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Our ref: ICAEW Rep 36/10

Your ref:

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Dear Keith

**ICAEW response to APB's consultation on Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (Revised)**

The ICAEW is pleased to respond to your request for comments on your consultation on *Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (Revised)*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

Consultation on the APB's Practice Note 10, Audit of Financial Statements of Public Sector Bodies in the United Kingdom (Revised)

**Memorandum of comment submitted in April 2010 by The Institute of Chartered Accountants in England and Wales in response to the APB's consultation paper *Audit of Financial Statements of Public Sector Bodies in the United Kingdom (Revised)* published in January 2010**

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## INTRODUCTION

1. The ICAEW welcomes the opportunity to comment on the consultation paper Practice Note 10, *Audit of Financial Statements of Public Sector Bodies in the United Kingdom* published by HM Treasury (HMT).

## WHO WE ARE

2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.

## MAJOR POINTS

4. On the whole, we are supportive of the revisions to PN10 and note the updates to the practice note are largely in relation to the clarity ISAs. We have two points to raise which we would urge the APB to consider while the opportunity to revise PN10 has arisen.
5. Paragraph 241 states:

‘Where an audit is carried out on a “contracted out” basis then the contract between the firm and the audit agency may specify that the firm issues an audit report to the audit agency. Under these circumstances this is outside of the scope of ISA (UK and Ireland) 700 and the reporting arrangements will be defined by the contract between the firm and the audit agency. The report the firm issues to the audit agency reflects the scope of the engagement under the terms of the contract.’
6. In our view, where a subcontractor carries out an audit under the ISAs, then an audit report should be issued using ISA 700, in so far as it is applicable. We understand that this issue has been raised in the drafting of the PN, but a view has been taken that this is a contractual matter between the audit agency and the subcontractor. We disagree with this approach. In our view, it should not be left up to a contractual arrangement to determine whether or not ISA 700 is used and what should be reported.
7. Our view, therefore, is that ISA 700 should be followed and any departures from the ISAs/PN10 need to be reported to the audit agency. This would also reflect the approach that is often used for referred reporting engagements in the private sector where the performing auditor undertakes the vast majority of the audit.
8. We note that paragraph 29 of PN10 deals with situations in which an engagement quality control reviewer is required, and states:

‘Each firm establishes a policy for determining which assignments are subject to an engagement quality control review, taking into account the complexity of the organisation, public interest issues, and other relevant factors determined corporately, for example whether a modification to the audit report is expected.’

9. It would be helpful if the APB provided some indication of the factors which might trigger an EQCR for a public sector entity in order to promote consistent application.

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