LOCAL AUDIT
ICAS GUIDANCE TO THE LOCAL AUDIT REGULATIONS
Published 23 October 2015
<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What is the aim of this guidance</td>
<td>3</td>
</tr>
<tr>
<td>2. What is Local Audit</td>
<td>3</td>
</tr>
<tr>
<td>3. What are Local Public Bodies</td>
<td>3</td>
</tr>
<tr>
<td>4. What do the Local Audit regulations cover</td>
<td>4</td>
</tr>
<tr>
<td>5. Are there other relevant requirements</td>
<td>4</td>
</tr>
<tr>
<td>6. General (Regulations 1.1.15)</td>
<td>5</td>
</tr>
<tr>
<td>7. Committee (Regulation 2.1-2.16)</td>
<td>5</td>
</tr>
<tr>
<td>8. How does a firm become registered</td>
<td>5</td>
</tr>
<tr>
<td>(Application for Registration Regulations 3.1-3.4, 3.12-3.15):</td>
<td></td>
</tr>
<tr>
<td>a. Eligibility: what firms are eligible</td>
<td></td>
</tr>
<tr>
<td>b. How to apply</td>
<td></td>
</tr>
<tr>
<td>c. What to expect from the application process</td>
<td></td>
</tr>
<tr>
<td>d. What happens if the application is granted subject to conditions</td>
<td></td>
</tr>
<tr>
<td>and/or restrictions</td>
<td></td>
</tr>
<tr>
<td>e. What happens if my application is denied</td>
<td></td>
</tr>
<tr>
<td>f. What should we do if the firm is changing legal status?</td>
<td></td>
</tr>
<tr>
<td>g. Firm’s legend</td>
<td></td>
</tr>
<tr>
<td>9. Applications for Registration: Key Audit Partner</td>
<td>12</td>
</tr>
<tr>
<td>a. Eligibility: who is eligible to become a Key Audit Partner (KAP)</td>
<td></td>
</tr>
<tr>
<td>b. How to apply</td>
<td></td>
</tr>
<tr>
<td>c. What to expect from the application process</td>
<td></td>
</tr>
<tr>
<td>d. What happens if my application is denied</td>
<td></td>
</tr>
<tr>
<td>e. What happens if my application is granted subject to conditions</td>
<td></td>
</tr>
<tr>
<td>10. Obligations of Registered Firms and Key Audit Partners</td>
<td>17</td>
</tr>
<tr>
<td>a. Provision of information</td>
<td></td>
</tr>
<tr>
<td>b. Cessation of registration</td>
<td></td>
</tr>
<tr>
<td>c. Audit Monitoring</td>
<td></td>
</tr>
<tr>
<td>d. Changes in circumstances</td>
<td></td>
</tr>
<tr>
<td>e. Networks</td>
<td></td>
</tr>
<tr>
<td>11. How should audit work be conducted?</td>
<td>20</td>
</tr>
<tr>
<td>a. What should the firm’s approach be to ethical compliance?</td>
<td></td>
</tr>
<tr>
<td>b. Consultation</td>
<td></td>
</tr>
<tr>
<td>c. What should the firm’s approach be to technical</td>
<td></td>
</tr>
<tr>
<td>compliance and quality control?</td>
<td></td>
</tr>
<tr>
<td>d. Audit Compliance Reviews</td>
<td></td>
</tr>
<tr>
<td>e. File retention</td>
<td></td>
</tr>
<tr>
<td>f. Access to files</td>
<td></td>
</tr>
<tr>
<td>12. Competence requirements</td>
<td>26</td>
</tr>
<tr>
<td>13. Major Local Bodies</td>
<td>26</td>
</tr>
<tr>
<td>14. Help &amp; Support</td>
<td>26</td>
</tr>
</tbody>
</table>
1. WHAT IS THE AIM OF THIS GUIDANCE

This document provides guidance to firms that are registered to conduct Local Audit work, or looking to apply for registration, on the main requirements of the Local Audit Regulations. The aim is to help firms understand and apply the regulations effectively.

The Guidance does not cover each and every regulation, only those where there is further explanation needed. The Guidance does not provide the full text of the regulation only a summary of the regulation – firms should ensure that that the Local Audit Regulations are referred to for the full wording.

2. WHAT IS LOCAL AUDIT

The Local Audit and Accountability Act 2014 (‘the 2014 Act’), provided for the abolition of the Audit Commission and established a new framework for the regulation of auditors of local public bodies in England that reflects the current framework for the regulation of company auditors. Under this framework, councils and local health bodies procure and appoint their own auditors. This only affects England (and any Welsh authorities which are also joint authorities with England) and not Scotland or Ireland.

The FRC (Financial Reporting Council) is responsible for:

- inspecting the quality of the audits of the largest local public bodies;
- overseeing the regulation of auditors of local public bodies by Recognised Supervisory Bodies (RSBs) the FRC recognises for this purpose; and
- setting specific statutory requirements on auditors.

The National Audit Office is responsible for the codes of audit practice and guidance; and

The Recognised Supervisory Bodies (RSBs) for Local Audit are responsible for the registration, monitoring and regulation of audit firms and auditors. ICAS is an RSB for Local Audit.

It is the responsibility of ICAS, as a RSB for local audit, 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 act as ‘Key Audit Partners’ on local audits on behalf of the registered firm.

The 2014 Act broadly replicates the Companies Act 2006 requirements for company audit.

3. WHAT ARE LOCAL PUBLIC BODIES

The regulations relate to the audit of relevant bodies as set out, which also extends this duty to cover the audit of NHS foundation trusts.

The local public bodies, as defined in Schedule 2 to the 2014 Act are:

1. A county council in England
2. A district council
3. A London borough council
4. A parish council
5. A joint authority established under Part 4 of the Local Government Act 1985
6. A Passenger Transport Executive
7. The Greater London Authority (GLA)
8. A functional body of the GLA
9. The London Pensions Fund Authority
10. The London Waste and Recycling Board
11. The Common Council (to the extent that it exercises functions in relation to – (a) the collection fund of the Common Council (b) the City Fund or (c) a pension fund maintained and administered by the Common Council under regulations under section 1 of the Public Service Pensions Act 2013)
12. A parish meeting
13. The Council of the Isles of Scilly
14. Charter Trustees
15. A port health authority for a port health district that is wholly in England
16. The Broads Authority
17. A National Park authority for a National Park in England
18. A conservation board established by order of the Secretary of State under section 86 of the Countryside and Rights of Way Act 2000
19. A police and crime commissioner for a police area in England
20. A chief constable for an area in England
21. The Commissioner of Police for the Metropolis
22. A fire and rescue authority in England constituted by a scheme under section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies
23. A clinical commissioning group
24. Special trustees for a hospital
25. An authority established for an area in England by an order under section 207 of the Local Government and Public Involvement in Health Act 2007 (joint waste authorities)
26. An internal drainage board for an internal drainage district that is wholly in England
28. A combined authority
29. Any person or body exercising functions in relation to an area wholly in England or partly in England and partly in Wales – (a) which was originally subject to audit provisions contained in an enactment passed before the Audit Commission Act 1998, and (b) to which the audit provisions of that Act applied by virtue of paragraph 4(1) or 7 of Schedule 4 to that Act immediately before the repeal of section 2(1) of that Act by this Act
30. An NHS foundation trust
31. An NHS trust all or most of whose hospitals, establishments and facilities are situated in England
32. A trustee for an NHS trust (appointed under paragraph 10 of schedule 4 to the NHS Act 2006)

4. WHAT DO THE LOCAL AUDIT REGULATIONS COVER

The regulations are designed to ensure 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.

5. OTHER RELEVENT REQUIREMENTS

The regulations should be read in conjunction with:
- the ICAS Code of Ethics (including the fundamental principles);
- the National Audit Office Code of Practice and other detailed guidance published, including Auditor Guidance Notes;
- publications issued by the Financial Reporting Council:
  - International Standards on Auditing (UK and Ireland);
  - International Standards on Quality Control (UK and Ireland);
  - FRC Ethical Standards;
- The Local Audit & Accountability Act 2014 and all related regulations and other legislation; and
- the Professional Indemnity Insurance Regulations.

The ‘ICAS Guidance on Local Audit Continuing Professional Development (CPD)’ provides details for audit professionals of the main competence areas and key technical areas for maintaining competence.
6. GENERAL (REGULATIONS 1.1-1.5)

This section of the regulations sets the scope and commencement date of the Local Audit Regulations. All key terms used are defined either in Regulation 1.2, or in the ICAS Rules. Some terms are explained in more detail within the relevant section of this guidance below.

7. COMMITTEE (REGULATIONS 2.1-2.16)

Regulations 2.1-2.16 set out the composition, powers and operation of the Regulatory Committee (‘the Committee’) responsible for the licensing, regulation and monitoring of Local Audit firms.

