

Terms of appointment and further guidance

Issued: 1 October 2025

The contents of this document will apply from the date of issue until superseded to contracts:

- commencing in April 2023 for the contracts arising from the 2022 audit services procurement.
- for all DPS procurements.

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.

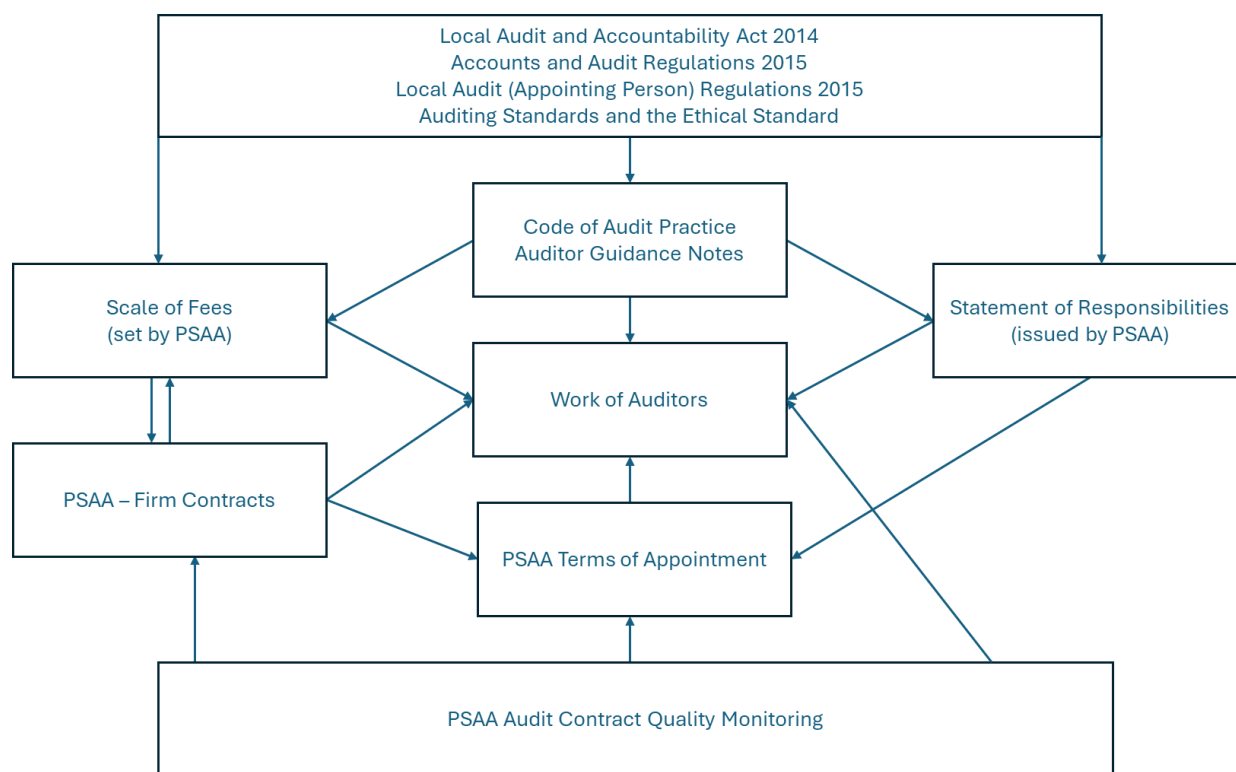
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1. Introduction

- 1.1 These Terms of Appointment and further guidance (the Terms) are issued in accordance with the audit contracts (contracts) between audit firms (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 These Terms will be updated as and when required to ensure they align with changes to legislation, regulations and the Code of Audit Practice (the Code) and following consultation with the Firms, though it is PSAA's decision as to the changes made.
- 1.3 Auditors must comply with the requirements set out in the Code issued by the Comptroller and Auditor General (or successor arrangements) in statute, and in the contracts with PSAA.
- 1.4 The Terms set out service performance standards that auditors must comply with, over and above those set out in legislation, the Code, guidance to auditors provided by the National Audit Office (NAO) and by professional regulators (FRC and ICAEW as Recognised Supervisory Bodies (RSBs)). Nothing in the Terms can override those requirements.
- 1.5 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.
 - Resolve disputes or complaints from local auditors, opted-in bodies (bodies) and local government electors relating to the audit contracts and the carrying out of audit work by auditors it has appointed.
- 1.6 Throughout these Terms, the words "Firm" and 'Auditor' mean the firm and Key Audit Partners (KAPs) nominated by a Firm to discharge its statutory obligations and its obligations under the contracts. In the event of any conflict, the relevant legislation, the Code and the audit contracts, where applicable, prevail over these Terms.
- 1.7 Firms must ensure that those working for or on their behalf:
 - Comply with the audit services contract (contract) which requires the delivery in accordance with these Terms.
 - Are familiar with the PSAA Statement of Responsibilities of Auditors and of Audited Bodies, which outlines the respective responsibilities of the auditor and audited body.
 - Have regard to guidance issued by the NAO.
 - Refer to PSAA's published scale of audit fees, which are based on the required audit work.

