

# Terms of appointment

## NHS Trusts, CCGs and small authorities

### 1. Introduction

1.1. Under Schedule 1 of the Local Audit and Accountability Act 2014 (the Act), all contracts for audit and related services let by the Audit Commission, were transferred to Public Sector Audit Appointments Limited (PSAA). The management of, and monitoring compliance with (including public reporting of) contract requirements, became the responsibility of PSAA on 1 April 2015. The National Audit Office (the NAO) became responsible for issuing the Code from 2015.

1.2. These Terms of Appointment (the Terms) are issued under powers set out in legislation and delegated to PSAA. They apply to the audits of NHS Trusts, CCGs and small authorities in the limited assurance regime. They remain applicable for each body until the 2016/17 closure certificate has been issued.

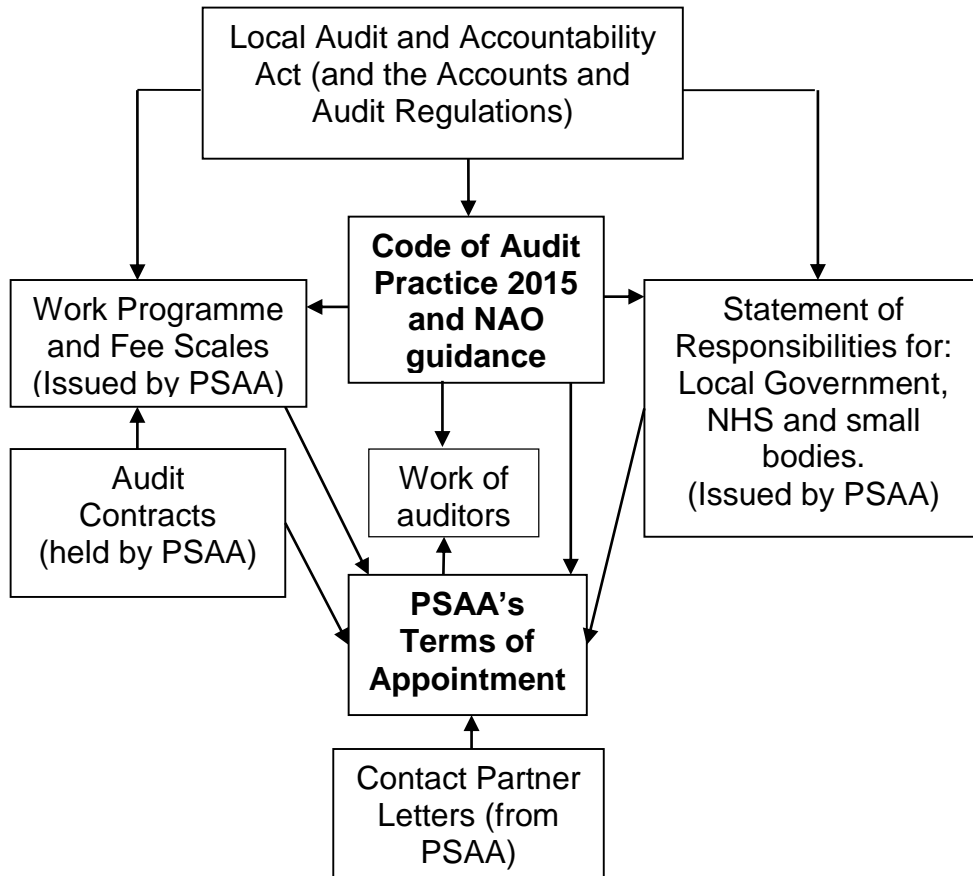
1.3. The Terms set out additional requirements that auditors must comply with, over and above those set out in the Code and in legislation, and covers matters of practice and procedure which are of a recurring nature. They are updated as changes are required following consultation with the firms and key parts are highlighted in **bold**.

1.4. Throughout the Terms, the word 'auditor' covers the firm and engagement leads nominated by a firm to discharge its statutory obligations; and 'small authorities' refers to bodies in the limited assurance regime. **Auditors must comply with the requirements set out in the Code, in statute, and in the contracts each firm has with PSAA.** These requirements are not duplicated in the Terms.

1.1. Auditors must ensure they are familiar with the Statement of Responsibilities of Auditors and of Audited Bodies as this as this statement explains where the different responsibilities of auditors and of the audited body begin and end and what is to be expected of the audited body in certain areas.

1.2. The NAO issues additional guidance to auditors. **Auditors must have regard to this guidance where applicable. Contact Partners must also have regard to any additional requirements specified in Contact Partner Letters (CPL) which are issued by PSAA from time to time.**

- 1.3. PSAA publishes annually the Work Programme and Fee Scales which prescribe the work auditors are to undertake for each year, with the associated scales of fees. .
- 1.4. The Terms apply to all work undertaken relating to the contracts (referred to as 'local audits' throughout these Terms). In the event of any conflict, the relevant legislation, the Code and the audit contracts, where applicable, prevail.
- 1.5. The Terms are applicable to auditors of small authorities except in those areas where the Terms specifically state otherwise. There are some requirements which are unique to the limited assurance regime, and these are noted at the start of each section for reference.
- 1.6. The diagram below shows how the Terms interact with legislation, the Code, the audit contracts and other guidance produced by the NAO.



## **2. General principles**

**With the exception of paragraph 2.21 and 3.3, the principles in this section apply in full to auditors of small authorities, noting that these engagements are not performed in line with auditing standards. Auditors of small authorities should pay particular attention to paragraphs 2.54 – 2.56 which set out general principles specific to the limited assurance regime.**

2.1. This section covers additional requirements relating to the general principles with which auditors should comply, including:

- scope;
- cooperation with other external auditors;
- integrity, objectivity and independence;
- rotation of key staff;
- acceptance of additional non-Code work;
- acceptance of additional audit related services;
- applications to PSAA for approval of additional non-Code work or audit related services;
- membership of audited bodies;
- other links with audited bodies;
- secondments;
- political activity;
- gifts and hospitality;
- confidentiality; and
- general principles specific to the limited assurance regime.

### **Scope**

**2.2. Auditors must notify PSAA immediately of any change in circumstances that could affect their ability to comply with the requirements of the Code or the Terms.**

2.3. The NAO issues additional guidance to auditors as and when necessary. **Auditors must have regard to extant guidance in carrying out their audit work, as well as to the Memorandum of Understanding between PSAA and the NAO set out in Appendix 1.**

### Co-operation with other external auditors

2.4. Auditors should cooperate with other external auditors as set out in the Code and have regard to any relevant NAO guidance.

2.5. For local authority audits, guidance on liaison between auditors of admitted bodies and auditors of pension fund administering authorities is set below.

Responsibility under Terms	Comments
The principal auditor (admitted body auditor) should define a programme of work that they wish the other auditor (administering authority auditor) to undertake.	This should be considered at the planning stage.
The audited body to which the principal auditor is appointed (the admitted body) should agree to be responsible for the fees arising from any additional work the other auditor has to perform over and above that they would otherwise have to carry out.	Where an authority seeks to recover costs arising from work undertaken at the request of another auditor in the regime, invoices should only be issued to those bodies to which the auditor is appointed.  For example, where an auditor of an administering authority is requested to undertake a programme of work defined by the auditor of an admitted body, the auditor of the administering authority should invoice the administering authority for the costs incurred. It is then for the administering authority to decide whether it wishes to pass on these charges to the admitted body.
The audited body to which the other auditor is appointed (the administering authority) should consent to the disclosure of information relating to its affairs to the principal auditor.	

<p>The other auditor should report only on whether he has completed the programme of work and identify any issues that have arisen in the conduct of the work.</p>	<p>The nature of the work in this instance includes information gathering.</p>
<p>The other auditor's report should be addressed to the principal auditor and the former accepts no responsibility to any other party in giving his report.</p>	<p>In practice, one report may sometimes be issued, addressed to all the auditors of the admitted bodies covered by these arrangements, and disclaiming liability to any other party</p>

### **Integrity, objectivity and independence**

**2.6. The Code requires auditors to carry out their work in accordance with the ethical framework applicable to auditors, including the requirements set out in the Auditing Practices Board's Ethical Standards.** In addition, PSAA has in place specific rules over and above the requirements of the Ethical Standards to guard against particular threats to its independence and that of its appointed auditors.

**2.7. Auditors must ensure that all staff who are directly involved in local audit work are familiar with the rules set out in this section of the Terms and are not aware of any interest or relationship which is in breach of these rules or which may otherwise compromise, or reasonably be perceived to compromise, their independence. The firm should tell PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk) about independence issues where the firm has had to put in place safeguards and reported them to those charged with governance under ISA 260, or where it has identified an independence issue for which appropriate safeguards cannot be put in place.**

### **Rotation of key staff**

**2.8. It is PSAA's policy that auditors at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years.**

2.9. PSAA's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level.

2.10. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve auditors for an additional period of up to no more than two years, provided that there

are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

- 2.11. **Auditors should, before the start of the sixth year on an engagement, confirm in writing to PSAA, via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk), that there are no independence issues that would preclude an extension of the relevant appointments.**
- 2.12. Other than in exceptional circumstances, PSAA will not approve any further extensions and therefore **an auditor should act for no longer than seven years**. The individual concerned should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.
- 2.13. It is PSAA's policy that **auditors of small authorities should act for a maximum period of ten years**.
- 2.14. PSAA does not specify at which appointments an engagement quality control reviewer (EQCR) should be appointed. This is a matter for the professional judgement of the auditor in applying the criteria in professional standards.
- 2.15. **No individual should act as an EQCR at an audited body for a period longer than seven years**. An individual who has acted as an EQCR at an audited body for a period of seven years, whether continuously or in aggregate, should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.
- 2.16. It is PSAA's policy that, other than in exceptional circumstances, **the audit manager at an audited body should be changed at least once every ten years**. The individual concerned should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed. This paragraph **does not** apply to audit managers of small authorities.
- 2.17. It is important to note that it is the individual's relationship with the audited body that is the deciding factor. The start date stays the same if the audited body is reconfigured, but largely retains the same key officers or members.
- 2.18. **Where an EQCR becomes the auditor (or vice versa) at the body concerned the combined period of service in these positions shall not exceed seven years**.
- 2.19. **Where an audit manager at an audited body becomes the auditor, the individual concerned may act as auditor for up to seven years** (subject to confirmation after five years that there are no independence issues that would preclude this), provided that the combined period of service as audit manager and auditor does not

exceed ten years. This paragraph **does** apply to audit managers in the limited assurance regime.

