

# Terms of appointment and further guidance

April 2018

**Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.**

**In 2015 the Secretary of State for Communities and Local Government delegated a number of statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.**

**In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.**

**From 2018/19, PSAA is responsible for appointing an auditor and setting scale fees for relevant principal authorities that have chosen to opt into its national scheme.**

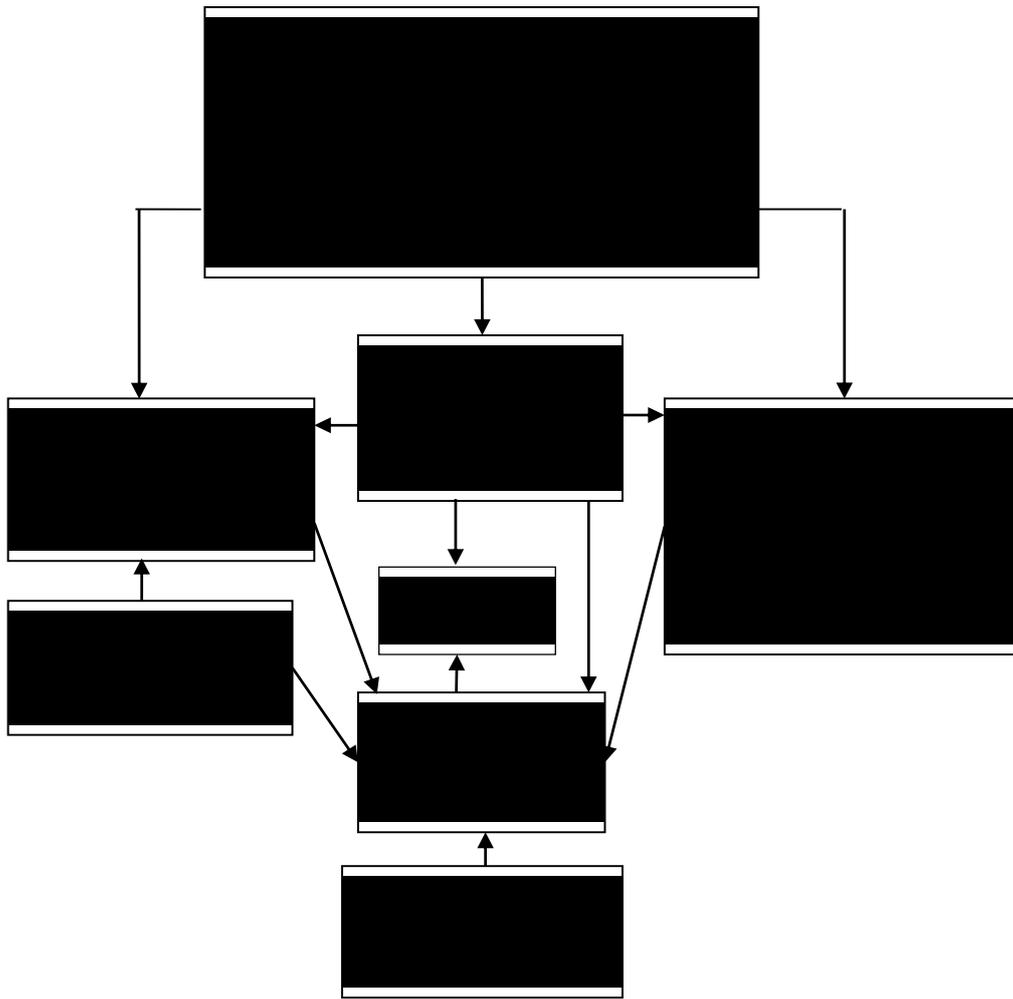
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# 1. Introduction