1.8 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. Communication with PSAA

Contract management and audit delivery matters

- 2.1 Firms must notify PSAA immediately of any change of circumstances that could affect their ability to comply with the requirements of the contract, the Code or these Terms.
- 2.2 Communication between Firms and PSAA is vital to support effective audit delivery for bodies. Firms must use the communication route, relevant to the subject matter:
- Routine contract delivery matters (as items covered by these Terms) via the agreed data sharing mechanism (Inflo / Huddle / SharePoint).
 - Non-routine contract delivery matters via email to PSAA's assigned Contract Manager and Assistant Contract Manager.
 - Auditor appointments: auditorappointments@psaa.co.uk used to issue audit appointment notices to Firms.
 - Fee variations: feevariations@psaa.co.uk used to communicate with Auditors and bodies about fee variations.
- 2.3 To escalate any matter or to raise a commercial or other sensitive matter, please contact appointmentconcerns@psaa.co.uk.
- 2.4 Each April, PSAA will issue the latest contract management activity timetable to provide a detailed schedule of the contract monitoring activities to be completed by PSAA and the Firms spanning the following 15 months. It will outline the key dates, responsibilities, and actions required to support the effective oversight and delivery of local audit contracts. If a substantial change to the schedule is required PSAA will issue an updated document, or if the change is to a single item, PSAA will communicate the change via email.
- 2.5 If a Firm is unable to meet a specific date set out in the contract management activity timetable, it must notify PSAA in advance and propose a revised date of submission, typically, this should be before (rather than after) the specific date.
- 2.6 If a Firm is unclear about any requirement under these Terms, it should communicate with PSAA using the routes specified under 2.2 or by raising their concerns in one of the quarterly contract management meetings between PSAA and the Firms.

Consultation between PSAA and Firms

- 2.7 PSAA publishes its [consultation policy](#) on its website.
- 2.8 PSAA will, as required by the contract, formally consult Firms before setting scales of fees and, informally consult before amending these Terms or publishing related information. Where possible, PSAA will consider peak work periods and mainstream holiday periods.
- 2.9 Where possible in formal consultations PSAA aims to provide a minimum period of 4 weeks.
- 2.10 When initiating any type of consultation, PSAA will make clear:
- The issues on which it is seeking Firms' views.

- The level of response being sought.
- By when and to whom a response is required.

2.11 Following each formal 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, because of the consultation.
- (For major or significant consultations), detail the main issues raised in the consultation and how these have been considered.

2.12 Following an informal consultation, PSAA will provide a response to any points raised.

3. General principles

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

- Integrity, objectivity and independence.
- Rotation of key staff.
- Non-Code work.
- Restrictions on relationships with audited bodies.
- Confidentiality.
- Engagements that may involve commenting on other auditors.
- Political activity.
- Gifts and hospitality.
- Publicity and media enquiries.

Integrity, objectivity and independence

3.2 The Code requires auditors to carry out their work in accordance with the ethical framework applicable to local audit, including the requirements set out in the FRC's Ethical Standard and the NAO's General Guidance to Auditors contained in AGN01.

3.3 PSAA has in place specific policies to guard against particular threats to the integrity, objectivity and independence of its contracted Firms.

3.4 Firms must have procedures in place to promptly identify and address actual and potential breaches, and ensure that all staff involved in local audit work:

- Are familiar with these requirements.
- Do not hold any interest or relationship that breaches, or could reasonably be perceived to breach, independence standards.
- Are familiar with procedures to promptly identify and address potential breaches.

3.5 Firms must report to PSAA where it identifies an actual or potential independence issue as soon as practically possible and at the same time as it is communicated to the body. This is irrespective of whether:

- Safeguards are being implemented, following consultation with the Firm's Ethics department; or
- No appropriate safeguards can be put in place.

