

## PSAA fee variation process

1. The scale fees are set annually for each individual audited body. Ideally this fee will usually be sufficient to cover the audit work required, as it is based on the work needed for previous audit years, but in times of change fees are far more likely to need to vary as auditors respond to the changes. If the auditor thinks the fee needs to be higher or lower in line with the Appointing Person Regulations, then a fee variation request can be submitted to PSAA.
2. The reasons for submitting fee variations vary. Examples of reasons given in requests for increases include that additional audit work is required because:
  - a new general ledger system has been implemented at the body;
  - the body has made new commercial investments or has created/expanded group accounts;
  - the auditor has received an objection from an elector;
  - the working papers to support the annual accounts did not meet the standard required in the Statement of Responsibilities; or
  - there were fee variations in the previous year where the causes have not been addressed.

**Note:** Where the above reasons will continue to recur each year, e.g. new group accounts the scale fee needs should be updated accordingly.

3. Our contract requires auditors to have local discussions with individual opted-in bodies about any proposed fee variations. These discussions should be had at the earliest opportunity, and wherever possible the auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. Whilst it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage.
4. As set out below PSAA check that bodies have agreed the fee variations and that the variations have been reported to TCWG.
5. To submit a fee variation, the auditor needs to enter details onto a fee variation form. These forms are spreadsheets that are prepared by PSAA and are sent to the audit firms for them to complete. There are separate spreadsheets for each audit year.
6. The firm is required to complete the following on the form:
  - select the name of the body from a drop down list. Selecting this body pre-populates a number of cells in the spreadsheet. These include scale fee, contract area and remuneration rate. The cells are protected which prevents firms from changing the prepopulated fields;
  - enter the applicable additional hours in relation to the fee variation proposal;

- include the date that the fee variation was agreed with the audited body (or record that it cannot be agreed);
  - provide narrative to support and explain the fee variation submitted, including why the work was needed and what work was actually undertaken.
7. Fee variation forms are submitted to PSAA using secure transfer facilities.
8. PSAA (Finance Manager) then reviews each of the fee variation requests submitted. This review includes some or all of the following as appropriate to the individual case:
- reviewing the justification (including any supporting workings/documents) provided by the firm to support the fee variation, exercising judgement as to whether the complexity of the issue fits with the size of the fee variation submitted;
  - considering the fee variation value and hours relative to similar ones elsewhere (the value aspect enables similar ones to be compared when done by different grade mixes);
  - comparing the size of the fee variation to the scale fee to see whether it's proportionate, given the size of the body and the issue involved;
  - checking that the work performed is work that we would expect to be undertaken, i.e. it is required under the Code of Audit Practice;
  - confirming that the work detailed in the firm's justification is consistent with PSAA's other records, e.g. section 30 referral issued, a delay in the issue of an audit opinion, statement of reasons issued;
  - considering any specific outputs resulting from the additional work undertaken, applying judgement as to whether these outputs were appropriate/required;
  - confirming that the audited body has agreed the fee variation;
  - ensuring that any issues raised in the firm's justification have been reported to TCWG (eg, ISA260 report or Annual Audit Letter);
  - checking that the appropriate fee variation value is being reported in the ISA260/Annual Audit Letter; and
  - exercising judgement as to whether the fee variation is a one-off or recurring, i.e. assessing whether the fee variation relates to an issue that we would also expect to exist, and result in additional audit work, in future audit years (e.g. a recurring fee variation could be where a new PFI scheme has been entered into by the body). **Note:** Where fee variations are one-offs, e.g. working paper issues, the scale fee will not need to be changed to reflect this. However, and as stated above, where the reasons continue to recur each year the scale fee should be updated at the first opportunity.
9. For high value fee variations (amounts greater than £30k) some, or all, of the following work is also undertaken as appropriate:

- referral to the Quality Manager and/or Senior Quality Manager for their views/comments;
- confirmation from the firm as to who specifically at the body agreed the fee;
- the Finance Manager will contact the body (normally s151 officer or DoF) to discuss the variation;
- the Finance Manager and Senior Quality Manager will have a meeting with the firm's audit team and perform a review of the audit file. This provides us with a better understanding of why the additional work was needed to be performed (note that file reviews are reserved for the very large or contentious variation proposals).

10. PSAA (Finance Manager) will then draft comments (taking advice from Senior Quality Manager as appropriate) on the proposed fee variation and make a proposal as to the status of the variation selecting from the following options.

- Agree;
- Agree lower;
- Reject;
- Insufficient information; and
- Deferred.

11. The definitions are as follows

Agree	No issues identified from the checks performed, we can agree the variation
Agree lower	Although we accept that additional work is needed we believe that some of the work detailed could have been done more efficiently; or is covered by the scale fee.
Reject	The work detailed is covered by the scale fee or was not required (occasionally we find that the auditor has undertaken work that does not relate to their responsibilities under the Code).
Insufficient information	We need further information to help us understand the fee variation submitted. This is normally a more detailed breakdown of the work performed, or the annual audit findings report to confirm that any matters raised have been reported to TCWG.
Deferred	The fee variation is at too early a stage for us to be able to make a decision.

12. The Chief Executive then reviews each fee variation. Comments and alterations are provided at this stage. The Chief Executive initials each form as evidence of review.

13. The Finance Manager makes any required changes to the fee variation forms.
14. The Finance Manager sends the updated forms to the firms using the secure transfer facility.
15. Where there is insufficient information or the proposal has been deferred, the firm updates the form and resubmits – the process above is then re-applied.

**PSAA**  
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