

Terms of appointment and further guidance

July 2021

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

From 2018/19, PSAA became responsible for appointing an auditor and setting scale fees for relevant principal authorities that have chosen to opt into its national scheme under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

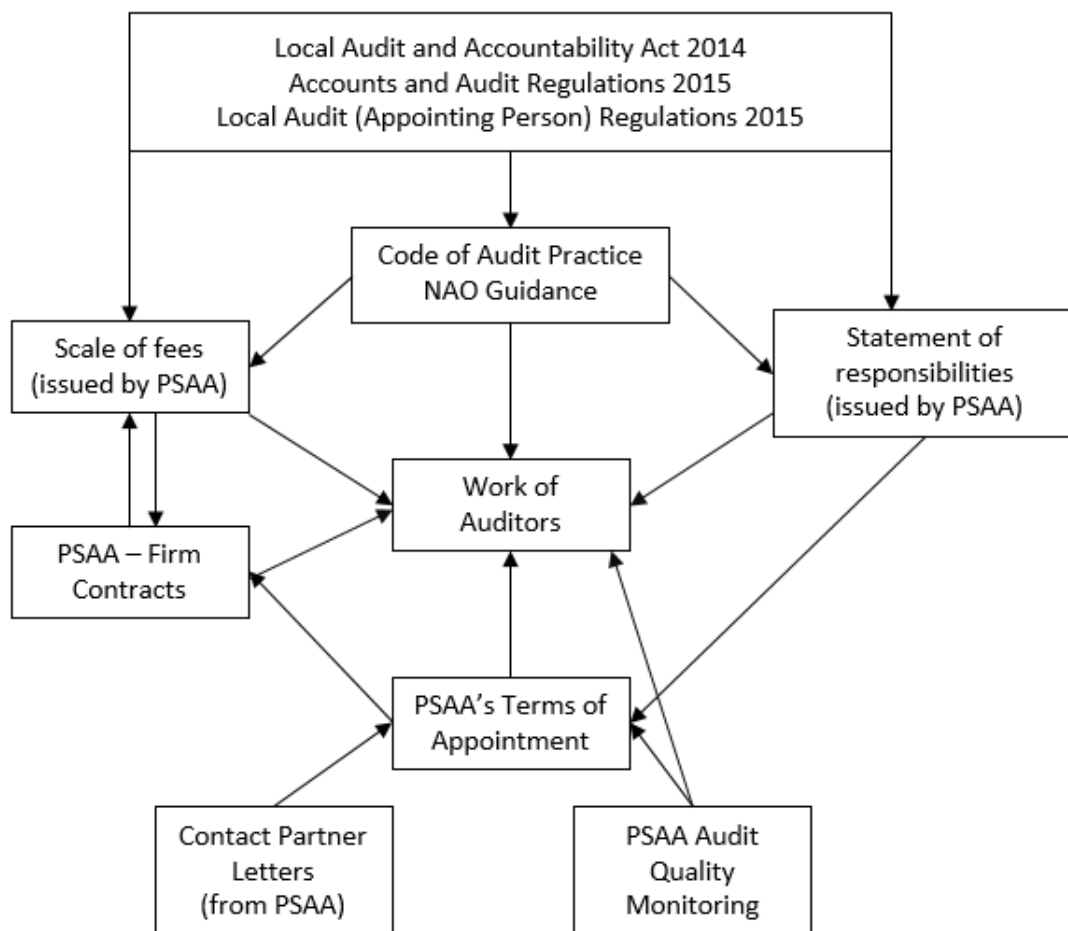
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1. Introduction

- 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 as Recognised Supervisory Bodies (RSBs)). Nothing in the Terms can override those requirements. 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;
 - monitor compliance by a local auditor against the contractual obligations in the audit contract; 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 policies 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 report to PSAA via auditregulation@psaa.co.uk where it has identified an independence issue. This is where following consultation with the firm's Ethics department it is putting in place safeguards which it will report to those charged with governance, or where it has identified an independence issue for which appropriate safeguards cannot be put in place. PSAA should be notified at the same time the firm communicates the matter to the audited body.**

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

Rotation of key staff

2.6 It is PSAA's general policy that audit firm appointments to an individual body are not expected to exceed a term of twenty years. In practice PSAA favours shorter terms.

2.7 **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.

- 2.8 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.
- 2.9 **Firms should, before the start of the sixth year on an engagement, confirm in writing to PSAA, via auditregulation@psaa.co.uk, that there are no independence issues** which would preclude an extension of the relevant staff appointments, and indicate plans for future rotation. For the avoidance of doubt, and based on our understanding of firm practices, we would expect this to be by the end of the calendar year preceding the financial year end (i.e. December 2021 in respect of 2021/22 audits).
- 2.10 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.
- 2.11 **In line with the policy for Key Audit Partners it is not expected that an 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 at least five years has elapsed.
- 2.12 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 that there are no independence issues which 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 at least five years has elapsed. In exceptional circumstances PSAA will approve a shorter break 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. The start of an engagement is as defined in paragraph 2.9.
- 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 seven 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 at least five years has elapsed.
- 2.15 For the avoidance of doubt all time periods specified apply to both continuous involvement and aggregate involvement. 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.