The Committee is able to delegate certain functions to ICAS staff. Regulation 2.11 sets out the Committee’s full range of powers and Regulation 2.16 indicates which of those powers cannot be delegated.

The following powers can be delegated to ICAS staff:

2.11.1 grant applications for Registration;
2.11.2 impose conditions on Registration;
2.11.5 monitor the compliance of Registered Firms and Key Audit Partners with these Regulations;
2.11.7 compile and maintain the Register of Local Auditors in accordance with the Local Auditors (Registration) Instrument 2015;
2.11.9 make enquiries, directions and determine all other matters incidental to or arising from the exercise of its powers under Regulations 2.11.1 to 2.11.8.

Regulation 2.11.8 makes reference to the Committee applying sanctions determined by the FRC in accordance with the Auditor Regulatory Sanctions Procedure.

The FRC Audit Quality Review team is responsible for the monitoring of Major Local Bodies. If the FRC decides to impose on the audit firm, the Committee is required to enforce this sanction as if it were a decision of the Committee. The process to be followed is set out in the FRC’s Auditor Regulatory Sanctions Procedure, available on the FRC website at www.frc.org.uk

8. HOW DOES A FIRM BECOME REGISTERED? (APPLICATION FOR REGISTRATION REGULATION 3.1-3.4, 3.12-3.15)

Section 3 of the regulations contains the eligibility and application requirements for becoming registered as a Local Audit firm.

Only firms registered with a Recognised Supervisory Body Statutory for Local Audit are allowed to accept Local Audit engagements and sign audit reports (Regulations 3.1-3.2). This Section explains:

- Eligibility: which firms are eligible to be registered Local Audit firms
- How to apply
- What to expect from the application process
- What happens if the application is denied
- What should we do if the firm is changing legal status

a. Eligibility: Which firms are eligible

The eligibility requirements of the firm largely replicate the requirements for company audit. The main requirements are listed below (numbered 1. to 7.):
1. Each principal requires to be a member of a Recognised Qualifying Body or an Affiliate (refer to Regulation 3.3.1):

The regulation requires that each principal in the audit firm must either be

- a member of a Recognised Qualifying Body;
- a Registered Auditor; or
- an EEA Auditor who is an Affiliate or an EEA Audit Firm
- an Affiliate.

This is to ensure that every principal in the firm is regulated and subject to disciplinary arrangements.

**FAQS**

**What is a Recognised Qualifying Body (RQB)?**

This is a body which is responsible for awarding an Appropriate Qualification.

For the purposes of these Regulations, the Recognised Qualifying Bodies (RQBs) include:

- the RQBs for company audit:
  - Association of Chartered Certified Accountants (ACCA);
  - Association of International Accountants (AIA);
  - Institute of Chartered Accountants of England & Wales (ICAEW);
  - Chartered Accountants Ireland (CAI); AND
- the RQB for Local Audit, which is currently the Chartered Institute of Public Finance & Accountancy (CIPFA)

**What is a Registered Auditor?**

This means a Firm which is registered to conduct audit work in the UK and Ireland as an auditor under the Audit Regulations (for corporate audit work) and/or these Local Audit Regulations (local audit work).

**What is an EEA Auditor or EEA Audit Firm?**

An EEA Auditor means an individual who holds a qualification to audit accounts under the laws of a member state of the European Economic Area other than the UK or Ireland.

An EEA Audit Firm means a Firm which is eligible for appointment as an auditor under the law of member state of the European Economic Area other than the UK or Ireland.

EEA means the European Economic Area (EEA). That is any country that is a signatory to the European Union and European Community Treaties (i.e. EU member states) and Iceland, Liechtenstein, Norway. Gibraltar is also treated as an EEA member state by the 2006 Act.

**What is an Affiliate?**

Any principal who is not a member of ICAS, one of the other Chartered Institutes, ACCA or CIPFA, or a registered auditor, must become an ICAS affiliate. This is to ensure that these principals are bound by all ICAS rules and regulations. ICAS Affiliate status doesn’t confer ICAS membership.

Affiliate is defined in the [ICAS Rules](#), as ‘a person who is not a Member but is subject to the Rules and Regulations as defined in Rule 2.2.1’. Affiliate requirements are set out in the ICAS Admission Regulations.

To become an Affiliate the individual requires to complete an Affiliate Application Form. An explanation of the application process and the Affiliate Application Forms can be obtained on icas.com by searching on ‘local audit’.

2. Each Local Audit engagement lead is eligible to become a Key Audit Partner (refer to Regulation 3.3.2).
Only Key Audit Partners can be responsible for Local Audits. The firm will require to nominate principals or staff to be approved by ICAS as Key Audit Partners. Please refer to the section below titled ‘9. Applications for Registration: Key Audit Partners’ to find out more.

3. A majority of the voting rights in the Firm and any Management Board are held by Registered Auditors, EEA Auditors and EEA Audit Firms and/or individuals who hold an Appropriate Qualification (Refer to Regulation 3.3.3)

Schedule 5 to the 2014 Act requires that only those appropriately qualified are appointed as Local Auditors. Therefore, ICAS must have regulations governing the control of Local Audit Firms to ensure that they are controlled by those holding the appropriate qualification.

The group listed in Regulation 3.3.3 must hold a majority of the voting rights, or such rights as allow them to direct the firm’s overall policy or amend its constitution.

<table>
<thead>
<tr>
<th>FAQs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Why the persons listed in Regulation 3.3.3?</strong></td>
</tr>
<tr>
<td>As well as holders of the appropriate qualification they can be other registered auditors (which in turn have to comply with the control requirements), those who hold the equivalent of an appropriate qualification from another EEA state or who are the equivalent of a registered auditor from another EEA member state.</td>
</tr>
</tbody>
</table>

| **What do you mean by Management Board?** |
| If the firm’s audit policies are controlled and set by a management board, then a majority of the voting rights in that board must be held by a combination of individuals who hold an appropriate qualification. |

| **What is the Appropriate Qualification?** |
| The appropriate qualification is a recognised UK or Irish audit qualification which, in accordance with the 2014 Act, is awarded by a Recognised Qualifying Body or by the Secretary of State. |

Appropriate qualifications for the purposes of this section can be granted by: ICAS, CAI, ICAEW, ACCA, CIPFA or the Secretary of State.

The appropriate qualification is not automatically granted (unless the member has been grandfathered in having qualified before 1991) and principals require to liaise with their membership body if they are not sure if they hold the audit qualification. ICAS members should liaise with regulatoryauthorisations@icas.com in the first instance.

| **What are EEA Auditors or EEA Audit Firms?** |
| See earlier FAQ for the definition of EEA, EEA Auditors and EEA Audit Firm. For the purposes of the control percentage, the EEA Auditor does not require to have passed the aptitude test. This is only required if the EEA Auditor is a Key Audit Partner. |

| **What are the firm’s voting rights?** |
| **Limited companies:** determined by the voting shares held. |
| **Partnerships:** determined by the voting rights in the partnership agreement. In the absence of a partnership agreement, the Partnership Act 1890 will apply and all partners will have equal voting rights. |
| **Limited Liability Partnership:** determined by the voting rights in the membership agreement. In the absence of any agreement the Limited Liability Partnership Act 2000 will apply and all members will have equal voting rights. |

| **How should I keep ICAS informed of changes?** |
| Any changes to eligibility requirements must be informed to ICAS within 10 business days in accordance with Regulation 413. |
| If a firm temporarily fails to meet the eligibility requirements, it will not lose its registration if it receives a dispensation by the Regulatory Committee but in order to obtain a dispensation the firm must inform... |
4. A principal with sufficient competence and experience should be appointed Audit Compliance Partner (Refer to Regulation 3.3.4)

FAQS

Who is the Audit Compliance Principal?
Each firm should nominate an Audit Compliance Principal (ACP) who is responsible for the firm’s compliance with the Local Audit Regulations.

The Audit Compliance Principal must be an ICAS approved Local Audit Key Audit Partner in order to demonstrate the necessary competence and experience.

What are the responsibilities of the Audit Compliance Principal?
This principal is responsible for ensuring that the firm has appropriate quality control policies and procedures in place to comply with the regulations and ISQC1 and for monitoring compliance with the regulations (Regulation 4.19 requires annual monitoring, called an 'Audit Compliance Review' for the purposes of this guidance).

The Audit Compliance Principal doesn’t need to carry out Audit Compliance Reviews personally but should make sure that they are carried out satisfactorily and any appropriate action taken.

What should happen if the Audit Compliance Principal changes in the firm?
The firm must notify ICAS of the details of the Audit Compliance Principal on the firm’s Local Audit application form and notify ICAS of any subsequent changes within 10 days under Regulation 4.13.

5. If the Firm is a corporate entity, its Articles comply with the terms of the ICAS model Articles (Refer to Regulation 3.3.5).