2.20. The individual concerned should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.

2.21. **Where auditors believe rotation would have an adverse impact on audit quality, they should apply in writing** to PSAA for special arrangements to be made via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk). They should demonstrate how audit quality will be adversely affected by rotation and what additional safeguards will be applied, in accordance with paragraph 16 of APB Ethical Standard 3.

### **Acceptance of additional (non-Code) work**

2.22. It is recognised that the auditor may be well placed to carry out certain types of additional non-Code work for the audited body cost effectively.

2.23. Additional work can be undertaken, without prior approval from PSAA, if an auditor is satisfied that:

- performance of such additional work will not compromise his/her, or the firm's, independence nor be reasonably perceived by members of the public to do so; and
- the value of the work in total, in any audit year, does not exceed a de minimis amount.

2.24. PSAA has set the de minimis amount for additional non-Code work as the higher of £18,000 or 20 per cent of the scale audit fee (excluding fees for the certification of the Housing Benefit subsidy claim) payable by the audited body. **If the value of the work, individually or in total, for an audited body in any financial year would exceed the de minimis amount, the auditor should obtain approval from PSAA before agreeing to carry out the work. Where non-Code work is phased in a way that the amount does not meet the de minimis level in any one year, but would do so in aggregate over the life of the project, approval must be sought from PSAA before work is accepted.**

2.25. Where the auditor of a group proposes to undertake additional non-Code work at an affiliate whose group auditor is appointed by PSAA, **if the value of the work, individually or in total, in any financial year would exceed the de minimis amount applicable to the audited body, the auditor should obtain approval from PSAA before agreeing to carry out the work. Where non-Code work is phased in a way that the amount does not meet the de minimis**

**level in any one year, but would do so in aggregate over the life of the project, approval must be sought from PSAA before work is accepted.**

2.26. The de minimis amount for audits in the limited assurance regime is set at the higher of £250 or 20 per cent of the total audit fee. **If the value of the work, individually or in total, for an audited body in any financial year would exceed the de minimis amount, the auditor should obtain approval from PSAA before agreeing to carry out the work.**

### **Audit related services**

2.27. It is recognised that the auditor may be well placed to carry out certain types of audit related services for the audited body.

2.28. Audit related services are those non-audit services specified in the Ethical Standards as services that are largely carried out by members of the engagement team where the work involved is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

2.29. Audit related services are defined in the Ethical Standards as:

- reporting required by law or regulation to be provided by the auditor;
- reviews of interim financial information;
- reporting on regulatory returns;
- reporting to a regulator on client assets;
- reporting on government grants;
- reporting on internal financial controls when required by law or regulation;
- extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

2.30. Additional audit related services can be undertaken, without prior approval from PSAA, if an auditor is satisfied that:

- performance of such work will not compromise his/her, or the firm's, independence nor be reasonably perceived by members of the public to do so; and



- the value of the work in total, in any audit year, does not exceed a de minimis amount.

2.31. PSAA has set the de minimis amount for additional audit related services as the higher of £18,000 or 20 per cent of the scale audit fee (excluding fees for the certification of the Housing Benefit subsidy claim) payable by the audited body. **If the value of the work, individually or in total, for an audited body in any financial year would exceed the de minimis amount, the auditor should obtain approval from PSAA before agreeing to carry out the work. Where an audit related service is phased in a way that the amount does not meet the de minimis level in any one year, but would do so in aggregate over the life of the work, approval must be sought from PSAA before work is accepted.**

2.32. Where the auditor of a group proposes to undertake additional audit related services at an affiliate whose group auditor is appointed by PSAA, **if the value of the work, individually or in total, in any financial year would exceed the de minimis amount applicable to the audited body, the auditor should obtain approval from PSAA before agreeing to carry out the work. Where an audit related service is phased in a way that the amount does not meet the de minimis level in any one year, but would do so in aggregate over the life of the work, approval must be sought from PSAA before work is accepted.**

2.33. **A flowchart on considering work at affiliates is detailed in appendix 2.**

### **Applications to PSAA for approval of additional non-Code work or audit related services**

2.34. It must be emphasised that the de minimis level specified by PSAA is a threshold for reporting purposes only. Whether the value of the proposed work is below or exceeds the de minimis threshold should not affect the auditor's judgement as to whether carrying out the proposed work would, or could reasonably be perceived to, compromise the independence of the auditor or PSAA.

2.35. **Each case will be considered on its merits, however PSAA will not normally approve additional non-Code or audit related services where the total value of such work exceeds 50 per cent of the audited body's scale audit fee (excluding fees for the certification of the Housing Benefit subsidy claim) in any one financial year. This limit is also applicable to additional work carried out by the auditor of a group at an affiliate.**

2.36. **Firms are required to establish procedures to identify and address promptly any potential breaches of these requirements.**

2.37. **Applications for approval should be made in writing by the auditor at least ten working days before the start of the work, setting out:**

- the nature of the work, which must include the detailed scope of work requested by the audited body;
- the reasoning for concluding that the work would not compromise the auditor's or PSAA's independence, specifically addressing each of the six main threats to independence recognised by Ethical Standard 1: self-interest; self-review; management; advocacy; familiarity; and intimidation;
- the justification for the auditor doing the work; and
- the estimated timescale and fee.

2.38. **Applications that do not meet the requirements set out above will not be considered by PSAA.**

2.39. In considering whether to approve requests for additional work at an audited body, PSAA will consider whether:

- the work involves the design or implementation of systems or processes that an auditor might subsequently be required to review;
- the subject matter may be subject to review as part of future audit work or may be the subject of public challenge; and
- performance of the work by the auditor, as opposed to another provider, would secure better economy, efficiency or effectiveness in the use of the audited body's resources.

### **Membership of audited bodies**

2.40. **No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.**

2.41. This exclusion includes the appointment as councillor at local government bodies or as non-executive director at health bodies.

2.42. **Auditors of local education authorities, and their staff, should not serve as a governor of any school within the area under the control of the local education authority.**

**Other links with audited bodies**

2.43. **Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.**

2.44. **Certain staff changes or appointments require positive action to be taken.** These events and the action required are detailed in the table below.

Event	Action required
<p>1. Where a senior member of the audit team (Engagement Lead/manager) leaves the firm and, within two years of ceasing to hold that position, is appointed to:</p> <ul style="list-style-type: none"> <li>• the post of Chief Executive or equivalent, Director of Finance/Chief Finance (s151) Officer or Monitoring Officer in the audited body; or</li> <li>• any other post, including as elected member, in which the individual concerned will have the capacity – whether actual or perceived – to influence the nature and extent, and reporting of audit work at the body.</li> </ul>	<p>Other senior members of the audit team to be replaced by individuals who had not worked directly with the individual concerned in the last three years.</p>
<p>2. Where a firm employs an individual who is currently employed, or has been employed within the last three years, by an audited body or an organisation that has directly</p>	<p>The individuals concerned should have no direct relationship with, or involvement in, audit work relating to that body where they had previously</p>

<p>provided services to an audited body.</p>	<p>been employed for a period of at least three years.</p>
<p>3. Where the spouse, partner or other close family member of a member of the audit team is:</p> <ul style="list-style-type: none"> <li>• employed as Chief Executive or equivalent, Director of Finance/Chief Finance (s151) Officer or Monitoring Officer; or</li> <li>• appointed to any other post, including as elected member, in which that individual will have the capacity - whether actual or perceived - to influence the nature and extent, and reporting of audit work at the body.</li> </ul>	<p>The individual concerned should be rotated away from the audited body and should have no direct relationship with, or involvement in, work relating to the body concerned until a period of at least three years has elapsed since the spouse, partner or other close family member of the individual concerned has ceased to be employed by the audited body.</p>
<p>4. Where a senior member of a firm's staff, who is, or has within the last two years been, directly involved in the management, supervision or delivery of local audit work, is appointed to:</p> <ul style="list-style-type: none"> <li>• the post of Chief Executive or equivalent, Director of Finance/Chief Finance (s151) Officer or Monitoring Officer at a body where the auditor is from the same firm; or</li> <li>• to any other post, including as elected member, in which the individual concerned will have the capacity - whether actual or perceived - to influence the nature and extent, and reporting of audit work at the body.</li> </ul>	<p>If the former member of staff was in the chain of auditor management command, the firm should resign as auditor.</p> <p>If the former member of staff was not in the chain of command, the Contact Partner or equivalent, must satisfy him/herself that appropriate arrangements are being put in place locally to mitigate any actual or perceived threats to the independence of the auditor and/or firm.</p>

2.45. Firms may enter into other business relationships with audited bodies or members of those bodies, or with third parties providing services to those bodies. In such circumstances firms of appointed auditors are expected to comply with the requirements of PSAA's protocols on:

- provision of personal financial or tax advice to certain senior individuals at audited bodies (Appendix 3);
- independence considerations in relation to procurement of services at audited bodies (Appendix 4); and
- area wide internal audit work (Appendix 5).

2.46. **Firms should not accept engagements which involve, or could be perceived to involve, commenting on the opinions or performance of other PSAA appointed auditors involved in local audit work.**

### **Secondments**

2.47. The rules applying to secondments of staff to and from audited bodies and other organisations providing services to audited bodies and members of staff returning from secondment to audited bodies and other organisations providing services to audited bodies are the same as for staff being employed by and joining from audited bodies, as described in paragraph 2.44 above.

### **Political activity**

2.48. **Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of local audit related work, and senior members of their audit teams should not take part in political activity**, such as canvassing or standing for office or acting as a spokesperson, on behalf of a political party or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general or to a particular local government or NHS body.

