



Mazars response on the FRC's proposals
for changes to guidance to Recognised
Supervisory Bodies on the approval of Key
Audit Partners for local audit

Introduction

Mazars is a leading international audit, tax and advisory firm, aspiring to build the economic foundations of a fair and prosperous world. Operating as a united partnership, Mazars works as one integrated team, leveraging expertise, scale and cultural understanding to deliver exceptional and tailored services in audit and accounting, as well as tax, financial advisory, consulting and legal services.

As one of the largest suppliers of external audit services to English local government bodies we welcome the opportunity to respond to the FRC's proposals for changes to the registration of auditors of bodies within the local audit regime.

In our view, a key strand in providing confidence in local audit is ensuring that Key Audit Partners (KAPs) have the skills and experience to deal with the aspects of the role that are distinct from auditing corporate entities. The specialist nature of local audit cannot be downplayed and, in our experience, has contributed to the challenges facing the effective timely audit of local authority financial statements. This is at risk because, as highlighted in the consultation, the timeliness of publishing audited financial statements in English local government is at its lowest point. The reasons for this are wide-ranging and many have already been highlighted in the 2020 Redmond Review. We will not repeat them here.

We recognise the seriousness of this position but we consider that addressing the underlying issues will require a holistic response from all stakeholders across government, regulators and standard setters in order to find a sustainable long-term solution for the sector. As the body responsible for oversight of the Recognised Supervisory Bodies (RSBs) of auditors of local public bodies, monitoring the quality of major local audits and giving statutory guidance to RSBs on the approval of KAPs, the FRC needs to balance its core objectives of providing well-founded confidence that KAPs have the necessary skills and experience for the role without a risk to audit quality, with a desire to widen access to KAP status to include individuals with a different range of audit experience.

Summary of our response

The proposals to introduce new and different routes to achieving KAP status without due regard to the specialist nature of local audit could, in our view, potentially diminish the quality and effectiveness of local audit. As a leading supplier of local audit we are working hard to train, coach and develop our auditors to enable them to progress to a position which would mean that they can apply to achieve KAP status. However, the main challenge we, and the profession more widely faces, is recruiting and retaining sufficient talent at the early stages of a career in audit. This is how we can secure a strong pipeline for progress to KAP status. We do recognise that increasing the pool of firms with KAPs will form part of the long-term measures to address timeliness issues.

On balance therefore, we do not support the proposals in the consultation. This is because, in our view, they do not take sufficient account of the specialist nature of local audit.

The remainder of our response seeks to provide constructive feedback on the proposed changes.

Changes to guidance on the approval of Key Audit Partners for local audit

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 RSB's requirements for approving KAPs needs to be rigorous but avoid being overly complicated or restrictive. However, the RSB's requirements need to recognise that local audit is different to corporate audit. These differences need to be reflected in the requirement for relevant experience. There are four main differences:

1. The need for the auditor to satisfy themselves that an audited body has made proper arrangements for the effective use of its resources, more commonly referred to as the auditor's value for money responsibilities.
2. Under the Local Audit and Accountability Act 2014, local auditors have additional powers, the most common of which is dealing with correspondence, questions and objections from local electors.
3. Financial reporting in local audit, whilst largely based on IFRS, has sector-specific considerations such as specific statutory statements for the Collection Fund and Housing Revenue Account and a highly complex capital accounting and financing regime in local government.
4. The political nature of bodies and the way that they operate in larger government systems, for example, the relationship of an NHS entity with its integrated care system.

The FRC should require prospective KAPs to demonstrate, within the previous two years, the attainment of experience at an appropriately senior level of authority of dealing with these four aspects of local audit.

Separately, we question the need for relevant experience to be gained from a minimum of 10 engagements within the last two years. Relevant experience can be gained from involvement in a smaller number of engagements given the size and complexity of most local audit bodies. A typical portfolio for our Senior Managers for example, will be less than 10 bodies over two years.

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 agree that a corporate RI should have a minimum of five years' experience.

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 experienced corporate RIs should complete approved training. However, in our view there are inherent risks to seeking to use training to bridge the knowledge gap.

Whilst an RI may have reached the equivalent status of KAP for corporate statutory audit, we do not agree that the attainment of specialised local audit training will be a sufficient requirement to obtain local audit KAP status. Classroom training can only teach so much. The KAP local audit role is much more than delivering high quality audit of the financial

statements. It is also knowing how to deal with the public, elected members, audit committees, senior executives, the press and occasionally civil servants.

In addition, there would need to be clarity on:

- Who develops and delivers the specialised training?
- Who and how will pre-approval be given?
- The cost to audit firms of developing the training, keeping it up to date and seeking annual accreditation.

If the FRC opts for this arrangement, it provides a precedent for a similar requirement to be put in place for local audit KAPs to be allowed to undertake corporate statutory audit on completion of an appropriate training course.

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 would expect any newly accredited KAPs to be subject to their own firm's internal quality monitoring regime. In our case, this requires hot review and cold reviews of a sample of their engagements.

We would not expect there to be any additional requirement for review by an independent third party. There are several practical barriers including the need for relevant capacity, skills and experience.

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?

ISA 220 (Quality control for an audit of financial statements) and the IAASB's International Standard on Quality Management (ISQM) 2 provide sufficient direction and guidance for firms to determine their approach to engagement quality control reviews and apply it accordingly to local audit. There should be no specific requirement made by an RSB.

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?

Based on our experience of local audit and other sectors such as Education and Housing, we do not consider what is currently accepted as providing relevant local audit experience as being too narrow in scope.

Q7. Do you have any additional suggestions of how the level of competence and experience required for the approval of KAPs might be addressed?

We are focusing our approach on providing effective coaching and development of our local audit teams, from junior staff through to senior managers, to ensure we have individuals building the right level of competence and experience to become the future local audit KAPs. We do not believe that annual training will bridge the gap.