- 2.16 PSAA will review with firms the length of tenure of Key Audit Partners and audit managers in January of each year for the forthcoming audit year of account (e.g. Jan 2021 for 2021/22 audit year).

Acceptance of non-Code work

- 2.17 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 NAO guidance note AGN01). We define non-Code as work other than that required to meet the requirements of the Code of Audit Practice. AGN01 specifies a cap on non-Code work at 70% of the total fees for such services to the audited entity and its controlled entities in any one year.
- 2.18 In undertaking non-Code work audit firms must comply with the requirements of the Ethical Standard and AGN01. (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).
- 2.19 Non-Code work can be undertaken, without prior consideration from PSAA, if a firm is satisfied that:
- it is not a prohibited non-audit service under either the Ethical Standard or 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.
- 2.20 PSAA has set the de minimis amount for notifiable non-Code work as the higher of 20% of the scale audit fee or £18,000 (subject to the absolute AGN01 cap of 70%). 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-audit services provided to exceed the de minimis amount, the auditor should obtain confirmation from PSAA that in its view the nature of the work does not compromise the firm's integrity, objectivity or 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, then the view of PSAA must be sought before work is accepted.

Applications to PSAA to undertake non-Code work

- 2.21 It must be emphasised that the de minimis level specified by PSAA is a threshold for reporting purposes only. The auditor must exercise professional judgement as to whether carrying out the work, irrespective of its value, would, or could reasonably be perceived to, compromise the integrity, objectivity or independence of the firm.
- 2.22 **Whilst each case will be considered on its merits, PSAA expects that non-Code work that does not comply with the Ethical Standard and AGN 01 will generally be perceived to compromise the integrity, objectivity or independence of the firm. The percentage cap is calculated on the scale audit fee (and approved variations) set for the financial year to which the non-Code work relates.**
- 2.23 In accordance with AGN 01 paragraph 64 in the exceptional circumstances that an auditor considers that there are objective, proper and legitimate reasons why it would not

be possible to follow the guidance on non-audit services they should obtain confirmation from PSAA that in its view the nature of the work does not compromise the firm's integrity, objectivity or independence before agreeing to carry out the work. In addition to the information specified in paragraph 2.27 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 Applications should be made to auditregulation@psaa.co.uk at least ten working days before the proposed 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; and
 - the estimated timescale and fee.
- 2.25 **Applications that do not meet the requirements set out above will not be considered by PSAA.**
- 2.26 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; and
 - the subject matter may be subject to review as part of future audit work or may be the subject of public challenge.
- 2.27 If satisfied that in its view the proposed work will not compromise the integrity, objectivity or 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 such matters including whether it may be necessary to appoint a different auditor to undertake any review of the work carried out.

Membership of audited bodies

- 2.28 **AGN01 provides guidance on the requirements of the Ethical Standard relating to 'financial, business, employment and personal relationships' which is applicable to audits of all local public bodies.**
- 2.29 This section specifies PSAA's policy on the interpretation of AGN01 for those bodies where it appoints the auditor. Where it is found that an appointment has been made in contravention of this policy then PSAA will normally expect to make a new appointment.
- 2.30 **PSAA will not appoint a firm as auditor to a body where a member or employee of the firm has accepted or holds a role whether elected or appointed (paid or unpaid) within that audited body. This extends to related bodies, such as those linked to the audited body through a strategic partnership.**

- 2.31 **The relationship principle also applies where an employee has been an elected member or employee of an audited body.** Where an individual ceases to be a member or employee they should have no direct relationship with, or involvement in, audit work relating to that body for a period of at least three years.
- 2.32 There may be circumstances where it appears to the firm that an employee, not connected to the audit, is taking on a role such as Youth Offender Panel Member or foster carer such that they consider the threat to independence is minimal and also that the position is allowable by the Ethical Standard and AGN01. In these circumstances the firm should contact PSAA for consideration and confirmation that in its view the nature of the role does not compromise the firm's integrity, objectivity or independence.
- 2.33 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.

Positive actions to assure independence

- 2.34 **Certain staff changes or appointments require positive action to assure independence.** These events and the action required are detailed in the table below. The rules apply to:
- secondments of staff to and from audited bodies and other organisations providing services to audited bodies;
 - members of staff returning from secondment to audited bodies and other organisations providing services to audited bodies; and
 - members of staff being employed by and joining from audited bodies.

Event	Action required
<p>1. Where a member of the audit team 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 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>The firm's Ethics Partner should determine whether any other arrangements should be put in place locally to mitigate any remaining actual or perceived threats to the independence of the auditor and/or firm.</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>The firm's Ethics Partner should determine whether any other arrangements should be put in place locally to mitigate any</p>

	remaining actual or perceived threats to the independence of the auditor and/or firm.
<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; elected as a Councillor or Member; or appointed to any other post, 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 connected with the audited body.</p> <p>The firm's Ethics Partner should determine whether any other arrangements should be put in place locally to mitigate any remaining actual or perceived threats to the independence of the auditor and/or firm.</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 (see 2.38), 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 firm's Ethics Partner, must satisfy him/herself that appropriate arrangements are put in place locally to mitigate any actual or perceived threats to the independence of the auditor and/or firm.</p>

Other links with audited bodies

2.35 Firms may have other business relationships with audited bodies or members of those bodies, or with third parties providing services to those bodies, including for example, payment of business rates. In such circumstances firms of appointed auditors are expected to comply with the requirements of the Ethical Standard and AGN01. These will be common arms-length transactions such as the payment of business rates.

