

## **Introduction to fee variations**

1. PSAA sets the fee scale annually and publishes the scale fee for each individual audited body. If the auditor subsequently considers that substantially more or less work on an audit is required than that 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 legal 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.
2. The reasons for submitting fee variation proposals vary. Examples of reasons given include:
  - valuations of property, plant and equipment or pension;
  - technical accounting issues;
  - increased challenge on audit quality;
  - group accounts;
  - receipt of an elector objection;
  - the working papers to support the annual accounts were of poor quality.;
  - issue of a disclaimed or modified audit opinion; or
  - work to build back assurance following a disclaimed or modified audit opinion.
3. Auditors are obliged to have discussions with individual bodies about proposed fee variations. These discussions should take place 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. 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**

4. Firms submit fee variation proposals in accordance with an agreed timetable. 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 reported to those charged with governance;
  - confirm whether this fee variation proposal relates to recurring additional work;

- provide narrative/documents to support and explain the fee variation proposal, including why the work was needed and what work was undertaken; and
- 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.

5. Firms submit fee variation forms to PSAA using secure transfer facilities.

## **Review process**

6. 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;
- 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;
- consulting with the audited body (typically the Section 151 Officer) by sharing a proposed fee variation statement and if appropriate, meeting with the body to address concerns or clarify before finalising fee determination;
- checking that the relevant issues raised in the firm's justification have been reported to TCWG (for example the ISA260 report or Auditors Annual Report);
- checking that the appropriate fee variation value is being reported in the Audit Plan/ISA260/Auditors Annual Report;
- where a fee variation proposal exceeds the scale fee by £100k or more, PSAA perform a review of the audit file to gain a better understanding of the additional work; and
- reviewing whether any approved fee variation is one-off or recurring, to assess whether the additional audit work will be repeated in future audits (for example,

pension fund valuations, PPE valuations, group accounts, increased challenge on audit quality). Where we are satisfied that the fee variation is recurring, we will aim to reflect it in the scale fee at the earliest opportunity, which is determined in accordance with the Appointing Person regulations.

## Review process final stages

7. A PSAA officer will consider all the information and explanations provided then draft comments (taking advice as appropriate) on the proposed fee variation and determine the fee variation based on 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. It may also occur when fee variations are submitted under an incorrect category.
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. It may also occur when fee variations are submitted under an incorrect category.
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 the body has requested a meeting with us).
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.

8. A suitably experienced PSAA officer performs a second review of each fee variation.
9. PSAA notifies the audited body of the fee determinations which we are minded to approve, providing the audited body the opportunity to review and respond if they wish.
10. PSAA then communicates its determination to the audit firm, after which the firm can invoice for agreed fee variations.