- 1.1 These Terms of Appointment and further guidance (the Terms) are issued in accordance with the audit contracts between firms and PSAA. They are effective for all audit appointments made under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations). They are issued for the purpose of clarifying the standards for performing the Services under the contracts, and to provide a single point of reference for matters of practice and procedure which are of a recurring nature.
- 1.2 **Auditors must comply with the requirements set out in the Code of Audit Practice (The Code) issued by the Comptroller and Auditor General in statute, and in the contracts each firm has with PSAA.** These requirements are not duplicated in the Terms
- 1.3 The Terms set out service performance standards that auditors must comply with, over and above those set out in legislation, the Code of Audit Practice, guidance to auditors provided by the NAO and by professional regulators (FRC and ICAEW and ICAS as Recognised Supervisory Bodies(RSBs)). They are updated as changes are required following consultation with the firms. Key parts are highlighted in **bold** but firms are required to comply with the Terms in full.
- 1.4 The Terms form part of the appropriate systems that PSAA, as the specified appointing person, must design and implement under the Regulations to:
  - oversee issues of independence of any auditor which it has appointed, arising both at the time of the appointment and when undertaking work; and
  - resolve disputes or complaints from local auditors, opted-in authorities and local government electors relating to the audit contracts and the carrying out of audit work by auditors it has appointed.
- 1.5 Throughout the Terms, the word 'Auditor' covers the firm and Key Audit Partners nominated by a firm to discharge its statutory obligations.
- 1.6 Auditors must ensure they are familiar with the PSAA Statement of Responsibilities of Auditors and of Audited Bodies 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.
- 1.7 The NAO issues 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 may be issued by PSAA from time to time.**
- 1.8 PSAA publishes the scale of fees for opted-in bodies, based on the work auditors are required to undertake each year.
- 1.9 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.
- 1.10 The diagram below shows how the Terms interact with legislation, the Code, the audit contracts (and other documents) and other guidance produced by the NAO.



## 2. General principles

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

- scope;
- 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 audit contract, the Code or the Terms.**

### Integrity, objectivity and independence

2.3 **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 contained in AGN01.** In addition, PSAA has in place specific rules to guard against particular threats to the integrity, objectivity and independence of its appointed firms.

2.4 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](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

2.5 **It is PSAA's policy that Key Audit Partners at an audited body at which a full Code audit is required should act for an initial period of five 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.**

2.6 PSAA may approve Key Audit Partners for an additional period of up to no more than two years, if it is provided with assurance that there are no considerations such that an objective, reasonable and informed third party

would conclude that an auditor's integrity, objectivity or independence was or could be perceived to be compromised together with details of any mitigations.

- 2.7 **Firms 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), **why there are no independence issues** that would preclude an extension of the relevant staff appointments, and indicate plans for future rotation.
- 2.8 PSAA will not approve any further extensions and therefore **a Key Audit Partner 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.
- 2.9 PSAA does not specify at which appointments an engagement quality control reviewer (EQCR) should be appointed. This is a matter for the judgement of the auditor in applying professional standards.
- 2.10 **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.
- 2.11 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 seven years.** PSAA will approve the appointment of an audit manager for an additional period of up to three years, provided that there are no considerations such that an objective, reasonable and informed third party would conclude that an auditor's integrity, objectivity or independence was or could be perceived to be compromised. Firms should before the start of the eighth year on an engagement, confirm in writing to PSAA, via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk) why there are no independence issues that would preclude the extension of the relevant staff appointments and indicate plans for future rotation. 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.
- 2.12 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.
- 2.13 **Where an EQCR becomes the Key Audit Partner (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.**
- 2.14 **Where an audit manager at an audited body becomes the Key Audit Partner, and/or EQCR the combined period of service in these positions shall not exceed ten years whether 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.
- 2.15 For the avoidance of doubt all time periods specified are calculated continuously or in aggregate. Only after a period of five years has elapsed where the individual concerned has had no direct relationship with or involvement in work relating to the body will the count of years be re-set to zero.

## Acceptance of non-Code work

- 2.16 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. AGN01 includes a cap on non-Code work at 70% of the annual scale audit fee in any one year.
- 2.17 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 5 of the Terms.
- 2.18 Non-Code 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.
- 2.19 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 (AGN01 Annex 1 specifies those services which can be provided by the auditor which are explicitly excluded for the purposes of applying the 70 per cent cap). **For the avoidance of doubt, certification work that is not required by a grant paying body as 'being obtained from an auditor acting as reporting accountant' counts towards the 70 per cent cap.** If the value of the work, individually or in total, for an audited body in any financial year would exceed or would cause the total value on non-audited services provided to 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 piece of work, consent must be sought from PSAA before work is accepted.
- 2.20 When the auditor provides non-audit services to an audited body which has controlled undertakings, the total of non-audit services to the group as a whole should not exceed 70% of the total scale audit fee for all audit work carried out in respect of the entity to which the auditor has been appointed by PSAA.

