

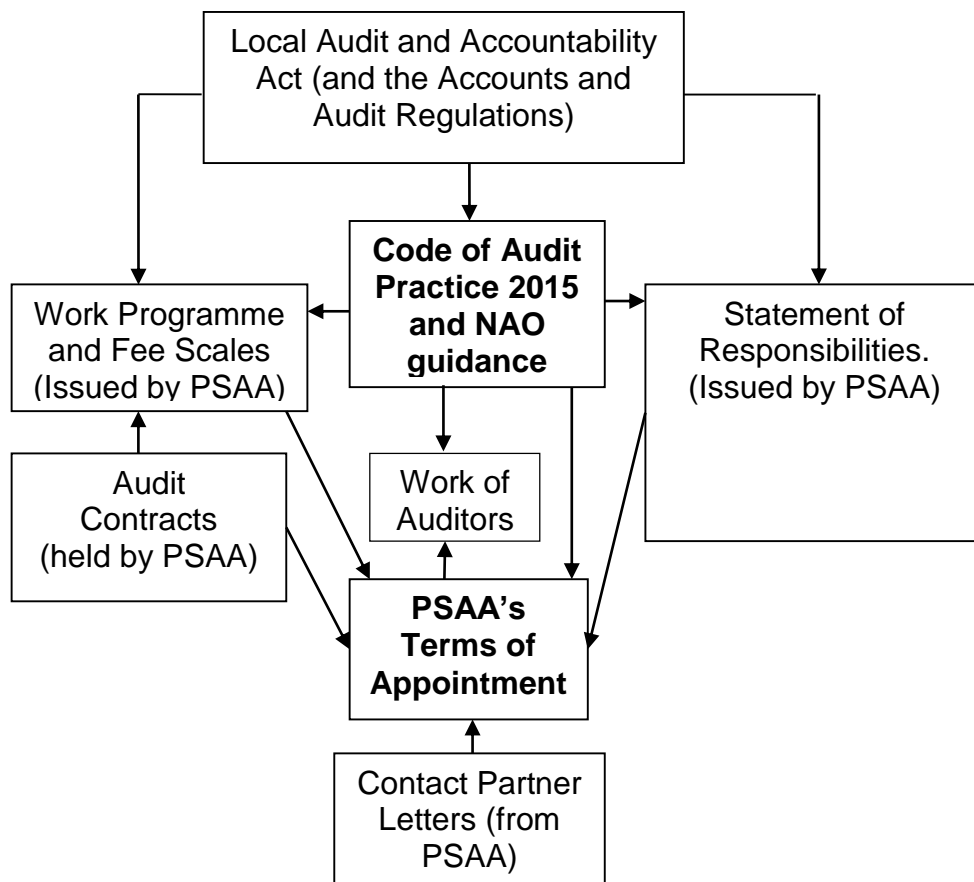
Terms of appointment

Principal Local Government and Police Bodies

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 Comptroller and Auditor General of the National Audit Office (NAO) became responsible for the preparation, publication and maintenance of the Code of Audit Practice 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 principal local government and police bodies and are effective from the date of issue 23 February 2017.
- 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. **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.
- 1.5. 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.
- 1.6. 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.**

- 1.7. 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.
- 1.8. 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.
- 1.9. 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

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 non-Code work;
- applications to PSAA for approval of non-Code work;
- membership of audited bodies;
- other links with audited bodies;
- secondments;
- political activity;
- gifts and hospitality; and
- confidentiality;

Scope

2.2. Firms 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.	<p>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.</p> <p>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.</p>
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.	
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.	The nature of the work in this instance includes information gathering.
The other auditor's report should be addressed to the principal auditor and the former accepts no	In practice, one report may sometimes be issued, addressed to all the auditors of the admitted bodies covered by these

responsibility to any other party in giving his report.	arrangements, and disclaiming liability to any other party
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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 Financial Reporting Council’s Ethical Standard and to comply with the NAO’s General Guidance to Auditors AGN01.** In addition, PSAA has in place specific rules to guard against particular threats to the integrity, objectivity and independence of its appointed firms.
- 2.7. Firms 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 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 engagement leads 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 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 integrity, objectivity or independence.
- 2.11. **Firms should, before the start of the sixth year on an engagement, confirm in writing to PSAA, via auditregulation@psaa.co.uk, why there are no independence issues that would preclude an extension of the relevant staff appointments, and indicate plans for future rotation.**

