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Financial Reporting Council
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Dear Madam

PwC Response to Financial Reporting Council Consultation on Regulation of Auditors of Local Public Bodies

We welcome the opportunity to respond to this consultation by the FRC on Regulation of Auditors of Local Public Bodies. We have considered each of the questions in the consultation document and our comments are included in the attached annex. In this covering letter we highlight our views on what we consider to be the more important issues raised by this consultation.

Transparency Reports and Register of Local Public Auditors

We support the proposals in relation to Transparency Reports by auditors of major local bodies and in particular agree that it is sensible for firms that audit both major local bodies and public interest entities to publish a single Transparency Report. We also support the proposals in relation to the Register of Local Public Auditors.

Approval of Engagement leads for Local Audit

We believe the experience requirements proposed in paragraph 4.21 could create an artificial and unfair barrier and consequently could unnecessarily restrict auditor choice and ultimately have an adverse effect on audit quality. We also believe insufficient weight is given to the fact that experience will be considered through the procurement process by those charged with governance at a local public body. Our experience shows this is a highly effective control.

We believe the proposed restriction in appropriate audit experience to 'local public audit and similar work' is too onerous and that all audit work should be recognised as relevant experience. At a minimum the definition of similar audit work should be extended to clearly include Education audit work and Housing Association audit work. As currently drafted we are concerned that we may not have enough engagement leaders with the requisite

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experience to bid for groups of clients under future tendering arrangements. This could restrict competition and quality.

In addition the proposal requiring local audit engagement leads to have 'obtained their experience within the previous five years and for no more than two years to have elapsed since this experience was obtained' is particularly difficult in the context of tendering in the public sector where contracts are typically let on a five year cycle. If this proposal was implemented experienced Audit Commission Engagement Leads who, as a result of the Audit Commission's recent tender process, will not perform local audits after the year ending 31 March 2015 cannot retain their registration as competitive tendering will only recommence in 2018 or 2020. As such more than two years will have elapsed since they obtained their experience. We suggest the time limits of 5 and 2 years in this proposal are changed to 10 and 5 years respectively.

Experience of regulatory and reporting requirements relevant to the audit of particular local bodies

We believe the proposal for practical experience of the regulatory and reporting requirements relevant to the audit of particular local bodies is too onerous. There is no requirement for statutory auditors to have practical experience of sector specific regulatory or reporting requirements and it is not clear to us why a higher standard is necessary for local public auditors. We believe the proposal for practical experience of the relevant regularity and reporting requirements should be removed. With the right blend of support such as specialists on the engagement team, required consultations, CPD etc., we believe a local audit Engagement Lead who does not have this practical experience can become proficient in these requirements.

If you have any questions regarding this letter, please contact Richard Bacon or Gilly Lord.

Yours faithfully

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ANNEX

Responses to Consultation Questions

Transparency Reports

1. Do you agree that the requirement to publish transparency reports should be restricted to auditors of “major local audits” (paragraph 4.4.1)?

Yes.

2. Do you agree that a firm that audits both major local bodies and private sector public interest entities should be able to publish a single transparency report (4.4.2)?

Yes. The information provided in a transparency report such as governance, internal control and internal quality control systems, independence policies and practices, will typically apply to both the audits of major local bodies and private sector public interest entities. As such it is sensible to publish a single transparency report.

3. Do you agree that (i) the information requirements and (ii) the requirements for publication should follow as closely as possible the existing requirements for auditors of private sector public interest entities (paragraph 4.4.3)?

Yes.

4. Are there additional information requirements relating to local public audit that we should include as statutory requirements for transparency reports?

No.

5. Do you have specific comments on the draft regulations at Annex A?

We have no significant comments. We have however noted there may be typographical errors in legal referencing as follows:

- In Citation, commencement and interpretation, paragraph 1 “major local audit” we believe the reference to 27(6) of Schedule 5 of the Act may be incorrect. We believe the reference may be 28(7).
- In the attached Schedule, Regulation 3(2) paragraph 5, we believe the reference to paragraph 27(7) of Schedule 5 of the Act may refer instead to paragraph 28(8).

Register of Local Public Auditors

6. Do you agree that the requirements for the Register of Local Public Auditors should match as closely as possible the existing FRC requirements for the Register of Statutory Auditors (paragraphs 4.8 and 4.9)?

Yes. We support the introduction of registration for Local Public Auditors and that the requirements for the register should match as closely as possible existing FRC requirements for the Register of Statutory auditors.

7. Do you have specific comments on the draft regulations at Annex B?

No.

Approval as an Engagement Lead

8. Do you agree with the overall approach at paragraph 4.17 below that the RSB's requirements for approving Engagement Leads need to be rigorous but avoid being too complicated or overly restrictive on allowing access to the local public audit market?

Yes, but we do not agree that this is achieved by the proposals as currently drafted.

9. Do you support the detailed proposals, set out at paragraphs 4.18 to 4.28 below, for the experience and practical training requirements individuals should have to meet for approval?

We support the intention of the detailed proposals set out at paragraphs 4.18 to 4.28 but we do not agree with the requirements for local audit experience set out in paragraphs 4.21 and 4.26. We believe the proposed experience requirements could create an artificial and unfair barrier and consequently could unnecessarily restrict auditor choice and ultimately have an adverse effect on audit quality. In addition, we believe insufficient weight is given to the fact that experience will be considered through the procurement process by those charged with governance at a local public body. Our experience shows this is a highly effective control.