The ICAS model articles are include in Appendix 1.

FAQS

What do the ICAS model article terms cover?
- It requires shareholders to notify the firm of any changes in the number of shares held in the Firm directly or indirectly;
- Enable the board to
  - require shareholders to supply information about their shareholdings in the past 3 years;
  - require any non-shareholder whom it knows, believes, has/had an interest in the shares to supply information about their interests in the past 3 years;
  - deprive any shareholder of the right to vote if the information is not given in the time;
  - deprive any shareholder of the right to vote if the Firm’s Local Audit registration is rejected, or registration is withdrawn and the refusal/withdrawal relates to the ownership of any shareholding; and
  - approve any transfer of shares which would result in a shareholder having an interest representing more than 3% of the aggregate nominal value of the issued share capital.

Why are these model articles needed?
Visibility of shareholdings is required in order for the firm, and ICAS, to ensure that the majority of the Firm’s voting rights are held by those with the Appropriate Qualification.

6. The firm is competent in all areas of work to be undertaken and is otherwise fit and proper for Registration (Refer to Regulation 3.3.6)
An example fit and proper form for the firm is included in Appendix 2. An example fit and proper form for individuals is included in Appendix 3.

**FAQS**

**What is fitness and propriety?**

It means complying with the fundamental principles in the ICAS Code of Ethics and not doing anything that could bring the profession into disrepute:

- **Integrity**: be straightforward and honest in all professional and business relationships;
- **Objectivity**: do not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- **Professional Competence and Due Care**: maintain professional knowledge and skill at the level required to ensure that a client receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- **Confidentiality**: respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, do not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- **Professional Behaviour**: comply with relevant laws and regulations and avoid any action that discredits the profession.

**How is fitness and propriety assessed at the point of application?**

Firms are required to complete a fit and proper checklist as part of the Local Audit registration application.

If a firm knows about any matter which affects fitness and propriety, even if it is nothing to do with audit work, the firm must, in confidence, notify the Committee. The Committee will not automatically reject the application but will consider the issue, and its implications, and decide on the appropriate course of action.

If the Committee finds out about any matters which a firm did not disclose, this will be viewed seriously. Voluntary disclosure gives the firm the opportunity to inform the Committee of any mitigating circumstances or planned corrective action.

**How is fitness and propriety monitored after registration?**

Regulation 4.13 requires Local Audit Firms to notify ICAS if there are any fit and proper issues. Additionally, firms are asked to notify ICAS of any fit and proper issues on the Firms Annual Return.

A firm is only fit and proper if its principals and staff involved in audit work are fit and proper. In order for Local Audit Firms to monitor this, Firms are advised to obtain annual fit and proper declarations from each principal, employee, sub-contractor and consultant involved in Local Audit engagements. However, firms may find it easier to apply these across the firm.

Principals, staff and subcontractors should be encouraged to notify the Audit Compliance Principal of any event that affects their fit and proper status as soon as it occurs. Audit sub-contractors and consultants must satisfy the same requirements as anyone employed directly by the firm and the firm should also have a formal subcontractor/consultant agreements in place.

**How is competence assessed?**

As part of the Local Audit application process, ICAS will assess the competence, skills and experience of the firm, and the Key Audit Partners. The Committee may also take into account the monitoring results from other areas such as Audit Monitoring of corporate audit work and Practice Monitoring.

The competence of Key Audit Partners is covered in the section below titled ‘9. Applications for Registration: Key Audit Partner’.
7. The firm can demonstrate compliance with the Rules and Regulations (Refer to Regulation 3.3.7)

**FAQS**

**What does this mean?**
Local Audit Firms are expected to comply with the ICAS Rules and all other ICAS Regulations. For the full suite of regulations, please search on ‘rules and regulations at icas.com.

Firms should ensure, in particular, that the firm’s Professional Indemnity Insurance arrangements cover Local Audit work and comply with the Professional Indemnity Insurance Regulations. For more information search on ‘PII’ at icas.com.

**b. How to apply**

<table>
<thead>
<tr>
<th>Action</th>
<th>Where to find more information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominate an Audit Compliance Principal</td>
<td>See previous section</td>
</tr>
<tr>
<td>Check that the firm meets the eligibility requirements</td>
<td>See the previous section Regulations 3.3-3.4</td>
</tr>
<tr>
<td>Obtain and complete a Registered Auditor Application Form</td>
<td>• Search on 'local audit' at icas.com; or • Email <a href="mailto:regulatoryauthorisations@icas.com">regulatoryauthorisations@icas.com</a>; or • Phone Regulatory Authorisations on 0131 347 0282</td>
</tr>
<tr>
<td>Check that the firm has adequate Professional Indemnity Insurance (PII) for Local Audit</td>
<td>• PII regulations • Search 'PII' on icas.com • Phone Regulatory Authorisations on 0131 347 0282</td>
</tr>
<tr>
<td>Submit applications for each Key Audit Partner in your firm (see Key Audit Partner Section below)</td>
<td>See next section</td>
</tr>
<tr>
<td>Submit applications for any new Affiliates in your firm</td>
<td>• Search on 'local audit' at icas.com; or • Email <a href="mailto:regulatoryauthorisations@icas.com">regulatoryauthorisations@icas.com</a>; or • Phone Regulatory Authorisations on 0131 347 0282</td>
</tr>
<tr>
<td>Pay the audit registration fee and any Affiliate Fees</td>
<td>• Payment methods included on Registered Auditor Application Form • Email <a href="mailto:regulatoryauthorisations@icas.com">regulatoryauthorisations@icas.com</a>; or • Phone Regulatory Authorisations on 0131 347 0282</td>
</tr>
<tr>
<td>If your firm is incorporated, please provide a copy of your Articles of Association and ensure that the Articles have the ICAS model wording.</td>
<td>Appendix 1 Model Articles</td>
</tr>
</tbody>
</table>

**c. What to expect from the application process**

The Regulatory Authorisations Department will aim to process your application within two weeks of receiving it, unless your firm is large or there are any complexities in your application. If we think that it will take longer, we will keep you informed.
Please note that each application requires to undergo a detailed checking process including consideration of fit and proper status and competence. There is no automatic approval, given the public interest element nature of audit applications. You will be notified when a decision has been made. However, you should note that the following circumstances could delay the application:

- if you have not provided all of the information required;
- for less straightforward applications, the Regulatory Committee may require to consider the application;

in such cases, we will inform you of the likely timescales involved.

We are here to help. If you would like to know the status of your application at any time please contact Regulatory Authorisations on 0131 347 0282 or via email at regulatoryauthorisations@icas.com.

If the Regulatory Committee decides that it can only properly consider a firm's application after it has more information about the firm, it may decide this is best achieved by a monitoring visit to the firm. We will inform you if a pre-registration monitoring visit is required.

d. What happens if my application is accepted subject to conditions and/or restrictions

The Committee may grant the firm audit registration status subject to conditions such as:

- Attendance at a particular course or courses;
- Mentoring;
- Hot or cold file review conditions.
- Restrictions from taking on particular clients.

This course of action is usually used in cases where the level of experience is limited, possibly due to only a small number of Local Audit clients.

If you are dissatisfied with the ARCs decision, there is an Independent Review and Appeals process, which is explained in Section 5 of the Local Audit Regulations (see the Local Audit Regulations).

e. What happens if my application is denied

If the Committee does not approve your firm as a Local Auditor, you will be notified of the reason for this decision and your audit registration fee will be refunded.

If you are dissatisfied with the ARCs decision, there is an Independent Review and Appeals process, which is explained in Section 5 of the Local Audit Regulations (see the Local Audit Regulations).

f. What should we do if the firm is changing legal status

If your firm is changing legal status, for example incorporating or becoming an LLP, your firm will need to submit a new application form for Local Audit Registration as a different legal entity now requires Local Audit registration.

Your firm will not need to submit Key Audit Partner’ (‘KAP’) applications or Affiliate application for any existing Key Audit Partners or Affiliates from the old firm to the new firm, but applications would be needed for any new KAPs or Affiliates.
Important note:

A Key Audit Partner cannot accept audit appointments unless the firm is also a registered auditor under these regulations. Key Audit Partner status is attached to the firm. If the individual changes firm the Key Audit Partner status does not transfer and an application is needed for the new firm.

9. APPLICATIONS FOR REGISTRATION: KEY AUDIT PARTNER (REGULATIONS 3.1-3.2, 3.5-3.9, 3.12-3.15)

Each individual who is responsible for Local Audit work and who signs audit reports, must be designated as a ‘Key Audit Partner’ (‘KAP’) for audit work by the Recognised Supervisory Body (RSB) who registers your firm for Local Audit work (Regulation 3.1-3.2).

FAQS

What is a Key Audit Partner?

