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**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**

Dear Shazia

Thank you for giving us the opportunity to comment on 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. Overall, we are very supportive of Sir Tony Redmond's recommendation that statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work. However, we believe that any changes made to the FRCs "*Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners for local audit*" should reflect the specific needs and nature of the local audit sector. In paragraph 4.3.6. of his review, Sir Tony Redmond notes: "...many local authorities reported significant concerns about the knowledge and expertise of staff working on their audit". This finding is consistent with our experience as the largest supplier of local audits. The biggest concern we encounter from bodies in the local audit sector, particularly local authorities, is their need to be reassured that their auditors have appropriate skills and experience, by which they mean sector knowledge and experience of what is important to their sector. Any proposed changes to the existing arrangements for approving KAPs must take these legitimate concerns into account. Failure to do so will result in a solution that lacks credibility to those bodies being audited.

Our detailed responses to the questions listed on page 6 of the Consultation Document are set out below.

<u>Question</u>	<u>Response</u>
<b>Q1.</b> 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?	This appears to be a reference to para 3.5, rather than para 4.1. We agree with the three considerations set out in para 3.5.
<b>Q2.</b> 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 have no objection to 'experienced RI' being defined as one who has a minimum of five years' experience in the role of RI. However, our view is that an RI's number of years' experience is of less importance than them being able to demonstrate their ability to perform local audit work. Our comments below set out our views on this in greater detail.
<b>Q3.</b> 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?	Yes, we believe it is essential that experienced RIs complete approved training to bridge the knowledge gap they may have from not holding a local audit qualification before they apply for KAP status. We also believe it is essential that this approved training is externally examined. This is to

ensure that experienced RIs are regarded as credible by local audit bodies. It is for the FRC to determine, but we would suggest that CIPFA could be approached to create, deliver and examine this approved training. This could lead to a certificate which would enable experienced RIs to demonstrate their competence in local audit work. We are also of the view that it is essential that approved training covers those elements of local audit which differ most significantly to corporate statutory audit. In particular:

- work on value for money arrangements
- use of additional powers and duties by local auditors, such as reporting matters in the public interest, making written recommendations under the Local Audit and Accountability Act 2014 and making referrals to the Secretary of State/NHS England/NHS Improvement under the Local Audit and Accountability Act 2014
- regularity work.

We also believe that the approved training should cover those elements of financial reporting which differ most significantly to the corporate sector. This is of particular relevance for local government audits, where it will be vital that experienced RIs have a sound knowledge of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. In particular, experienced RIs will need to understand the importance of statutory overrides for local authority accounting and reporting, as well as the responsibilities of the auditor in respect of Value for Money, local elector rights and statutory reporting.

<p><b>Q4.</b> 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>We support the proposal at para 4.2 for experienced RIs to have a minimum of their first two local audits hot file reviewed. In our view these hot file reviews should be undertaken by an independent third party. We believe there should also be a subsequent requirement for cold file reviews, and that it should be mandatory for an experienced RI to have a cold file review for the first year in which they issue an audit opinion on the financial statements of a local audit body.</p>
<p><b>Q5.</b> 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>We support the proposal at para 4.2 that experienced RIs should 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><b>Q6.</b> 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?</p>	<p>We partially support the proposal that there should be a new tier of KAP which is restricted in the type of work for which responsibility may be taken. However, we do not think it is sufficient for RIs to be allowed to take responsibility for the audits of NHS bodies based solely on evidence of experience of Foundation Trust audits. This is because auditors of NHS bodies, such as NHS Trusts and Clinical Commissioning Groups (CCGs) have additional responsibilities in comparison to auditors of NHS Foundation Trusts. In particular, this relates to:</p>

- making written recommendations under the Local Audit and Accountability Act 2014
- making referrals to the Secretary of State/NHS England/NHS Improvement under the Local Audit and Accountability Act 2014
- the regularity opinion required for CCGs.

Our view is that an RI must be able to demonstrate the attainment of pre-approved specialised local audit training. As noted in our response to Q3 above, we believe that such training should be externally examined and lead to some form of certificate which would enable experienced RIs to demonstrate their competence in this type of audit work and to be credible to all types of NHS body. We would also comment that consideration should not be given to introducing a new tier of KAP for smaller local authorities, such as district councils. In our experience, significant and complex audit issues arise at these bodies, just as they do at larger bodies. Therefore, they must be audited by KAPs who have the full range of skills and experience required for any local audit.

**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?

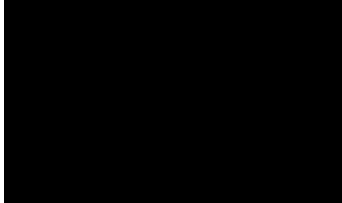
In our view, the type of work which is currently accepted as providing relevant local audit experience is not too narrow in scope. We acknowledge that the evident similarities between NHS audits and commercial audits should facilitate a relatively simple transition for prospective KAPs into the NHS audit sector. However, this argument does not hold for local government audits which are considerably different to commercial audits. If it were to be contended that bodies such as academy schools, further education colleges, universities and housing associations were so similar to local audited bodies that they allowed RIs with experience of them to become KAPs, then logically it should work vice versa and KAPs should be permitted to sign opinions on the financial statements of these bodies.

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

Recommendation 8 in Sir Tony Redmond's report was that statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work. We note that the FRC is responding to this recommendation by proposing changes to its *"Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners for local audit"*. In our view, the barriers deterring audit firms from bidding for local audit work extend beyond the difficulties in appointing KAPs. All firms involved in local audit struggle to recruit suitably skilled and experienced staff at senior manager, manager and assistant manager grades. Any proposals aimed at responding to recommendation 8 in Sir Tony Redmond's report should therefore take these recruitment issues into account.

I hope these responses are constructive and helpful. If you would like to discuss any of them further, please do not hesitate to contact me.

Yours sincerely



**Jon Roberts**  
**Partner**