

Fee variation process

Outline of the process as of April 2021 (updated January 2023)

Introduction to fee variations

PSAA sets the audit fee scale for opted-in bodies annually and publishes the scale fee for each individual audited body. If the auditor subsequently considers that additional work is required that is not provided for in the scale fee for an individual body, a fee variation proposal can be submitted to PSAA. This is set out in the statutory framework for audit fees and variations, in the Local Audit (Appointing Person) Regulations 2015 ('the Regulations'). Regulation 17(2) provides for the auditor to propose to PSAA (as the Appointing Person) that fees should be varied where the work involved in a particular audit was substantially more or less than envisaged by the appropriate scale.

The reasons for submitting fee variation proposals vary. Examples of reasons given include:

- Increased regulator challenge on audit quality resulting in the need for additional work to provide greater assurance on areas such as property, plant and equipment valuations and pension valuations;
- Changes in audit requirements once the fee scale for an audit year has been set;
- technical accounting issues;
- group accounts;
- the auditor has received an objection from an elector; or
- the working papers to support the annual accounts were of a poorer quality than in previous years.

Auditors are obliged to have local discussions with individual opted-in bodies about any proposed fee variations. These discussions should take place at the earliest opportunity, and wherever possible the auditors should highlight to the audited body at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. While 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.

Fee variation submission

PSAA provides standard fee variation forms for the audit firms to complete cyclically. The form is prepopulated with information such as the scale fee, engagement lead, body type. The cells are protected which prevents firms from changing the prepopulated fields. Auditors are required to:

- state the date the fee variation was agreed with the audited body (or record that it has not been agreed);
- state the date the fee variation was or will be reported to those charged with governance (TCWG);
- confirm whether this fee variation proposal includes recurring additional work;
- provide narrative and supporting documents to explain the fee variation proposal, including why the work was needed and what work was undertaken;

- enter the number of hours that the additional work has taken to complete. This is split across the different staff levels that have been used in line with the rate card – Partner, Senior Manager, Senior Auditor and other staff;

Firms submit fee variation forms and supporting documents to PSAA using secure transfer facilities. The Regulations require that PSAA review fee variation requests once the work is complete.

Review process

A PSAA officer reviews the fee variation proposals submitted, including some or all of the following as applicable:

- confirming that the fee variation form has been filled in correctly;
- considering the value of the fee variation and its size relative to other similar fee variations;
- comparing the size of the fee variation to the scale fee to consider whether it is proportionate in context;
- reviewing the justification (including any supporting workings/documents) provided by the firm to support the fee variation proposal and assessing whether the complexity of the issue and the challenges described are in proportion to the fee variation submitted;
- checking that the work performed meets the requirements as set down in regulations for a fee variation, for example, it is work required under the Code of Audit Practice;
- confirming that the work detailed in the firm's justification is consistent with PSAA's other records, for example, a delay in the issue of an accounts opinion, statement of reasons issued;
- exercising judgement when considering the grade mix used and hours taken (for example, do they appear reasonable?);
- considering any specific outputs resulting from the additional work undertaken;
- checking whether the audited body has agreed the fee variation proposal. In the case of claims that are not agreed, we make contact with the audited body (where possible, the Section 151 officer) to hear the body's concerns so that we can take them into consideration when we make the fee determination;
- checking that the relevant issues raised in the firm's justification have been reported to TCWG (for example the ISA260 report or Auditor's Annual Report);
- checking that the appropriate fee variation value is being reported for example in the Audit Plan, ISA260 or Auditor's Annual Report;
- for high value and complex fee variations the following may also be undertaken:
 - a PSAA officer will contact the body (normally s151 officer or Director of Finance) to provide an opportunity to discuss the variation;
 - PSAA officers may have a meeting with the firm's audit team and perform a review of the audit file to obtain a better understanding of the additional work;
- reviewing whether any approved fee variation is one-off or recurring, to assess whether it relates to additional audit work that will be repeated in future audits (for example, pension fund valuations, PPE valuations, group accounts, increased

challenge on audit quality, public interest entity, PFI). Where we are satisfied that the fee variation is recurring, we will aim to include it in the scale fee at the earliest opportunity, following consultation. The requirements for setting the fee scale are set out in the Appointing Person regulations.

Review process final stages

A PSAA officer will consider all the information and explanations provided then draft comments (taking advice as appropriate) on the proposed fee variation and either make a determination on the fee variation or make a proposal as to the status of the variation selecting from the following options:

Option	Description
Agree	No issues identified from the checks performed, we can agree the variation proposal.
Agree lower	Although we accept that additional work is needed, in our view there is insufficient acknowledgement that some of the work detailed could have been done more efficiently or that some of it is covered by the scale fee.
Agree higher	No issues identified from the checks performed, however, we believe that the fee variation proposal submitted is not sufficient to cover the additional work detailed.
Rejected	The work detailed is covered by the scale fee or was not required (occasionally we find that the auditor has submitted a fee variation proposal for work that does not relate to their responsibilities under the Code).
More information required	We need further information to help us understand the fee variation proposal submitted. This is normally a more detailed breakdown of the work performed, or a report to confirm that any matters raised have been reported to TCWG.
Being considered	We may need to speak to a body about a fee variation proposal (for example because it has not been agreed).
Deferred	The fee variation is at too early a stage for us to be able to make a decision (for example we are waiting for some further examples so that we can compare).
Withdrawn	A firm confirms that a fee variation is no longer required.

A Senior PSAA officer then reviews the proposed determination on each fee variation.

A PSAA officer sends the updated forms to the firms using the secure transfer facility.

Once our considerations have been completed, we write to audited bodies to notify them about our fee determinations and provide a summary of fee variation proposals we have approved.

Firms can invoice the body once the fee variation is determined by PSAA.