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For the attention of Shazia Ahmad

28 March 2022

Dear Ms Ahmad,

**Proposed changes to the FRC's Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners (KAPs) for local audit**

PricewaterhouseCoopers LLP (we) welcome the opportunity to respond to the FRC's consultation document on the revision of the FRC Statutory Guidance under the Local Audit and Accountability Act 2014 in response to the Redmond Review 2019.

We recognise that change is needed, in order to create additional capacity in the audit market, and we support the focus on training and competence for a wider pool of auditors to provide quality local audits.

Considering the three routes to accreditation described in paragraphs 4.1, 4.2 and 4.3 of the consultation document, we support the accreditation route for KAPs in Route 1 (para 4.1). We also support proposals for additional routes for Responsible Individuals (RIs) to become local auditors. However, we would propose that RIs be authorised to follow a different route into local audits as compared to Routes 2 and 3 in paragraphs 4.2 and 4.3.

In our view, the requirement for auditors who have already been accredited as RIs to need additional accreditation as KAPs in order to undertake local audits could be removed (impacting Routes 2 and 3 as suggested in the consultation).

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UK Audit Regulations 3.17 states that, "A Registered Auditor must make arrangements so that all principals and employees doing audit work are, and continue to be, competent to carry out the audits for which they are responsible or employed." and 3.17A adds, "A responsible individual must take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values, including, in particular, in relation to auditing, with content that is relevant to their role and responsibilities".

Under these regulations, we consider that an RI already has an obligation of competence and that there are various ways to achieve this competence.

We recognise that local audits are not included in the definition of audits in the Audit Regulations but consider that a change to the definition - to include them - might be appropriate.

An alternative to Routes 2 and 3 in the consultation document might then also be achieved through RI status being recognised by the Secretary of State as an appropriate qualification under the Local Audit and Accountability Act 2014, Sections 1219 (1) (a) and 1219 (2), without additional KAP accreditation.

The Local Audit and Accountability Act 2014, Section 1219 - 'Appropriate qualifications', states that:

- (1) A person holds an appropriate qualification for the purposes of this Chapter only if—
  - (a) the person holds a qualification that is an appropriate qualification by virtue of this section, or
  - (b) the person holds an appropriate qualification for the purposes of this Chapter as it has effect apart from its application by virtue of Schedule 5 to the Local Audit and Accountability Act 2014.
  
- (2) The Secretary of State may by regulations provide for a qualification to be an appropriate qualification for the purposes of this Chapter if—
  - (a) it is a professional qualification in accountancy,
  - (b) it is obtained from a body established in the United Kingdom, and
  - (c) it meets, or the Secretary of State thinks that it meets, specified requirements.
  
- (3) Regulations under this section may, in particular, provide for a qualification to be an appropriate qualification if—
  - (a) it is offered by a body (a "qualifying body") established in the United Kingdom (whether a body corporate or an unincorporated association), and
  - (b) it is recognised by the Secretary of State in accordance with the regulations.

Competence and skills of RIs in local audit methodology and reporting requirements would then be part of that RI's ongoing hot file reviews and cold file reviews within audit firms, as with work undertaken by RIs under other legislation and accounting frameworks, and would require Continuing Professional Development in local audit to be undertaken.

This would lead to the pool of available local auditors being expanded through appropriate training in local audits and ongoing supervision of individuals from an existing pool of RIs but without additional



accreditation as KAPs, since an appropriate level of core auditing skills has been demonstrated in the achievement of RI status in the corporate sector.

We have responded to the questions in the consultation document as set out in Appendix 1.