### **Gifts and hospitality**

2.49. **Auditors and their staff should not accept any gift or hospitality offered, if it may compromise or reasonably be perceived to compromise their independence and objectivity.** Examples of acceptable gifts are low value items (less than £20), such as pens, diaries, coffee mugs or other small items that have been offered as a token of appreciation. Examples of acceptable hospitality are:

- working meals provided to allow parties to discuss or to continue to discuss business;

- an invitation to attend a dinner or function of a non-commercial body (Society, Institute, or similar) where the member of staff represents the firm;
- hospitality through attendance at a relevant conference or course, where it is clear the hospitality is corporate rather than personal; and
- a modest degree of hospitality relating to celebratory functions (such as Christmas or the retirement of a senior officer).

## Confidentiality

2.50. **Firms are required to put in place arrangements to ensure all staff working on local audits are aware of and understand the confidentiality requirements set out in legislation.**

2.51. **PSAA requires that specified auditors and their staff are vetted in accordance with the checks set out in the Baseline Personnel Security Standard (BPSS).** The BPSS sets out minimum central government personnel security control requirements. It allows for access to non-protectively marked information, to information assets marked as 'Official', and to the Government Secure Intranet (GSI). BPSS requires verification of: identity; employment history; nationality/immigration status; and unspent criminal records. PSAA requires auditors and their staff involved in the audit of local policing bodies and chief officers of police, and those undertaking work on housing benefits who require access to the DWP's Customer Information System (CIS), information held on CIS, or information obtained from CIS, to be vetted in accordance with the security checks set out in BPSS. Local authority benefits systems routinely hold information obtained from CIS.

2.52. **Firms must ensure that arrangements are in place for the checks required by the BPSS, including verification of unspent criminal convictions, for relevant new and existing staff.** Checks of unspent criminal convictions involve obtaining a 'Basic Disclosure' certificate, on provision of address details for the past five years and evidence of identity, from an agency such as Disclosure Scotland. Where a firm's existing employment practices do not cover the required checks on identity, employment history, nationality/immigration status, and unspent criminal convictions, these requirements must be applied to audit team members in the specified groups.

2.53. **Pending these checks, audit team members should complete the required character declaration.** The declaration is to be signed by appointed auditors and members of their teams who have access to CIS, information held on CIS, or information obtained

from CIS. This is available as a temporary measure only, pending completion of BPSS checks. The Character and Confidentiality Declaration Form is included at Appendix 6.

- 2.54. **Firms must ensure that those audit staff who require direct access to the DWP's CIS system also complete the DWP's Employee Authentication Service (EAS) registration process.** Registration is completed by the EAS agent at one of the local authorities where the auditor will be undertaking housing benefits work. The process requires the auditor to produce three forms of identification from an approved list and allocation of a personal electronic security token for access to the CIS system.

#### **General principles specific to the limited assurance regime**

- 2.55. **Auditors of small authorities must comply with the Code, these Terms and have regard to the guidance issued by the NAO under the Act.**
- 2.56. **Where, for the first time, a small authority has annual income or expenditure of £6.5 million or above, auditors must identify why the threshold has been met.** If this is due to a one-off event, such as a large capital project, no further action is required. If this level of income and expenditure is expected to continue, auditors should discuss with the small authority the changes to accounting practices and in audit approach which will be required.
- 2.57. **Where a body has exceeded the £6.5 million threshold for two years and its budget forecast shows that a limited assurance audit may no longer be required in the following year or thereafter,** auditors must notify PSAA via [icauditissues@psaa.co.uk](mailto:icauditissues@psaa.co.uk) and also advise the body to inform PSAA in writing.

### **3. Auditing the financial statements and reporting the results of audit work**

3.1. This section covers audit target dates and how auditors are required to report the results of audit work. This includes:

- audit target dates;
- the audit report and regularity opinions;
- work specified by PSAA;
- reports in the public interest;
- referral to the Secretary of State and NHS England;
- reporting to PSAA;
- annual audit letter;
- auditing the accounts return; and
- reporting emerging issues.

#### **Audit target dates**

3.2. **Auditors should meet the audit target dates as advised by PSAA. Where delays are expected to occur, auditors must notify PSAA as soon as possible by recording the delay via the ‘audit issues’ survey on Outreach, including an explanation for the delay (for example, late production of draft accounts). Auditors must update PSAA when the matter has been resolved. Auditors in the limited assurance regime should notify PSAA of delays to the opinion via [lcauditissues@psaa.co.uk](mailto:lcauditissues@psaa.co.uk). This requirement covers (where applicable):**

- **the audit opinion (including the pension fund opinion where applicable);**
- **the value for money conclusion;**
- **the WGA assurance report; and**
- **the audit opinion for limited assurance audits.**



## The audit report and regularity opinions

3.3. **The audit opinion, value for money conclusion, audit certificate and any statutory reports must be signed by an auditor, as defined in paragraph 1.5 of the Terms, for and on behalf of the audit firm. This includes the auditor's assurance report on the whole of government accounts return, summarisation schedules, statements of reasons and referrals to the Secretary of State and NHS England. Auditors are required to give an opinion on the regularity of the expenditure and income for CCGs.**

3.4. **Auditors must notify PSAA, via the 'audit issues' survey on Outreach, if they intend to issue a non-standard report. All final non-standard reports should be submitted to PSAA via the 'audit issues' survey on Outreach. Information submitted on the 'audit issues' survey may be shared by PSAA with relevant stakeholder such as DCLG, the Department of Health, NHS England and the Trust Development Authority as well as the NAO in line with the Memorandum of Understanding between PSAA and the NAO. This requirement does not apply to auditors of small authorities. However, auditors of small authorities must keep records of all qualified audit opinions including the reason for the qualification and reports noting other matters for attention.**

3.5. **Auditors must notify PSAA if they intend to issue an audit report that includes, by exception, any of the items set out below:**

- non-standard comments on the Annual Governance Statement **(this requirement does not apply to auditors of small authorities);**
- any matters reported in the public interest in the course of, or at the conclusion of, the audit;
- any statutory recommendations; and
- the exercise of any other special powers of the auditor under the relevant legislation.

3.6. Copies of the draft and final reports should be submitted to PSAA via **the 'audit issues' survey on Outreach** for principal audits, or via [lcauditissues@psaa.co.uk](mailto:lcauditissues@psaa.co.uk) for small authority audits.

## Work specified by PSAA

3.7. **PSAA will issue guidance for any specific pieces of regime wide 'audit related' services. In undertaking such work auditors must follow the methodology in that guidance**, but may tailor their approach to reflect the needs of the audited body and the auditor's risk assessment. The guidance may include further requirements in

respect of staff training, liaison with the NAO, reporting to audited bodies or other matters.

### **Reports in the public interest**

**3.8. Draft reports in the public interest must be submitted to PSAA as soon as local consultation allows. Final reports must be submitted at the same time as they are issued. Final reports for local government bodies should also be emailed to [localaudit@communities.gsi.gov.uk](mailto:localaudit@communities.gsi.gov.uk). Auditors should log these documents via the 'audit issues' survey on Outreach for principal audits, or via [lcauditissues@psaa.co.uk](mailto:lcauditissues@psaa.co.uk) for audits in the limited assurance regime. PSAA will respond with any comments on the draft report from its legal advisor, within two weeks.**

### **Referral to the Secretary of State and NHS England**

**3.9. Draft referrals to the Secretary of State and NHS England must be submitted to PSAA as soon as possible following initial local consultation via the 'audit issues' survey on Outreach. PSAA will respond with any comments on the draft referral from its legal advisor, within two weeks.**

### **Reporting to PSAA**

**3.10. PSAA may require further information from time to time and auditors must comply with requests received.**

3.11. Such additional requests will be kept to a minimum, and a protocol for information requests is included in Appendix 7. A protocol for liaison between PSAA and appointed auditors is included in Appendix 8.

### **Annual audit letter**

**3.12. Auditors should submit annual audit letters to audited bodies in accordance with relevant target dates. This requirement does not apply to audits in the limited assurance regime.**

**3.13. If it is not possible to meet the target date, auditors must notify PSAA of the expected submission date via the 'audit issues' survey on Outreach. Auditors should update PSAA when the letter has been issued.**

### **Auditing the accounts return**

**3.14. An auditing the accounts data return must be completed, as required. Queries on the auditing the accounts return should be sent to [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk). This requirement does not apply to auditors of small authorities.**

## **Reporting emerging issues**

- 3.15. Firms must put in place arrangements to ensure that relevant emerging issues are reported in line with NAO guidance.**

## 4. Principles relating to the exercise of specific powers and duties of local government auditors

4.1. This section covers additional requirements relating to how auditors fulfil their functions relating to electors' questions and objections. This includes:

- challenge work;
- statements of reasons; and
- cost of challenge work.

4.2. **Auditors should have regard to NAO guidance on challenge matters** when dealing with objections, including good practice on issuing statements of reasons.

### Challenge work

4.3. **Auditors should deal with objections within nine months from the date of receipt of a notice of objection that meets statutory requirements.** Auditors should inform PSAA as soon as they have received a notice of objection made in accordance with the Act. **Updates should be provided when the nine month target date has passed and at least every three months thereafter.** The initial notification, updates and the outcome should be emailed to PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk), or [lcauditissues@psaa.co.uk](mailto:lcauditissues@psaa.co.uk) for auditors in the limited assurance regime

4.4. All firms are required to have systems and processes in place to provide support to auditors dealing with objections.

### Cost of challenge work

4.5. Fees for the auditor's consideration of objections, from the point at which they accept an objection that meets statutory requirements, will be charged in addition to any previously agreed variation to the scale fee. Auditors should notify audited bodies of related fees as soon as practicable. A contribution is due to PSAA from this additional fee, apart from on legal disbursement. This may be waived in exceptional circumstances.

### Statements of reasons

4.6. **Auditors must issue a statement of reasons to a person aggrieved by the auditor's decision upon request (in accordance with legislation) in line with NAO guidance. Auditors should submit a copy of the draft statement of reasons to PSAA.**

- 4.7. Auditors must notify PSAA before issuing an advisory notice (in accordance with the Act) and submit a draft copy.**
- 4.8. Before either of the above documents is issued, a copy of the draft should be submitted to PSAA via the 'audit issues' survey on Outreach for principal audits, or via [lcauditissues@psaa.co.uk](mailto:lcauditissues@psaa.co.uk) for small authority audits. PSAA will respond with any comments from its legal advisor, within two weeks.**

## 5. Certification of the Housing Benefit subsidy claim

5.1. This section covers the requirements relating to how auditors certify claims from local authorities to the Department for Work and Pensions for housing benefit subsidy.