Other auditors

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.**

2.37 Where an incoming auditor is considering a Prior Period Adjustment to the financial statements they should consider whether it would be helpful to discuss the matter with the outgoing auditor.

Political activity

- 2.38 AGN01 specifies restrictions on political activity. **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, the activities of which 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 or offer any gift or hospitality, if it may compromise or reasonably be perceived to compromise their integrity, objectivity and independence.**

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 PSAA.**

3. Audit timetables 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:
- timetable for completing the audit;
 - the audit report and opinion;
 - annual audit letters;
 - auditor's annual reports; and
 - reporting to PSAA.
- 3.2 Section 4 sets out the process for auditors to 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.
- 3.3 Notification on auditor reporting matters should be provided to PSAA by the firm's nominated contract manager using the agreed monitoring form via auditregulation@psaa.co.uk.

Timetable for completing the audit

- 3.4 The 2020/21 Code of Audit Practice specifies a requirement, from 2020/21, for timely reporting including producing audit reports in time, insofar as the auditor can do so under the auditing standards, to allow local bodies to comply with the requirements placed on them to publish their audited financial statements.
- 3.5 **Auditors must include in the audit planning report a timetable for completing the audit. The expectation is that the audit report and opinion will be issued by the publishing date set out in the Accounts and Audit Regulations 2015 (or equivalent) insofar as the auditor can do so under the auditing standards and the guidance issued by the NAO.**
- 3.6 **Where, in the auditor's view, it would not be possible to issue an audit report in compliance with the auditing standards and the guidance issued by the NAO by the publishing date, the audited body must be consulted on an alternative target date.**
- 3.7 Where an alternative target date is set for the issuing of the audit report, the auditor should include a timetable for completing the audit in the audit planning report in accordance with that target date insofar as the auditor can do so under the auditing standards and the guidance issued by the NAO.
- 3.8 The auditor must notify the audited body promptly of any delays to the agreed timetable, and reissue the timetable having regard to those delays after further consultation.
- 3.9 **Where the issue of an opinion is expected to be delayed beyond the publishing date the firm's nominated contract manager must be notified PSAA using the agreed monitoring form via auditregulation@psaa.co.uk including an explanation for the delay and expected date for resolution (based on the information available**

to the auditor at the time). Auditors must update PSAA when the matter has been resolved or if there is a further delay. This requirement covers (where applicable):

- **the audit report and opinion (including the pension fund opinion and value for money arrangements conclusion where applicable);**
- **the auditor’s annual report; and**
- **the audit certificate.**

3.10 In order to meet the information requirements of NAO, MHLCG and HMT from time to time PSAA may require regular updating of information on outstanding audit opinions and progress on a weekly or monthly basis.

3.11 The audit planning report should include details of:

- the scale fee for the audit of body as set by PSAA:
- any variations to the scale fee anticipated at the planning stage together with the underlying reasons; and
- outline the proposed work programme including any planned pieces of risk-based value for money work.

3.12 PSAA will review a small sample of audit planning documents for contract management purposes. The firm’s PSAA Contract Manager will be notified of the review sample.

The audit report and opinion

3.13 The audit opinion, (including value for money arrangements conclusions where required), audit certificate and any statutory reports must be signed by a Key Audit Partner. This also applies to Statements of Reasons and other correspondence in relation to the exercise of an auditor’s statutory duties (Chapter 4).

3.14 **Auditors must notify PSAA if they intend to issue a non-standard audit report and opinion.** Non-standard reports are those where the auditor is using wording that differs from the firm’s template and about which they will typically have sought advice from the firm’s technical department. Summarised data from the information provided to PSAA may be shared with the NAO.

3.15 **Auditors must notify PSAA when they issue a non-standard audit report and opinion.**

3.16 **PSAA does not require draft copies of non-standard audit reports. In cases where a firm ultimately decides that a non-standard report is not required this should be notified to PSAA.**

3.17 **PSAA will obtain copies of final non-standard reports if required from submissions to the NAO’s Local Audit Reporting Tool.**

3.18 Chapter Three of the 2020 Code covers auditors’ work on VFM arrangements and specifies the following reporting requirement in paragraph 3.14: “Where the auditor identifies significant weaknesses in arrangements as part of their work on arrangements to secure value for money, they should make recommendations”. The 2020 Code further expects that auditors will raise such matters promptly during the course of the audit. Chapter Four of the 2020 Code requires in relation to the auditor’s report of the financial statements that “Where the auditor is not satisfied in respect of arrangements to secure value for money, they should refer to this by exception” (paragraph 4.5). These reporting arrangements may be varied by Auditor Guidance Notes.

Annual audit letters

- 3.19 **For 2019/20 and earlier years AGN 07 (Dec 2017) specifies the requirements for annual audit letters.** The annual audit letter should cover the work carried out by auditors since the previous letter was issued. It should provide a clear, readily understandable commentary on the results of the auditor's work and highlight any issues that the auditor wishes to draw to the attention of the public. **The annual audit letter should be issued either at the same time as the audit report or as soon as reasonably possible after this date.**
- 3.20 PSAA will monitor AAL delivery from submissions to the NAO Local Audit Reporting Tool. PSAA will review a small sample for contract management purposes. The firm's PSAA Contract Manager will be notified of the review sample. If audit fee information is not included within the annual audit letter, then alternative communications with Those Charged With Governance (typically the audit closure report) will be requested.

