



LOCAL PUBLIC AUDIT ELIGIBILITY CRITERIA: GUIDANCE

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The framework

1. [Section 18](#) and [Schedule 5](#) of the [Local Audit and Accountability Act 2014](#) ('the 2014 Act') set 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 audit.
2. The Secretary of State made the [Local Audit \(Delegation of Functions\) and Statutory Audit \(Delegation of Functions\) Order](#) delegating most of his responsibilities for the regulation of auditors of local public bodies to the Financial Reporting Council (FRC), including exercising oversight over the bodies recognised by the FRC as Recognised Supervisory Bodies (RSBs) to regulate auditors of local bodies.
3. The FRC has recognised ICAEW as a RSB to regulate auditors of local audit bodies. In April 2015 it issued '[Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners for local audit](#)' ('the Guidance') in which it stated at paragraph 10 that RSBs must have rules to show that each individual approved to serve as a Key Audit Partner for local audit work must be able to demonstrate:
 - The attainment of at least two years' post qualification experience of local audit and/or 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 in the previous six years; and
 - During the two years preceding the application, completion of adequate Continuous Professional Development appropriate to maintaining and developing competence for somebody seeking the role of a Key Audit Partner.
4. In a note, the FRC states:
 - that 'similar audit work' means other public sector audit work, for example audits of Foundation Trusts, Central Government, or other publically funded bodies, or equivalent work elsewhere in the public sector, including in other parts of the UK; and
 - there is a wide range of individual circumstances requiring a degree of judgement in applying rules in individual circumstances.

5. The FRC further states at paragraph 11 of the Guidance that RSB rules should make clear that individuals who hold an appropriate qualification for local audit but have neither:
- completed the necessary period of supervised practical training for the recognised qualification in company or local audit work; nor
 - acted as a Key Audit Partner in respect of local audit work under arrangements prior to the 2014 Act

must have completed at least three years' supervised training in audit and accountancy, of which at least 6 months must be in 'local public audit', and at least one year in local audit and similar work. The guidance states that the training must have been completed in a training office recognised by an RQB and the training record must be fully documented. Again, the FRC recognises in a note that there is a wide discretion of individual circumstances requiring a degree of judgement in applying rules in individual circumstances.

6. This paper sets out some thoughts on the definition of 'similar work' in relation to either 'Recent Audit Experience' or 'Supervised Practical Training' which we think we need to discuss with the FRC to ensure that there is sufficient flexibility to allow new firms to enter into the market.

Guidance

7. Following discussion with the FRC, the ICAEW is able to provide guidance on the following terms:

Local audit

8. The term 'local audit' is not defined by the FRC in its Guidance or in the Local Audit and Accountability Act.
9. [Sections 4](#) and [44](#) of the 2014 Act define a 'local auditor' as an auditor appointed under the provisions of the Act. As section 4 of the Act has yet to be commenced, there are no 'local auditors'. However, it would appear reasonable to interpret 'local audit' as the audit of an entity that will have to appoint a 'local auditor' under section 4 of the 2014 Act. These bodies are specified in [Section 2](#) and [Schedule 2](#) of the 2014 Act.
10. The ICAEW intends to extend this definition to include the audit of entities that were subject to audit under the predecessor legislation - [section 2](#) of the [Audit Commission Act 1998](#) ('the 1998 Act') - by auditors appointed by the Audit Commission under [section 3](#) of the 1998 Act. This means that the audit of entities of a type that no longer exist, such of Police Authorities, Primary Care Trusts and Strategic Health Authorities would constitute 'local audit' for the purposes of relevant experience.

The interpretation of 'the audit of historical financial information of local public bodies' in paragraph 10 of the FRC Guidance

11. The FRC has confirmed that paragraph 10 was intended to refer to 'public bodies' rather than 'local public bodies' and the ICAEW will interpret it accordingly.
12. However, there is no statutory or universally accepted meaning of a 'public body'. The ICAEW intends to interpret 'public bodies' for this purpose as bodies:
- wholly or substantially publicly-funded (whether by direct taxation, indirect taxation or grant) or through statutorily-set fees; and/or
 - with enhanced public accountability for its finance and/or performance

Similar audit work

13. The notes to paragraph 10 of the FRC Guidance specify a non-exhaustive list of 'similar audit work' and define such 'similar audit work' as 'other public sector audit work', for example audits of Foundation Trusts, Central Government, of other publicly funded bodies, or equivalent audit work in the public sector, including in other parts of the UK.'
14. The focus of the definition in the FRC Guidance is the type of entity rather than the distinguishing characteristics of 'public audit' or 'local audit'.
15. The Public Audit Forum identified the following distinguishing features of 'public audit'
 - a. Independence of auditors;
 - b. A wide scope, covering the audit of financial statements, regularity, propriety and value for money; and
 - c. The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders.

