



Financial Reporting Council

Guidance

For Recognised Supervisory Bodies on the approval of Key Audit Partners for local audit

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Revised Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners for local audit

Introduction

1. The Local Audit and Accountability Act 2014 (“the 2014 Act”) sets out the requirements in England for the regulation of auditors of local and certain other public bodies (principally local authorities and health bodies other than Foundation Trusts). These broadly replicate the Companies Act 2006 (“the 2006 Act”) requirements for company audit¹. They are designed to secure that only persons who are properly supervised and appropriately qualified are appointed as statutory auditors of local public bodies, and that those persons carry out audits properly, with integrity and with a proper degree of independence.
2. The Secretary of State has delegated most of his responsibilities for the regulation of auditors of local public bodies to the Financial Reporting Council, under the Local Audit (Delegation of Functions) and Statutory Audit (Delegation of Functions) Order 2014. This includes exercising oversight over the bodies recognised by the FRC as Recognised Supervisory Bodies (RSBs) to regulate auditors of local bodies².
3. It is the responsibility of the RSBs to approve and register audit firms to undertake local audit work, and to approve individuals within those firms that both meet the statutory qualification requirements and are judged to have the appropriate level of competence to carry out local audits on behalf of the registered firm.
4. It is a specific additional requirement of the 2014 Act³ that an RSB, in setting its rules on the required minimum level of experience and skills for local auditors, must comply with guidance issued by the FRC.
5. The FRC issued guidance in 2015 and consulted on its proposed revisions in 2022. The guidance below takes into account the responses to that consultation.
6. In this document the term “Key Audit Partner”, is defined in paragraph 28(5) of Schedule 5 to the 2014 Act as “an individual identified by the firm as being primarily responsible for local audits” and should be the person authorised by the firm to sign the audit opinion on behalf of the firm. The “Key Audit Partner” need not be a partner in his or her firm. “Engagement Lead” is the term previously used by the Audit Commission for this role.

¹ Schedule 5 to the 2014 Act applies, with appropriate modifications, the provisions of Part 42 of the 2006 Act to local audit.

² 2 Recognised Supervisory Bodies for local audit are bodies recognised by the FRC in accordance with the requirements of Schedule 10 to the Companies Act 2006, as it applies to local audit by virtue of Schedule 5 to the 2014 Act.

³ Paragraph 28(5) of Schedule 5 to the 2014 Act, inserts a new paragraph 7A into Schedule 10 to the 2006 Act, as it applies to local audit. This requirement is not replicated in the 2006 Act.

Aims and Objectives

7. The purpose of this revised statutory guidance is to ensure that the RSBs' rules, to ensure that Key Audit Partners have the necessary skills and experience, are sufficiently rigorous but at the same time are practicable, not overly complex, and do not overly restrict access to the market for local audit.

Approval of individuals as a Key Audit Partner

A. Responsibility

8. It is the responsibility of the RSB to approve those individuals in an audit firm who can take on the role of a Key Audit Partner. As a part of the approval process under the 2014 Act an RSB must have rules to show that each such individual:
 - holds an audit qualification for local audit;
 - has an appropriate level of competence to carry out local audits.
9. The RSBs' rules must comply with this Guidance as to the minimum that is acceptable as evidence of the appropriate level of competence. This guidance is not intended to replace other RSB requirements on the approval of Key Audit Partners.

B. Recent Audit Experience

10. The RSBs' rules should make clear the following minimum requirements.

(i) To qualify as a KAP one of the following sets of criteria must be met:

(a) a Key Audit Partner must be able to demonstrate the attainment of at least two years post qualification experience of local audit and/or of similar audit work in a supervisory role which includes responsibility for significant judgements in the audit of the historical financial information of local public bodies. All of that experience must have been obtained within the previous six years; OR

(b) a Key Audit Partner must be able to demonstrate the attainment of relevant audit experience at a sufficiently senior level of authority to be competent to conduct local audit work. They should be able to satisfy the Registration Committee of the appropriateness of their recent experience of audit work. The experience must have been attained within the preceding two years (unless the RSB allows a longer period) and must have been attained from a minimum of 10 local audit assignments (unless the RSB allows otherwise); OR

(c) a Key Audit Partner must be able to demonstrate their designation as a Responsible Individual with:

- a minimum of five years' experience as a Responsible Individual, spending at least 65% of his/her time in corporate audit and/or similar audit work; or
- a minimum of three years' experience as a Responsible Individual and one year of post qualification experience of local audit work.