Auditor's annual reports

- 3.21 From 2020/21 the Annual audit letter is replaced by the auditor's annual report. The 2020/21 Code of Audit Practice specifies that for PSAA's audited bodies, the auditor's annual report should be published no later than 30 September. Where the auditor is unable to do this, he or she should issue an '**audit letter**' including a statement explaining the reason for the delay. Either format constitutes an audit letter for the purposes of local bodies complying with the s20 Accounts and Audit Regulations 2015.

Reporting to PSAA

- 3.22 **PSAA may require further information from time to time or may vary the frequency of requirements in response to sector need. Auditors must comply with requests received.**
- 3.23 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.

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 (Feb 2018) 'Auditors' additional powers and duties' and AGN07 (Dec 2017) 'Auditor Reporting'. AGNs set out guidance from the Comptroller and Auditor General to which local auditors must have regard under s20(6) of the Act.**
- 4.3 An aide memoire on the process is included as Appendix 6.
- 4.4 Regulation 17(3) of the Regulations provides that the costs of the local auditors are recoverable from an authority as part of the fee for the audit where statutory powers are being exercised.

Objections at audit

- 4.5 **Firms should provide PSAA with updates on the progress of dealing with eligible objections on a quarterly basis.** The notification, updates and the outcome should be emailed to PSAA via auditregulation@psaa.co.uk.
- 4.6 Chapter 5 of the 2020/21 Code of Audit Practice specifies that when considering objections, the auditor should do so in a timely manner, keeping the objector and the authority updated as to their progress. It states that the auditor should use best endeavours to determine whether the objection is eligible within one week of receipt, and to determine whether to consider that objection within a further month.
- 4.7 Chapter 5 of the 2020/21 Code of Audit Practice also specifies that the auditor should use best endeavours to conclude on an objection within six months of his or her decision. Where the auditor is not able to decide the objection within six months he or she should inform the objector and the authority, and provide a further update on progress every three months until the objection is decided.
- 4.8 For the avoidance of doubt there is a distinction between objections received but not accepted (e.g. because they were made outside of inspection period) where auditors are not required to inform PSAA, and objections accepted but not considered under s27(4) where auditors are required to inform PSAA. This is because electors may have a right of appeal against a decision not to consider an objection under s27(4). 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.
- 4.9 All firms are required to have systems and processes in place to provide support to their staff in dealing with objections.

- 4.10 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. PSAA does provide comments on draft Statements of Reasons in so far as they might impact on the application of the general indemnity that it provides to audit firms (Paragraph 5.20).
- 4.11 PSAA may share summarised information on auditors' use of statutory powers and duties with the NAO and as otherwise may be required.

Cost of objections at audit work

- 4.12 Fees for the auditor's work on objections (determining eligibility, deciding whether or not to consider and drawing a conclusion) will be considered via the fee variation process is set out in paragraphs 5.8 and 5.9. Auditors should discuss proposed fees with audited bodies as soon as practicable.

Communications with objectors

- 4.13 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.
- 4.14 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).
- 4.15 Where an Auditor has considered an objection under s27(1) of the 2014 Act, and determined not to issue a PIR, he or she should write to the objector setting out the reasons for the decision (AGN04 paragraph 52).
- 4.16 These communications are commonly referred to as 'statements of reasons'.
- 4.17 **Before issuing 'a statement of reasons' for a decision, a copy of the draft should be submitted to PSAA via auditregulation@psaa.co.uk** . PSAA will use best endeavours to respond with any comments on the draft report within two weeks.
- 4.18 **Auditors must notify PSAA when sending a final version of the 'statement of reasons' via auditregulation@psaa.co.uk.**
- 4.19 Firms should redact personal information when sending copies of communications with objectors to PSAA.

Public Interest Reports and written recommendations

- 4.20 **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 auditregulation@psaa.co.uk. For the avoidance of doubt these are the recommendations commonly referred to as 'statutory recommendations' that have specific publicity requirements, rather than recommendations under s27(6).**
- 4.21 PSAA will use best endeavours to respond with any comments on the draft report or recommendations within two weeks.

- 4.22 **Final reports and recommendations must be submitted to PSAA at the same time as they are issued.** Auditors should log these documents via auditregulation@psaa.co.uk.
- 4.23 Auditors should send final versions of PIRs and Schedule 7 recommendations to the relevant Secretary of State at the same time as they are issued as set out in AGN 07 and its supporting information.
- 4.24 For local government bodies, auditors should send final versions of PIRs and Schedule 7 recommendations to the following Department for Levelling Up, Housing, and Communities (DLUHC) email address at the same time as they are issued: localaudit@levellingup.gov.uk.
- 4.25 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 addresses at the same time as they are issued: Policeresourcespolicy@homeoffice.gov.uk
Emma.Lawrence8@homeoffice.gov.uk
- 4.26 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 addresses at the same time as they are issued:
Policeresourcespolicy@homeoffice.gov.uk
Emma.Lawrence8@homeoffice.gov.uk
- 4.27 For county fire and rescue services, auditors are requested also to send final versions of PIRs and statutory recommendations to DLUHC at localaudit@levellingup.gov.uk.
- 4.28 For certain other bodies, the relevant Secretary of State may differ from those covered above. Specific arrangements have not been agreed with government departments other than DLUHC, and the Home Office. Where a PIR is issued in relation to a body falling within the policy remit of another government department, auditors should send it directly to the relevant Secretary of State at the same time as it is issued.
- 4.29 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 as referred to in s27(6) of the Act. These are often referred to as non-statutory recommendations. They do not impose requirements on audited bodies for public consideration and response and auditors do not have to send them to PSAA otherwise than as part of a statement of reasons.