This is the term for engagement leads responsible for Local Audit. Despite the term ‘Key Audit Partner’ (‘KAP’) you do not need to be a principal in your audit firm to become a KAP. Similar to company audit, where an employee can be an Employee Responsible Individual, employees can also be Employee KAP.

This Section explains:

- Eligibility: Who is eligible to become a Key Audit Partner (KAP);
- How to apply; and
- What to expect from the application process.
- What happens if the application is denied
- What happens if my application is accepted subject to conditions

a. Eligibility Who is eligible to become a Key Audit Partner (KAP)

The main requirements are listed below (numbered 1. to 7.)

1. KAPs must: (a) hold an Appropriate Qualification, unless they are an EEA Auditor (Regulation 3.5); and (b) If an EEA Auditor must have passed an Aptitude test, unless waived by the Committee (Refer to Regulations 3.8-3.9).
What is the Appropriate Qualification?
This is the UK or Irish qualification that must be held before an individual is eligible to become a Key Audit Partner responsible for Local Audit work and is awarded by a Recognised Qualifying Body or is recognised by the Secretary of State. For the purposes of these Regulations, the Recognised Qualifying Bodies (RQBs) include:
- the RQBs for company audit:
  - Association of Chartered Certified Accountants (ACCA);
  - Association of International Accountants (AIA);
  - Institute of Chartered Accountants of England & Wales (ICAEW);
  - Chartered Accountants Ireland (CAI); AND
- the RQB for Local Audit, which is currently the Chartered Institute of Public Finance & Accountancy (CIPFA)

Individuals who became members of ICAS, CAI, ICAEW,ACCA:
- for the United Kingdom (excluding Northern Ireland), both 31 December 1989 and 30 September 1991, (under the Companies Act 1989);
- for Northern Ireland, both 1 January 1990 and 29 March 1993, (under the Companies (Northern Ireland) Order 1990);
are automatically grandfathered in as having the Appropriate Qualification.

If you are unsure whether you hold an Appropriate Qualification please your membership body. If you are an ICAS member, please contact regulatoryauthorisations@icas.com in the first instance.

Is the ICAS & CIPFA integrated audit qualification needed to become a Key Audit Partner?
ICAS and Chartered Institute of Public Finance and Accountancy (CIPFA) provide an integrated audit qualification which will provide a dual designation of CA and CPFA, as well as a dual audit qualification for company audit and local audit. Whilst this qualification is not a requirement for approval as a Key Audit Partner, it is a significant development for the audit profession.

Will an individual who previously acted as a Key Audit Partner meet the experience and competence requirements?
Yes – the FRC has indicated that anyone previously acting as an audit engagement lead under arrangements in place prior to the 2014 Act (such as Audit Commission engagement leads or engagement leads working in audit firms) can be ‘grandfathered’ in to the new regulatory framework, if their experience and competence is sufficient, without having to have met the practical training requirements.

What is an EEA Auditor?
An EEA Auditor means an individual who holds a qualification to audit accounts under the laws of a member state of the European Economic Area other than the UK or Ireland. EEA Auditors who are applying to become Key Audit Partners will usually be required to sit an aptitude test to ensure that they can demonstrate the necessary knowledge of UK requirements (including relevant legislation).

EEA means the European Economic Area (EEA). That is any country that is a signatory to the European Union and European Community Treaties (i.e. EU member states) and Iceland, Liechtenstein, Norway. Gibraltar is also treated as an EEA member state by the 2006 Act.

When can a waiver be given in relation to the aptitude test?
Regulation 3.9 governs the waiver. The Committee may, at its discretion, determine that an Aptitude Test isn’t required if the applicant can demonstrate to the Committee’s satisfaction that their professional qualification covers the same subjects as an Appropriate Qualification or Aptitude Test; and will be undertaking Local Audit Work on a temporary or occasional basis.

2. The applicant should have a sufficient level of competence to carry out Local Audit Work and satisfy the minimum experience and competence requirements (Refer to Regulation 3.5.2):
   a) within 6 years prior to application, at least 2 years post-qualification experience (PQE) of Local Audit Work and/or similar audit work in an audit supervisory role which includes significant judgements (Refer to Regulation 3.6.1);
b) during the 2 years before application, undertaken adequate CPD to maintain and develop competence to be a Key Audit Partner (Refer to Regulation 3.6.2);

FAQS

Where do these requirements come from?
Most of these requirements derive from the FRC ‘Guidance to Recognised Supervisory Bodies on the Approval of Key Audit Partners for local audit’. This guidance can be accessed on the FRC website.

What does Local Audit Work and/or similar audit work mean?
Key Audit Partner Applicants should have had at least 2 years post qualification experience in the audit of local authorities covered by the 2014 Act or similar local public bodies. This experience must be relatively ‘current’ so should have taken place in the last 6 years.

“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.

What does ‘in a supervisory role’ mean?
“In a supervisory role” is not defined. However, the individual should have had significant responsibility within a local audit team, including responsibility for supervising the work of others in the team.

What are the CPD requirements?
Key Audit Partner applicants require to demonstrate that they are keeping up to date on the main requirements necessary for their role. Please refer to the additional ‘ICAS Guidance on Local Audit Continuing Professional Development (CPD)’.

How is competence and experience assessed on the application?
Applicants are required to complete a Responsible Individual & Key Audit Partner Application Form which also requests CPD records for the previous 24 months. In addition, applicants are required to complete a Local Audit Experience Form which sets out details regarding supervised practical training, audit and other relevant experience and induction procedures.

3. If the applicant is a member of a Recognised Qualifying Body, he must be currently authorised to engage in public practice (Refer to Regulation 3.7); and
- satisfy the minimum supervised practical training requirements (Refer to Regulation 3.7.1);
  or
- have completed, in an Authorised Training Office, a minimum of 3 years supervised practical training in audit or accountancy, of which not less than 6 months shall be in local public audit work and at least 1 year in local audit and/or similar audit work; or
- has acted as Key Audit Partner in respect of Local Audit Work prior to the commencement of the Act.

FAQS

What does authorised to engage in practice mean?
This means that the applicant must be approved by their own membership body to be in practice. For most UK bodies this means holding a ‘Practising Certificate’.

What does the Supervised Practical Training mean?
Many members of a Recognised Quality Body (ICAS, ICAEW; CAI; ACCA; AIA; or CIPFA) with the Appropriate Qualification will have completed the necessary period of supervised practical training in audit or local audit in obtaining their Appropriate Qualification.

However, 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.
For those who have acted as a Key Audit Partners in respect of local audit under the arrangements prior to the 2014 Act, no supervised practical training is required. For those who have not been Key Audit Partners prior to the 2014 Act, they must have completed a minimum of 3 years’ supervised practical 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 audit work. (Similar work has the same meaning as previously FAQs i.e. other public sector audit work).

The FRC recognises that there are a wide range of individual circumstances and that a degree of judgement will require to be exercised. ICAS will consult with the FRC in cases of doubt.

4. The applicant should be an Employee or Principal of a Registered Firm and is nominated by the Audit Compliance Principal to sign reports under the Act in his name or on behalf of the Registered Firm (Refer to Regulation 3.5.3);

FAQS
Can subcontractors or consultants become Key Audit Partners?
Subcontractors and consultants are not eligible to become Key Audit Partners as they are not considered to be under the control of the Firm. Only principals and employees are considered to be eligible because they are under the control of the Firm.

Who is responsible in the firm for nominating Key Audit Partners?
The Audit Compliance Principal is responsible for nominating Key Audit Partners in the firm and all application forms require to be signed by him.

5. The Key Audit Partner must be fit and proper (Refer to Regulation 3.5.5.)

FAQS
What is fitness and propriety?
In order to be fit and proper, a Key Audit Partner should be complying with the fundamental principles in the ICAS Code of Ethics:

- **Integrity**: be straightforward and honest in all professional and business relationships;
- **Objectivity**: To not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- **Professional Competence and Due Care**: To maintain professional knowledge and skill at the level required to ensure that a client receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- **Confidentiality**: To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- **Professional Behaviour**: To comply with relevant laws and regulations and avoid any action that discredits the profession

How is fitness and propriety assessed at the point of application?
Each Key Audit Partner applicant will be required to complete a fit and proper checklist as part of the application and various fit and proper checks will also be conducted.

If a Key Audit Partner applicant knows about any matter which affects fitness and propriety, even if it is nothing to do with audit work, the firm or the applicant must, in confidence, notify the Committee. The Committee will not automatically reject the application but will consider the issue and the appropriate course of action.

If the Committee finds out about any matters which a firm or Key Audit Partner applicant did not
disclose, this will be viewed seriously. Voluntary disclosure gives the firm and applicant the opportunity to inform the Committee of any mitigating circumstances or planned corrective action.

