



Regulation of Auditors of Local Public Bodies

ICAEW welcomes the opportunity to comment on the consultation document *Regulation of Auditors of Local Public Bodies* published by the FRC on 21 July 2014, a copy of which is available from this [link](#).

This response dated 17 October 2014 has been prepared on behalf of ICAEW by the Regulatory Policy Team of the Professional Standards Department.

As the largest Recognised Supervisory Body (RSB) in the UK, ICAEW registers, as statutory auditors under the Companies Act, all the firms that currently carry out work for the Audit Commission. We are currently in the process of making our RSB application to the Financial Reporting Council to regulate auditors of principal local public bodies under the Local Audit and Accountability Act 2014.

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MAJOR POINTS

1. ICAEW is broadly supportive of the proposals outlined within the FRC's consultation *Regulation of Auditors of Local Public Bodies*. They largely mirror the existing regulatory regime under the Companies Act and therefore appear to be consistent with the initial policy objectives laid out by the Secretary of State in 2010 - that the new regime would seek to decrease the overall costs to local bodies. Part of these proposals, very early on, was to replicate the Companies Act provisions as far as possible for many aspects of the new regime. Indeed, the premise on which ICAEW has been working on for some time is that, in applying for RSB status, the local public audit requirements could be added on to our existing systems and processes on an incremental basis and that we would not need to create new systems and processes or indeed increase resources substantially to take this work on.
2. Where we highlight some concern in the responses to specific questions below, it is in the context of there being potential for the proposals to either be interpreted as leading to an extension of the RSB's role, thereby potentially incurring substantial extra costs or which appear to be introducing additional steps which are not required under the Companies Act, nor of auditors of central government departments and agencies, and indeed nor are they currently required by the Audit Commission.
3. We are, however, mindful, as outlined in our consultation responses to Government that this new regime for regulation of auditors of local public bodies has created an inconsistency across the public sector and that different, less onerous regimes for public audit exist over central government, higher education and academies.
4. We are also mindful of one of the other policy objectives set by the Secretary of State in 2010 – that the new regime would increase competition. We note that currently there are 7 firms in the marketplace, however from 1 April 2015, there will only be 5. We are concerned that there is no clear route for new entrants into the market. For example, under the current eligibility criteria, there does not appear to be a direct route for someone to become a Key Audit Partner (KAP) in a firm that does not do local audit work but wants to expand into this space.

RESPONSES TO SPECIFIC QUESTIONS

Transparency Reports

Q1: Do you agree that the requirement to publish transparency reports should be restricted to auditors of “major local audits” (paragraph 4.4.1)?

5. Given the Governments stated policy objective to mirror in the public sector, wherever possible, the arrangements that already exist in the private sector under the Companies Act 2006, this seems sensible.
6. The requirement for the public sector shouldn't be more onerous than it is in the private sector and as such we would agree with restricting this to auditors of 'major local audits'.

Q2: Do you agree that a firm that audits both major local bodies and private sector public interest entities should be able to publish a single transparency report (4.4.2)?

7. Given the likely consistency in procedures between public and private sector it makes sense for firms that audit both major local audits and private sector public interest entities should be able to publish a single transparency report, so long as the differences between the sectors, and how these are addressed, are explicitly drawn out.

Q3: Do you agree that (i) the information requirements and (ii) the requirements for publication should follow as closely as possible the existing requirements for auditors of private sector public interest entities (paragraph 4.4.3)?

8. As with the above, we would agree that the arrangements should mirror those already applicable in the private sector wherever possible.

9. Keeping this consistency should also ensure that there is no significant increase in costs for auditors of major local bodies.

Q4: Are there additional information requirements relating to local public audit that we should include as statutory requirements for transparency reports?

10. No.

Q5: Do you have specific comments on the draft regulations at Annex A?