### Certification of the Housing Benefit subsidy claim

5.2. PSAA makes arrangements for the certification of the Housing Benefit subsidy claim. In certifying this claim, auditors act as agents of PSAA and are therefore **required to comply with the specified approach and arrangements made by PSAA.**

5.3. Auditors certify the Housing Benefit subsidy claim in accordance with the requirements set out in the certification instruction and detailed guidance issued by PSAA to auditors. This certification instruction sets out the certification requirements of the Department for Work and Pensions in relation to the housing benefit subsidy claim.

5.4. Auditors may be presented with claims or returns other than the Housing Benefit subsidy claim and be asked to act as a reporting accountant. In deciding whether or not to undertake work as a reporting accountant the normal requirements about accepting non-audit work apply. When acting as a reporting accountant, the reporting accountant determines the procedures to apply and PSAA's certification work approach and fee arrangements do not apply.

5.5. Charges for certification work on the Housing Benefit subsidy claim at a principal authority should be in line with the published indicative fee for certification work for each body for the relevant year. PSAA will monitor certification fees through auditors' work-in-progress (WIP) returns and will determine the final fee after auditors have completed the certification work programme for the year.

5.6. PSAA has the power to determine the fee for certification work above or below the indicative fee where it considers that substantially more or less work was required than envisaged by the indicative fee. PSAA may therefore charge a fee which is larger or smaller than the indicative fee to reflect the actual work that auditors need to do to meet the certification requirements. PSAA will do this on the basis of the volume of work it believes to be required based on the certification instruction requirements or the complexity of the certification requirements at a particular body.

5.7. It is a matter for the auditor to calculate the work necessary to complete certification and, subject to approval by PSAA, where necessary to seek to agree a variation to the indicative fee with the audited body. PSAA will normally expect to approve a proposed

variation to the indicative fee only where this is agreed by the auditor and the audited body.

5.8. The indicative fee already reflects the auditor's assessment of risk and complexity. Therefore, we expect variations from the indicative fee to occur only where these factors are significantly different from those identified and reflected in the previous year's fees.

## 6. Any other matters

6.1. This section covers any other requirements that are relevant to auditors, including:

- audit fee information;
- work in progress and fee information;
- indemnities;
- appointment of engagement leads;
- consultation on appointment of auditors;
- cooperation with other auditors;
- delegation of functions;
- complaints;
- responding to letters from MPs;
- regulatory compliance and quality review process;
- responding to information requests; and
- public interest whistleblowing.

### Audit fee information

6.2. **For principal bodies, auditors are required to issue a planning letter to all audited bodies for the audit of accounts for the year ending the following 31 March.** The letter must detail the published scale fee and indicate any proposed variations to this and the indicative certification fee, and outline the proposed work programme including any planned pieces of risk-based value for money work. The letter should be issued to the audited body, and submitted to PSAA in line with the timetable notified by PSAA. The planning letter should be submitted to PSAA via [feeletter@psaa.co.uk](mailto:feeletter@psaa.co.uk).

6.3. **Auditors must formally report the fee to audited bodies at two stages during the audit cycle:**

- the point at which the initial audit plan is presented to those charged with governance; and
- on completion of the audit.



**6.4. At both of these stages, the reported fee must be broken down into three headings:**

- Code audit work;
- certification of the housing benefit subsidy claim; and
- any non-audit work or audit related services (or a statement to confirm that no non-audit work or audit related service has been undertaken for the body).

**6.5. Both communications should give comparative fee information.**

At the planning stage, the auditor should compare the proposed fee with the prior year actual fee and the published scale fee. At the completion stage, the auditor should compare the proposed final fee with the fee proposed at the planning stage and the original scale fee. Auditors must provide an explanation for all variances.

**6.6. When reporting the proposed fee for the audit, auditors must make clear to those charged with governance:**

- what the specific factors are which the auditor has taken into account in proposing the fee (particularly the risk assessment);
- the assumptions upon which the fee is based in terms of, for example, the standard of the body's control environment, coverage of internal audit, quality of working papers;
- what is included in the fee and what is not included; and
- the processes for agreeing fee variations with PSAA if circumstances change or the assumptions upon which the fee is based are not met.

6.7. PSAA has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. PSAA may therefore charge a fee which is larger or smaller than the scale fee to reflect the work that auditors need to do to meet their statutory responsibilities. PSAA will do this on the basis of the auditor's assessment of risk and the scale and complexity of the audit at a particular body.

6.8. It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by PSAA, to seek to agree a variation to the scale fee with the audited body. PSAA will normally expect to approve a proposed variation to the scale fee where this is agreed by the auditor and the audited body. The scale fee already reflects the auditor's assessment of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and

reflected in the previous year's fee. A flowchart detailing the fee variation process is included at Appendix 9.

## **Work in progress and fee information**

**6.9. For principal bodies, firms must complete work in progress (WIP) returns.** For small authorities, each firm must complete a bi-annual WIP return in April and October each year.

6.10. PSAA will use the published scale fees and indicative certification fees to calculate the amount payable to PSAA or payable to the firm in accordance with the remuneration rates within each firm's contract(s). The amounts to be paid to or by PSAA will be made in four equal instalments, updated for the final position per the March WIP return for NHS and local government. The remuneration is based on all work carried out under the Code and for certification work. The WIP information will also be used to consider the reasonableness of the explanations for any variances to the prescribed scale fee.

6.11. The estimated contribution projected to the end of March in the fourth quarter is expected to vary by no more than 1 per cent from the figure provided in the WIP return at the end of the second quarter. Explanations are required for all variances to this performance target.

6.12. Fee variation templates will be required to be submitted with the WIP returns for any proposed variations to scale fees or indicative certification fees. Where a limited assurance auditor proposes to vary the fee over £5,000, a limited assurance fee variation template must be submitted to PSAA via [lcauditissues@psaa.co.uk](mailto:lcauditissues@psaa.co.uk).

6.13. In charging for additional work (i.e. in excess of the scale fee), firms should apply hourly rates not exceeding the maxima specified by PSAA for grades of staff.

6.14. A South East England premium applies to all audited bodies in the counties of Berkshire, Cambridgeshire, Kent, Surrey, East Sussex, West Sussex, Hampshire & the Isle of Wight, Oxfordshire, Buckinghamshire, Bedfordshire, Hertfordshire and Essex.

6.15. PSAA will review the explanations for the proposed fee variations and inform the firm whether or not they are acceptable. Only proposed fee variations for which PSAA has accepted the explanation can be invoiced or refunded to the audited bodies and included in a subsequent WIP return. PSAA will review and respond to any proposed variations within 15 working days of submission of the WIP return.

6.16. Other WIP returns are used for determining the final fee on completion of the audit and for financial management purposes. Performance against expectations on both fees and delivery of work is

reported through the contract monitoring process. Delivery of work includes all VFM work agreed with audited bodies.

- 6.17. Firms should submit details of indicative fees and other information relating to the Housing Benefit subsidy claim certification work as well as any proposed variations to the indicative fee.
- 6.18. It may occasionally be necessary for PSAA or its external auditor to visit firms' offices to examine billing records. Auditors should ensure adequate accounting records are maintained and that they comply with any requests from PSAA or its external auditor.

### **Indemnities**

- 6.19. PSAA will indemnify auditors against charges, losses, expenses and liabilities properly incurred and not otherwise recoverable, arising out of the exercise by the auditor of certain of their statutory functions as detailed in Appendix 10.
- 6.20. **Auditors must notify PSAA promptly via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk) as soon as they are aware of any circumstances which are reasonably likely to give rise to a claim as this is a condition of the cover.**

### **Appointment of auditors**

- 6.21. **Firms must ensure auditors appointed to local audits have appropriate technical skills and experience, and must put in place appropriate support arrangements to deliver audits to an acceptable standard.**
- 6.22. **Where a firm proposes a new auditor, they must be approved by PSAA. Requests for approval should set out the new auditor's relevant experience and the quality control and mentoring arrangements that the firm proposes to put in place to support the new auditor.** The request should be sent to [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk) at least 10 working days before the firm consults with any audited body about the proposed auditor.

### **Consultation on appointment of auditors**

- 6.23. Firms are not required to consult on individual partner or director appointments as auditors but are encouraged to do so at principal bodies. **Firms should notify details of proposed partners and directors for new auditor appointments to PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk).** Appendix 11 details the consultation process.

## Cooperation with other auditors

- 6.24. **Outgoing auditors should cooperate with incoming auditors.** Guidance on the handover process is included as Appendix 12.
- 6.25. **Should a difference of opinion arise between the outgoing and incoming auditor, and this is likely to result in a qualification of the auditor's opinion or the issuing of a public interest report, the auditors should meet to discuss the issues arising. This matter should also be reported to PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk).**

## Delegation of functions

- 6.26. **Auditors are required to ensure an appropriate allocation of senior audit staff on local audits,** although it is acknowledged that staff mix may vary according to audit risks at each audited body.

## Complaints

- 6.27. Complaints about auditors should be dealt with, in the first instance, under the firms' complaints procedures. PSAA will only consider a complaint if it has been considered by the relevant firm, and has been through all appropriate complaint handling stages. Only if the complaint remained unresolved will it be passed to PSAA.
- 6.28. PSAA will not investigate complaints about an auditor's professional judgements. The complaints procedure is set out in Appendix 13.
- 6.29. **Firms are required to report any complaints received to PSAA on a quarterly basis.** PSAA will actively monitor the progress of firms' in resolving complaints and will note any upheld complaints against auditors in the quarterly monitoring reports.