- 2.12. PSAA will not approve any further extensions and therefore **an engagement lead should act for no longer than seven years** (continuously or in aggregate). 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. 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 professional standards.
- 2.14. **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.
- 2.15. It is PSAA's policy that, **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.
- 2.16. 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.
- 2.17. **Where an EQCR becomes the Engagement Lead (or vice versa) at the body concerned the combined period of service in these positions shall not exceed seven years** whether continuously or in aggregate
- 2.18. **Where an audit manager at an audited body becomes the Engagement Lead, and/or EQCR the combined period of service in these positions shall not exceed ten years** whether continuously or in aggregate.
- 2.19. For the avoidance of doubt all time periods specified are calculated continuously or in aggregate. 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.

Acceptance of non-Code work

- 2.20. It is recognised that the auditor may be well placed to carry out certain types of non-Code work for the audited body cost effectively, typically audit related services as defined by the FRC in the Ethical Standard (referenced in AGN01). Non-Code work is work other than that required to meet the requirements of the Code.
- 2.21. Where additional work is required to meet the requirements of the Code this should be requested via the fee variation mechanism set out in section 6 of the Terms.
- 2.22. Where additional work is required for the auditor to be able to certify the Housing Benefit subsidy claim this should be requested through the fee variation mechanism set out in section 6 of the Terms.
- 2.23. Additional work can be undertaken, without prior approval from PSAA, if a firm is satisfied that:
- It is not a prohibited non-audit service under AGN01;
 - performance of such additional work will not compromise the firm's, independence nor be reasonably perceived to do so by an objective, reasonable and informed third party; 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 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 confirmation from PSAA that the work does not compromise the firm's independence 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, consent must be sought from PSAA before work is accepted.**
- 2.25. Where the auditor of a group proposes to undertake non-Code work at an affiliate (or controlled undertaking) whose group auditor is appointed by PSAA, **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 confirmation from PSAA that the work does not compromise the firm's independence 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, consent must be sought**

from PSAA before work is accepted. A flowchart on considering work at affiliates (or controlled undertaking is detailed in appendix 2.

Applications to PSAA in respect of non-Code work

- 2.26. 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 firm.
- 2.27. **Each case will be considered on its merits, however PSAA will not permit non-Code work where the total value of such work exceeds the cap specified in AGN01 (currently 70%). The percentage cap is calculated on the scale audit fee set (excluding fees for the certification of the Housing Benefit subsidy claim) for the financial year to which the non-Code work relates. This limit is also applicable to additional work carried out by the auditor of a group at an affiliate.**
- 2.28. Exceptionally if auditors consider that there are objective, proper and legitimate reasons why it would not be possible to follow the guidance on non-audit services within AGN01 they will need to obtain consent from PSAA to depart from the guidance. In addition to the information specified in 2.30 the agreement of the firm's ethics partner to the departures from the guidance will be required along with details of the safeguards that will be implemented to prevent perceived or actual threats to the firm's integrity, objectivity or independence.
- 2.29. **Firms are required to establish procedures to identify and address promptly any potential breaches of these requirements.**
- 2.30. **Applications should be made in writing by the firm 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, paying particular attention to their local audit responsibilities, that the work would not compromise the firm's independence, specifically addressing each of the six main threats to integrity, objectivity and independence recognised by the FRC Ethical Standard: self-interest; self-review; management; advocacy; familiarity; and intimidation;

- where potentially prohibited non-audit services are to be provided under the derogation arrangements set out in AGN01 Appendix 2 why these have an inconsequential effect on the financial statements, or arrangements to secure value for money.
- the justification for the auditor doing the work; and
- the estimated timescale and fee.