See <http://www.public-audit-forum.org.uk/our-principles/>

16. Annex A compares the scope of audit of a non-exhaustive list of different types of public sector and quasi-public sector entities in the UK (and one entity outside the UK):
 - A '✓' indicates that this characteristic is relevant to this type of entity;
 - A 'X' indicates that this characteristic is not relevant; and
 - A '?' means that a function is vested in the Supreme Audit Institution (eg, the Comptroller and Auditor General for UK Central Government) but may not be discharged by the 'Audit Partner' responsible for the audit of the financial statements
17. The characteristics considered include:
 - Whether a 'true and fair' view opinion is given;
 - Whether an opinion on the regularity of income and expenditure in accordance with [Practice Note 10](#) is given;
 - Whether some other form of assurance falling short of a 'true and fair' view opinion is given;
 - Whether the auditor is required to reach a conclusion on economy, efficiency and effectiveness ('value for money') i.e. as an assurance engagement;
 - Whether the auditor is required to undertake other 'value for money' work giving rise to narrative reporting rather than an assurance report;
 - Whether the auditor has a duty or discretion to report publically rather than to management;
 - Whether the auditor has a duty to receive and consider questions from local government electors and determine objections asking that they exercise quasi-judicial powers; and
 - Whether the auditor has duties or discretions to exercise other powers (e.g. making an application to the courts for a declaration that items of account are contrary to law or making a referral to the Secretary of State).
18. What is evident is that 'local audit' has additional responsibilities over and above the giving of an opinion on the truth and fairness of financial statements and, in identifying 'similar audit work' those characteristics should be taken into account.

19. The ICAEW therefore interprets 'similar audit work' by reference to **both** the type of body **and** the type of work. Applicants should therefore be able to satisfy two experience criteria, which we have defined into Essential and Desirable:

Essential

- a. Audit of historic financial information of a body:
- i. wholly or substantially publicly-funded (whether by direct taxation, indirect taxation or grant) or through statutorily-set fees; and/or
 - ii. with enhanced public accountability for its finance and/or performance; AND

Desirable

- b. Experience of audit or assurance work extending to:
- i. value for money;
 - ii. providing assurance other than on historic financial information, eg, on performance information or key performance indicators;
 - iii. an element of public reporting;
 - iv. regularity and/or legality of transactions;
 - v. exercise of quasi-judicial powers.
20. All KAPs will need to meet the essential criteria, together with demonstration of at least one of the desirable characteristics.

Case study

Experience

An individual is a member of ICAEW, holds an Audit Qualification and has served as a Responsible Individual for Companies Act audits for 20 years. Relevant CPD has been demonstrated.

During the past six years half their work has comprised:

- Serving as Responsible Individual for the audit of the financial statements of six local authority-controlled companies: three companies operate local airports and are predominantly profit-orientated, three of the companies are arm's length housing management companies whose focus has been on service delivery;
- Leading the firm's work for the limited assurance 'audits' of 2,000 town and parish councils under a contract awarded by the Audit Commission and now managed by [PSAA Limited](#). The 'audits' are a form of 'other assurance engagement' leading to a form of 'negative assurance opinions' based on a limited range of specified procedures. They do, however, also extend to consideration of and, where appropriate, exercise of formal audit powers, including in response to objections to accounts; and
- Undertaking a series of assurance engagements for the European Union on grant-funded schemes in developing countries.

All this work has been in a supervisory capacity.

Does this work meet the experience criteria?

Criterion a. relates to the audit of historical financial information of public bodies as defined in paragraph 19 above. As the housing management companies are wholly or substantially publically funded the audit of these over the last six years as Audit Partner meets the criterion.

Criterion b. relates to experience of one or more aspects of audit or assurance work directly relevant to local audit. The applicant can demonstrate experience of limited assurance 'audit' work of town and parish councils that includes an element of public reporting, consideration of legality and exercise of quasi-judicial powers. As this experience is over the last six years in a supervisory capacity, exercising significant judgements, this criterion is also satisfied.

Annex A: Characteristics of the audit of different entities

	Local government (other than smaller bodies) - England	Local government (smaller bodies) - England	NHS - England	Local government (other than smaller bodies) - Wales	Local government (smaller bodies) - Wales	NHS - Wales	Local Government - Scotland	NHS - Scotland	Local Government – Northern Ireland	NHS – Northern Ireland
'True and Fair' opinion on financial statements	✓	×	✓	✓	×	✓	✓	✓	✓	✓
Financial reporting requirements based on EU-adopted IFRS approved by the Financial Reporting Advisory Board	✓	×	✓	✓	×	✓	✓	✓	✓	✓
Opinion on Regularity of income and expenditure	×	×	✓CCGs ×NHS Trusts	×	×	✓	×	✓	×	✓
Conclusion on value for money	✓	×	✓	×	×	×	×	×	×	×
Value for money work not leading to a conclusion	×	×	×	✓	×	✓	✓	?	✓	?
Public Reporting	✓	✓	✓	✓	✓	×	✓	✓	✓	×
Questions and objections	✓	✓	×	✓	✓	×	✓	×	✓	×
Other formal powers	✓	✓	✓	✓	✓		✓		✓	

	UK Central Government	Welsh Assembly Government	Scottish Government	Northern Ireland Executive	Further Education (England)	Higher Education (England)	Registered Provider of Social Housing (England)	Arms Length Management Organisation (England)	Local Authority Owned Company	States of Jersey
'True and Fair' opinion on financial statements	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Financial reporting requirements based on EU-adopted IFRS approved by the Financial Reporting Advisory Board	✓	✓	✓	✓	✗	✗	✗	✗	✗	✓
Opinion on Regularity of income and expenditure	✓	✓	✓	✓	✓	✓	✗	✗	✗	✓
Conclusion on value for money	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Value for money work not leading to a conclusion	?	?	?	?	✗	✗	✗	✗	✗	✗
Public Reporting	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗
Questions and objections	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Other formal powers	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