AND

(ii) For individuals following route (i) (a) or (b):

- during the two years preceding the application, the individual must have undertaken adequate Continuing Professional Development appropriate to maintaining and developing competence for someone seeking the role of a Key Audit Partner;

OR

For individuals following route (i) (c):

- the individual must have undertaken pre-approved specialised local audit training
- once the Responsible Individual has undertaken the pre-approved training and applied to be a Key Audit Partner then Continuing Professional Development should commence immediately.

Notes

- "In a supervisory role" is not defined in detail. However, the individual should have had significant responsibility within a local audit team, including responsibility for supervising the work of others in the team.*
- "Similar audit work" means other public sector audit work, for example audits of Foundation Trusts, Central Government, of other publicly funded bodies, or equivalent audit work elsewhere in the public sector, including in other parts of the UK.*
- There is a wide range of individual circumstances. The RSB will need to exercise a degree of judgement in applying its rules in individual cases. Where appropriate the RSB should discuss cases that raise difficult or novel issues with the FRC Professional Oversight Team.*

C. Supervised Practical Training (this section is not relevant to pathway 9 (i) (c))

11. The RSBs' rules should make clear that those individuals who hold an appropriate qualification for local audit but have neither

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- (a) completed the necessary period of supervised practical training for the recognised professional qualification either in company audit or local audit work, nor
 - (b) acted as a Key Audit Partner in respect of local audit under the arrangements prior to the 2014 Act,

must have completed a minimum of three years' supervised practical training in audit and accountancy, of which at least 6 months must be in local audit, and at least one year in local audit and similar audit work. The training must have been completed in a training office recognised by an RQB⁴ and the training record must be fully documented.

Notes

- a. *Many of those recognised under the transitional arrangements in the 2014 Act as holding an "appropriate qualification" for local audit will not have completed the necessary period of supervised practical training for the recognised professional qualification either in company audit or local audit work. We consider it is appropriate, therefore, that such individuals should have to meet this requirement, other than where they have previously acted as a Key Audit Partner for local audit under the auspices of the Audit Commission.*
- b. *There is a wide range of individual circumstances and the RSB will need to exercise a degree of judgement in applying its rules in individual cases. Where appropriate the RSB should discuss cases that raise difficult or novel issues with the FRC Professional Oversight Team.*

D. Commitments by the Audit Firm

12. The RSBs' rules should make clear that a local audit firm proposing an individual as a Key Audit Partner for that firm must:
- (i) confirm that it is satisfied that the individual is competent to undertake the role of Key Audit Partner;
 - (ii) agree that it will confirm on an annual basis that the Key Audit Partner continues to comply with the body's rules and professional competency standards;
 - (iii) undertake that it will satisfy itself that the Key Audit Partner, in relation to a particular local audit engagement, has adequate knowledge of the regulatory and reporting requirements relevant to that audit engagement and sufficient similar practical experience to undertake that audit engagement effectively.
13. The RSBs' rules should include requirements on firms to:
- (i) ensure they have arrangements for ensuring that all principals and employees conducting local audit work are, and continue to be, competent to carry out such work;

⁴ The RQB may be a body approved either under the 2006 Act for company audit or under the 2014 Act for local audit

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- (ii) monitor, at least annually, how effectively they are complying with the body's rules and take action to address any issues identified;
 - (iii) where experienced Responsible Individuals are proposed for a Key Audit Partner role via pathway 10 (1) (c) the firm will commit to ensuring that once the Responsible Individual has undertaken the pre-approved training and applied to be a Key Audit Partner then Continuing Professional Development should commence immediately.
 - (iv) where experienced Responsible Individuals are proposed for a Key Audit Partner role via pathway 10 (1) (c) the firm will commit to all conditions imposed by the Registration Committee on the individual and the firm. This will include a requirement to submit a hot file review after their first local audit, which may be followed by further hot and/or cold file reviews, and to be subject to regular engagement quality control reviews undertaken as part of the firm's engagement quality management procedures for the duration of the period of the hot and cold file reviews.
 - (v) Except in exceptional circumstances, a minimum of the first local audit would be required to be hot file reviewed and, depending on the outcome of this review, may be followed by further hot reviews and cold file reviews. Hot and cold file reviews may be undertaken internally by the firm.
 - (vi) Ensure the firms have sufficient technical ability to carry out engagement quality control of local audits. The technical support team should have completed pre-approved specialised local audit training in advance of any Responsible Individual submitting an application to become a Key Audit Partner.



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