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

2.32. In reviewing 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.

2.33. If satisfied, that in the view of PSAA, the proposed work will not compromise the independence of the firm PSAA will notify the firm's compliance manager. The notification will specify any particular requirements of PSAA. PSAA reserves its position on any such matters and (although unlikely) may need to appoint a different auditor to undertake any review of the work carried out.

Membership of audited bodies

2.34. 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.

2.35. This exclusion includes the appointment as councillor at local government bodies. Where an individual ceases to be a councillor they should have no direct relationship with, or involvement in, audit work relating to that body for a period of at least three years.

2.36. Engagement leads at local authorities, and their local audit team should not serve as a governor of any school within the area under the control of the local authority.

2.37. A former school governor may join the local authority audit team for the financial year following that in which they ceased to be a governor.

Other links with audited bodies

2.38. **No member or employee of a firm should 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.**

2.39. **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"> • the post of Chief Executive or equivalent, Director of Finance/Chief Finance (s151) Officer or Monitoring Officer in the audited body; or • 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. 	<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 provided services to an audited body.</p>	<p>The individuals concerned should have no direct relationship with, or involvement in, audit work relating to that body where they had previously 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"> employed as Chief Executive or equivalent, Director of Finance/Chief Finance (s151) Officer or Monitoring Officer; or 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. 	<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"> 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 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. 	<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>

2.40. 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).

2.41. 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

2.42. 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 2.38 above.

Political activity

2.43. Members and employees of firms who are directly involved in the management, supervision or delivery of local audit related work 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 to a particular local government body.

Gifts and hospitality

2.44. Engagement leads and their staff should not accept any gift or hospitality offered, if it may compromise or reasonably be perceived to compromise their integrity, objectivity and independence. 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

- 2.45. **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.**
- 2.46. **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.
- 2.47. **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.
- 2.48. **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.

2.49. **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.

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 opinion;
- reporting to PSAA; and
- annual audit letter; 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, PSAA must be notified 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. This requirement covers (where applicable):

- the audit opinion (including the pension fund opinion where applicable);
- the value for money arrangements conclusion;
- the WGA assurance report;
- the audit certificate; and
- the annual audit letter

The audit report and opinion

3.3. The audit opinion, value for money arrangements conclusion, audit certificate and any statutory reports must be signed by an engagement lead, as defined in paragraph 1.4 of the Terms, for and on behalf of the audit firm. This also applies to the includes the auditor’s assurance report on the whole of government accounts return, Statements of Reasons and other correspondence in relation to the exercise of an auditor’s statutory duties.

- 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, as well as the NAO in line with the Memorandum of Understanding between PSAA and the NAO. This information is used to prepare the annual reports on the results of auditors’ work.**
- 3.5. **Auditors must notify PSAA if they intend to issue an audit report or other report or letter that includes, by exception, any of the items set out below:**
- non-standard comments on the Annual Governance Statement
 - 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 powers of the auditor under the relevant legislation.
- 3.6. Copies of the draft and final reports and letters should be submitted to PSAA via **the ‘audit issues’ survey on Outreach**. PSAA will respond with any comments on the draft report including comments from its legal advisors within two weeks.
- 3.7. **Final Public Interest Reports should also be emailed to localaudit@communities.gsi.gov.uk.**

Reporting to PSAA

- 3.8. **PSAA may require further information from time to time and auditors must comply with requests received.**
- 3.9. 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

- 3.10. **Auditors should submit annual audit letters to audited bodies in accordance with relevant target dates. 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.**

Reporting emerging issues

- 3.11. Firms must put in place arrangements to ensure that relevant emerging issues are reported in line with NAO guidance (AGN01).**

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;
- cost of challenge work;
- Statements of Reasons
- Public Interest Reports

4.2. **The NAO have issued guidance to auditors on challenge matters in AGN04 'Auditors' additional powers and duties' and AGN07 'Auditor Reporting'. AGNs set out guidance to which local auditors must have regard to under s20(6) of the Act.**

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 on the progress of dealing with objections on a quarterly basis.** The initial notification, updates and the outcome should be emailed to PSAA via auditregulation@psaa.co.uk.

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

4.5. PSAA does not provide advice to firms on challenge matters and it is for each firm to take its own legal advices as necessary.