We hope our comments are helpful and if you have any questions or require any further information, please do not hesitate to contact me at [REDACTED]

Yours sincerely,

[REDACTED]

Phil Stokes  
PricewaterhouseCoopers LLP



**Appendix 1 - Our responses to the questions in the consultation document**

Question	Comments
<p>Q1. Do you agree with the overall approach at para 4.1 above that the RSB's requirements for approving KAPs need to be rigorous but avoid being overly complicated or restrictive on allowing access to the local audit market?</p>	<p>We agree that the accreditation of a KAP by Route 1 in para 4.1 should mirror the requirements for accreditation as an RI. The route should be rigorous to show an appropriate level of competence and experience, together with adequate Continuing Professional Development.</p> <p>We consider that the proposed requirement for a minimum of 10 local audits in a two year period, except in exceptional circumstances, would benefit from being amended to that number being a guide, with the emphasis being on appropriate exposure and involvement in a sufficient number of engagements that best demonstrate an individual's audit and financial reporting experience and seniority (which could involve a smaller number of audits of larger organisations).</p>
<p>Q2. Do you agree that an experienced RI should have had a minimum of five years' experience in the role of RI? If not, what level of experience do you think is appropriate?</p>	<p>We support the proposal that RIs represent an additional pool of resource available to the local audit sector, even if their route into achieving RI status has not involved extensive local audit work.</p> <p>We believe that the skills, experience and competence in auditing gained by RIs in the corporate audit sector are transferable to the local audit sector when supported by specific training in local audit methodology and frameworks.</p> <p>We believe that a recognition of RIs to be accredited to undertake local audits without separate KAP accreditation is a proportionate route to providing more capacity.</p> <p>We do not support a proposed minimum tenure of five years as an RI before being able to be considered to be eligible to undertake local audit work. Instead, we support a route under which RIs of all years in role - after appropriate training in local audit methodology - are eligible to undertake local audit.</p>
<p>Q3. Do you support the proposal, set out at para 4.2 above, that experienced RIs should</p>	<p>Our preference would be to have the RI qualification recognised as eligible for local audit work and for RIs</p>



<p>complete approved training to bridge the knowledge gap they may have from not holding a local audit qualification before they may apply for KAP status?</p>	<p>and their firms to demonstrate competence through approved training - provided that such approved training is readily available in the market - without a further application for KAP status</p> <p>In any case, we support the proposal that RIs should complete approved training to bridge the knowledge gap they may have from not holding a local audit qualification before they undertake local audits, provided that such approved training is readily available in the market.</p>
<p>Q4. Do you support the proposal at para 4.2 above, that there should be a specific requirement on an RSB to place an obligation on experienced RIs to have a minimum of their first two local audits hot file reviewed? Should these hot file reviews be undertaken by an independent third party or is it acceptable for the hot file reviews to be undertaken internally by their own firm? Should there be a subsequent requirement for cold file reviews?</p>	<p>RIs are already subject to monitoring, as required under Audit Regulations 3.20.</p> <p>We do not support the need for independent third party hot file reviews and note the complexities that would arise if these reviews were to be undertaken by peer firms, including: independence from the audited body; impact on reporting timetables if pre-clearance on issues were to be required; arrangements for resolution of disagreements; arrangements to meet the costs of any such independent third party; and the limited capacity in the market of specialist reviewers.</p>
<p>Q5. Do you support the proposal at para 4.2 above, that there should be a specific requirement on an RSB to place an obligation on experienced RIs to be subject to regular engagement quality control reviews undertaken as part of the firm's engagement management procedures for the duration of the period of the hot and cold file reviews?</p>	<p>As noted in our response to Q4, RIs are already subject to monitoring and file reviews</p>
<p>Q6. Is the type of work which is currently accepted as providing relevant local audit experience too narrow in scope? If so, are there other types of work which challenge a potential KAP and provide the same level of experience of risk and complexity which are not currently accepted as providing relevant local audit experience?</p>	<p>We believe that the experience and competence gained by auditors in achieving RI status - when supported by appropriate, specific, approved, training in local audit methodology and accounting and other reporting frameworks - would result in RIs who are capable of undertaking local audits without a separate requirement for KAP accreditation.</p>
<p>Q7. Do you have any additional suggestions of how the level of competence and experience</p>	<p>No additional suggestions.</p>



required for the approval of KAPs might be addressed?	
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