Advisory notices

- 4.30 **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.**
- 4.31 If an auditor is considering issuing an advisory notice (and associated statement of reasons) then they must notify PSAA via auditregulation@psaa.co.uk in order that arrangements can be made for PSAA to comment on a timely basis.

- 4.32 **Before issuing an advisory notice (and associated statement of reasons), a copy of the draft should be submitted to PSAA via auditregulation@psaa.co.uk.**
- 4.33 **Auditors must notify PSAA when issuing an advisory notice (and associated statement of reasons) via auditregulation@psaa.co.uk.**

Judicial review

- 4.34 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 body.
- 4.35 If an auditor is considering applying for a judicial review then they must notify PSAA via auditregulation@psaa.co.uk in order that arrangements can be made for PSAA to comment on a timely basis.
- 4.36 **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 auditregulation@psaa.co.uk.**
- 4.37 **Auditors must notify PSAA when applying for a judicial review via auditregulation@psaa.co.uk.**

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 The Local Audit (Appointing Person) Regulations 2015 require that the scale fee for an audited body must be specified before the start of the financial year to which it relates. PSAA will notify audited bodies of the scale fees when they have been specified.

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

- the point at which the audit planning report is presented to those charged with governance; and
- on conclusion 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, including audit related services, (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's 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 and referenced in the Statement of Responsibilities);
- what is included in the fee and what is not included;
- the process for agreeing the proposed fee with PSAA if it varies from the published scale fee; and

- the processes for notifying and determining any subsequent proposed fee variations which may arise 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 audit planning report, auditor's annual audit report (Annual Audit Letter for 2019/20 and earlier years) or ISA260 report for verifying the communication of fee information to those charged with governance. This will be reviewed on a sample basis and reconciled to audited financial statements and invoices and WIP returns as required. The firm's PSAA Contract Manager will be notified of the review sample.

Audit fee variations

- 5.8 PSAA has the power (s17 of the Local Audit (Appointing Person) Regulations 2015) (AP Regs) 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. To comply with the AP Regs each fee has to be determined on an individual basis.
- 5.9 It is a matter for the auditor to decide the work necessary to complete the audit, and subject to final determination by PSAA, to provide a full explanation and seek to agree a variation to the scale fee with the audited body. **The auditor must give notice to the audited body of the proposed fee variation and the reasons.** Where possible we would expect such information to be provided in planning and/or audit completion communications.
- 5.10 A process note for requesting a fee variation is included at Appendix 3.

Work in progress and fee information

- 5.11 **For all local audits, firms must complete work in progress (WIP) returns.** PSAA will request completion of these returns at the following quarter ends June, September, December, and March.
- 5.12 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 quarterly instalments for the relevant year of account in September, December, March and June. PSAA will update WIP returns to include approved fee variations and request further payments or pay firms as audits are finalised. The remuneration is based on all work carried out under the Code. The estimated contribution projected to the end of March in the fourth quarter is expected to vary by no more than 5 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 variations proposals will be required to be submitted for any proposed variations to scale fees in line with set methodology and timetable.
- 5.14 Separate maximum hourly rates for grades of staff have been set for calculating the cost of audit work which is additional to the scale fee set (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 and made a determination can be invoiced or refunded to the audited bodies and included in a subsequent WIP return. PSAA will respond in line with set methodology and timetable.

- 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 examine billing records. Auditors should ensure adequate accounting records are maintained and that they comply with any requests from PSAA or its internal or external auditors.

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. PSAA will send its list of audited body contact details for the bodies to which they are appointed (Director of Finance) for confirmation by firms on a quarterly basis. PSAA uses this contact information for its formal communications with opted-in bodies. PSAA has an alternative information source for Chief Executives and Audit Committee Chair appointments.
- 5.19 PSAA also publishes a directory of auditor appointments on its website, including the relevant Key Audit Partner and their contact details. Audit firms are required to provide details on a quarterly basis of the Key Audit Partner and audit manager for each body 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 **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.** If PSAA is not notified or consulted then the indemnity may not apply.