## Responding to letters from MPs

- 6.30. Where a letter is received from an MP relating to an auditor's statutory functions, the auditor should reply directly to the MP and copy the response to PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk). PSAA may consider, under the Memorandum of Understanding with the NAO, whether responses should be copied to the NAO.
- 6.31. **If a letter is received from an MP about any other audit issue, the letter must be forwarded to PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk) who will arrange for a response to be drafted on behalf of PSAA.**

## Regulatory Compliance and Quality Review Process

- 6.32. PSAA defines audit quality as compliance with both professional standards and our regulatory requirements. Compliance with any of the requirements set out in this document and supporting appendices may be reviewed and reported in our annual Regulatory Compliance and Quality Review reports
- 6.33. As part of our Regulatory Compliance and Quality Review programme PSAA:
- commissions inspections from the FRC's Audit Quality Review (AQR) team;
  - assesses the systems put in place by firms to ensure compliance with the terms of the contract; and
  - relies upon the results of the firms' internal quality monitoring reviews.
- 6.34. **Auditors must cooperate with PSAA annual Regulatory Compliance and Quality Review programme.** The programme is the principal means by which PSAA obtains assurance on the quality of the work of the firms. It also allows PSAA to provide assurance to stakeholders about the quality of work delivered by its regime.

## Responding to information requests

- 6.35. Auditors are not subject to the Freedom of Information Act 2000 (FoIA) in relation to information held for audit purposes but are subject to the Environmental Information Regulations 2004 (EIR) in relation to this information. The EIR are widely cast and apply to any information that has some connection with environmental matters, for example development agreements, waste contracts, administrative measures (plans, programmes and policies) related to environmental matters, and cost-benefit analyses and assumptions used within them. Any emails, reports, briefings, contracts, legal advice, notes of telephone conversations, meeting minutes or other documents containing or relating to environmental matters could be covered by the EIR.
- 6.36. Information covered by the EIR must be disclosed unless an exception applies. The EIR overrides all other statutory restrictions on disclosure. If the information is not environmental information, then confidentiality restrictions in legislation impose restrictions on its disclosure.
- 6.37. If disclosure is not permitted by legislation and where it would be likely to cause prejudice to audit functions, it is a criminal offence to

disclose the information. Auditors should seek legal advice if they are unsure whether it is appropriate to disclose or withhold information in response to an information request.

### **Public interest whistleblowing**

- 6.38. Where PSAA receives a whistleblowing disclosure concerning an audited body, it may refer the matter to the auditor for further consideration. If so, it is a matter for the auditor to determine what further investigation or other steps, if any, are needed in the light of the auditor's own powers.

## Contacts

Contact	Email address
Audit regulation mailbox	<a href="mailto:auditregulation@psaa.co.uk">auditregulation@psaa.co.uk</a>
Audit issues mailbox for auditors of small authorities	<a href="mailto:lcauditissues@psaa.co.uk">lcauditissues@psaa.co.uk</a>
Auditor Appointments mailbox	<a href="mailto:auditorappointments@psaa.co.uk">auditorappointments@psaa.co.uk</a>
Planning letters mailbox	<a href="mailto:feeletter@psaa.co.uk">feeletter@psaa.co.uk</a>
Annual audit letters mailbox	<a href="mailto:annualauditletters@psaa.co.uk">annualauditletters@psaa.co.uk</a>

# **Appendix 1: Memorandum of understanding between PSAA and the National Audit Office**

## **Objective of this Memorandum of Understanding**

The purpose of this Memorandum of Understanding (Memorandum) is to set out the roles and responsibilities of PSAA and the National Audit Office (NAO), in relation to each other, for:

- the preparation of, and auditor adherence to, the Code of Audit Practice and any associated guidance, and guidance on emerging issues; and
- liaison between PSAA, the NAO and firms of appointed auditors (including requests for information from appointed auditors).

Although both the NAO and PSAA agree to the principles in this Memorandum, it does not affect the duties of the NAO or PSAA in any way and both organisations will continue to work within their statutory frameworks at all times. It does not place additional responsibilities on either organisation, or transfer responsibility from one to the other, or imply any sharing of statutory functions.

## **Roles and responsibilities**

### **The Audit Commission (the Commission) and PSAA**

The Audit Commission Act 1998 set out the specific statutory powers and responsibilities of the Commission and appointed auditors. The Commission's responsibilities included, among others, setting a Code of Audit Practice, appointing auditors, setting standards for its appointed auditors and prescribing scales of audit fees.

In 2012 the Commission outsourced the work of its in-house Audit Practice, which covered 70 per cent of the audit regime for principal bodies, to the private sector. In addition, the Commission awarded new contracts for 100 per cent of its limited assurance regime. Under a separate procurement completed in 2014, the other 30 per cent of the principal audit regime was re-tendered, with new auditor appointments commencing on 1 April 2015.

Under Schedule 1 of the Local Audit and Accountability Act 2014, all contracts for audit and related services were transferred to PSAA. The management of; and monitoring compliance with (including public reporting of), contract requirements, became the responsibility of PSAA on 1 April 2015. PSAA contract management responsibility will continue until the contracts expire in 2017, or later if the contracts are extended.



## **Comptroller & Auditor General and the NAO**

The NAO examines public spending on behalf of Parliament and is independent of Government. The NAO audits the accounts of all government departments and agencies as well as a wide range of other public bodies, and reports to Parliament on the economy, efficiency and effectiveness with which government bodies have used public money.

The Local Audit and Accountability Act (the Act), which repealed the Audit Commission Act, placed a duty on the Comptroller & Auditor General (C&AG) to prepare one or more Codes of Audit Practice (the Code) prescribing the way in which local auditors are to carry out their functions under the Act.

Under the Act, the C&AG will also issue guidance as to the exercise by local auditors of their functions. This guidance may explain or supplement the provisions of the Code and auditors must have regard to this guidance. The NAO Code was approved by Parliament in March 2015 and comes into effect, on 1 April 2015, for the audit of 2015-16 accounts.

## **Communication and information sharing**

The NAO and PSAA are committed to sharing relevant information in order to achieve their mutual aims. Both organisations agree to share knowledge and performance information relevant to their functions in relation to local audit when it becomes available, as noted in (but not limited to) Annex A.

There will be clear channels of communication, with the contact details, roles and responsibilities of each team circulated.

To achieve these aims, there will be regular informal liaison between PSAA and the NAO. PSAA will offer a standing invitation to the NAO for its Auditors' Group meetings. In addition, PSAA will provide the NAO with access to its extranet and audited body database. The NAO will offer a standing invitation to PSAA for its Local Auditors' Advisory Group(s) and also invite PSAA to its training events and technical updates. Joint meetings including involvement of firms of appointed auditors will be held as required.

The key meetings in relation to this Memorandum are:

<b>Meeting</b>	<b>Contacts</b>	<b>Frequency of meeting</b>
Auditors' Group(s)	Jon Hayes [PSAA] David Aldous [NAO]	Quarterly
Local Auditors' Advisory Group(s)	Jon Hayes [PSAA] David Aldous [NAO]	Monthly

The NAO will act as the channel for communication with auditors on matters relating to the Code and any associated guidance. This includes technical queries from auditors on the Code and any associated guidance, in line with the protocol issued by the NAO.

PSAA will act as the channel of communication with auditors on contractual matters. This will include compliance with the Code and any associated guidance and any complaints received.

In addition, PSAA will act as the channel of communication with auditors for any significant information requests, such as auditor surveys, which will be subject to the 'protocol for information requests' as set out in the Terms.

### **Review**

This memorandum will be kept under review and updated as necessary by agreement between PSAA and the NAO. Any changes will require agreement from both parties.

Any clarification about the application of this Memorandum will be considered by the signatories of this memorandum.