Paragraph 4.21 proposes in order to be approved as an Engagement Lead an individual should as a minimum;

'have two years post qualification experience of local public audit and similar work in a supervisory role; by similar audit work we mean other public sector audit, for example audits of Foundation Trusts, Central Government and other publicly funded bodies'

For the following reasons we believe this proposal is overly restrictive and that it should be amended such that all audit work should be recognised as relevant experience. At a minimum the definition of similar audit work should be extended to clearly include Education audit work and Housing Association audit work.

- International Standards on Auditing (UK&I) are the fundamental framework for delivering audits in both the local public audit space and the corporate audit environment. The key requirement to deliver high quality audit work is exercising professional scepticism and making independent judgements based on a sound methodology and working in a culture where audit quality is regarded as of paramount importance. The skills of good auditing are transferable from the public sector to the corporate sector and vice versa.
- Local public audits do have some unique aspects such as reporting on arrangements for securing economy, efficiency and effectiveness and, dealing with objections. Equally there are segments of the corporate audit market that have unique aspects e.g. reporting requirements for listed companies, the regulatory environments for insurance companies, and the need for specific industry knowledge in some sectors e.g. Oil & Gas. Despite the unique aspects applicable to different sectors in corporate auditing no requirement exists for prior experience of auditing these sectors.
- We do agree that Engagement Leads need knowledge and awareness of the industry/sector that they are working in and the reporting and regulatory environment applicable to the company or body that they are auditing. This knowledge and awareness is not solely obtained by individual practical experience but can be obtained through other measures.

We believe that an absence of individual practical experience in local audit can be remedied by putting in place a support programme for the proposed local audit Engagement Lead. The support programme could include a combination of; ensuring a knowledgeable and sector experienced team, appropriate CPD, hot reviews, appointment of a mentor or an Engagement quality control reviewer or , being subject to a quality review after their first year. This is the approach we currently take, throughout the practice, when we appoint an Engagement Lead to an audit where the Engagement Lead has limited experience that is directly relevant. This approach together with the current monitoring arrangements for private sector audits is effective.

- Public sector bodies benefit from the experience of private sector auditors, for example the sharing of good practice, the ability to ask objective questions without the inherent bias of years of experience in a sector etc., but these proposals make it almost impossible for corporate Engagement Leaders to bring their experience to local public bodies. Moving between sectors is also a valuable developmental experience for audit Engagement Leads as it enhances their breadth, experience, professional scepticism and independence.

Paragraph 4.21 goes on to propose that to be approved as an Engagement lead an individual should as a minimum:

'Have obtained this experience within the previous five years and for no more than two years to have elapsed since this experience was obtained'

This proposal is particularly difficult in the context of how tendering typically works in the public sector. Contracts are usually let for a period of 3 years with a 2 year extension which is frequently exercised. This means that contracts are retendered on a 5 year cycle. As such, experienced Engagement leaders, who have worked on Audit Commission contract audits for many years but, who as a result of the recent tender process, will not perform local public audits after the year ending 31 March 2015 until the next tender in 2018 or 2020 will fail to meet the experience requirements proposed. Consequently, the sector could lose some of its most experienced Engagement Leads.

We believe this proposal should be amended and for the five year period to be changed to 10 years and the two years changed to five years. By doing this the proposals would accommodate the way audits are tendered in the public sector.

Finally, paragraph 4.21 goes on to propose that to be approved as an Engagement lead an individual should as a minimum;

'Have up to date CPD appropriate for someone seeking the role of an Engagement Lead for local public audit'

We agree up to date CPD is appropriate for someone seeking an audit Engagement Lead role. The CPD of any audit Engagement Lead is likely to include some industry/sector elements specific to his/her audit portfolio. We do not believe it is necessary to stipulate the extent of industry/sector specific CPD. Where an Engagement Lead does not have practical auditing experience of an industry/sector his/her CPD should reflect how this is being addressed, but this should be a matter of judgement for each individual and firm involved

We agree with the proposals in paragraph 4.26 except for the requirement to have six months supervised practical training in local public audit; again because there is no existing requirement for private sector industry specific practical training. Our view is that a good auditor can transfer from private sector audit to local audit provided they are given the appropriate support e.g. knowledgeable team, CPD, hot reviews etc.

10. Do you support the proposal at para 4.29 below, that there should be a specific requirement on an RSB to place a specific obligation on a firm undertaking local public audit work to satisfy itself that the Audit Engagement lead has practical auditing experience of the regulatory and reporting requirements relevant to that audit engagement?

It is appropriate that a firm undertaking local public audit work should satisfy itself that the audit Engagement Lead is competent to discharge the audit engagement lead role. Indeed, current audit regulations require audit firms to make arrangements so that those doing audit work are competent to do that work.



However, we do not agree that there should be a specific requirement on a RSB to place a specific obligation on a local public audit firm to satisfy itself that Engagement Lead has 'practical auditing experience of the regulatory or reporting requirements relevant to that engagement'. There is no requirement for statutory auditors to have practical experience of sector specific regulatory or reporting requirements and it is not clear to us why a higher standard is necessary for local auditors.

Different regulatory environments and different regulatory reporting requirements do exist in the private sector audit world e.g. specific different regulatory reporting requirements exist for listed companies, higher education bodies, charities etc. The current audit regulations requiring audit firms to make arrangements so that those doing audit work are competent to do that work together with the current monitoring arrangements for private sector audits are effective. We believe that with the right blend of support such as specialists on the engagement team, required consultations, CPD etc a local audit Engagement Lead who does not have this practical experience can become proficient in these requirements. As such we suggest the requirement of practical audit experience of the reporting or regulatory requirements relevant to that engagement is removed.

11. Do you have additional or alternative requirements that you consider should apply to those wishing to take on the responsibility as an Engagement Lead within a firm registered for local public audit?

See response to Questions 9 and 10 above.