



# ICAS response to FRC: Revised guidance for recognising Key Audit Partners for local audit

28 March 2022

# Introduction

ICAS Public Sector Panel welcomes the opportunity to comment on this consultation. ICAS is a professional body for more than 23,000 members in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Our members work in business, the public sector and accountancy practices ranging from the Big Four to the small practitioner.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Whilst ICAS is not currently an RSB for local audit, we have prior experience as one and currently have members who are Key Audit Partners.

Any enquiries should be addressed to [atelfer@icas.com](mailto:atelfer@icas.com) (Head of Business Policy and Public Sector).

## Key Points

Overall, we are supportive of the direction of change, the intention for regulation to be more flexible and Key Audit Partner (KAP) eligibility criteria to be broadened. We agree that there is a need to help reduce audit market competition barriers and increase the attraction of local audit whilst maintaining audit quality standards. This FRC review is an important part of achieving the objectives and the intention of the Redmond Review recommendations<sup>1</sup>. This should form part of a more holistic and fundamental review of the challenges facing local authorities and more broadly, the attractiveness and staffing challenges facing the audit profession.

We caution against the unnecessary segmentation of the audit market and support a holistic approach to audit regulation. A different regime is not taken for other sectors, and we are not convinced that there is sufficient evidence to differentiate the regulation of local audit from other sectors.

As we have raised previously<sup>2</sup>, prescriptive regulatory requirements can serve to limit competition. We believe that objectives are better achieved using a principles rather than rules-based approach and regulation should be proportionate and evidenced by a clear need. We have identified details in the proposals which, in our view, cross this line. It is important that there is not duplicate or overlapping regulation and that regulators avoid unnecessary regulatory burdens and costs.

## Responses to the specific questions

	Consultation question	Our response
Q1	Do you agree with the overall approach at para 4.1 above that the RSB's requirements for approving KAPs need to	We agree with the approach to increase flexibility of

<sup>1</sup> Page 2 of the [FRC consultation paper](#)

<sup>2</sup> [Regulation of Auditors of Local Public Bodies - FRC 2014](#)

	<b>Consultation question</b>	<b>Our response</b>
	<p>be rigorous but avoid being overly complicated or restrictive on allowing access to the local audit market?</p>	<p>requirements to help address insufficient audit market capacity and remove competition barriers. We also support greater consistency with corporate Responsible Individual requirements.</p> <p>However, we are not convinced that there is a need to make this more onerous for local auditors. The requirement for relevant experience to include a minimum of 10 engagements in the last two years is, in our opinion, a step too far to be feasible for a broader range of firms.</p> <p>We would prefer to see more flexibility in this to ensure the intention of improving audit market capacity and reducing competition barriers is achieved.</p>
<b>Q2</b>	<p>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?</p>	<p>No, we do not support regulation prescribing a minimum number of years for KAP eligibility and believe that regulation should remain at a principles level to enable informed judgement on experience by the RSB Registration/ Authorisation Committee.</p> <p>The proposed rule stating minimum experience risks inconsistency with International Standard on Quality Management 1 (UK) for audit firms. This additional layer of proposed regulation is unhelpful.</p> <p>We are not convinced that there is sufficient evidence to differentiate local audit regulation from other sectors and do not support criteria being more onerous for one sector.</p>
<b>Q3</b>	<p>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?</p>	<p>Yes, this would be helpful, enabling a wider range of firms to participate in the local audit market. It is not clear what the approved training is.</p>

	<b>Consultation question</b>	<b>Our response</b>
<b>Q4</b>	<p>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?</p> <p>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?</p> <p>Should there be a subsequent requirement for cold file reviews?</p>	<p>No, we are not convinced that there is sufficient evidence of a need for additional requirements and a divergence from existing quality review arrangements. There are also ethical requirements<sup>3</sup> which must be met by members.</p> <p>This is likely to increase barriers to entry for audit firms.</p>
<b>Q5</b>	<p>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>No, as per our response to question 4.</p>
<b>Q6</b>	<p>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>No, we do not support unnecessary segmentation of the audit market; we do support a holistic approach to audit regulation.</p> <p>This proposal risks over-regulating and increasing complexity.</p>
<b>Q7</b>	<p>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?</p>	<p>We do not believe that it is necessary to prescribe the type of local audit experience if the RI process is followed and they have undertaken appropriate training. There is therefore no need to set out local audit experience.</p> <p>We believe that strong audit skills are sector transferrable, supported by appropriate sector training across all staff levels.</p> <p>We also note that a broad range of experience is helpful, particularly given the context of increasing commercial activity within local authorities.</p>
<b>Q8</b>	<p>Do you have any additional suggestions of how the level of competence and experience required for the approval of KAPs might be addressed?</p>	<p>No.</p>

<sup>3</sup> [ICAS-Code-of-Ethics-effective-1-January-2022.pdf](#)

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