



# National Audit Office

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## CONSULTATION ON REVISED ETHICAL STANDARD 2019

Thank you for the opportunity to comment on the FRC's exposure draft of the *Revised Ethical Standard 2019*.

This is a vitally important standard setting out requirements to safeguard the integrity, objectivity and independence of the auditing profession. I fully support the FRC's objectives, through the proposed revisions, to enhance confidence in audit. As your covering paper notes, the profession is under intense scrutiny, and I agree that requirements need to be robust, fit-for-purpose but also effective within all the sectors to which the standards apply.

There is much to commend in the proposed revisions to the Ethical Standard and I agree that, taken together, the revised standard will strengthen further arrangements for ensuring the integrity, objectivity and independence of audit. However, the opportunity should also be taken to recognise much more explicitly the different circumstances of an Auditor General audit regime under which audited bodies (for example government departments in the UK) do not appoint their auditor. As you know, in an Auditor General regime, such as that which applies in the UK, the auditor is statutorily fully independent of government bodies and is accountable to Parliament. This does not mean that there are no threats to integrity, objectivity and independence within an Auditor General regime but the statutory protections mean that some tailoring of requirements are needed to be proportionate and fit-for-purpose.

For example, the FRC is aware that the National Audit Office (NAO), in limited circumstances, has loaned employees to government entities and other bodies on a short-term basis. Such secondments support the personal development of the individuals concerned, helping them to gain wider experience of management, which ultimately supports the quality of our audit work by enabling people to gain a better understanding of the operational environment. We firmly believe that well planned secondments, with appropriate safeguards in place, help those who participate in these opportunities to become better auditors.

Given that I and the NAO are responsible for auditing the whole of the central government sector, a prohibition of any loans of staff into audited bodies — as proposed by the current exposure draft — would not only prevent seconding people into audited bodies but also, unreasonably, stop us from seconding people into the sector as a whole. This would mean that we would have to cease this programme with a detrimental impact on how we develop our people. I note this is different to the private sector where auditors would be prohibited from loaning staff to an audited body but would still be able to loan staff to non-audit clients in the same sector. We would not have this flexibility which strikes me as being a disproportionate response to the threats arising within an Auditor General regime and would mean that we would find it much harder to provide beneficial development opportunities to NAO staff.



Of course, we consider very carefully any proposals to loan any staff to an audited body, through a comprehensive assessment by our Ethical Function of any threats to integrity, objectivity and independence and identification of required safeguards. This means, for example, that we do not approve loans of senior staff to audited bodies if the proposed role is in a finance or governance function. We also insist on all loans being short term only, consistent with the 2016 Ethical Standard, which we define as being no more than 12 months. We have a managed process that safeguards integrity, objectivity and independence.

I very much hope that you will reconsider the current proposal in the exposure draft to prohibit staff loans which is not fit-for-purpose for an Auditor General regime. It is important that we can sign up to the Ethical Standard as a whole, especially given that there is much to be supported in the standard, rather than having to contemplate disapplying provisions that don't work in our circumstances. Therefore, I would be happy for us to work with officials at the FRC to help you to develop text for the Ethical Standard that would recognise the specific needs and circumstances of Auditor General regimes.

I would welcome the opportunity to discuss this further with you and colleagues at the FRC, and I look forward to hearing from you.

**GARETH DAVIES**