Cost of challenge work

4.6. 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

- 4.7. A person who has lodged an objection and is aggrieved by the decision of an auditor not to consider the objection or not to apply for a declaration that an item of account is unlawful may require the auditor to provide written reasons for the decision. Where requested the auditor must issue a Statement of Reasons to the aggrieved person in accordance with legislation.
- 4.8. **Before issuing a Statement of Reasons, a copy of the draft should be submitted to PSAA via the 'audit issues' survey on Outreach.** PSAA will respond with any comments on the draft report including comments from its legal advisors within two weeks. PSAA reviews Statements of Reasons for consideration of indemnity requirements and for no other purpose.
- 4.9. **Auditors must notify PSAA when issuing a Statement of Reasons for reaching a decision' via the 'audit issues' survey on Outreach**

Public Interest Reports

- 4.10. **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 should also be emailed to localaudit@communities.gsi.gov.uk.** Auditors should log these documents via **the 'audit issues' survey on Outreach.** PSAA will respond with any comments on the draft report including comments from its legal advisors within two weeks

Letter of Explanation for reaching a decision

- 4.11. Where an Auditor has accepted an objection requesting the issuing of a Public Interest Report but determines not to issue a Public Interest Report, then the auditor should write to the objector informing them of the reasons for the decision (AGN04 paragraph 40). This is not the same as Statement of Reasons and is referred to as a 'Letter of Explanation for reaching a decision'.
- 4.12. **Before sending a 'Letter of Explanation for reaching a decision' a copy of the draft should be submitted to PSAA via the 'audit issues' survey on Outreach.** PSAA will respond with any comments on the draft report including comments from its legal advisors within two weeks.
- 4.13. **Auditors must notify PSAA when sending a Letter of Explanation for reaching a decision' via the 'audit issues' survey on Outreach.**

Advisory notices

- 4.14. **If the Auditor thinks that an authority (or an officer of an authority has made or is about to make and decision which would involve the authority incurring unlawful expenditure, taking action which is unlawful and likely to cause a loss or deficiency, or entering an unlawful item of account, then an advisory notice under s29 LAAA 2014 can be issued.**
- 4.15. **Before issuing an advisory notice, a copy of the draft should be submitted to PSAA via the ‘audit issues’ survey on Outreach.** PSAA will respond with any comments on the draft report including comments from its legal advisors within two weeks.
- 4.16. **Auditors must notify PSAA when issuing an advisory notice via the ‘audit issues’ survey on Outreach.**

Judicial review

- 4.17. Under s31 LAAA 2014 Auditors may make an application for judicial review of a decision of an authority, or of a failure by that authority to act, which it is reasonable to believe would have an effect on the accounts of that body.
- 4.18. **Auditors must notify PSAA before applying for a judicial review under s31(1) of the Act. A copy of the draft application should be submitted to PSAA via the ‘audit issues’ survey on Outreach.** PSAA will respond with any comments on the draft report including comments from its legal advisors within two weeks.
- 4.19. **Auditors must notify PSAA when applying for a judicial review via the ‘audit issues’ survey on Outreach**

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 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;
- 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. **Auditors are required to issue a planning (fee) 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.

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-Code work (or a statement to confirm that no non-code work 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. For contract monitoring purposes PSAA will use the information provided in the planning (fee) letter and annual audit letter for verifying the communication of fee information to those charge with governance. If fee information is not contained in the annual audit letter then PSAA will require copies of the alternative communications (e.g. ISA260 reports to those charged with governance).

6.8. 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.

6.9. 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

- 6.10. For all local audits, firms must complete work in progress (WIP) returns.**
- 6.11. 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. 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.
- 6.12. 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.
- 6.13. Fee variation templates will be required to be submitted with the WIP returns for any proposed variations to scale fees or indicative certification fees.
- 6.14. 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.
- 6.15. 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 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. **PSAA's process for appointing auditors is outlined in Appendix 11.**
- 6.22. **Firms must ensure engagement leads 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.**
- 6.23. **Where a firm proposes a new engagement lead, they must be approved by PSAA. Requests for approval should set out the individual'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 at least 10 working days before the firm consults with any audited body about the proposed auditor.
- 6.24. Firms are not required to consult on individual engagement lead appointments but are encouraged to do so.