---

Jon Hayes

Chief Officer, PSAA

---

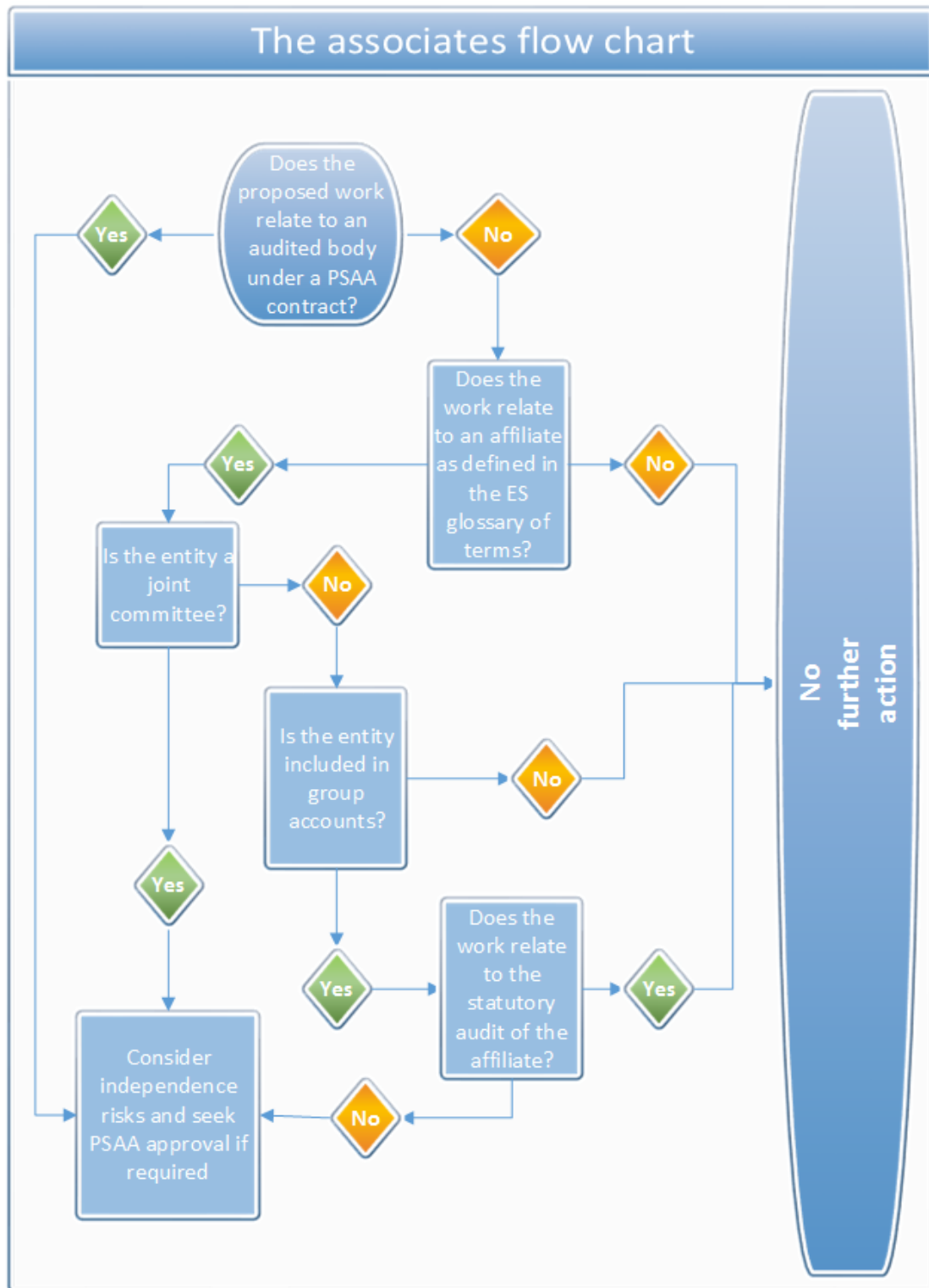
Sue Higgins

Executive Leader, NAO

**Annex A: Sharing of knowledge and performance information between PSAA and the NAO**

<b>Knowledge and Information relating to</b>		<b>From</b>	<b>NAO lead</b>	<b>PSAA lead</b>
<b>TERMS OF APPOINTMENT</b>			<b>DA</b>	<b>AS</b>
1	An auditor's inability to comply with Code requirements	NAO or PSAA		
2	An auditor's failure to comply with Code requirements	NAO or PSAA		
3	A complaint received about an auditor	NAO		
4	A delay to an audit report	PSAA		
5	A planned or actual non-standard audit report	PSAA		
6	A planned or actual report in the public interest	PSAA		
7	The results of any auditor survey	PSAA		
8	The submission of any emerging issues	PSAA		
9	Any planned or actual challenge work	PSAA		
10	Issues arising from the audit quality review programme	PSAA		
11	Other relevant statutory, technical or professional matters	NAO or PSAA		
<b>AUDITOR APPOINTMENTS AND FEES</b>			<b>DA</b>	<b>KR</b>
12	Issues with a potential impact on the work programme and scales of fees set by PSAA	NAO		
13	Queries relating to auditor appointments	NAO or PSAA		
<b>CODE AND RELATED GUIDANCE</b>			<b>DA</b>	<b>KR</b>
14	Changes to the Code or supporting guidance	NAO		
15	Issues or information relating to application of the Code or guidance	NAO or PSAA		
16	Developments relevant to the auditor's statutory responsibilities	NAO or PSAA		
<b>OTHER MATTERS</b>				
17	Issues relating to housing benefit certification (information sharing)	NAO or PSAA	<b>DA</b>	<b>PW</b>
18	Issues relating to small authorities/JPAG	NAO or PSAA	<b>DA</b>	<b>GW</b>
19	Information used in the VFM profiles	NAO or PSAA	<b>DA</b>	<b>EB</b>
20	Responses to information requests under the Freedom of Information Act 2000 or Environmental Information Regulations 2004	NAO or PSAA	<b>DA</b>	<b>KR</b>

**Appendix 2: affiliates flowchart**



### **Appendix 3: Statement on the firms providing personal financial/tax advice to senior individuals at their audited bodies**

1. Auditors are to avoid conflicts of interest in carrying out their duties.
2. If a firm provides personal financial or tax advice to a key individual at one of their audit appointments, this could give rise to a public perception that the auditor's independent judgement had been influenced by this other relationship.
3. Following consultation with auditors, PSAA's view on the provision of personal financial/tax advice by firms to senior individuals at audited bodies is as follows:
  - a. No member of the audit firm's staff who is involved in local authority or NHS audits should provide personal financial or tax advice to executive directors, senior officers, non-executive directors or members of any such bodies.
  - b. The firm should not provide personal financial or tax advice to executive directors or senior officers at a body where they are the appointed auditors. Auditors should not take on any such work after appointment by PSAA. Where such work is being carried out by a firm prior to appointment, they should take steps to relinquish the relationship immediately upon appointment.
  - c. As far as non-executive directors and members are concerned:
    - The firm should not provide personal or tax advice for a non-executive director receiving a termination payment.
    - The firm should follow the ICAEW Code of Ethics which states that where a firm becomes aware of a possible conflict of interest between the interests of two or more clients, all reasonable steps should be taken to manage it and thereby avoid any adverse consequences. The steps should include the following safeguards:
      - the use of different partners and teams of staff for different engagements;
      - standing instructions and all other steps necessary to prevent the leakage of confidential information between teams and sections within the firm;
      - regular review of the situation by a senior partner or compliance officer not personally involved with either client; and
      - advising at least one or all clients to seek additional independent advice.
    - The member or non-executive director concerned should declare an interest in terms of the relationship and the auditor report the issue to those charged with governance at the audited body.
    - If there are changes in circumstances that give rise to an increased threat to the auditor's independence, the position should be reviewed.

4. These requirements are in addition to the normal consideration of any threats to independence as required by the APB's Ethical Standards.

## **Appendix 4: Statement on auditors' independence considerations in relation to procurement of services, including PFI**

1. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired.
2. This provision quite clearly rules out providing advice to an audited body in relation to a proposed significant procurement such as a PFI deal. However, it does not cover directly situations, such as where a firm of auditors is providing financial and other advice to a consortium bidding in relation to a significant procurement at a body to which the firm is the appointed auditor.
3. PSAA recognises that in such situations, the relationship between the firm and the consortium is such that the possibility of any threat to the auditor's independence arising in relation to the firm's role as appointed auditor to the audited body is only remote and that PSAA's audit firms can be relied upon to act in such a way as to uphold their independence and objectivity. Nevertheless, it is concerned to address possible public perceptions that auditors' independence could be impaired by the existence of such a relationship.
4. This statement sets out a framework of safeguards and controls within which firms of auditors can provide financial and other advice to consortia bidding in relation to a significant procurement at bodies to which they are the appointed auditor.
5. Firms of auditors appointed by PSAA can provide financial and other advice to consortia bidding in relation to a significant procurement at bodies to which they are the appointed auditor, subject to approval from PSAA only where the following safeguards are satisfied:
  - the firm must seek approval from PSAA immediately via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk) where such situations arise;
  - the firm must demonstrate to PSAA that it:
    - has put in place adequate and effective 'ethical walls' between the engagement partner advising the consortium and PSAA's appointed auditor and, specifically, that no member of the audit team will be involved in the proposed advisory work. These arrangements may be reviewed by PSAA as part of the annual quality review process;
    - is not acting as a principal leading the bid, but rather is only a supporting member of a multi-skilled team or consortium and the firm will not obtain a participating interest in any proposed special purpose vehicle that may be created;
    - is working with a consortium, with the members of which it has a regular and ongoing relationship, or is otherwise involved in an ongoing basis with various consortia on

- work in relation to the specific aspects of the PFI deal on which it is engaged to give advice;
  - has no direct interest in the ongoing provision of services to the audited body under the proposed deal;
  - the engagement lead must demonstrate to PSAA that:
    - in accordance with the ICAEW's Code of Ethics, he/she has assessed the potential that a conflict of interest might exist and, where appropriate, has taken steps to safeguard the audited body's interest;
    - he/she has satisfied him/herself that the audited body concerned is being advised by, or is in the process of commissioning advice from, suitably qualified and knowledgeable, independent financial advisors; and
    - the accountable officer (NHS bodies) or Chief Executive (local government bodies) of the audited body and those charged with governance have been made aware of the firm's role in advising any consortium that is bidding for a particular scheme and the firm has obtained approval from the accountable officer or Chief Executive.
6. Where firms of auditors provide financial and other advice to consortia in relation to a significant procurement at bodies to which they are the appointed auditor, PSAA reserves the right to arrange a 'special' QCR visit to review any work carried out by the appointed auditor in relation to the procurement process, where this is considered necessary or desirable in the public interest.
  7. Exceptionally, where in PSAA's view there is a real risk of the auditor's objectivity being called into question, it reserves the right to appoint another auditor to carry out the auditors' functions in relation to the procurement process, or to remove the auditor altogether.
  8. These requirements are in addition to the normal consideration of any threats to independence as required by the APB's Ethical Standards.



## Appendix 5: Area-wide internal audit work

1. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired.
2. Firms must seek the approval of PSAA before they enter into partnership arrangements with providers of internal audit services at bodies where they are the appointed auditor. In such instances, firms must provide PSAA with details of the proposed arrangement and the steps they have taken to safeguard their independence via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk).
3. In considering whether to approve such a request, a firm must confirm to PSAA that;
  - its staff who work on the audited body's external audit will have no involvement with the partnership arrangement;
  - its staff will not be involved in the direct or indirect provision of any part of the internal audit programme at any body where it is the appointed auditor and where the partnership provides internal audit services;
  - all aspects of the internal audit relationship and the services to be provided will be discussed and agreed at least annually with the audit committee of the audited body to which it is the appointed auditor and to which the partnership provides internal audit services;
  - suitable steps will be taken to ensure full transparency . This includes presenting to each audit committee a clear statement setting out that it has satisfied itself that it is independent and that it believes it has suitable arrangements in place to prevent any threats to its independence as the appointed auditor; and
  - the partnership will provide annually a summary of other external auditors' views of the partnership to the Audit Committee of those bodies at which the firm is the appointed auditor.
4. In addition, the firm must also ensure that:
  - when bidding for future internal audit partnership opportunities the firm must raise the issue of independence with potential partners;
  - when an internal audit partnership bids for work at a body where the firm is the appointed auditor, the firm must ensure that the relevant Chief Executive Officer/Director of Finance of the audited body has been made aware of - and is content with - the firm's role in the partnership;
  - if the firm is appointed as the auditor to any body at which internal audit services are supplied by an internal audit provider with which the firm has a partnership arrangement, the firm must first seek the approval of PSAA, as specified in paragraph 3, before accepting the appointment. If PSAA approves the arrangements the firm must ensure that the Chief Executive

Officer/Director of Finance of the audited body has been made aware of - and is content with - the firm's role in the partnership;  
and

- The agreement with each internal audit provider with which the firm has entered into a partnership arrangement will state clearly that, where the firm is the external auditor to any of the internal audit provider's clients, its responsibilities as an appointed auditor will take precedence over any duties that may be owed to the internal audit provider.
5. These requirements are in addition to the normal consideration of any threats to independence as required by the APB's Ethical Standards.