Rotation of key staff

3.6 PSAA imposes clear limits on the tenure of involvement by key audit staff with any individual body.

- 3.7 At Firm level, PSAA's general policy is that a Firm will not be appointed to an individual body beyond a tenure of twenty years. In practice, PSAA favours shorter tenures.
- 3.8 A Firm may request an extension to audit key staff role beyond its initial term in the year that the initial term is due to end by confirming in writing that there are no independence issues which would preclude an extension and provide plans for future rotation. Tenure and maximum extensions are detailed under 3.10.
- 3.9 To approve an extension beyond a role's initial term PSAA will require written 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.
- 3.10 The maximum total tenure of each role is set out below whether continuous or in aggregate. Once an individual has completed the maximum total term in a particular role, a mandatory break period of five years is required, during which time they must have no direct involvement with the body. The tenure period will be reset to zero following a full five-year break.
- For a **KAP or an Engagement Quality Reviewer (EQR)**, the initial term is five audit opinions (typically years), which may be extended with PSAA's written approval for up to a further two (so up to seven in total).
 - For an **Audit Manager (AM)** the initial term is seven audit opinions (typically years), which may be extended with PSAA's written approval for up to a further three (so up to ten in total).
 - Where an **EQR becomes a KAP (or vice versa)** at a body for a combined period of service in these positions, their tenure must not exceed seven audit opinions (typically years) whether continuously or in aggregate.
 - Where an **AM becomes a KAP and/or EQR** at a body the combined period of service in these positions shall not exceed seven audit opinions (typically years) whether continuously or in aggregate.
- 3.11 Firms are responsible for ensuring compliance with the tenure and rotation requirements of KAPs, EQRs, and AMs at each body so must carefully monitor their appointments.
- 3.12 PSAA will review with Firms the tenure of KAPs and AMs annually in January of each year for the forthcoming audit year of accounts (e.g. January 2025 for the 2025/26 audit year), to proactively identify where rotations or extension requests may be required.
- 3.13 In exceptional circumstances, PSAA may approve either a shorter break period or a limited extension to the maximum term. Approval would be dependent on 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. A possible example may be in the final year before a body ceases to exist due to local government reorganisation.

Non-Code work

- 3.14 PSAA recognises 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).
- 3.15 We define non-Code as work other than that required to meet the requirements of the Code. 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.
- 3.16 In undertaking non-Code work Firms must comply with the requirements of the Ethical Standard and AGN01 (Annex 1 specifies those services which can be provided by the auditor which are explicitly excluded for the purposes of applying the 70% cap and in the consideration of paragraphs 3.17 and 3.18).
- 3.17 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%). 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.
- 3.18 Where the value of non-Code work, individually or in total, for a 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.
- 3.19 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.
- 3.20 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 in relation to any aspect of the Code's requirements nor be reasonably perceived to do so by an objective, reasonable and informed third party.
 - The value of the work in total, in any audit year, does not exceed a de minimis amount.
- 3.21 Whilst each case will be considered on its merits, PSAA expects non-Code work that does not comply with the Ethical Standard and AGN01 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.
- 3.22 In accordance with AGN01 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 must 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. The Firm must provide the agreement of the Firm's ethics partner to the departure from the guidance along with details of the safeguards that will be implemented to prevent perceived or actual threats to the Firm's integrity, objectivity or independence, as part of its application to PSAA.

3.23 Applications to PSAA must be made at least ten working days before the proposed start of the work and provide the following information:

- The nature and scope of the proposed work requested by the body.
- The reasoning for concluding why 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 (considering the requirements of both the FRC's Ethical Standard and AGN01).
- Where potentially prohibited non-audit services are to be provided under the derogation arrangements set out in the Annex to AGN01 why these have an inconsequential effect on the financial statements, or arrangements to secure value for money.
- The estimated timescale and fee.

3.24 PSAA will not consider applications that do not meet the requirements set out above.

3.25 PSAA will consider in its review whether:

- The work involves the design or implementation of systems or processes that an auditor might subsequently be required to review.
- The subject matter may be subject to review as part of future audit work or may be the subject of public challenge.

3.26 If PSAA is satisfied that the proposed work will not compromise the integrity, objectivity or independence of the Firm, it will allow the non-Code work but may specify conditions. 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.

Restrictions on relationships with audited bodies

3.27 Firms must comply with the Ethical Standard and AGN01 concerning financial, business, employment, and personal relationships, which apply to all local public audits.

3.28 PSAA will not appoint a Firm to a body where the appointment would contravene the requirements of the Ethical Standard or AGN01 guidance (relating to financial, business, employment and personal relationships).