Cooperation with other auditors

- 6.25. **Outgoing audit firms should cooperate with incoming audit firms.** Guidance on the handover process is included as Appendix 12.
- 6.26. **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 firms should meet to discuss the issues arising. This matter should also be reported to PSAA via auditregulation@psaa.co.uk.

Delegation of functions

- 6.27. **Firms 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

- 6.28. Complaints about audit firms 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.
- 6.29. PSAA will not investigate complaints about an auditor's professional judgements. The complaints procedure is set out in Appendix 13.
- 6.30. **Firms are required to report any complaints upheld to PSAA on a quarterly basis.** PSAA will report any upheld complaints against audit firms in the quarterly monitoring reports.

Responding to letters from MPs

- 6.31. 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. PSAA may consider, under the Memorandum of Understanding with the NAO, whether responses should be copied to the NAO.
- 6.32. **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 who will arrange for a response to be drafted on behalf of PSAA.**

Regulatory Compliance and Quality Review Process

- 6.33. 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

- 6.34. 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.
- 6.35. **Firms 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

- 6.36. 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.
- 6.37. 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.
- 6.38. 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

- 6.39. 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 accordance with the auditor's powers.

Contacts

Contact	Email address
Audit regulation mailbox	auditregulation@psaa.co.uk
Auditor Appointments mailbox	auditorappointments@psaa.co.uk
Planning letters mailbox	feeletter@psaa.co.uk
Annual audit letters mailbox	annualauditletters@psaa.co.uk

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.

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 under the Act will continue until the completion of the 2017-18 year of account.

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 came into effect for years of account beginning on or after 1 April 2015.

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:

Meeting	Contacts	Frequency of meeting
Auditors' Group(s)	Chief Officer [PSAA] Director – Local Audit Code and Guidance [NAO]	3 times a year
Local Auditors' Advisory Group(s)	Chief Officer [PSAA] Director – Local Audit Code and Guidance [NAO]	Bi - 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