**How is Fitness and Propriety Monitored After Registration?**

Regulation 4.13 of the Local Audit Regulations requires Local Audit Firms to notify ICAS if there are any fit and proper issues. Key Audit Partners should notify the Audit Compliance Principal of any event that affects their fit and proper status as soon as it occurs.

6. **The Key Audit Partner can demonstrate compliance with the Rules and Regulations (Regulation 3.5.6).**

**FAQS**

Each Key Audit Partner will require to comply with the Local Audit Regulations as well as with ICAS’ rules and regulations.

7. **The firm must provide commitments in relation to the Key Audit Partner (Refer to Regulation 3.5.4)**

**FAQS**

**What does this mean?**

ICAS, is required to obtained commitments from the firm that:

- The firm is satisfied that the individual is competent to undertake the role of Engagement Lead;
- The firm will confirm on an annual basis that the Engagement Lead continues to comply with the ICAS Local Audit Regulations and professional competency standards;
- The firm will satisfy itself that the Engagement Lead, in relation to a particular local audit engagement, has adequate knowledge of the regulatory and reporting requirements relevant to that audit engagement and sufficient relevant practical experience to undertake that audit engagement effectively.

b. **How to apply**

<table>
<thead>
<tr>
<th>Action</th>
<th>Where to find more information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check that the applicant meets the eligibility requirements</td>
<td>See the previous section Regulations 3.5-3.9</td>
</tr>
</tbody>
</table>
| Obtain and complete a [Responsible Individual & Key Audit Partner Application Form](#) | • Search on 'local audit' at icas.com; or
  • Email regulatoryauthorisations@icas.com; or
  • Phone Regulatory Authorisations on 0131 347 0282 |
| Obtain and complete a [Local Audit Experience Form](#)                | • Search on 'local audit' at icas.com; or
  • Email regulatoryauthorisations@icas.com; or
  • Phone Regulatory Authorisations on 0131 347 0282 |
| Provide CPD records for the last 24 months outlining relevant CPD for Local Audit work | Ensure you have met the requirements of the [ICAS Guidance on Local Audit Continuing Professional Development (CPD)](#) |
It is important to note that the status of Key Audit Partner is linked to the firm and cannot be transferred to another firm. If the Key Audit Partner moves firm the individual must apply to become a Key Audit Partner with the new firm.

c. What to expect from the application process

The Regulatory Authorisations Department will aim to process your application within two weeks of receiving it, unless your firm is large or there are any complexities in your application. If we think that it will take longer, we will keep you informed.

Please note that each application requires to undergo a detailed checking process including consideration of fit and proper status and competence. There is no automatic approval, given the public interest element nature of audit applications. You will be notified when a decision has been made. However, you should note that the following circumstances could delay the application:

- if you have not provided all of the information required;
- for less straightforward applications, if the Regulatory Committee requires to consider the application;

In such cases, we will inform you of the likely timescales involved.

We are here to help. If you would like to know the status of your application at any time please contact Regulatory Authorisations on 0131 347 0282 or via email at regulatoryauthorisations@icas.com.

d. What happens if my application is denied

If the Committee does not approve your KAP status, you will be notified of the reason. The Committee would usually advise you if there is action that can be taken including mentoring, or more on the job experience.

If you are dissatisfied with the ARCs decision, there is an Independent Review and Appeals process, which is explained in Section 5 of the Local Audit Regulations (see the Local Audit Regulations).

e. What happens if my application is accepted subject to conditions

The Committee may grant KAP status subject to conditions such as:

- Attendance at a particular course or courses;
- Mentoring;
- Hot or cold file review conditions.

This course of action is usually used in cases where the level of experience is limited, possibly due to only a small number of Local Audit clients.

If you are dissatisfied with the ARCs decision, there is an Independent Review and Appeals process, which is explained in Section 5 of the Local Audit Regulations (see the Local Audit Regulations).

10. OBLIGATIONS OF REGISTERED FIRMS AND KEY AUDIT PARTNERS

This section (Section 4 in the regulations) covers a number, but not all, of the key in the Local Audit Regulations.

a. Provision of Information

Firms are required to provide information, records and returns to ICAS when required (Refer to Regulation 4.3).
FAQ
What is expected by way of an Annual Return?
Each Local Audit Firm will be expected to submit a Firms Annual Return to ICAS. This enables the Audit Monitoring team to monitor and risk-assess firms, which informs the Audit Monitoring visit process.

b. Cessation of registration
Firms still require to provide information and comply with the regulations even after audit registration has ceased (Refer to Regulations 4.5 and 4.6).

FAQ
What does this mean?
The firm, and regulated individuals within the firm, must still respond to all enquiries, provide access to documentation, and must still accommodate audit monitoring visits if required and can also be subject to investigation and discipline after ceasing registration.

It is also common practice for a firm ceasing audit registration to be asked to provide the Committee with evidence of resignation letters and statements of circumstances.

c. Audit Monitoring

Regulation 4.7 covers the requirement for the firm to be monitored. ICAS Audit Monitoring conduct audit monitoring visits to Local Audit firms. Regulation 4.7 requires that this monitoring includes:
- Local Audit Work i.e. engagement files;
- the resources allocated (required by Schedule 5 of 2014 Act);
- the remuneration received (required by Schedule 5 2014 Act);
- the level of compliance with the Rules and Regulations (required Schedule 5 of 2014 Act);
- the performance of the Audit Compliance Principal;
- the regulatory and compliance processes of the Registered Firm (including ISQC1 compliance) (required by Schedule 5 2914 Act).

FAQs
Where will I find out more information about Audit Monitoring of Local Audit Firms?
ICAS has a webpage dedicated to this which can be accessed by searching on ‘local audit monitoring’ at icas.com.

Regulation 4.8 allows for Audit Monitoring to cover other audit and assurance work, as may be required, during an Audit Monitoring visit.

Is assurance reporting covered by the Local Audit Regulations?
No, assurance reporting is not covered by this RSB regime and the Government is considering introducing a separate licensing regime for the limited-assurance reporting of small local public bodies. For more information search ‘local public body assurance’.

Then why might an assurance report be reviewed on an Audit Monitoring visit to a Local Audit firm?
If the firm has no, or few, Local Audits Audit Monitoring may review limited-assurance report engagements in order to ensure that the firm is maintaining the necessary local public body experience and competence.

Why might other audits be reviewed?
Again if there were no, or few, Local Audits, Audit Monitoring may review other audit files in order to ensure that the firm is maintaining the necessary audit experience and competence.
d. Changes in circumstances

Under Regulation 4.13 firms should notify ICAS of changes within 10 business days.

**Why do all changes require to be notified?**
The public audit register must be kept up to date and a number of changes affect this register. It is also important to ensure the ongoing eligibility of the firm.

**What happens if eligibility requirements are not met?**
If your firm temporarily loses its eligibility, it may not necessarily lose its registration if the Committee allows a waiver (Regulations 3.14). Firms must notify ICAS as soon as any changes are planned so that audit registration is not interrupted.

**Any other important matters?**
A firm should also, notify ICAS of any matter affecting its financial stability. This would include a firm or principal entering into an insolvency proceeding, or other similar arrangement.

**How should the firm inform ICAS about new Key Audit Partners?**
Before a Key Audit Partner is formally appointed the firm must first apply for approval from ICAS. Please see Section 9 of this guidance. Individuals must not sign any audit reports before being first approved by ICAS. Failure to adhere to this requirement could result in disciplinary action and could also prove costly if the firm requires to pay for the client’s accounts to be re-audited.

**What should we do if our firm is planning to change its legal status?**
Any change in legal status means that the firm’s existing registration ceases as the firm is considered to be a new firm given it is a different legal entity. Firms must therefore plan for such changes and submit applications for the new firm in advance of the changeover. ICAS may allow any Key Audit Partners and any Affiliates who are transferring over to the new firm to not have to complete another Key Audit Partner application or Affiliate application, but the firm must firm check with ICAS Regulatory Authorisations.

This also applies to a sole practitioner who becomes a partnership, LLP or a limited company.

I am a Key Audit Partner and I am moving to another unconnected firm- does my status continue with my new firm?
No, your status is attached to your existing firm only and will not transfer to your new firm. If you move firm your new firm will require to nominate and apply to the relevant RSB for you to become a Key Audit Partner with the new firm.

---

**e. Networks**

A Network is a co-operative structure of entities which satisfies one or more of the following conditions: profit or costs-sharing; common ownership, control and/or management; common quality control policies and procedures; a shared business strategy; the use of a common name; and/or sharing of significant professional resources (Regulation 4.14).

Regulation 4.15 requires that the firm maintain a public list including the names and addresses of the firms in the Network and all affiliated entities. Under Regulation 4.16 the firm requires to notify the Committee of the location of the list and of any changes to the list or its location within 10 business days.