3.29 PSAA will not appoint a Firm to a body where a member or employee of the Firm has accepted, holds or has held a role whether elected or appointed (paid or unpaid) within that body, including those linked through a strategic partnership. In the case of past roles, the individual must have no direct relationship with, or involvement in, audit work relating to that body for a period of at least three years.

- 3.30 Where it appears to the Firm that an employee, not connected to the audit, has a low-risk role which they consider poses a minimal threat to independence and that the position is allowable by the Ethical Standard and AGN01 (for example a Youth Offender Panel Member or foster carer), they must inform PSAA who will consider whether the role may compromise the Firm's integrity, objectivity or independence.
- 3.31 KAPs at a body, and their local audit team must not serve as a governor of any school funded from the body's budget.
- 3.32 Firms may have other business relationships with audited bodies or members of those bodies, or with third parties providing services to those bodies, for example, through the payment of business rates. In such cases, Firms are expected to comply with the requirements of the Ethical Standard and AGN01.

Positive actions to assure independence

- 3.33 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.
 - Members of staff being employed by and joining from audited bodies.

Scenario	Required Actions
A Firm hires someone currently or recently (within the last three years) employed by the body or a related service provider.	The individual must not have any direct involvement with audit work at that body for three years. The Ethics Partner must determine whether any further safeguards are required.
A spouse, partner, or close family member of a member of the audit team holds a senior or influential role at the audited body.	The affected auditor must be rotated off the audit. They must not return to audit work at that body until three years have passed since the family member's role ended. The Ethics Partner must review and apply any additional safeguards.
A senior Firm staff member (currently or within the last two years) who has overseen or delivered local audit work is appointed to a senior or influential role at the body.	If the person was in the auditor's management chain, the Firm must resign. If not, the Ethics Partner must determine whether appropriate safeguards can be implemented locally.

Confidentiality

3.34 Firms must have arrangements in place to ensure that all audit staff delivering local audits under the contracts:

- Are aware of and understand the confidentiality requirements set out in legislation and in clause 32 of the contract.
- Understand the expectations and restrictions relating to political activity, gifts and hospitality, and interactions with other auditors.
- Are subject to appropriate internal processes to identify, monitor, and respond to any potential breaches in these areas.

3.35 Notification to PSAA of a potential or actual confidentiality incident, such as a data breach, must be reported as soon as it is practicable to do so (clause 34.3 of the contract) with the following information to enable it to consider the matter:

- The incident or potential incident and how it occurred.
- Actions that the Firm has already taken or proposing to take.
- Details of consideration by the Firm's information security/data protection function (e.g. decision on whether there is the need to report to ICO).
- Any communications with the audited body(ies).

Engagements that may involve commenting on other auditors

3.36 Firms must not accept engagements that involve, or could reasonably be perceived to involve, commenting on the opinions or performance of other appointed auditors engaged in local audit work commissioned by PSAA.

3.37 This restriction applies to both current and historical contracts, engagements, or activities.

3.38 Firms must notify PSAA of any incident that may involve or has involved commenting on other auditors as soon as it is practicable to do so to enable PSAA to consider the matter.

3.39 Where an incoming auditor is considering a prior period adjustment to the financial statements, they should consider whether it would be helpful to consult the outgoing auditor.

Political activity

3.40 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 must not take part in political activity where it relates directly to the functions of local government or to a particular local government body. For example: canvassing or standing for office or acting as a spokesperson, on behalf of a political party or special interest group.

3.41 Notification to PSAA of a potential or actual incident must be reported as soon as it is practicable to do so with the following information to enable it to consider the matter:

- Description of the situation.

- Actions that the Firm has already taken or proposing to take.
- How it occurred if you are reporting retrospectively.

Gifts and hospitality

- 3.42 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.
- 3.43 Notification to PSAA of a potential or actual incident must be reported as soon as it is practicable to do so with the following information to enable it to consider the matter:
- Description of the situation.
 - Actions that the Firm has already taken or proposing to take.
 - How it occurred if you are reporting retrospectively.
 - Details of any communications with the audited body(ies), if any.

Publicity and media enquiries

- 3.44 Firms must not make any press announcements or publicise the Contract or any part thereof in any way without the prior written consent of PSAA, except:
- Where it is required by Law to publicise the Contract or any part thereof.
 - That it may disclose its appointment as appointed auditor to the relevant body.
- 3.45 The Supplier shall use reasonable endeavours to procure that the provisions of Clause 35.1 are observed by the Staff and the Supplier's professional advisors and consultants.
- 3.46 To request PSAA's written consent to make any press announcement or publicise any part of the Contract, please provide a copy of the proposed content and your rationale for its issue.

