

Public Sector Audit Appointments Ltd - Response to the PAF's Consultation on PN10, Audit of Financial Statements of Public Sector Bodies in the UK (revised)

Accompanying Introduction and Summary

PSAA Ltd welcomes the opportunity to respond to the APB's consultation on 'Practice Note 10 – Audit of Financial Statements of Public Sector Bodies in the UK (revised)'.

PSAA is specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014, with responsibility for appointing auditors to eligible principal authorities (councils, local police bodies, fire authorities and other local government bodies) that have chosen to opt into the national auditor appointment scheme developed by the company. At 31 March 2020, 478 of the 487 eligible bodies (98%) had opted into PSAA's national auditor appointment arrangements for 2019/20. As such we are well placed to comment on issues concerning bodies opted into our scheme.

We are supportive of the changes proposed to PN10. However, we believe that the practice note has a low profile. It would be helpful if this update of the document after a period of four years was widely promoted and communicated to the sector and users.

We are also in agreement that an annual review of PN10 would be beneficial and would provide a welcome opportunity to be able to reflect the upcoming developments on the horizon for local audit.

Question 1 - This version of Practice Note 10 includes extensive changes to the section on ISA 570 *Going Concern*. Do you consider the revised draft provides appropriate and useful guidance on applying the revised standard? What changes should be made, if any?

Going concern is a complex concept when applied to public sector entities, many of whom have a default expectation of always preparing their accounts on a going concern basis under their financial reporting framework. The language of the ISA 'going concern' does not translate well to the context of bodies that can only be dissolved by government legislation, but there may be significant financial resilience/sustainability issues that require appropriate signposting by the auditor.

We note that PN10 clearly sets out that it deals principally with going concern rather than financial sustainability. In our view it would be helpful to reference that further guidance which is/may be available from the national agencies. Our understanding is that the NAO intends to provide statutory guidance on going concern for 2020/21 that will follow on from this revision of PN10, and we welcome this as it will provide clarity where there has been much confusion about the terminology and application of the standard.

In our view the section on 'evaluating management's assessment' (I-160 to I-165) is helpful as it recognises that going concern assessments (in the context of the financial reporting framework) can be a low priority for management in local government, and that it provides a way forward for auditors.

As noted in I-174 the circumstances where the going concern basis would be in doubt are limited.

I-179 is a helpful reminder that an organisation's financial health (and being able to pay debts as they fall due) is not the same as the requirement to prepare accounts on a going concern basis.

Question 2 - Guidance is included for the case where the reporting framework requires the other information to be "fair, balanced and understandable" (ISA 720). **Does this paragraph set out an appropriate audit response for this circumstance?**

No specific comments

Question 3 - The guidance in the section on ISA 560 *Subsequent Events* has been re-ordered and clarified. **Do you consider the revised draft provides appropriate and useful guidance on applying the revised standard? What changes should be made, if any?**

No specific comments

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?**

This is a helpful exposition of requirements relating to the audit of regularity. We note that *'this part of the Practice Note focuses on the audit of regularity to provide a reasonable assurance opinion.'* Whilst there is no requirement for such an opinion in local government, Part 2 provides a useful reference point for regularity matters. However, the applicability of Part 2 to 'all parts of the public sector' therefore varies and this should be made clear perhaps by promoting paragraph 2-3.

Question 5 - This version of Practice Note 10 has been drafted with the intention that further iterations be issued over the coming years to take account of further standards and guidance that will be released, as well as the result of wider developments in the auditing profession. **Do you consider that this approach is appropriate? What aspects, if any, of current developments not yet included should be incorporated into this version of the Practice Note?**

We agree with this approach which reflects the dynamic response needed to the wider developments impacting on the auditing profession e.g. revised ISA 315.

It would be useful to have PN10 updated before the effective date of any revised/new standard. In order to facilitate the appropriate timing, consideration could be given to the issue of supplements in respect of a new standard rather than a full re-issue. Alternatively, the national agencies could co-ordinate to issue common guidance on any new standard which would be incorporated into the next revision of PN10.

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 are aware of a debate in the English local government sector that in the eyes of some commentators a materiality threshold set on gross expenditure (as in I-86 Example 1) has a disproportionate impact on the nature of auditors' work because of the disparity with balance sheet valuations. This is then compounded by the funding nature of local authority accounts and the nature of many assets held (e.g. those held for the purpose of delivering public services such as schools or housing which the authority has no intention of disposing or leveraging for finance, and accordingly are not valued on a commercial basis) and the general focus of the users of local authority accounts on funding and useable reserves.

We recognise that this is a matter for CIPFA (as the preparers of the Code of Practice on Local Authority Accounting), HM Treasury and NAO (in respect of the Whole of Government Accounts) and for those who set auditing standards but believe it would be helpful to widen the debate – it may be that this is a matter that the Public Audit Forum may wish to consider with a view to addressing the current inconsistent approach across the nations.

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 specific comments