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 the allocation of Key Audit Partners with individual 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 7 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 matter, which should also be reported to PSAA via 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 remains 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 8.**
- 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 arrangements

- 5.32 PSAA is committed to ensuring good quality audit services are provided to opted-in bodies. Its holistic approach considers three strands:
- adherence to professional standards and guidance;
 - compliance with contractual arrangements; and
 - relationship management.
- 5.33 PSAA's compliance requirements may be reviewed and reported in audit quality monitoring reports.
- 5.34 As part of its 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;
 - the information provided in firms' Transparency Reports; and
 - the results from satisfaction surveys sent to audited bodies.
- 5.35 Firms must cooperate with PSAA audit quality monitoring arrangements. Appendix 9 provides a summary. **The audit quality monitoring arrangements enable PSAA to provide assurance to stakeholders about the quality of work delivered by its audit suppliers.**

Responding to information requests

- 5.36 Auditors are not subject to the Freedom of Information Act 2000 (FoIA) in relation to information held for audit purposes. However, PSAA is subject to FoIA. In those cases

where a request for information is received by PSAA and it involves information provided by an auditor, PSAA will consult the auditor to discuss the information request.

- 5.37 Auditors are subject to the Environmental Information Regulations 2004 (EIR) in relation to information held for audit purposes. 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.
- 5.38 Information covered by the EIR must be disclosed unless an exception applies. The EIR overrides all other statutory restrictions on disclosure. If the request relates to environmental information the restrictions on disclosure in the LAAA 2014 do not apply but the auditor must consider the specific exceptions to disclosure in the EIR itself including the mandatory restriction on disclosing personal data.
- 5.39 If disclosure is not permitted by legislation or 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

5.40 PSAA uses the following general e-mail boxes for communication with auditors.

Contact	Email address
Audit regulation mailbox: used for matters related to the delivery of audit services	auditregulation@psaa.co.uk
Auditor Appointments mailbox: used for matters related to auditor appointments	auditorappointments@psaa.co.uk
Fee variations mailbox: used for matters related fee variations	feevariations@psaa.co.uk

Appendix 1: Protocol for information requests

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 of its audit firms for information 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 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.
7. 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.
8. 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.
9. 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 may share information obtained with the NAO as appropriate.
12. PSAA will monitor compliance with this protocol.

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

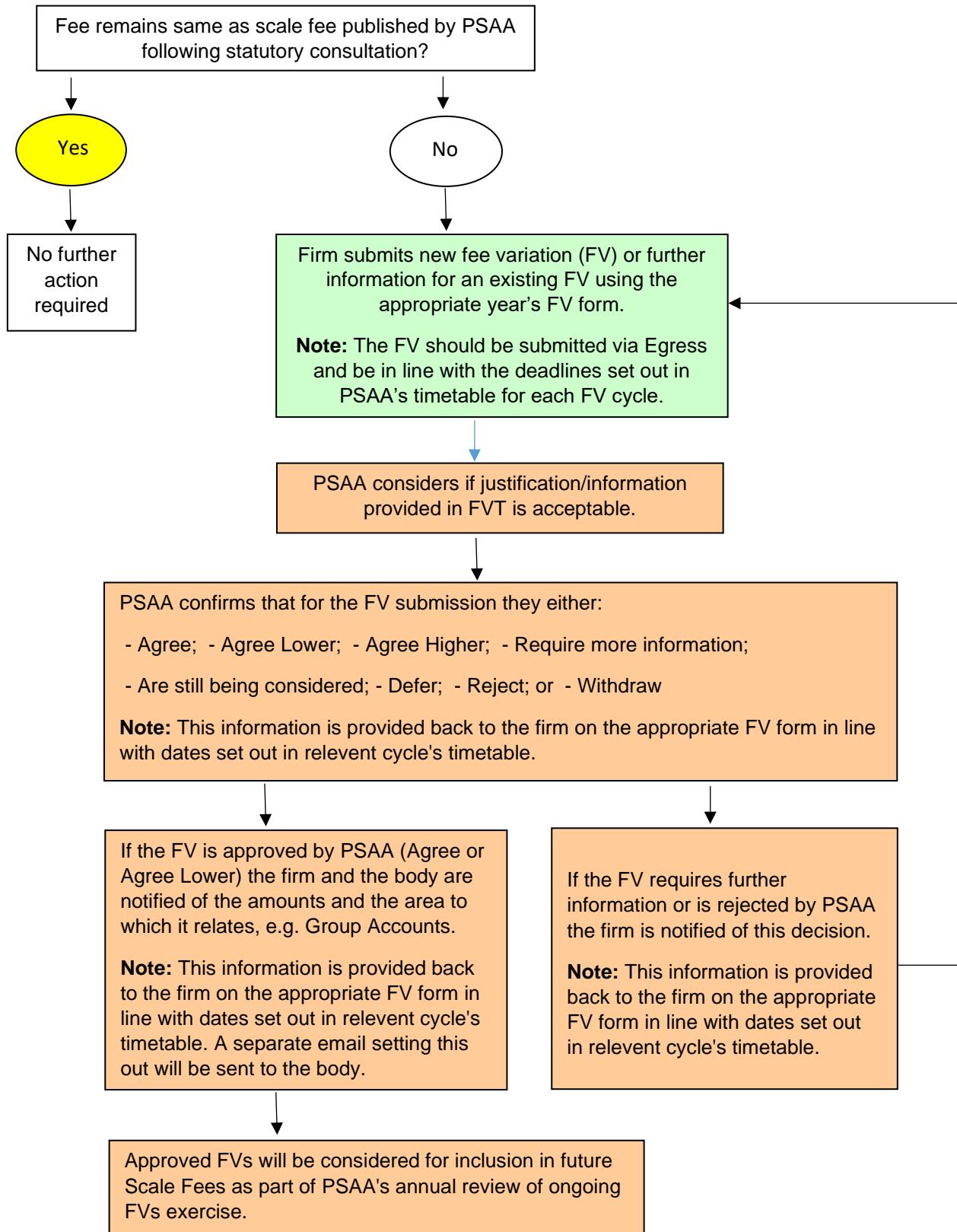
Scope

1. This protocol is intended to cover all formal liaison by PSAA with auditors. 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 formal consultation PSAA will use its best endeavours to 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: Determining variations to scale fee



Appendix 4: Additional work scale fees

Separate maximum hourly rates for grades of staff have been set for calculating the cost of audit work which is additional to the scale fee set.