11. No.

Register of Local Public Auditors

Q6: Do you agree that the requirements for the Register of Local Public Auditors should match as closely as possible the existing FRC requirements for the Register of Statutory Auditors (paragraphs 4.8 and 4.9)?

12. We agree that it is important that there is a Register of Local Public Auditors to ensure that local public bodies are able to see clearly which firms are licensed and registered and therefore meet the eligibility requirements. It also makes sense that this matches as closely as possible the existing FRC requirements for the Register of Statutory Auditors.

Q7: Do you have specific comments on the draft regulations at Annex B?

13. No.

Engagement Lead

Q8: Do you agree with the overall approach at paragraph 4.17 that the RSB's requirements for approving Engagement Leads need to be rigorous but avoid being too complicated or overly restrictive on allowing access to the local public audit market?

14. We note the use of the term 'Engagement Lead'; however the Act uses the term 'Key Audit Partner'. For ease of reference and clarity, our view is that the same terminology should be used, all be it that it may need to be clearly defined so that there is no misunderstanding about the role of the Key Audit Partner.
15. In relation to the questions, we agree. There is a balance to be had between ensuring that the quality of the output is maintained and meeting the Government's policy objective of opening up the local public audit market. For this reason it is important that the requirements for approving Key Audit Partners is not more onerous in the public sector than it is in the private sector.

Q9: Do you support the detailed proposals, set out at paragraphs 4.18 to 4.28, for the experience and practical training requirements individuals should have to meet for approval?

16. We broadly support the detailed proposals and would urge that they mirror where possible the current requirements for the approval/application for a responsible individual under the Companies Act.
17. We do note however that one of the original policy objectives announced in 2010 was to open up the market to more accountancy firms. We are not convinced that this objective will be achieved as the competence requirements for local public audit are more restrictive than they are under the Companies Act.

Q10: Do you support the proposal at para 4.29 below, that there should be a specific requirement on an RSB to place a specific obligation on a firm undertaking local public

audit work to satisfy itself that the Audit Engagement lead has practical auditing experience of the regulatory and reporting requirements relevant to that audit engagement?

18. Para 4.29 requires 'RSBs to approve Engagement Leads in relation to specific types of local public audit engagement rather than in relation to any audit engagement within the statutory definition of "local audit"..' You have already suggested in the consultation paper that you do not favour this approach, and we would agree.
19. However, we have some concerns over the requirement that the 'RSB include in its rules that apply to local public audits a specific obligation on a firm undertaking local public audit work to satisfy itself that the Audit Engagement lead has practical auditing experience of the regulatory and reporting requirements relevant to that audit engagement' as detailed in para 4.31.
20. If the expectation is that this is a general requirement on the firm to ensure an individual is competent to undertake audit work, then this would be comparable with the current requirements in the private sector and would be acceptable.
21. Our concern however, is in relation to the expectation that the practical auditing experience of the regulatory and reporting requirements relevant to a local public audit engagement takes the requirement further than that which exists for the private sector. It is also the case that the regulatory or reporting requirements for a particular audit engagement could change and that no-one has practical auditing experience in the new environment. It is sufficient, in our view, to have a generalised requirement (such as is set out in regulation 3.17 of our current audit regulations) that principal auditors are competent to carry out the audit work that they are responsible for. This could be achieved by a mixture of practical experience and CPD.
22. Mirroring the Companies Act requirements in the public sector, together with the monitoring arrangements of the RSB(s) should, in our view, be sufficient to ensure the competence of the individual to undertake the work. We would argue that very different regulatory requirements already exist in the private sector (e.g. pensions, charities, clubs and societies etc), the quality of which are not adversely affected by not having such a specific requirement.

Q11: Do you have additional or alternative requirements that you consider should apply to those wishing to take on the responsibility as an Engagement Lead within a firm registered for local public audit?

23. See comments above. We would not support any move to increase requirements beyond those that are already outlined under the Companies Act and LAA Act, in particular to do something different for specific parts of the public sector.