

# H M Treasury

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DAO(GEN)06/01

21 May 2001

Dear Accounting Officer

## **PRACTICE NOTE ON THE AUDIT OF FINANCIAL STATEMENTS OF PUBLIC SECTOR ENTITIES IN THE UNITED KINGDOM**

### ***Purpose of this DAO letter***

This letter draws the attention of Government Departments to the Auditing Practices Board's Practice Note 10 (revised) *Audit of Financial Statements of Public Sector Entities in the United Kingdom*, which was published in April 2001.

### ***Background***

2. The Auditing Practices Board (APB) issues Statements of Auditing Standards (SASs) with which auditors are required to comply when conducting audits of financial statements. In addition, the APB issues guidance in the form of Practice Notes (PNs) to assist auditors in applying SASs in particular circumstances, industries and sectors. PNs are advisory rather than prescriptive, but are indicative of good practice. Auditors of public sector entities, including the national audit agencies, will treat PNs as professional guidance.

3. PN 10 *The Audit of Central Government Sector Accounts* was issued in February 1996 – see DAO(GEN) 4/96 – to give guidance on the application of the various SASs to audits of central government bodies. PN 10 (revised) extends the guidance to the public sector more widely, eg local authorities, National Health Service bodies and, in Scotland, further education colleges and water authorities. The revisions also clarify the position of devolved administrations and the bodies which they sponsor. PN 10 (revised) also includes references to resource accounts and the Government Resources and Accounts Act 2000, as well as a Foreword on the role of the public sector auditor.

4. For the purposes of PN 10 (revised), the public sector is defined as:

- Government departments and their executive agencies;
- The Scottish Executive, The National Assembly for Wales, The Northern Ireland Executive and their sponsored bodies;
- Trading funds;



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- Bodies not administered as government departments but which are subject to Ministerial and departmental control, for example, non-departmental public bodies (NDPBs);
- Local authorities and other local government bodies;
- National Health Service bodies, including health authorities and trusts, and in Scotland and Northern Ireland, health bodies and trusts; and
- In Scotland, further education colleges and water authorities.

This definition excludes other public corporations and the nationalised industries.

### ***Audit of regularity***

5. PN 10 highlighted the need for auditors of central government bodies to include a separate and explicit opinion on regularity. PN 17 was issued in September 1998 – see also DAO(GEN)4/98 – to provide further guidance on this aspect. PN 10 (revised) incorporates the guidance given in PN 17.

### ***Action and enquiries***

6. Departments and other bodies to which PN 10 (revised) applies should ensure that, if they are responsible for appointing auditors to their sponsored bodies, those auditors are aware of the provisions of PN 10(revised). The national audit agencies will observe the guidance in the audit of public sector organisations for which they are responsible.

7. PN 10 (revised) becomes effective immediately.

8. Any enquiries about the application of PN 10 (revised) should be addressed to David Loweth, Central Accountancy Team ([david.loweth@hm-treasury.gov.uk](mailto:david.loweth@hm-treasury.gov.uk)) or 020 7270 4508 (GTN 270 4508). Copies of PN 10 (revised) are available from ABG Professional Information, PO Box 21375, London WC1N 1QP (020 7920 8991). It costs £12.50. The APB's website ([www.apb.org.uk](http://www.apb.org.uk)) contains an order form. The Treasury cannot supply copies of PN 10 (revised).

### ***Superseded DAO letters***

9. This guidance given in this DAO letter supersedes that given in DAO (GEN) 4/96 (14 February 1996) and DAO (GEN) 4/98 (2 September 1998), both of which are hereby withdrawn.

10. Likewise, PN 10 (revised) replaces the earlier version and also PN 17, both of which are withdrawn.

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