## Applications to PSAA for approval of non-Code work

- 2.21 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.
- 2.22 **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 per cent). The percentage cap is calculated on the scale audit fee set 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 a controlled undertaking.**

- 2.23 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 in AGN01 they will need to obtain consent from PSAA. In addition to the information specified in paragraph 2.25 below, the agreement of the firm's ethics partner to the departure 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.
- 2.24 **Firms are required to establish procedures to identify and address promptly any potential breaches of these requirements.**
- 2.25 Applications 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, paying particular attention to 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 (taking account of the requirements of the FRC Ethical Standard and AGN01);
  - where potentially prohibited non-audit services are to be provided under the derogation arrangements set out in the Annex to AGN01 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.
- 2.26 **Applications that do not meet the requirements set out above will not be considered by PSAA.**
- 2.27 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.
- 2.28 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**

- 2.29 **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.**

- 2.30 **This exclusion includes the appointment as a 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.
- 2.31 Key audit partners at individual local authorities, and their local audit team should not serve as a governor of any school funded from the authority's budget.
- 2.32 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

- 2.33 **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.**
- 2.34 **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 (Audit partner/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 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"> <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> |

2.35 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 the Ethical Standard and AGN01.

2.36 **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

2.37 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 2.34 above.

## Political activity

- 2.38 **Partners 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

- 2.39 **Audit Partners 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

- 2.40 **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.**
- 2.41 **Any identified breaches in confidentiality arrangements should be notified to PSA.**

### 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.

#### 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 a Key Audit Partner, 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 (a non-standard financial statements opinion or VFM arrangements conclusion). All final non-standard reports should be submitted to PSAA via the ‘audit issues’ survey on Outreach. Summarised data from the information provided to PSAA may be shared with the NAO.** Non-standard reports are those where the auditor is using a wording that differs from the firm’s template and typically will have sought advice from the firm’s technical department.
- 3.5 Copies of the draft and final non-standard audit report should be submitted to PSAA via **the ‘audit issues’ survey on Outreach.**
- 3.6 **Auditors must also notify PSAA if as a result of their work they intend to issue an audit report or other report or letter that includes any of the items set out below:**
- 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.
- 3.7 Where an auditor intends to exercise the specific powers and duties of local government auditors (making statutory recommendations, issuing a public interest report or exercising other powers), then the process for notifying PSAA set out in Section 4 should be followed.

## 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 1. A protocol for liaison between PSAA and appointed auditors is included in Appendix 2.

## Annual audit letter

- 3.10 **Auditors should submit annual audit letters to audited bodies in accordance with the relevant target date** specified by PSAA. The target date is normally one month after the statutory date for an audited body to publish its financial statements. **If it is not expected that the target date will be met then 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.** Where it is not possible to issue the annual audit letter by the publishing date (e.g. there has been a delay in the issuing of the financial statement opinion auditors should submit their annual audit letter within one month of the issuing of the opinion.

## 4. 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 and the other specific powers and duties of local government auditors. This includes:
- objections at audit;
  - cost of objections at audit work;
  - communications with objectors
  - public interest reports
  - advisory notices; and
  - judicial review.
- 4.2 **The NAO has issued guidance to auditors on exercising statutory functions in AGN04 'Auditors' additional powers and duties' and AGN07 'Auditor Reporting'. AGNs set out guidance from the Comptroller and Auditor General to which local auditors must have regard to under s20(6) of the Act.**

### Objections at audit

- 4.3 **Audited Bodies' expectation is that auditors should determine objections within nine months from the date of the decision to accept a notice of objection that meets statutory requirements.** Auditors should inform PSAA as soon as they have accepted a notice of objection. **Firms should provide updates on the progress of dealing with objections on a monthly basis.** The initial notification, updates and the outcome should be emailed to PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk).
- 4.4 For the avoidance of doubt there is a distinction between objections received but not accepted (e.g. because they are not eligible) where auditors are not required to inform PSAA and those objections accepted but not considered under s27(4) where auditors are required to inform PSAA. Step 2 of AGN04 provides guidance to auditors on the process of determining whether to consider an eligible objection and the risks that derive from significant delays occurring between the receipt of an eligible objection and the auditor's decision as to whether it is accepted for consideration.
- 4.5 All firms are required to have systems and processes in place to provide support to their staff in dealing with objections.
- 4.6 PSAA does not provide advice to firms on the exercise of the statutory powers and duties of local auditors and it is for each firm to take its own legal advice as necessary.
- 4.7 PSAA may share summarised information on auditors' use of statutory powers and duties with the NAO.