**FAQs**

What does ‘affiliated’ mean?
Affiliated means any entity, regardless of its legal form, which is connected to a firm by means of common ownership, control or management.

What is a public listing?
This would usually mean holding the list on the firm’s website or on public display at the firm’s office.
11. HOW SHOULD AUDIT WORK BE CONDUCTED?

Regulation 4.18 sets out the main requirements that require to be complied with in conducting Local Audit work:

4.18.1 all relevant UK legislation, including the Act, the Accounts and Audit (England) Regulations 2015, the Local Auditors (Transparency) Instrument, and other applicable primary and secondary legislation;
4.18.2 all relevant EU legislation, including regulations and directives;
4.18.3 any standards, regulations or guidance issued by the FRC;
4.18.4 ICAS Code of Ethics;
4.18.5 FRC Ethical Standards;
4.18.6 International Standards on Quality Control;
4.18.7 International Education Standards;
4.18.8 International Standards on Auditing;
4.18.9 The National Audit Office Code of Practice
4.18.10 any other applicable standard, code of practice or guidance, whether ethical or technical.

ICAS has produced Guidance called ‘ICAS Guidance On Local Audit Continuing Professional Development (‘CPD’)’ which highlights they key technical requirements that firms and KAPs should be knowledgeable of in conducting Local Audit work.

The National Audit Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. It is anticipated that this Code is updated at least every five years by the National Audit Office. The Local Audit and Accountability Act 2014 provides the Comptroller and Auditor General with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance.

A series of Auditor Guidance Notes (AGNs) are presented by the National Audit Office and should be read alongside the Code. The sections below cover some of the key areas within the audit file but it is not exhaustive guidance and firms must be familiar with all of the technical requirements.

**a. What should the firm’s approach be to ethical compliance?**

Regulation 4.18 requires compliance with the ICAS Code of Ethics and FRC Ethical Standards.

Firms should conduct Local Audit engagements with integrity, objectivity and independence. The National Audit Office Code of Practice also confirms that firms should apply the FRC Ethical Standards as well as any ethical framework set out by the firm’s RSB. There are also statutory requirements in the 2014 Act.

In particular, the firm should ensure that:
- before accepting appointment, it should consider its independence and ability to perform the audit properly and record this before it accepts appointment or reappointment as auditor.
- it must not accept an appointment or continue as an auditor if the firm has any conflict of interest;
- it should ensure that anyone who is not a Key Audit Partner cannot have undue influence over the audit.

**FAQs**

**What does undue influence mean?**

It means that someone other than the Key Audit Partner can exert influence over the audit and the opinion.
This is particularly a risk in the following situations:

- where principals who are not Key Audit Partners are involved with the client;
- where subcontractors or consultants are involved with the client; and
- where another accountancy firm is involved in providing services with the client.

Firms should not only be independent, but be seen to be independent. Firms should consider whether an informed third party would consider that a conflict could exist, even if not being exercised.

**FAQs**

**Are there any special requirements for Local Audit in addition to the Code of Ethics and Ethical Standards?**

Yes, as follows:

**NHS Foundations:**

The National Audit Office’s Auditor Guidance Note 1 (AGN 1) states that, in the case of NHS Foundation Trusts, the appointment of auditors is the responsibility of Council of Governors and the firm must agree the terms of engagement via an engagement letter. In particular, no member of the audit team may be a member or governor of the FT, as this could result in an independence issue.

**Other local bodies:**

Auditors of other local bodies must meet their obligations under the firms’ contracts with the transitional body, Public Sector Audit Appointments Ltd (PSAA), including the PSAA’s Terms of Appointment, including those designed to ensure integrity, objectivity and independence, while also recognising the wider scope of public audit, and ensure that they are familiar with the *Statement of Responsibilities of Auditors and of Audited Bodies*, which is issued by PSAA, because it serves as the formal terms of engagement between auditors and audited bodies.

Regulation 4.25 also requires that an individual is unable to accept a key management position in a Major Local Body if, at any time in the preceding 2 years, he was a Key Audit Partner for the Major Local Body, or of any material subsidiary.

**FAQs**

**What is a Major Local Body?**

A relevant authority which falls within the definition of a ‘major local audit’ as set out in the Local Audit The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014, (available on legislation.gov.uk)

**What is a key management position?**

For the purposes of this regulation a key management position is a director (including a shadow director) or other officer.

**b. Consultation**

It is important in cases of difficult ethical, audit or financial reporting issues that the firm consults before issuing an audit opinion. The NAO’s Auditor Guidance Note (AGN1) provides guidance on the process:

- Consult the standards and guidance
- Seek to resolve the issue with advice from their firm’s internal consultation process
- Any unresolved issues should be referred to the NAO’s Local Audit Code and Guidance (LACG) team.

Please refer to AGN1 for more information.
c. What should the firm’s approach be to technical compliance and quality control

The Act, other legislation and Regulations

The primary legislation is the Local Audit & Accountability Act 2014 and the National Health Service Act 2006 in relation to NHS Foundation Trusts.

It is not possible to cover all statutory requirements in this guidance and auditors must familiarise themselves with the statutory requirements. However a number of key requirements include:

Appointment:
- Section 7(1) of the 2014 Act requires an audit firm to be appointed no later than 31 December in the preceding financial year.
- S 7(2) allows an appointment of more than 1 year but requires an appointment at least once every 5 years.
- Joint audits are allowed.
- The authority should take account of the advice of the auditor panel and the authority must publish a notice within 28 days of the appointment.
- The Act covers also limited liability agreements

Independence
S1214 of the Companies Act, as adopted in Schedule 5 to 2014 Act, sets out statutory independence requirements – not being an officer or member of a local authority or partner or employee thereof. Also where there are connections with the auditor or an associate, or elected to be appointed to the authority or connected entity, or member of the group’s governing body.

Public interest reports
Schedule 7 of the 2014 Act requires that the firm consider whether it should make a report, in the public interest. It must send it to the authority and any connected authorities, and to the auditor panel, Secretary of State and various others depending on the type of body.

Schedule 8 covers the auditors powers to issue advisory notices on unlawful or potentially unlawful acts

The National Audit Office (NAO) Code of Practice

What is the code?
The Local Audit and Accountability Act 2014 (the Act) requires the Comptroller and Auditor General (C&AG) to prepare one or more codes of audit practice. The NAO has prepared a single code covering the audit of different types of local public body. This reflects the fact that the core statutory responsibilities are essentially the same.

Local Audit firms are required to comply this Code in relation to the audit of relevant bodies set out in Schedule 2 and Schedule 13(3)(1) to the Act. Additionally, Schedule 6 to the Act extends this duty to cover the audit of NHS foundation trusts.

The specific responsibilities of different types of body regarding the production and reporting of financial statements and other information varies depending on relevant legislation, regulations and any other requirements that may be placed upon them.

The Code is supplemented by detailed guidance to auditors provided by the NAO, including
- planning local NHS audits;
- planning local government audits;
- the auditor’s work on value-for-money arrangements;
- smaller authority assurance engagements;
- the auditor’s additional duties and powers;
- auditor reporting; and
- dealing with technical queries.
The NAO provides additional ad hoc guidance to auditors as required, for example on emerging regime-wide issues. Audit firms are required to comply with all additional guidance.

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the Code of Audit Practice published by the NAO on behalf of the C&AG.


The auditor’s work should be underpinned by consideration of what arrangements the audited body is expected to have in place. This should be based on the relevant governance code or framework for the type of local public body being audited, together with any other relevant guidance or requirements.

Local Audit firms are required to have regard to guidance issued by the NAO on behalf of the Controller & Auditor General - ‘have regard to’ means that the auditor is expected to comply with the guidance issued by the NAO or provide a reasonable explanation within audit documentation as to why it has not complied.

Value for Money Audits
The audit of a public sector organisation is wider in scope than that of a private sector body. Special accountabilities attach to the use of public money and the conduct of public business. In addition, the Code deals with the responsibilities of audit firms in relation to Value For Money.

The NAO’s Auditor Guidance Note 3 (AGN3) deals with VFM audits.

The statutory requirements for 2014/2015 financial statements, and previous accounting periods, are:

- The National Health Service Act 2006 for NHS Foundation Trusts; and
- The Audit Commission Act 1998 for all other local public bodies.

Both statutes requires the firm to examine the accounts and satisfy itself that ‘the body whose .. has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’

Transitional Arrangements: the relevant codes for 2014/15 financial statements are:

- The Audit Commission’s Codes of Audit Practice set and The Audit Commission guidance on VFM arrangements (found on the archived version of the Audit Commission’s website (http://webarchive.nationalarchives.gov.uk/20141217004412/http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/value-for-money-conclusion/ );and
- Monitor’s Audit Code for NHS Foundation Trusts (the FT Audit Code) which was updated in December 2014.

