



National Audit Office

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Paul Smith
Corporate Frameworks, Accountability and Governance Team
Department of Business, Innovation and Skills
1 Victoria Street
London
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Dear Paul

Department for Business, Innovation and Skills “Consultation on the technical legislative implementation of the EU Audit Directive and Regulation”

The UK National Audit Office (NAO), on behalf of the Comptroller and Auditor General, are pleased to respond to the Department for Business, Innovation and Skills (BIS) consultation above.

The NAO audits all central government bodies and a wide range of other UK and international public bodies. The NAO applies International Standards on Auditing (UK and Ireland) issued by the Financial Reporting Council (FRC) and also complies with the Auditing Practices Board Ethical Standards.

We have considered the consultation in the context of the public sector entities we audit, which are not Public Interest Entities (PIEs). We are pleased that the definition of a PIE has not been extended to include public sector bodies as we believe it would not have been appropriate to do so. However, the public does have a great deal of interest in some public sector bodies and therefore the NAO elects to apply many of the requirements for auditors of PIEs to our work. With the public sector context in view, we have compiled the following responses to sections of the consultation relevant to the work of the NAO.

We agree with the minimal implementation approach proposed by BIS, applying only the mandatory changes required by the EU reforms and other changes that would result in a benefit to the UK business environment. We recognise the importance of maintaining the integrity of the auditing profession and welcome the approach adopted that looks to ensure EU requirements are applied with the UK-specific context in mind. Commenting specifically on approaches relevant to the NAO and the audit of public sector bodies:

- **We welcome the proposal to extend the requirements to prepare transparency reports.** This will provide further confidence to audited bodies and the public in terms of how individual audit firms conduct their business. The NAO has voluntarily prepared an annual transparency report for a number of years and we find this to be a very useful way for us to share information about how we deliver quality audits, add value to our clients and comply with Ethical Standards.

- **We support the changes proposed in relation to setting out in legislation the FRC's responsibilities as a Single Competent Authority. However, we have reservations that delegating responsibilities to Recognised Supervisory Bodies may result in confusion.** In our previous response we raised concerns about having a number of bodies in a regulatory role given the potential lack of clarity in these arrangements. If legislation is passed requiring FRC to delegate regulatory tasks then there will need to be clear definition of the roles and responsibilities of each.
- **We encourage the approach requiring auditors from the European Economic Area to meet the same high technical and ethical standards we expect of UK-based auditors.** It is unlikely that the NAO would be in a position to use the services of an auditor from another Member State, however, the proposals for a required adaptation period or aptitude test are reasonable.
- **We agree with a minimum retention period being mandated.** We note that the EU Regulations stipulate a minimum of five years, but that the FRC is considering mandating 6 years. The NAO already exceeds the Regulation's proposal by retaining all audit documentation for a minimum period of 6 years.

The NAO may, in the future, undertake an audit of a PIE. We already adopt an audit approach that encompasses many of the requirements for listed entities and the EU Directive and Regulation for PIEs for all of our client base. This means that, in the event of becoming auditor of a PIE, our existing policies and procedures will ensure that many of the requirements of the EU Directive and the new legislation can be adhered to. Two areas where there may be a conflict with the new legislation relate to auditor reporting and non-audit services. We will raise separately in our response to the FRC's consultation on ethical and auditing standards but emphasise the points made in our previous response to you for consideration in drafting the new legislation:

- to ensure there are no conflicts with the existing statutory requirements of the C&AG, which enable him to publish a report alongside his audit certificate (and therefore means the C&AG already has the ability to report the additional requirements under extended auditor reporting); and
- to ensure that his powers to investigate and report into the economy, efficiency and effectiveness with which the bodies he audits have used their resources in discharging their functions (value for money assessments) are not diminished. These have a statutory basis and therefore should not be considered as 'non-audit services'.

We recognise that many aspects of the proposals do not directly impact upon the NAO's work, but hope that our observations are of use. If you would like to discuss any aspects of this letter further, please do not hesitate to contact me.

Yours sincerely

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National Audit Office