### Cost of objections at audit work

- 4.8 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. The fee variation

process is set out in paragraphs 5.8 and 5.9. Auditors should notify audited bodies of related fees as soon as practicable.

## Communications with objectors

- 4.9 Where an auditor determines not to consider an eligible objection under s27(4) of the Local Audit and Accountability Act 2014 (2014 Act), then the auditor should provide written reasons for the decision to the objector (AGN 04 paragraph 37), including where requested to do so by the objector in accordance with s28(3) of the 2014 Act.
- 4.10 Where an auditor has considered an objection under s27(1) of the 2014 Act and has determined not to apply for a declaration that an item of account is unlawful under s28 of the 2014 Act, then the auditor should provide written reasons for the decision to the objector (AGN 04 paragraph 52).
- 4.11 Where an Auditor has considered an objection under s27(1) of the 2014 Act, but determines not to issue a PIR, then the auditor should write to the objector informing them of the reasons for the decision (AGN04 paragraph 52).
- 4.12 These communications are commonly referred to as 'statements of reasons'.
- 4.13 **Before issuing 'a statement of reasons' for 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 within two weeks.
- 4.14 **Auditors must notify PSAA when sending a final version of the 'statement of reasons' via the 'audit issues' survey on Outreach.**
- 4.15 Firms should redact personal information when sending copies of communications with objectors to PSAA.

## Public Interest Reports and written recommendations

- 4.16 **Draft Public Interest Reports (PIRs) and written recommendations issued under s24 and Schedule 7 of the 2014 Act must be submitted to PSAA as soon as local consultation allows via the 'audit issues' survey on Outreach.**
- 4.17 PSAA will respond with any comments on the draft report or recommendations within two weeks.
- 4.18 **Final reports and recommendations must be submitted to PSAA at the same time as they are issued.** Auditors should log these documents **via the 'audit issues' survey** on Outreach.
- 4.19 Auditors should send final versions of PIRs and Schedule 7 recommendations to the Secretary of State at the same time as they are issued:
- 4.20 For local government bodies, auditors should send final versions of PIRs and Schedule 7 recommendations to the following Ministry of Housing, Communities and Local Government (MHCLG) email address at the same time as they are issued: [localaudit@communities.gsi.gov.uk](mailto:localaudit@communities.gsi.gov.uk).
- 4.21 For police bodies the relevant Secretary of State is the Home Secretary. The Home Office has confirmed that auditors will comply with the requirement under the Act to notify the Secretary of State by sending final versions of PIRs and statutory recommendations to the following email address at the same time as they are issued: [PoliceResourcesPolicy@homeoffice.gsi.gov.uk](mailto:PoliceResourcesPolicy@homeoffice.gsi.gov.uk).

- 4.22 For combined fire and rescue authorities, the relevant Secretary of State is the Home Secretary. The Home Office has confirmed that auditors will comply with the requirement under the Act to notify the Secretary of State by sending final versions of PIRs and statutory recommendations to the following email address at the same time as they are issued:  
[firefundingpolicyteam@homeoffice.gsi.gov.uk](mailto:firefundingpolicyteam@homeoffice.gsi.gov.uk).
- 4.23 For county fire and rescue services, auditors are requested also to send the PIRs and statutory recommendations to copy MHCLG at  
[localaudit@communities.gsi.gov.uk](mailto:localaudit@communities.gsi.gov.uk).
- 4.24 Under the 2014 Act, in addition to the auditor's powers to report in the public interest, apply to the court for a declaration that an item of account is unlawful, or to make statutory recommendations under Schedule 7, the auditor may make a recommendation under s27(6) of the Act.
- 4.25 These are often referred to as non-statutory recommendations. Recommendations made under s27(6) do not impose requirements on audited bodies for public consideration and response. Auditors do not have to send s27(6) recommendations to PSAA.