## Appendix 6: Character and confidentiality declaration form

1. All engagement leads and members of the engagement team who are awaiting the completion of BPSS checks and who require access to information held on or taken from DWP's CIS system at local authorities are required to sign a character and confidentiality declaration statement, **as a temporary measure only**. A pro forma statement is set out below.

### CHARACTER AND CONFIDENTIALITY DECLARATION FORM

***To be signed by all*** engagement leads and members of the engagement team ***who are to have access to information held on or taken from DWP's CIS system at local authorities.***

#### Character Declaration

Before allowing access to the Department for Work and Pensions Customer Information System (CIS), we need you to answer the following question about yourself.

It is a condition of using CIS that you answer the questions on this form and do not withhold any information, except as provided under the Rehabilitation of Offenders Act 1974. Failure to do this will mean you will not be given access to CIS. Please answer the questions frankly. Answering 'yes' does not necessarily mean you will not be given access to CIS.

Question. Have you been convicted or found guilty of an offence in the United Kingdom or abroad by any court or court martial which is unspent?

Yes

No

If you answered 'Yes', please tell us the date and place of the court hearing, the nature of the offence, the sentence of the court and the name and address of your probation office, if you have one:

I confirm the information I have provided on this form is correct and complete. I understand that if I withhold any information or provide false or misleading information this may lead to appropriate legal action being taken against me.

If you are charged with an offence after you have completed this form, you must let your manager know straight away.

### **Confidentiality Declaration**

Section 36 of the Local Audit and Accountability Act 2014 makes it a criminal offence for an auditor, or person acting on behalf of an auditor, to disclose any information relating to a particular body or person and obtained pursuant to any provision of that Act, except in the specific circumstances provided in that section.

Section 123 of the Social Security Administration Act 1992 makes it a criminal offence for any person employed in the audit of expenditure to disclose any personal information held on or taken from CIS without lawful authority. All information obtained from DWP is deemed to have been received in confidence.

My attention has been drawn to the provisions of section 36 of the Local Audit and Accountability Act 2014, section 123 of the Social Security Administration Act 1992 and the Data Protection Act 1998.

I understand I may face prosecution and dismissal for any offence in respect of any unauthorised access or attempted access to CIS or any misuse of information obtained from CIS.

I understand it is a criminal offence for me to access or to process DWP personal information for any purpose other than the audit of the accounts of a local authority under section 22 of the Local Audit and Accountability Act 2014 or certification of a claim or return.

I understand that I will not be free to communicate personal information acquired in the course of my duties, whether written or oral, to anyone who is not authorised or entitled to receive such information.

I realise that upon termination of my involvement in any particular audit or certification engagement I will continue to be bound by these provisions.

I understand that if there is any reason to believe that I have breached this declaration appropriate legal action may be taken against me.

I understand that this declaration does not extend to information which is in the public domain.

Nothing in this confidentiality declaration shall be taken to prevent the proper discharge of my statutory functions.

**Signed:**

**Name:**

**Date of Declaration:**

## Appendix 7: Protocol for information requests

### Purpose

1. PSAA reserves the right to request information about audited bodies or the conduct of audits from time to time, in order to discharge its statutory and regulatory responsibilities and in line with its Memorandum of Understanding with the NAO.
2. PSAA recognises that all requests for information from its audit firms consume expensive and scarce audit resources and therefore will consider carefully the need for and timing of information requests.
3. PSAA will have regard to the overall burden of information requests, and as part of its planning process will challenge the need to request particular pieces of information.
4. Wherever possible information requests will be planned in advance, and consulted on.
5. Where PSAA has to make an ad hoc request for information or the timing of a planned request for information changes significantly, it will provide an explanation.
6. PSAA will think carefully about, and consult on, the timing of individual information requests, so as to:
  - minimise the cost and other overheads for audit firms; and
  - reflect 'peaks' in the annual audit cycle.
7. PSAA will, other than in exceptional circumstances, allow auditors a minimum period of four weeks on all specific requests for information. Wherever possible it will allow longer during 'peak' periods of work or over holiday periods.
8. PSAA will take all reasonable steps to ensure that all requests for information are directed to the appropriate contact points within each audit firm, as identified by contact partners.
9. Contact partners or their representatives should ensure that any problems they foresee in terms of the information requested or the timescale for its return are communicated to PSAA at the earliest opportunity.

Contact partners or their representatives are responsible for ensuring that:

- information is compiled with due care and diligence, and complete; and
  - information is returned by the deadline specified.
10. If auditors receive requests for information which appear unreasonable, either in terms of the timescale for responding or the volume of work required, PSAA should be informed.
  11. PSAA will monitor compliance with this protocol.

## **Appendix 8: Protocol for liaison between PSAA and firms of appointed auditors**

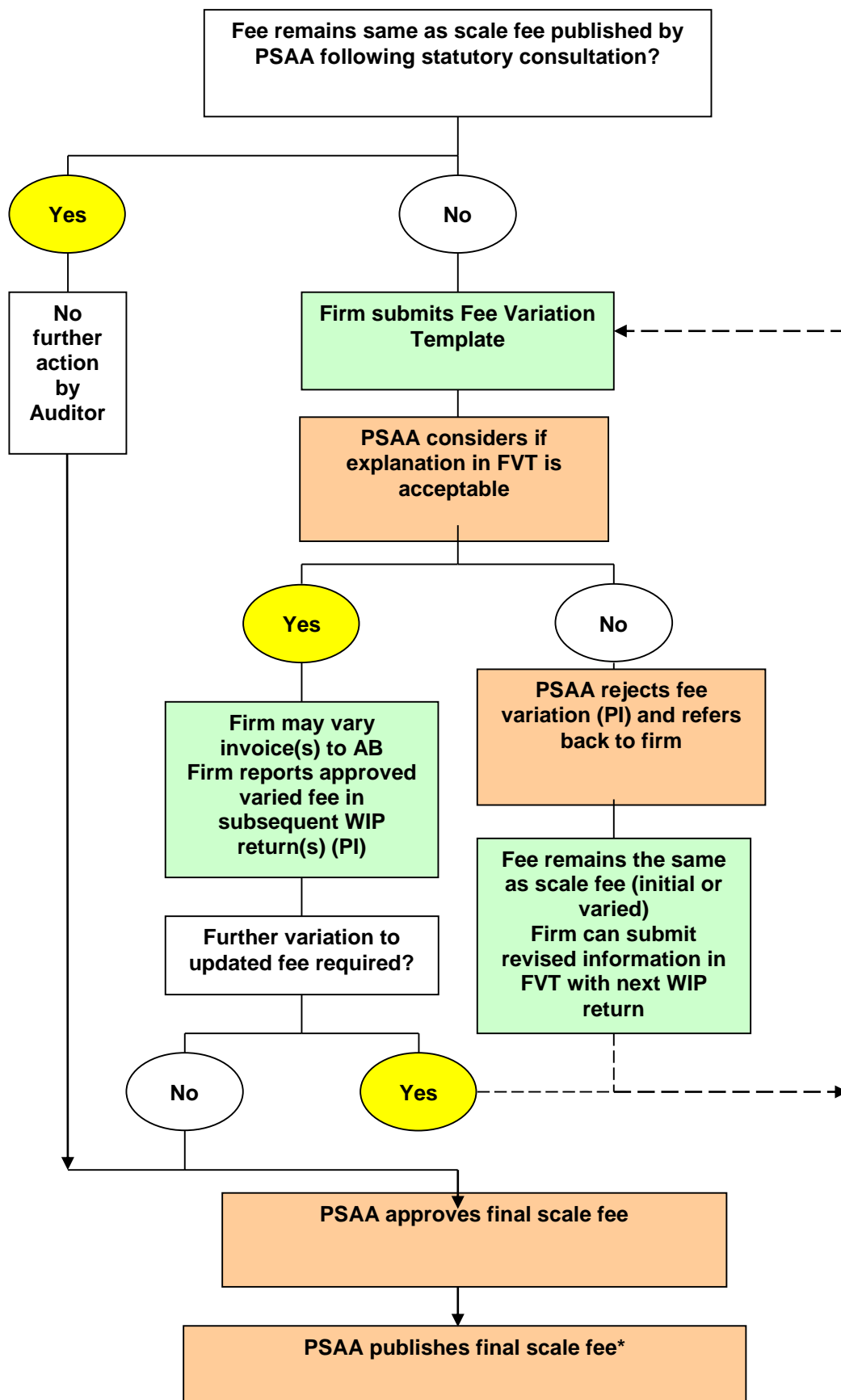
### **Scope**

1. This protocol is intended to cover all formal liaison with auditors and PSAA. It does not cover informal discussions between individuals which may be used to help PSAA staff to develop their thinking on particular issues or to determine what PSAA might consult on.

### **PSAA**

2. PSAA will consult auditors:
  - before introducing any new requirements which affect materially the specification of the audit; and
  - before setting scales of fees.
3. PSAA will, other than in exceptional circumstances, allow auditors a minimum period of four weeks on all consultations. In setting deadlines for responses, PSAA will, so far as possible, allow longer during 'peak' periods of work or over holiday periods.
4. When initiating consultation, PSAA will make clear:
  - on what issues in particular it is seeking auditors' views (and the extent to which a particular issue is open for consultation or must be regarded as a "given");
  - what level of response it is seeking;
  - who it suggests should respond;
  - when responses are required; and
  - to whom the response should be made.
5. Following each consultation, PSAA will:
  - communicate the outcomes of each consultation;
  - respond to firms who have identified an 'issue of principle' setting out how this issue of principle has been addressed, or otherwise, as a result of the consultation; and
  - for major or significant consultations, detail the main issues raised in the consultation and how these have been considered.

