

27 March 2013

Policy and Planning Officer
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Direct line 0844 798 2367

Dear Sir / Madam,

Financial Reporting Council Draft Plan and Budget 2013/14

Thank you for the opportunity to comment on the Financial Reporting Council's (FRC's) draft plan and budget. The Audit Commission has a direct interest in the plans of the FRC, which not only impact on the current accountability and audit arrangements of local public bodies in England, but also on the development and implementation of proposals for the future audit arrangements of local public bodies. The Commission also continues to purchase audit inspections from the the FRC in support of quality monitoring of audits within our regime.

We agree that the primary focus of the FRC needs to be on governance and reporting to support investment and growth. However, there needs to be more explicit recognition of the FRC's role in supporting proper governance, reporting and audit arrangements in the public sector. A well-governed and accountable public sector is also needed to support a strong economy.

The first four of the six priority projects described in the consultation document are relevant to the public sector. For example, the FRC's regulatory activities, its work to support proper stewardship, its activities to improve corporate reporting, and the work on audit quality and value are all relevant. The Commission already engages with the FRC in support of audit quality monitoring by purchasing audit inspection activity. Our regime of audit regulation also draws on the ethical standards, supplemented by requirements that we impose as part of auditors' terms of appointment in recognition of the particular circumstances of public audit. The FRC's initiatives to improve clarity and understandability in financial reporting are also relevant to the public sector and we are keen to continue to work with HM Treasury and the relevant standard setters for local government and NHS accounting to try improve financial reporting.

In relation to ethical standards, however, greater recognition should be given to the need to ensure that these are fit for purpose for public audit. The wider scope of public audit, for example, means that additional requirements are needed to meet the needs of public audit.

Given the government's plans to close the Commission and introduce a new framework for the regulation of local public audit in England from April 2015, it will be essential to ensure that ethical standards are relevant to the public sector. For example, this means that the standards themselves need to include additional paragraphs on public sector requirements, or there should be a practice note to explain the application of ethical standards. Alternatively, any future Code of Audit Practice applying to local public bodies could include the additional requirements needed to supplement ethical standards.

We also agree that the FRC needs to engage effectively with relevant international bodies, financial regulators, companies' boards and the accountancy and actuarial professions. But there is a need also to engage effectively with relevant, key stakeholders in relation to public sector issues, particularly the public audit agencies, the profession and the firms.

In relation to the section of the consultation document setting out activities for 2013/14 to 2015/16, there should be more recognition of the preparation necessary for the audit regulation responsibilities that the FRC will have under the government's proposals for the future of local public audit. The Commission is concerned that the section on the budget for 2013/14 included only a single, passing reference to planning for 'the regulation of local authority (sic) audit'. This should refer to local public bodies, not just local authorities, and the FRC needs to be satisfied that it has robust, resourced plans in place to prepare for the regulation of public audit of local public bodies, including NHS bodies. It is also not clear from the consultation document what resources will be applied to this work.

The work needed to develop and implement a new regulatory framework for local public audit should not be underestimated. The FRC will need to consider the skills, experience and capacity that it will require to meet the needs of local public audit regulation given its wider scope than companies audit regulation. For example, we continue to have to invest considerable resources in supporting the FRC's audit inspections within our regime to help the inspection team to understand the implications of the wider scope of public audit.

We will be pleased to continue to work with the FRC, in particular, helping the FRC to develop further its proposals for regulating local public audit. Similarly, we will be pleased to work with relevant FRC colleagues who are liaising with DCLG on the Draft Local Audit Bill and supporting regulations.

Yours faithfully



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Controller of Audit

cc Stephen Hadrill, Chief Executive, Financial Reporting Council

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David Aldous, Associate Controller – Audit Technical Support, Audit Commission