTOR BODIES IN THE UNITED KINGDOM (REVISED 2022)**

We appreciate the opportunity to comment on the above consultation document issued by the Public Audit Forum.

Our responses to the specific questions raised in the consultation document along with any relevant observations are as follows:

**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?**

With reference to 'Example 5' on page 35 of the Consultation Draft, we would challenge whether this complies with ISA (UK) 320: Materiality in Planning and Performing an Audit. This appears to be quite general where we would expect this to be far more precise and specific. It would be useful if the Practice Note was clearer in stating that ISA (UK) 320 does not allow you to use revenue as a benchmark (for example) and then apply a higher materiality level for balance sheet items.

**Question 2: The previous section on ISQC (UK) 1 has been replaced by guidance on applying ISQM (UK) 1 in the public sector, including for contracted-out audits.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 have no comments that we would like to raise on this section.

**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?**

These examples are relevant to public sector entities and will be useful when considering our audit strategy.

**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 consider the guidance to be appropriate, sufficient and applicable, however additional guidance on materiality is welcome.

**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 section on ISA240 and the auditor's responsibilities relating to fraud has been subtly changed. In the original PN10 it listed three objectives of the auditor. In the revised PN10 it describes the main objective as "including" identifying and assessing risks of material misstatement and obtaining appropriate audit evidence over them. What does the addition of "including" mean in terms of the level of work that the auditors are expected to complete – can this be defined?

The section on ISA (UK) 570 Going Concern contains some additional guidance on risk assessment procedures and the evaluation of management's assessment on going concern where that is based on the continued delivery of services, not on the continued existence and funding of the audited entity. It also clarifies that uncertainty regarding the future existence and or funding of the audited entity that does not extend to future delivery of services does not create a material uncertainty related to going concern. We welcome these clarifications.

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

There is a reference to non-current assets in the public sector in the section on ISA (UK) 540 which states:

1-114 Public sector entities may have significant holdings of specialised assets (for example, hospitals, schools, bridges or rail and road networks) for which there are no readily available and reliable sources of information for purposes of measurement at fair value or other current value bases, or a combination of both. Often specialised assets held do not generate cash flows and do not have an active market. Measurement at fair value therefore ordinarily requires estimation and may be complex; the methods employed may be different from more common techniques such as the estimation of future cash flows.

This is more a statement of fact than a statement of the proper audit response to such risks. This paragraph could be updated to include more guidance on the audit approach to such risks.

**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?**

We have not identified anything that we would consider to undermine these requirements.

If you have any questions about our response or wish to discuss any of our observations in more detail, please contact me directly.

Yours faithfully



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