

LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

EXPLANATORY NOTES

COMMENTARY

Part 4– Eligibility and Regulation of Local Auditors

Section 18 and Schedule 5: Eligibility and regulation of local auditors

47. **Schedule 5** (which is given effect to by section 18) sets out the arrangements for the eligibility and regulation of auditors in the local audit framework. This Schedule applies Part 42 of and Schedule 10 to the Companies Act 2006, seeking largely to align the regulatory framework for local auditors with auditors of companies. Schedule 5 sets out the modifications to the Companies Act which are necessary to reflect the differences between statutory and local audit.
48. Many of the modifications to the Companies Act 2006 are to omit those provisions that are not relevant to local auditors or to change references so that the provisions of the Companies Act are appropriate for local audit. More significant modifications have been made in respect of:
 - independence, where the Act sets out specific requirements for local auditors; and
 - appropriate qualifications for local audit, where the Act provides the Secretary of State with a power both to recognise a professional qualification specifically for local audit and to enable those individuals qualified under the Audit Commission Act 1998 to continue to be appropriately qualified in the new framework.
49. Part 42 of the Companies Act 2006 sets out the arrangements for ensuring that firms and individuals undertaking local audit have the required skills, qualifications and experience to undertake that work. It also sets out specific independence requirements that auditors must comply with in order to be appointed as a local auditor.
50. Schedule 10 to the Companies Act 2006 sets out the framework governing the recognised supervisory bodies under that Act. Under the Companies Act 2006, eligibility for appointment as an auditor depends on membership of, and compliance with the rules of, a professional accountancy body which has been authorised (or “recognised”) by the Secretary of State. These bodies are referred to as “recognised supervisory bodies”, and this term is carried across to the Act in relation to local audit. In practice, the power to recognise supervisory bodies under the Companies Act 2006 is delegated to the Financial Reporting Council. Recognised supervisory bodies are required to put in place rules and practices to be followed by their members, for example, concerning ethical standards of conduct, and the experience and other criteria that individuals must meet before being permitted to carry out an audit and sign off an audit report.
51. Recognised supervisory bodies are also responsible for monitoring the quality of audits undertaken by their members. This is the case for both local and company audit.

*These notes refer to the Local Audit and Accountability Act
2014 (c.2) which received Royal Assent on 30 January 2014*

Schedule 5 provides for an additional level of oversight for the monitoring of the quality of “major local audits”, meaning local audits of relevant authorities specified or defined in regulations or in a direction. In line with the monitoring of “major audits” in the companies sector, this role is to be delegated to the Financial Reporting Council.

52. In the local audit framework, auditors will be required to hold an “appropriate qualification” to sign an audit report and this could either be a qualification recognised under Part 42 of the Companies Act 2006, or another qualification recognised under the Act. The Secretary of State may make regulations setting out the minimum requirements that those other qualifications must meet in order to be recognised for the purposes of local audit. As well as the requirement for an auditor to hold an appropriate qualification, recognised supervisory bodies are required to have rules in place to ensure that those eligible to sign an audit report on behalf of a firm have suitable experience.