	Partner/ Director	Senior Mgr/ Mgr	Senior Auditor	Other Staff
2019/20 and earlier years	£132	£73	£47	£36
2020/21	£165	£91	£59	£45

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 Expenses (up to a maximum of fifty thousand pounds (£50,000) which may be properly payable and are paid by the Supplier in so far as the same are not recoverable or recovered from other persons or bodies under the provisions of the 2014 Act or the 2015 Regulations or by order of the Court, provided that the Supplier has acted reasonably and has used all reasonable endeavours to recover such amounts from the relevant third party. Full details are contained 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.**
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: Process for working with PSAA when considering the use of Statutory Powers – aide memoire

This document provides the process for working with PSAA when considering the use of statutory powers. 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. PSAA does provide comments on the pre-issue draft Statements of Reasons, Reports in the Public Interest and related documents in so far as they might impact on the application of the general indemnity that it provides to audit firms. Full details are contained in the Contract and Terms of Appointment (Chapter 4). For ease of reference these documents are referred to here as 'Statutory Reports'.

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 objections accepted as eligible but not considered under s27(4) where auditors are required to inform PSAA. This is because electors may have a right of appeal against a decision not to consider an objection under s27(4) or request a judicial review.

The process for obtaining comments is as follows:

Submit any statutory report to PSAA as soon as consultation allows. This should be redacted to conceal the name and address of the elector. This should be the final version that the auditor is expecting to issue and will have been through the Maxwellisation process of sharing with individuals named in it or shared with the elector as provisional views if that is the case. To minimise the costs to the public purse PSAA does not comment on provisional views or consultation drafts which may be subject to amendment. Please forward your document for comments to auditregulation@psaa.co.uk and andrew.chappell@psaa.co.uk.

PSAA will consult with its legal advisers and use its best endeavours to respond with comments on the draft statutory report or recommendations within two weeks.

Where time is an important factor in the response (eg Advisory Notices) please give notice such that time can be arranged with our legal advisers to consider the submission.

PSAA will always provide comments on any statutory report submitted. These can include:

- matters considered for further consideration (eg where something is unclear); and
- observations (eg an incorrect legal reference).

In some cases, we may also ask for confirmation of a matter (eg that material documents have been shared with the elector, or that the consultation process has been followed).

In some cases, we may also ask for a second review of the statutory report.

Where we have provided comments and no further confirmations or information are requested the firm should make any amendments that it decides to.

Where we have asked for confirmations or additional information the firm should not publish any statutory report until we have confirmed receipt.

In all cases please provide a redacted copy of the final version of the statutory report when issued.

If you are unsure about any aspect of the process, please ask.

Appendix 7: 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 and Those Charged with Governance;
 - 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.
6. Where an incoming auditor is considering a Prior Year Adjustment to the financial statements they should consider whether it would be helpful to discuss with the outgoing auditor.

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.

Appendix 8: 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 upheld to PSAA when they progressed through all stages of the firms' complaints policy for contract monitoring purposes.
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, the complainant will be directed to the relevant contact partner.
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; or
 - 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 or the complaint to the relevant RSB.

Appendix 9: PSAA audit quality monitoring arrangements

PSAA is committed to ensuring good quality audit services for opted-in bodies. PSAA has adopted the International Auditing and Assurance Standards Board's *Framework for Audit Quality* (IAASB framework) as the model for its appointing person audit quality arrangements. This is widely regarded as a definitive statement on overall audit quality.

The framework makes clear that a quality audit is likely to be achieved by an engagement team that:

- exhibits appropriate values, ethics and attitudes;
- is sufficiently knowledgeable, skilled and experienced and has sufficient time allocated to perform the audit work;
- applies a rigorous audit process and quality control procedures that comply with law, regulation and applicable standards;
- provided useful and timely reports; and
- interacts appropriately with relevant stakeholders.

Audit quality formed a core part of the evaluation of tenderers in the audit procurement, with tenderers encouraged to have regard to the IAASB Framework in their responses to show how they would meet our rigorous quality requirements. Ongoing contract management arrangements have the dual purpose of reporting for opted-in bodies and ensuring that PSAA meets its obligations under the Local Audit (Appointing Person) Regulations 2015, to monitor compliance of auditors against the obligations in the audit contracts.

