

Shazia Ahmad  
Financial Reporting Council  
8th Floor,  
125 London Wall  
London  
EC2Y 5AS

By email: [localaudit@frc.org.uk](mailto:localaudit@frc.org.uk)

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Dear Shazia,

**EY response to the ‘Regulation of Auditors of Local Bodies – A 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’.**

As already stated in our responses to previous related consultations, we are of the view that reforms in local audit are both vital and necessary. We agree that the Audit, Reporting and Governance Authority (ARGA) will be best placed to take on the system leader role in this challenged sector and we are supportive of the FRC establishing a new local audit unit. We welcome the opportunity to respond to the above consultation. The shortage of Key Audit Partners (KAPs) within the local public audit market has been well rehearsed in a range of publications, including the Redmond Review and the Department for Levelling Up, Housing and Communities (DLUHC) consultations.

In our view the key reasons for this shortage of KAPs are:

- the barriers to entry (which these proposals seek to alleviate);
- the unattractiveness of the role as KAP as a result of the lack of perceived value in the role by local government bodies and other system’s stakeholders;
- low fees, which result in a lower propensity to invest and promote.

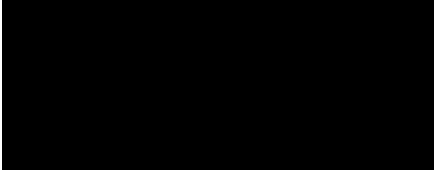
This shortage will only get worse in the short term given the age profile of current KAPs. The proposals contained within this FRC consultation are helpful, subject to our comments in the Appendix. However, they will be insufficient to address the fundamental issues within the system in the short term.

The package of measures published by DLUHC on 16 December 2021 set out plans to consult with major audit firms within local public audit on a workforce strategy, in order to consider the future pipeline of local auditors, and associated questions related to training and qualifications, we are therefore disappointed that this has not yet happened.

We encourage the FRC to work closely with all relevant government departments in identifying appropriate steps forward aimed at building a more resilient and joined-up local audit system and we would welcome further opportunities to contribute our views and provide support.



Regards



Christabel Cowling

Partner, Head of Regulatory and Public Policy  
Ernst & Young LLP  
United Kingdom

EY responses to the questions raised in the consultation document:

***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?***

We agree that the requirements for approving KAPs should be rigorous but not overly complicated or restrictive. We are therefore concerned that the requirement under 4.1 for relevant experience to include a minimum of 10 engagements in the past two years, would preclude some experienced auditors from complying with the requirements. We suggest that, in the circumstances where there have been less than 10 engagements, it should be possible to explain the different facts and circumstances (such as the complexity of the engagement) and for these to be considered in the process for approval. This approach would be consistent with the one used for the Responsible Individuals (RIs) application form.

For example – we will shortly be applying for KAP status for a member of our team, who has over 20 years' experience in the local public audit who, due to that specialist knowledge and experience, has worked on four large, complex, and high risk/profile audits in the past two years, in a senior role. The time commitment for each client is such that it would not be feasible for them to take on additional engagements simply to meet an arbitrary requirement.

We are concerned that the guidance is written to indicate that approval for this individual's KAP application would be "exceptional circumstances" when in fact this could be typical and should be principles based i.e. do they have the experience and competencies to be a KAP.

We consider that experience should be linked to the time spent auditing in the sector, with a recommendation of two years being sufficient, including in a review role as senior manager, when applying for initial appointment on promotion to KAP.

***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?***

We do not agree that an experienced RI should have a minimum of five years' experience in the role, before being approved as a KAP.

We consider that the requirement of RI status and additional approved training should be sufficient to apply for KAP status. Those requirements in addition to the firm's quality arrangements would be sufficient to ensure that audit quality is maintained within local public audit.

As a firm within corporate audit, we have a requirement for an individual to have sufficient experience as an RI before signing a public interest entity audit. We consider that this would be a more appropriate and equivalent requirement, to demonstrate that the individual has sufficient relevant experience within the RI role to move to the local public audit sector and consider 2 years sufficient. In addition, the regulation should allow for the tenure as senior manager, in a review capacity, for those being promoted to KAP.

**Q3. Do you support the proposal, set out at para 4.2 above, that experienced RIs should 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?**

We agree that approved training should be provided to the RI before applying for KAP status, and that evidence of this training should be included in their application to confirm that it has been completed. We consider that the training could be provided in house by the firm where the firm has the expertise to do so, or by an alternative provider where a firm does not have that in house expertise.

**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?**

We do not support additional hot file reviews to necessarily be conducted by a third party. We consider that where the internal quality review processes of firms are sufficient in this respect, including the current requirement for cold file reviews, this should be sufficient. However, if an additional requirement for an internal hot file review was deemed appropriate, as part of the broader measures, then we would accept that requirement, although do not consider it as necessary.

**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?**

No, we do not support the requirement for additional engagement quality reviews over and above that required by existing policy and standards. We consider that the firm's quality support and control procedures are sufficient to ensure appropriate quality review of the work undertaken by a KAP.

**Q6. Do you support the proposal at para 4.3 above, that there should be a new tier of KAP which is restricted in the type of work for which responsibility may be taken?**

The proposal to provide an additional limited KAP role designated for NHS audits may provide additional capacity in the audit market to service NHS audits, and therefore we understand its rationale. However, we have a concern that, as an unintended consequence, it may divert resources from applying for full KAP status, and therefore reduce the overall number of KAPs available to service the local authority sector. We also consider that it may restrict the firms in their flexibility to manage the whole portfolio if some KAPs are limited to certain types of entities.

**Q7. 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?**

Neither the consultation document, nor the guidance, sets out the nature of the experience required to apply for KAP status. The application form sets out that this should be local audit

work, and other public sector work, but excludes charities, LLPs, universities and schools and community interest companies.

All those examples, report under specific additional regulation and/or are publicly funded and hence we consider that demonstration of skill and experience in auditing in those sectors is relevant and should be considered as evidence of ability to act as a KAP

***Q8. Do you have any additional suggestions of how the level of competence and experience required for the approval of KAPs might be addressed?***

We have no further comments, other than in our responses to previous questions.