For VFM audits from 1 April 2015 i.e. for 2015/16 financial statements onwards, the 2014 Act and the NAO Code of Practice will apply. The NAO revised draft of AGN 3 will be issued in November 2015.

Whistle-blowing
Individuals may seek to bring to the attention of firms information which they consider is a protected disclosure under the Public Interest Disclosure Act (PIDA).

Audit firms are prescribed persons under PIDA. Auditors will need to follow their firm’s procedures for receiving and considering disclosures under PIDA. The PSAA and the Comptroller & Auditor General are also prescribed persons under PIDA and also may bring matters to the firm’s attention because they consider that the disclosure may be relevant to the duties and powers of the auditor. In such cases PSAA or the NAO will bring the relevant information to the attention of the appropriate
If auditors receive information that they consider is relevant to the Comptroller & Auditor General as a prescribed person, they should read the NAO’s guidance on such disclosures (http://www.nao.org.uk/contact-us/whistleblowing-disclosures/).

Auditor’s Additional Duties and Powers
Chapter 5 of the NAO Code of Practice sets out the auditors duties and powers.

The Audit Commission also previously published a general guide to (AGN 4) electors’ rights and the associated auditors’ responsibilities to help to respond to questions from the public about these rights. The NAO has agreed to continue to publish a general guide to these rights, Council Accounts: A Guide to Your Rights, which is available on the NAO’s website http://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/.

International Standards on Auditing and ISQC1 (International Standard on Quality Control 1)

The NAO Code of Practice requires compliance with relevant professional standards issued by the Financial Reporting Council and relevant quality control standards. This includes:

- International Standards on Quality Control (including ISQC 1); and
- International Standards of Auditing (‘the ISAs’)

The Code confirms that auditors should comply with auditing standards in force at the time of the audit.

d. Audit Compliance Reviews
Firms are required under Regulation 4.19 to conduct an annual compliance review.

<table>
<thead>
<tr>
<th>What is an Audit Compliance Review (ACR)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The annual compliance review is a form of ‘health check’ over the firm’s audit practice and engagement files to identify any areas requiring improvement and action, in order that audit quality is being maintained.</td>
</tr>
<tr>
<td>The review has two key parts. The requirements are covered under International Standard on Quality Control 1 (ISQC1). The first part, called the ‘whole firm review’ covers a review of the firm’s compliance with the audit regulations such as:</td>
</tr>
<tr>
<td>- independence and integrity;</td>
</tr>
<tr>
<td>- fit and proper status;</td>
</tr>
<tr>
<td>- competence;</td>
</tr>
<tr>
<td>- appointment and re-appointment;</td>
</tr>
<tr>
<td>- professional indemnity insurance; and</td>
</tr>
<tr>
<td>- continuing eligibility.</td>
</tr>
<tr>
<td>and under ISQC1 such as:</td>
</tr>
<tr>
<td>- leadership responsibilities;</td>
</tr>
<tr>
<td>- consultation arrangements;</td>
</tr>
<tr>
<td>- human resources; and</td>
</tr>
<tr>
<td>- complaints.</td>
</tr>
<tr>
<td>The second part deals with ‘cold’ reviews of completed Local Audit engagements to ensure that ISAs and the firm’s audit procedures are followed. This involves judgements on the number and frequency of reviews.</td>
</tr>
<tr>
<td>What is the purpose of an ACR?</td>
</tr>
<tr>
<td>The main purpose is to allow the firm to review its own policies and procedures and audit work to</td>
</tr>
</tbody>
</table>
ensure that they comply with the ISAs and ISQC1, to identify weaknesses and put actions in place to improve. The most effective ACRs are not procedural but instead consider audit quality and how the firm might improve audit quality.

The Audit Monitoring team places significant emphasis on the firm’s ACR process. If the firm can identify and resolve its own weaknesses then the firm is managing its own risks and less intervention is needed from the Committee and the firm is less likely to have conditions and restrictions imposed.

**How many engagement ‘cold’ files should be reviewed?**

This will depend on the size of the firm and the number of Key Audit Partners. Firms should include a representative sample of the Key Audit Partners and of the type of clients and risks being faced. Firms will usually ensure that at least one file is selected per Key Audit Partner but this could be more based on the type of client portfolio and risks.

Firms should consider the risks within the firm and consider whether such risks should result in an increase in file reviews (e.g. employee turnover, high risk clients, changes to ISAs and new financial reporting requirements).

**Do I need external reviews?**

ISQC1 doesn’t permit the Key Audit Partner or the engagement quality control reviewer for a particular audit to undertake a cold file review. Another Key Audit Partner or another individual in the firm who, although not a Key Audit Partner, is very experienced, should conduct the review. If there is no one internally who can conduct such reviews, then the firm should use an external reviewer at least once every 3 years in order to comply with ISQC1.

Many firms, particularly sole practitioners and smaller firms, in any case elect to use an external reviewer to ensure that they receive an independent check on their work and to ensure that the firm is keeping up to date. This is a good discipline for small firms.

If there have been particular weaknesses in the firm or there has been a change in ISA of financial reporting firms may also wish to consider focussed cold file reviews on those particular areas of the audit.

**What should happen with the reviews?**

The results of each cold file review should be discussed with the relevant Key Audit Partner and also communicated to any key staff members.

The firm should also ensure that a summary of the ACR results should be communicated to all audit personnel on a timely basis, along with any action plan, to encourage improvement and ensure that changes are made as soon as possible. Firms should monitor their progress against their action plan.

e. File retention

Audit files should be retained for 6 years (Regulation 4.20)

**FAQs**

**What does audit files mean?**

ISA 230 (audit documentation) details the content of audit working papers. Other ISAs (for example ISA 300 (planning an audit of financial statements)) detail other documentation that needs to be created during the course of an audit. All these papers must be kept for a period of six years starting with the end of the accounting period to which the papers relate.

**How can they be held?**

The audit working papers do not have to be held in paper form and can but be held electronically (on microfilm /fiche) as long as they are accessible.

Firm’s should have a formal destruction policy and retain records of what has been destroyed. The firm should ensure that if there are different retention requirements for certain areas that the maximum period
f. Access to files

Regulation 4.22 requires that if a firm engages another firm to conduct some Local Audit Work on its behalf, it needs to ensure that the other firm provides all the working papers or provides unrestricted access.

What does this mean?
Firms will sometimes ‘sub-contract’ some of their audit work to another firm. For example, the audit client might be in a remote. All the audit working papers created by subcontracted firm should be returned to the Local Audit firm for retention or, if the subcontractor keeps the papers, the subcontractor must make sure that the retention requirements are complied with and provide the right to have access to those papers at any time, and retrieve them if necessary. Any decision to destroy the papers should be made by the Local Audit firm and not the subcontractor.

There should be a subcontractor agreement in place which covers working papers as well as fit and proper, independence and confidentiality requirements.

12. COMPETENCE REQUIREMENTS

Regulation 4.21 requires that the Firm ensure that the Audit Compliance Principal, the Key Audit Partners and other Employees are performing their roles with sufficient competence and expertise.

FAQs
How should competence be maintained?
ICAS has issued guidance ‘ICAS Guidance On Local Audit Continuing Professional Development (‘CPD’)
Audit affiliates who are also Key Audit Partners should follow the guidance of ICAS as well as that of their own membership body, where it differs.

13. MAJOR LOCAL BODIES
If a firm is appointed to a Major Local Body it requires to inform ICAS within 21 days (Refer to Regulation 4.24)

Why does it need to keep ICAS informed?
The FRC’s Audit Quality Review (AQR) team is responsible for the review of audits of major local public bodies. The Committee must be kept informed in order to liaise with the FRC in relation to monitoring visits.

Similarly if a firm ceases from acting it should inform ICAS. The firm should include details of the financial year end of the first or last audit that the firm undertakes.

Are there any exclusions?
Where the AQR team undertakes a full scope inspection which includes ‘firm-wide procedures’, the Committee will give the firm a waiver from compliance with this regulation and the firm does not need to notify when a new ‘major audit’ is acquired (or an existing audit client becomes a major audit client). However, such firms still need to notify the FRC (not the Committee) when they cease to act for such a client as this is a legal requirement.
14. HELP & SUPPORT

We are here to help you.

ICAS issues any updates in relation to Local Audit via the quarterly edition of Audit News. Please search on ‘Local Audit’ to access our dedicated Local Audit area of the website.