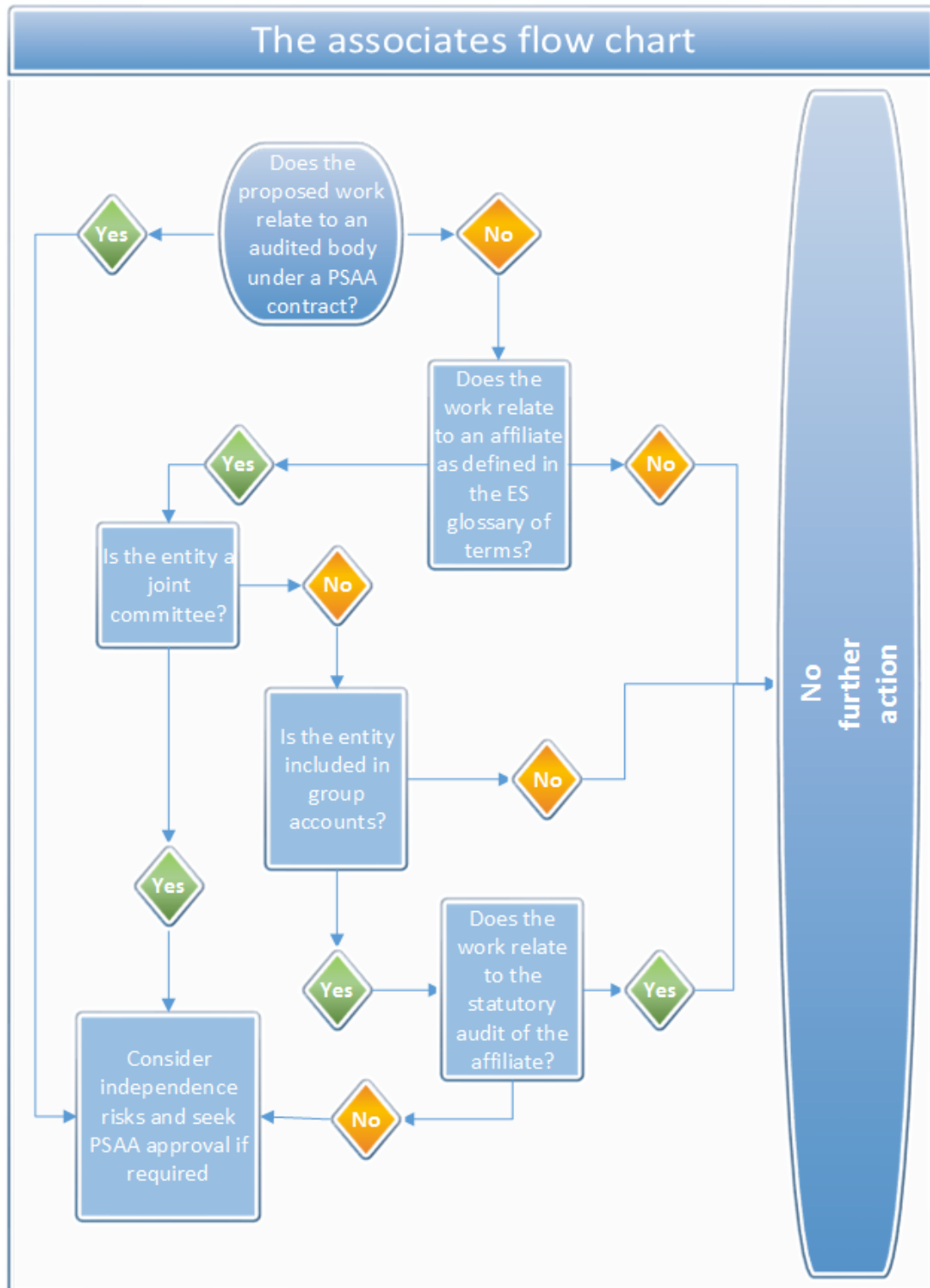
Sue Higgins

Executive Leader, NAO

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

Knowledge and Information relating to		From
TERMS OF APPOINTMENT		
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
AUDITOR APPOINTMENTS AND FEES		
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
CODE AND RELATED GUIDANCE		
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
OTHER MATTERS		
17	Issues relating to housing benefit certification (information sharing)	NAO or PSAA
19	Information used in the VFM profiles	NAO or PSAA
20	Responses to information requests under the Freedom of Information Act 2000 or Environmental Information Regulations 2004	NAO or PSAA

Appendix 2: affiliates flowchart



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

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 compromise the auditors' integrity, objectivity or independence or if it would be perceived to be compromised by a reasonable and informed third party.
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 perception that the auditor's independent judgement had been influenced by this other relationship.
3. Following consultation with audit firms, 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 firm's staff who is involved in local authority audits should provide personal financial or tax advice to senior officers or members of any such bodies.
 - b. Firms should not provide personal financial or tax advice to senior officers or members at a body where they are the appointed auditors. 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 Senior officers and members are concerned:
 - The firm should not provide personal or tax advice to such an individual 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 NAO under AGN01 and the FRC Ethical Standard.

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 compromise the auditors' integrity, objectivity or independence or if it would be perceived to be compromised by a reasonable and informed third party.
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 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 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 Chief Executive 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 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 NAO under AGN01 and the FRC Ethical Standard.

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 compromise the auditors' integrity, objectivity or independence or if it would be perceived to be compromised by a reasonable and informed third party.
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.
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 NAO under AGN01 and the FRC Ethical Standard.