### Advisory notices

- 4.26 **If the Auditor thinks that an authority (or an officer of an authority) has made or is about to make a 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 of the 2014 Act can be issued.**
- 4.27 If an auditor is considering issuing an advisory notice (and associated statement of reasons) then they must notify PSAA via [auditregulation@psaa.co.uk](mailto:auditregulation@psaa.co.uk) in order that arrangements for PSAA to comment on a timely basis can be made.
- 4.28 **Before issuing an advisory notice (and associated 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 in accordance with paragraph 4.25.
- 4.29 **Auditors must notify PSAA when issuing an advisory notice (and associated statement of reasons) via the 'audit issues' survey on Outreach.**

### Judicial review

- 4.30 Under s31 of the 2014 Act 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 that body.
- 4.31 **Auditors must notify PSAA before applying for a judicial review under s31(1) of the 2014 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 application within two weeks.
- 4.32 **Auditors must notify PSAA when applying for a judicial review via the 'audit issues' survey on Outreach.**

## 5. Other matters

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

- audit fee information;
- audit fee variations;
- work in progress and fee information;
- contact information;
- indemnities;
- key audit partners;
- cooperation with other auditors;
- complaints;
- audit quality monitoring;
- responding to information requests; and
- public interest whistleblowing.

### Audit fee information

5.2 **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. This will normally be one month after the start of the financial year. The planning letter should be submitted to PSAA via [feeletter@psaa.co.uk](mailto:feeletter@psaa.co.uk).

5.3 **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.

5.4 **At both of these stages, the reported fee must be broken down into two headings:**

- code audit work; and
- any non-Code work (or a statement to confirm that no non-code work has been undertaken for the body).

5.5 **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.

5.6 **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 (these are the assumptions taken account of in the process of setting the scale audit fees as set out in the annual Work Programme and Scale of Fees);
  - 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.
- 5.7 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).

### Audit fee variations

- 5.8 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.
- 5.9 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 providing a full explanation. 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 auditor must give notice to the audited body of the proposed fee variation and the reasons.** The scale fee already reflects an 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 3.

### Work in progress and fee information

- 5.10 **For all local audits, firms must complete work in progress (WIP) returns.**
- 5.11 PSAA will use the published scale 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. The WIP information will also be used to consider the reasonableness of the explanations for any variances to the prescribed scale fee.
- 5.12 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.

- 5.13 Fee variation templates will be required to be submitted with the WIP returns for any proposed variations to scale fees or indicative certification fees.
- 5.14 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 (See Appendix 4)
- 5.15 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.
- 5.16 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.
- 5.17 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.

## Contact information

- 5.18 For the purposes of its statutory responsibilities relating to auditor appointments and fees, PSAA maintains a list of information regarding opted in bodies. Audit firms are required to update and submit to PSAA on a regular basis audited body contact details for the bodies to which they are appointed (Chief Executive and Director of Finance). PSAA uses this contact information for its formal communications with opted-in bodies.
- 5.19 PSAA also publishes a list of auditor appointments, including the relevant engagement lead and their contact details, on its website. Audit firms are required to update and submit to PSAA on a regular basis the engagement lead and audit manager for the bodies to which they are appointed

## Indemnities

- 5.20 PSAA will indemnify auditors against the first £50,000 of external 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 5. Full details are specified in the audit contracts.
- 5.21 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.

## Key Audit Partners

- 5.22 **Firms must ensure that an engagement lead at a local audit has been authorised as a Key Audit Partner by the Recognised Supervisory Bodies.**
- 5.23 Firms are not required to consult on engagement leads with authorities but are encouraged to do so.