Useful Contact details

<table>
<thead>
<tr>
<th>Regulatory Authorisations</th>
<th>0131 347 0282</th>
<th><a href="mailto:regulatoryauthorisations@icas.com">regulatoryauthorisations@icas.com</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>For:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Applications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Committee updates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- PII queries</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Audit Monitoring</th>
<th>0131 347 284</th>
<th><a href="mailto:auditandpracticemonitoring@icas.com">auditandpracticemonitoring@icas.com</a></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Technical</th>
<th><a href="mailto:accountingandauditing@icas.com">accountingandauditing@icas.com</a></th>
</tr>
</thead>
</table>

| Ethical – audit related ethics queries | accountingandauditing@icas.com |
Appendix 1

MODEL ARTICLE FOR THE PURPOSE OF THE AUDIT REGULATIONS & LOCAL AUDIT REGULATIONS - PRIVATE COMPANY

The Audit Regulations & Local Audit Regulations require a registered auditor to be controlled in a certain way (see chapter 2 of the Audit Regulations). If the registered auditor is a company it is possible that persons other than the named shareholder may have interests in the company’s shares which could mean that the company is no longer controlled in accordance with the Audit Regulations. Therefore the directors need the appropriate powers to call for information about interests in shares and disenfranchise shares if necessary so that the registered auditor would continue to be controlled in accordance with the Audit Regulations.

The following model article has been drafted to assist firms to achieve the above objectives.

X Disclosure of Interest in Shares

1. (1) A member shall make notification to the Company in writing of any interest held by any other person in some or all of the Company’s shares that the member holds, or of any change in any interest held, including cessation of any interest.
   (2) A person who acquires any interest in the shares of the Company shall make notification to the Company in writing of that interest and of any subsequent change in that interest, including cessation of an interest.
   (3) Notification under paragraphs (a) or (b) must be made within the period of 2 days next following the day on which the obligation to notify arises.
   (4) The notification must identify the member who holds the shares, the number of shares held by that member, the number of shares in which the interest is held, the identity of the person holding the interest and the nature of the interest.
   (5) where the notification is of the cessation of an interest in the shares, the notification shall state the identity of any new holder of an interest in those shares.

2. The Company may by notice in writing require a member or any other person appearing to it hold or to have held an interest in the shares of the Company, within such reasonable time as may be specified in the notice, to:
   (1) provide details of any interest held currently and/or held within the previous three years;
   (2) provide, where a person has previously held an interest in the Company’s shares, particulars of the identity of any person who subsequently held that interest.

3. Where:
   (1) notice is served by the Company under Article X(2) on a member or any other person appearing to it to be interested in shares held by a member and that member (or other person) fails to give the Company any information requested by the notice within the time specified in it; and/or
   (2) an application for audit registration is refused or audit registration is proposed to be, or has been, withdrawn by the Recognised Supervisory Body and the Company is notified that the grounds upon which such decision was made consisted of or included any matters relating to any person who holds shares in the Company or who has an interest in shares,

then the Directors may, by resolution, direct that the holder of the shares in question shall not be entitled in respect of any shares held by him to vote either personally or by proxy at a General Meeting of the Company or at a meeting of the holders of any class of shares of the Company or to exercise any other right conferred by membership in relation to General Meetings of the Company or meetings of the holders of any class of shares of the Company.

4. The Directors may, by resolution, revoke a direction:
   (1) made under Article X(3)(a) if they are satisfied that the relevant facts about the shares in question have been disclosed to the Company;
(2) made under Article X(3)(b) if the decision therein referred to has been rescinded, revoked or has otherwise ceased to have effect;

(3) made under either Article X(3)(a) or (b) if they are satisfied that the shares in question are to be transferred for valuable consideration and the Directors have approved the transfer.

Please note that the following does not form part of the model article

1. The Audit Regulations & Local Audit Regulations requires the directors, under the Articles of Association of the firm, to approve any transfer of shares which results in a shareholder having an interest in more than 3% of the practice’s nominal issued share capital. To achieve this would normally require the inclusion in the firm’s Articles of Association of an article empowering the directors, in their absolute discretion, to decline to register any share transfers. This would necessitate an amendment to any standard Articles where these have been adopted. You should check that your Articles meet this requirement.
Appendix 2:
Example of Fit and proper form for a Local Audit Firm

Set out below are the questions that a firm should ask itself to assess its own fit and proper status. Similar questions are on the application form when a firm first applies for registration. A sole practitioner should answer these questions in a personal capacity as well as for the firm. The answers will be ‘yes’ or ‘no’, but a ‘yes’ will need further explanation.

### Financial integrity and reliability

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>In the last ten years has the firm made any compromise or arrangement with its creditors, or otherwise failed to satisfy creditors in full?</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>In the last ten years has the firm been the subject of any insolvency proceedings?</td>
</tr>
</tbody>
</table>

### Civil liabilities

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3</strong></td>
<td>In the last five years has the firm been the subject of any civil action relating to its professional or business activities which resulted in a judgement or finding against it by a court, or a settlement (other than a settlement consisting only of the dismissal by consent of a claim against it and the payment of its costs) being agreed?</td>
</tr>
</tbody>
</table>

### Good reputation and character

**Note:** There is no need to mention offences which are spent for the purposes of the Rehabilitation of Offenders Act 1974 or similar legislation in Ireland, or (in the case of a firm which is a sole practice) offences committed by any individual before the age of 17 (unless committed within the last ten years) or road traffic offences that did not lead to a prison sentence.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4</strong></td>
<td>In the last ten years has the firm been:</td>
</tr>
<tr>
<td></td>
<td>• convicted by a court of any criminal offence?</td>
</tr>
<tr>
<td></td>
<td>• refused or restricted in the right to carry on any trade, business or profession for which a specific licence, registration or other authority is required?</td>
</tr>
<tr>
<td></td>
<td>• refused entry to any professional body or trade association, or decided not to continue with an application?</td>
</tr>
<tr>
<td></td>
<td>• reprimanded, warned about future conduct, disciplined or publicly criticised by any professional or regulatory body?</td>
</tr>
<tr>
<td></td>
<td>• made the subject of a court order at the instigation of any professional or regulatory body?</td>
</tr>
<tr>
<td></td>
<td>• investigated on allegations of misconduct or malpractice in connection with its professional or business activities which resulted in a formal complaint being proved but no disciplinary order being made?</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>Are you currently undergoing any investigation or disciplinary procedures as described in 4 above?</td>
</tr>
</tbody>
</table>
Appendix 3

Example of a ‘fit and proper’ form for individuals

Set out below are the questions that a firm should ask each principal, employee or other individual involved in or connected with audit work to allow the firm to assess the individual's fit and proper status. The answers will be ‘yes’ or ‘no’ but a ‘yes’ will need further explanation.

Financial integrity and reliability

1  In the last ten years have you made any compromise arrangement with your creditors or otherwise failed to satisfy creditors in full?  \[ Yes \quad No \]

2  Have you ever been declared bankrupt or been the subject of a bankruptcy court order in the United Kingdom, Ireland or elsewhere, or has a bankruptcy petition ever been served on you?  \[ Yes \quad No \]

3  Have you ever signed a trust deed for a creditor, made an assignment for the benefit of creditors, or made any arrangements for the payment of a composition to creditors?  \[ Yes \quad No \]

Civil liabilities

4  In the last five years have you been the subject of any civil action relating to your professional or business activities which has resulted in a judgement or finding against you by a court, or a settlement (other than a settlement consisting only of the dismissal by consent of a claim against it and the payment of its costs) being agreed?  \[ Yes \quad No \]

Good reputation and character

Note: There is no need to mention offences which are spent for the purposes of the Rehabilitation of Offenders Act 1974, similar legislation in Ireland, offences committed before the age of 17 (unless committed within the last ten years) or road traffic offences that did not lead to a prison sentence.

5  Have you at any time pleaded guilty to or been found guilty of any offence?  \[ Yes \quad No \]

If so, give details of the court which convicted you, the offence, the penalty imposed and date of conviction.

6  Have you ever been disqualified by a court from being a director, or from acting in the management or conduct of the affairs of any company?  \[ Yes \quad No \]

7  In the last ten years have you been:

- refused the right or been restricted in the right to carry on any trade, business or profession for which a specific licence, registration or other authority is required?  \[ Yes \quad No \]

- investigated about allegations of misconduct or malpractice in connection with your professional activities which resulted in a formal complaint being proved but no disciplinary order being made?  \[ Yes \quad No \]

- the subject of disciplinary procedures by a professional body or employer resulting in a finding against you?  \[ Yes \quad No \]

- reprimanded, excluded, disciplined or publicly criticised by any
professional body which you belong to or have belonged to?

- refused entry to or excluded from membership of any profession or vocation?  
  
- dismissed from any office (other than as auditor) or employment or requested to resign from any office, employment or firm?  
  
- reprimanded, warned about future conduct, disciplined, or publicly criticised by any regulatory body, or any officially appointed enquiry concerned with the regulation of a financial, professional or other business activity?  
  
- the subject of a court order at the instigation of any regulatory body, or any officially appointed enquiry concerned with the regulation of a financial, professional or other business activity?

8 Are you currently undergoing any investigation or disciplinary procedures as described in 7 above?