While responsibility for providing a quality audit rests ultimately with an auditor, audit quality, efficiency and effectiveness are shared responsibilities. They are key concerns for appointed auditors and audit firms; for chief finance officers (CFOs) and audit committees; for regulatory and supervisory bodies; for the Comptroller & Auditor General (C&AG) and the National Audit Office (NAO); and for Government. The IAASB Framework notes that all parts of the financial reporting supply chain have a role in contributing to and encouraging a local audit environment that supports high quality audits for opted-in bodies. PSAA's sponsorship of the Local Audit Quality Forum is intended to support opted-in bodies' role in audit quality and is in direct response to feedback from audited bodies. The forum will allow scope for discussion of common concerns by all stakeholders.

Principles of our approach

With the IAASB framework as the starting point, PSAA has worked with its Advisory Panel and other key stakeholders to develop this approach to monitoring the quality of audit services provided to opted-in bodies from 2018/19.

We intend that our approach is:

- holistic – includes a range of actions (encouraging, monitoring, reporting);
- engaged – links with all parts of the financial reporting supply chain including audit committees and regulators;
- informed – brings together intelligence from a variety of sources;
- transparent – information is shared openly where possible;
- drives continuous improvement – recognises progress will be made by small gains;

- proportionate – arrangements should not be unduly bureaucratic or place undue burdens on firms; and
- timely – encourages action to be taken when required.

These principles provide the drivers of our approach to monitoring overall audit quality.

Monitoring audit quality

The IAASB framework recognises there is a complex interplay of many factors in audit quality, and notes the need for a rounded approach.

We have taken the attributes that IAASB Framework expects to be present within a quality audit and distilled them into three tests which we will use to consider the quality of audit services provided by auditors under our contracts:

- adherence to professional standards and guidance;
- compliance with contractual requirements; and
- relationship management.

This approach will enable PSAA to meet the statutory requirement to monitor compliance with contractual obligations, and will provide information for all stakeholders on the quality of audits provided under our contracts against IAASB expectations of a quality audit. We have set out below the sources we will use to monitor audit quality for the three tests to provide a rounded view.

The diagram at Annex A provides an overview of our approach.

Adherence to professional standards and guidance

Information on the firms' adherence to professional standards and guidance will come from the results of professional regulatory reviews completed by the Audit Quality Review Team (AQRT) for the Financial Reporting Council and the Quality Assurance Department (QAD) for the Institute of Chartered Accountants in England and Wales, the principal RSB for local audits in England. The regulators will be reviewing a sample of local audits. PSAA will be informed by but will not be duplicating the work of the regulators.

We will triangulate these results with information on audit quality provided by firms in their transparency reports and from their own internal quality monitoring reviews (iQMRs).

Compliance with contractual requirements

Information on a firm's compliance with contractual requirements will come from:

- **An assessment against a suite of performance indicators.** We will report publicly on firms' performance against targets of particular interest to opted-in bodies. This will include information on delivery of audit opinions and other outputs in a timely manner, to facilitate publication of annual accounts. We will distinguish between those items which are indicative of audit quality and the work of the firm (for example non-compliance with PSAA Terms of Appointment) and those which relate to the local authority financial reporting supply chain as a whole (for example issue of opinion on financial statements by statutory publishing date).

- **An assessment of a firm's compliance with its agreed method statement.** The method statement is taken from the firm's ITT response and incorporated in the contract, and includes inter alia continuing professional development of staff, quality assurance arrangements, and achievement of social value commitments. Firms will self-certify their compliance. We intend to rely on a firm's internal control procedures for providing this information. This will be subject to PSAA verification testing and triangulated with audit quality information from other sources e.g. surveys of audited bodies.

Relationship Management

Information on a firm's relationship management will come from satisfaction surveys. Surveys will be sent at appropriate times to representatives of both management (for example the Director of Finance) and those charged with governance (for example the Audit Committee Chair) for each opted-in body. Any complaints made will also be assessed in considering overall relationship management.

Reporting on audit quality

Based on these monitoring arrangements, PSAA will report on the three tests (professional standards, contractual requirements and relationship management) and on overall audit quality to stakeholders.

PSAA will meet with firms' contact partners to discuss audit quality. We will produce quarterly monitoring reports for discussion with each firm, together with an annual report. A summary report on the regime as a whole will also be prepared.

All reports will all be published on our website. Our annual reports are provided to audit firms' quality and assurance partners.

Taking action on audit quality concerns

PSAA has contracted with firms on the basis that quality audit services will be provided to audited bodies.

Where PSAA's audit quality monitoring arrangements identify that an audit may not have reached the required standards (for example failure to meet contractual requirements, or poor feedback from audited bodies) firms will have the opportunity to rectify the situation. In the first instance, PSAA will meet with the contact partner for the relevant firm to discuss:

- the reason for any quality concerns;
- the action being taken by the firm to address the matter; and
- the expected timetable for improvement.

We would expect that, recognising their professional registration requirements, firms will take action to address problems as they are identified. Failure to do so could lead to loss of accreditation from the regulatory bodies. Concerns identified by professional regulators will be managed within that framework.

Where a firm fails to take action, or that action is inconsequential, we would raise the matter with the firm's audit quality partner or equivalent for the firm as a whole. Ultimately, PSAA's appointing person contracts provide that firms must comply with our monitoring arrangements. The contracts provide for termination where there is a material breach or persistent failure. Consistently providing poor quality audits would be viewed as persistent failure.

Appendix 9, Annex A: Audit quality approach diagram