## Cooperation with other auditors

- 5.24 Auditors should cooperate with other external auditors as set out in the Code, AGN01 (the NAO Auditor Guidance Note – General Guidance Supporting Local Audit), have regard to any relevant NAO guidance and the requirements of the RSBs.
- 5.25 Outgoing audit firms should cooperate with incoming audit firms. Appendix 6 sets out PSAA's expectations of firms on handover of a PSAA audit appointment.
- 5.26 **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](mailto:auditregulation@psaa.co.uk)**

## Complaints

- 5.27 Under the Local Audit (Appointing Person) Regulations 2015 PSAA has a duty to design and implement systems to resolve disputes or complaints from local auditors, opted in authorities and local government electors relating to audit contract and the carrying out of audit work by auditors it has appointed.
- 5.28 **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.**
- 5.29 **PSAA will not investigate complaints about an auditor's professional judgements. The complaints procedure is set out in Appendix 7.**
- 5.30 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.**
- 5.31 Complaints may also be received by the RSBs (recognised supervisory bodies). **A memorandum of understanding has been agreed with the RSBs to ensure that complaints are dealt with by the body most appropriate to deal with them. In concluding or dealing with a complaints investigation PSAA may pass their findings to the relevant RSB.**

## Audit quality monitoring

- 5.32 PSAA defines audit quality for reporting purposes as compliance with both professional standards and our requirements. Compliance with any of the requirements set out in this document and supporting appendices may be reviewed and reported in our audit quality monitoring reports.
- 5.33 As part of our audit quality monitoring programme PSAA will consider:
- firms' performance against a range of contract performance indicators;
  - firms' compliance with their specified method statements;
  - the results of audit inspections by the FRC's Audit Quality Review (AQR) team and the ICAEW Quality Assurance Department; and
  - the results from satisfaction surveys sent to audited bodies.

5.34 Firms must cooperate with PSAA audit quality monitoring 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 the audit firms it has contracts with.**

## Responding to information requests

- 5.35 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.
- 5.36 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.
- 5.37 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.

## Contacts

5.38 PSAA uses the following e-mail boxes for communication.

| Contact                      | Email address  |
|------------------------------|--|
| Audit regulation mailbox     | <a href="mailto:auditregulation@psaa.co.uk">auditregulation@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: 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 responsibilities.
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 allow auditors a minimum period of 10 working days on all specific requests for information. Wherever possible it will allow longer and especially 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.
10. 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.
11. 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.
12. PSAA may share information obtained with the NAO as appropriate.
13. PSAA will monitor compliance with this protocol.