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

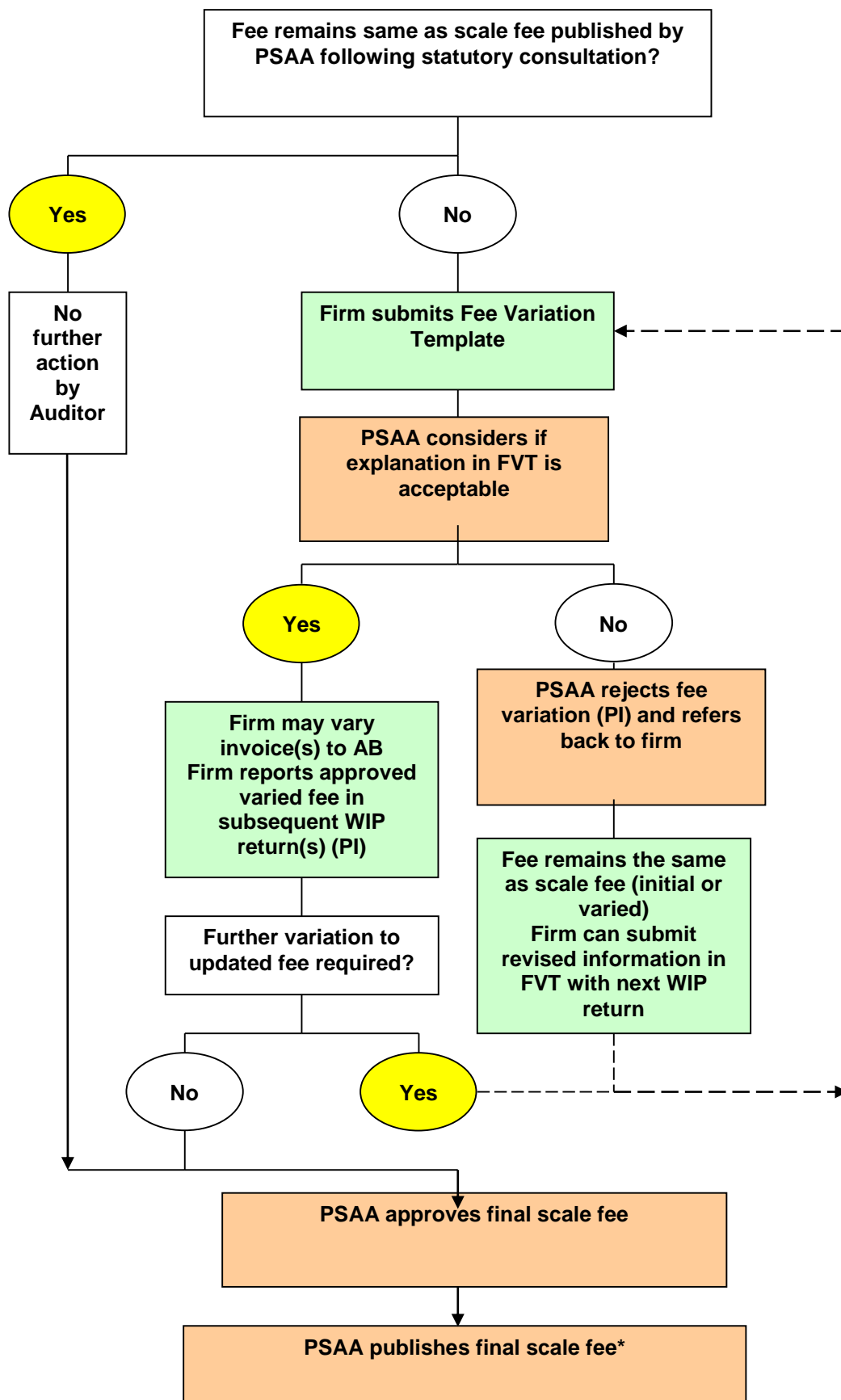
Scope

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 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 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 (auditors' right to documentation and information) ;
 - 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. 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
3. **Prior to taking such action as described in this paragraph, or on receipt of information about any action against them, the Auditor shall notify PSAA in writing of such action via auditregulation@psaa.co.uk**
4. An auditor's reasonable costs 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).

New auditor appointments

4. PSAA will copy all initial consultation letters to the firm's Contact Partner.
5. Audited bodies will be given a minimum of four weeks to consider and comment on the proposed appointment.
6. 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.
7. If the audited body still objects to the proposed appointment, the matter will be referred to PSAA Board, which will make the final decision.
8. PSAA will recommend all appointments to the PSAA Board. 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.
9. 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 the PSAA appointments database.
10. 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 other reports prepared by the auditor;
- 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.

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.