## Appendix 9: process for approval of proposed variations to scale fee





## **Appendix 10: Indemnity against court costs and liabilities resulting from challenge work**

1. Where the Appointed Auditor takes any such action in the discharge of their functions as is described in paragraph 2 below, PSAA will indemnify the Auditor against any charges, losses, expenses and liabilities which may be properly and reasonably incurred or suffered by the Appointed Auditor from third parties in performance of their functions in so far as the same are not recoverable or recovered from other persons or bodies under the provisions of the Act or by order of the Court.
2. The actions to which the indemnity in paragraph 1 applies are as follows (all references are to the Local Audit and Accountability Act);
  - i. the institution of any proceedings under subsection (1) of section 23 for failure to comply with the requirements of an auditor under section 22;
  - ii. any application to the court under section 28 for a declaration that an item of account is contrary to law;
  - iii. any appearance as respondent to any appeal brought under the provisions of subsection (3) of section 28;
  - iv. the issue or revocation of an advisory notice under section 29;
  - v. any application for judicial review under section 31 or any appearance as respondent to any application for judicial review made in respect of the exercise of the auditors' functions; and
  - vi. any proceedings, application, claim or appeal consequent upon any of the foregoing, upon action taken by the Appointed Auditor under section 30 or upon any other action properly taken by the Appointed Auditor in the course of their duties.
3. **Prior to taking such action as described in this paragraph, or on receipt of information about any action against them, the Appointed Auditor shall notify PSAA in writing of such action via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk)**
4. The cost of dealing with questions and objections prior to legal action is a charge on the audited body. The initial cost of issuing an advisory notice is also a charge on the audited body.

## **Appendix 11: Consultation on the appointment of auditors**

1. PSAA may appoint as an auditor:
  - an officer of PSAA;
  - an individual who is not an officer of PSAA; or
  - a firm of individuals who are not officers of PSAA.
2. Where PSAA appoints a firm of auditors, the appointed auditor is the firm itself. The nomination of the engagement lead is a matter for the firm itself to determine. This has implications for how PSAA discharges its statutory duty to consult on the appointment of auditors.
3. It follows that where PSAA has consulted on the appointment of a particular firm, its statutory obligation to consult has been satisfied (because the firm is the appointed auditor).
4. Although the statutory requirement to consult applies only to local government bodies, PSAA applies the same process to NHS audited bodies.

### **New auditor appointments at principal bodies**

5. Individual auditor appointments normally run for a period covering the audit of five years' accounts (i.e. signing five audit opinions). The time served by any auditor should not normally exceed the audit of five years' accounts (i.e. signing five audit opinions). PSAA will subsequently agree to an auditor being responsible for an audit for an additional period of up to no more than two years (i.e. signing seven audit opinions), provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's or the firm's independence or objectivity.
6. PSAA will copy all initial consultation letters to the firm's Contact Partner.
7. In practice, it may also be helpful to arrange a face to face meeting, at which the proposed auditor can introduce himself or herself and the firm's approach to the audit to the Chief Executive, Director of Finance or Audit Committee of the audited body. Where there is rotation between firms, PSAA will coordinate arrangements for the meeting. Where appropriate, it may be helpful for this meeting to be attended by the outgoing firm or auditor.
8. Audited bodies will be given a minimum of four weeks to consider and comment on the proposed appointment.
9. As in any consultation, PSAA will need to consider any comments made by audited bodies and weigh these against the range of other factors outlined in the consultation letter. Where an audited body 'objects' to a proposed appointment, PSAA will consider the objection in consultation

with the firm's Contact Partner and either confirm the proposed appointment or make alternative proposals.

10. If the audited body still objects to the proposed appointment, the matter will be referred to PSAA Board, which will make the final decision.
11. PSAA will recommend all appointments to the PSAA Board. When the Board has formally approved the proposed appointment, PSAA will write to the audited body confirming the appointment. PSAA will copy the confirmation of the appointment to the firm's Contact Partner and will update PSAA appointments database.

### **Changes to a firm's nominated engagement lead after initial appointment**

12. Where it is necessary for a firm to change a nominated engagement lead, the firm should inform the audited body and follow, but adapting as necessary, the step outlined in paragraph 7 above.
13. When the audited body has indicated that it is content with the proposed auditor, the firm must advise PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk). The auditor contact information on PSAA's website and intranet will be updated by PSAA

### **Directory of auditor appointments**

14. The PSAA Board will formally approve the appointed auditor appointments, as required, usually no later than the March meeting immediately prior to the start of the relevant audit year of appointment.
15. PSAA will publish the directory of auditor appointments on its website.

## **Appendix 12: Guidance on handover of audits**

1. This appendix is applicable to all audits completed prior to rotation of an auditor.
2. PSAA recognises that rotating the appointment of the external auditor to an audited body could present difficulties for the audited body and both the outgoing and incoming auditors if not properly managed. In order to minimise disruption to all parties, and maximise the transfer of the outgoing auditor's knowledge of the audited body, PSAA expects the following:
  - co-operation between the outgoing and incoming auditor to ensure that the incoming auditor is fully briefed on the specific audit issues facing the audited body;
  - co-operation between the outgoing and incoming auditors to determine responsibility for undertaking specific pieces of audit work in the lead up to, or period immediately following, handover and advise the audited body accordingly;
  - where appropriate, co-operation between the outgoing and incoming auditor to ensure that the incoming auditor is fully briefed on the wider issues facing the audited body; and
  - timely communication by the incoming auditor to the audited body, as soon as possible after formal appointment, of the contact details of the audit team and future audit arrangements, requirements and expectations.

### **Good practice by incoming auditors**

3. The incoming auditor should consider:
  - establishing early contact with key officers;
  - holding a pre-meeting between the audited body and the new audit team, to specify relationships, exchange information and agree the way forward;
  - producing a detailed listing of their expectations in relation to working papers, timescales and contact points in advance of the audit; and
  - conducting a workshop on the presentation of accounts and working papers to the audited body.
4. PSAA expects that the outgoing auditor should complete the certification of all the Housing Benefit subsidy claim relating to the audit of the financial statements, unless otherwise mutually agreed.

## **Co-operation between auditors**

5. The outgoing and incoming auditors are expected to have a joint meeting prior to the handover.
6. A joint meeting with the audited body during the handover period should normally be held unless it is considered to be impracticable.

## **Use and provision of information**

7. The outgoing auditor should be prepared to assist the incoming auditor with timely oral or written explanations to assist the latter's understanding of the audit and any audit working papers provided.
8. The incoming auditor's requests for access to relevant information need to be timely to minimise the cost/burden on both the outgoing auditor and the audited body.
9. The outgoing auditor should make it clear in writing that information provided is for audit purposes only and must not be disclosed to a third party (including the audited body), unless required by a legal or professional obligation.
10. The incoming auditor should not comment on the quality of the outgoing auditor's work unless required to do so by a legal or professional obligation.
11. Where considered appropriate, the incoming auditor should place reliance on work undertaken by the outgoing auditor. Judgement by the incoming auditor will need to be applied in determining what is considered to be an appropriate level of reliance. However, it is expected that the incoming auditor will ensure that sufficient documentation and information is requested from the outgoing auditor to enable him or her to place the maximum reliance on work previously undertaken.
12. Any decision not to place reliance on the outgoing auditor's work should be documented and include the incoming auditor's justification for this decision.
13. On receipt of a written request, the outgoing auditor should allow the incoming auditor to review the previous year's audit file. The outgoing auditor should also arrange for copies of the following to be passed to the incoming auditor on request:

- Specific audit outputs - for up to 6 years prior to handover

These should include:

- the audit plan;
- annual audit letters;
- any reports on Value for Money work;
- public interest reports (and details of any other instances when the outgoing auditor has exercised his/her statutory powers);
- annual ISA ( UK&I) 260 (or equivalent) report including reports on accounting systems weaknesses; and
- annual reports on accounts including opinion and certificate pages.

- Correspondence - for up to 6 years prior to handover  
Copies of correspondence with members, officers, the public and others relating to the accounts and the audit.
  - the Housing Benefit subsidy claim - for 6 years prior to handover  
Copies of the Housing Benefit subsidy claim control records for the last 6 years and copies of the Housing Benefit subsidy claim report for the last year. All uncertified returns should be handed over, except where the incoming auditor agrees that the outgoing auditor should deal with them.
14. For Small authorities' audits - including local (parish and town) councils, Internal Drainage Boards and other small authority audits, as defined in Regulation 2 (b) of the Accounts and Audit Regulations 2014, the outgoing auditor should also arrange for copies of the following to be passed to the incoming auditor on request:
- Copy of the latest audited annual return
  - Database entry for the body including latest available contact details.

## Appendix 13: Complaints procedure

1. PSAA is responsible for monitoring the performance of the firms within its audit regime, but the firms themselves remain responsible for the work and behaviour of their staff.
2. Firms are required to report any complaints to PSAA, to enable full contract monitoring.
3. Each firm already has its own complaints process and complaints about auditors should be dealt with under those processes, independently of PSAA. Therefore, as and when PSAA receives a complaint that has not already been investigated by the relevant firm, it will be passed to the relevant contact partner to deal with in the first instance.
4. The complaint should be progressed through all stages of the firm's own complaints process, until either a satisfactory resolution is found, or it is clear that the firm will be unable to resolve matters.
5. If the firm is unable to resolve matters, it should refer the complainant to PSAA.
6. Because appointed auditors are statutorily independent of PSAA, PSAA cannot:
  - interfere with an appointed auditor's exercise of his or her professional skill and judgement in performing his or her statutory functions;
  - substitute its own judgements for those of an appointed auditor in the exercise of those functions; and
  - direct an appointed auditor to act or to review his or her decisions, as only the courts have the powers to do so.
7. PSAA will therefore not consider complaints about:
  - the judgements and decisions of auditors;
  - the processes followed by auditors of local authorities who are exercising their specific powers in relation to electors' objections to items in a council's accounts, as this is a matter for the courts. This extends not just to decisions about matters of substance, but also to the process by which those decisions are made.
8. However, PSAA will consider complaints about auditors which relate to a failure in service or maladministration.
9. The definition of maladministration is very wide, and can include:
  - failure to follow proper procedures;
  - discourtesy and rudeness;
  - discrimination;

- delays;
- not informing someone of their rights and entitlements;
- not responding to phone calls, emails or letters;
- not providing answers to reasonable questions within our remit;
- not answering complaints fully and promptly;
- failure to recognise and rectify mistakes; and
- failure to comply with standards.

10. PSAA will not consider any complaint that relates to ongoing audit investigations, until the investigation has been concluded.