## Appendix 2: Protocol for liaison between PSAA and firms of appointed auditors

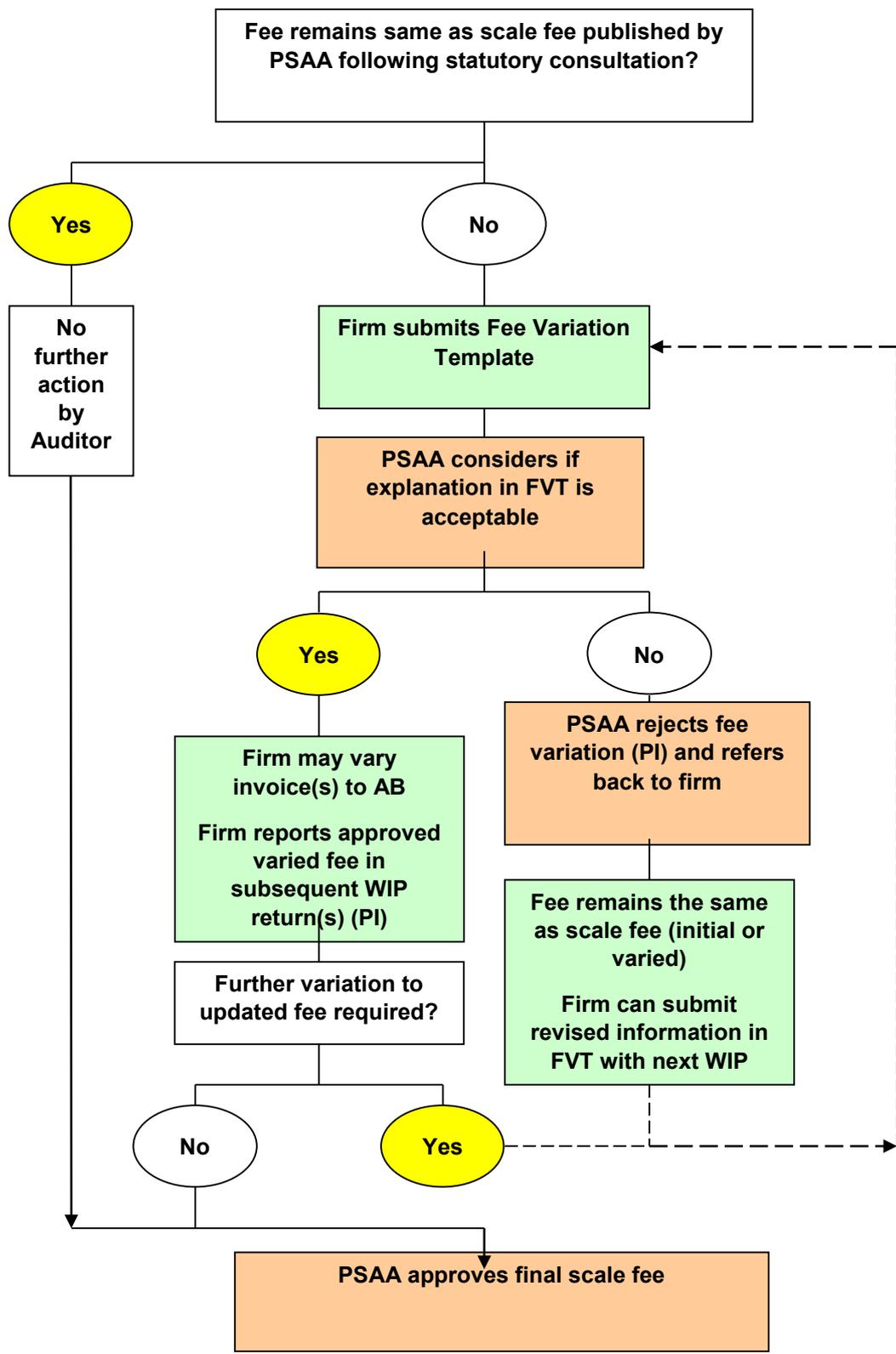
### Scope

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.
2. In conducting any consultation PSAA will follow the Government's Code of Practice on Consultation.

### PSAA

3. PSAA will consult auditors:
  - before setting scales of fees; and
  - before amending the Terms of Appointment.
4. 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.
5. 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.
6. 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 3: Process for approval of proposed variations to scale fee



## Appendix 4: Additional work scale fees

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 as specified below.

|          | Partner/<br>Director | Senior<br>Mgr/ Mgr | Senior<br>Auditor | Other<br>Staff |
|----------|----------------------|--------------------|-------------------|----------------|
| Standard | £132                 | £73                | £47               | £36            |

## Appendix 5: 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, as specified in the contract, against any external 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. PSAA liability is capped at £50,000 per case. Full details contain in Clause 28 of the Contract.
2. The actions to which the indemnity in paragraph 1 applies are as follows (all references are to the Local Audit and Accountability Act 2014):
  - (i) the consideration of and making of a public interest report or written recommendations under schedule 7 of the 2014 Act;
  - (ii) the exercise of any function under section 22 of the 2014 Act in relation to the right to make objections at the audit.
  - (iii) any application to the court under section 28 for a declaration that an item of account is contrary to law;
  - (iv) any appearance as respondent to any appeal brought under the provisions of subsection (3) of section 28.
  - (v) the consideration of and issue of an advisory notice under Schedule 8 of the 2014 Act; and
  - (vi) 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.
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](mailto: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 6: Expectations on handover of audits

1. This appendix is applicable to all audits completed prior to the change of an auditor.
2. PSAA recognises that changing 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.

### Co-operation between auditors

4. The outgoing and incoming auditors are expected to have a joint meeting prior to the handover.
5. A joint meeting with the audited body during the handover period may be helpful, depending on local circumstances.

### Use and provision of information

6. 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.
7. 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.
8. 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.
9. 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.
10. 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

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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.

11. 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.
12. 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.

## Appendix 7: 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 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;
  - 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.
11. Complaints may also be received by the RSBs. A memorandum of understanding has been agreed with the RSBs to ensure that complaints are dealt with by the body most appropriate to deal with them. In concluding or dealing with a complaints investigation PSAA may pass their findings to the relevant RSB.