4. Reporting on audit delivery

- 4.1 This section sets out the reporting required by Firms on audit delivery. It covers:
- Audit planning.
 - Audit report and opinion.
 - Auditor's annual report.
 - Reporting audit delivery progress to PSAA.
- 4.2 The exercise of specific powers and duties of local government auditors is covered in Section 5.

Audit planning

- 4.3 The 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.
- 4.4 Auditors are expected to plan and deliver the audit in line with the publication deadlines (as amended from time to time) in the Accounts and Audit Regulations 2015, provided this is possible within the requirements of the auditing standards and guidance issued by the NAO.
- 4.5 Firms must include the following in their audit planning report:
- A timetable for completing the audit.
 - The scale audit fee set by PSAA.
 - Any anticipated variations to the scale fee, with supporting rationale.
 - An outline of the proposed audit work, including any planned value for money arrangements work (VFM).
- 4.6 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 statutory publishing date, the audited body must be consulted on an alternative target date.
- 4.7 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 Code. PSAA will review audit planning documents for contract monitoring purposes.

Audit report and opinion

- 4.8 The audit opinion including value for money arrangements commentary where required, audit certificate and Auditor's Annual Report must be issued in accordance with the Code.
- 4.9 Auditors must notify PSAA when they issue a non-standard audit opinion through the Opinion Tracker but PSAA does not routinely require a copy of a non-standard audit report.

- 4.10 Since 2020, the Code requires auditors to make recommendations where significant weaknesses in value for money arrangements are identified. The recommendations must be raised promptly with the body during the audit and be referred to in the Auditor's Annual Report.
- 4.11 These requirements may be varied through Auditor Guidance Notes.
- 4.12 Auditors must inform PSAA via the Opinion Tracker when they report significant weaknesses in value for money arrangements, whether through issuing a standalone exception report, inclusion in the AAR or within the audit opinion.

Auditor's annual report

- 4.13 From the 2024/25 audits, the Code requires that the auditor should issue a draft Auditor's Annual Report by 30 November.

Reporting audit delivery progress to PSAA

- 4.14 Firms must provide information about their progress to deliver audits (including the pension fund where applicable) to PSAA through the "Opinion Tracker". This covers information such as:
- Forecast of the type of audit opinion to be issued by the statutory date.
 - When the opinion was issued.
 - Whether a non-standard opinion was issued and/or any additional disclosures were made.
 - If any significant weaknesses in value for money arrangements were identified.
 - The date the Auditor's Annual Report was issued.
 - The date the Audit Certificate was issued.
- 4.15 To provide information requirements of local audit system stakeholders PSAA may from time to time have additional or amended information requirements.
- 4.16 Firms must also monitor and provide information about their performance against contractual performance indicators via the "KPI Tracker". The contract enables PSAA to amend the performance indicators from time to time under certain conditions including permitting only 1 change per year giving at least 3 months' notice.
- 4.17 Clause 5 of the contract requires the Firm to provide other information about the performance of the services as PSAA may reasonably require within 10 working days of its request.
- 4.18 Where PSAA requires additional information, it will aim to do so thoughtfully to minimise the burden on Firms. It will plan and consult on requests where possible and explain any ad hoc or significantly altered requests.
- 4.19 Firms are encouraged to raise concerns early if requests seem unreasonable or deadlines are problematic. The Firm's Contact Partner (the key contact for the contract) is responsible for ensuring the quality and punctuality of submitted information.

5. Specific powers and duties of local government auditors

- 5.1 This section sets out the requirements relating to how auditors fulfil their functions relating to electors' questions and objections, and their other specific powers and duties such as public interest reports, statutory recommendations, advisory notices, and judicial review.
- 5.2 Auditors must also have regard under s20(6) of the Act to guidance in AGN04 (Auditors' Additional Powers and Duties) and AGN07 (Auditor Reporting), and such AGNs or similar that may be subsequently issued.
- 5.3 Any statutory reports such as Statements of Reasons (SoRs), Public Interest Reports (PIRs) and Statutory Recommendations (SRs) and other correspondence in relation to the exercise of an auditor's statutory duties must be signed by the KAP.
- 5.4 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.

PSAA process when Firms consider the use of statutory powers

- 5.5 PSAA does not provide advice to Firms on the exercise of the statutory powers and duties of local auditors so each Firm must take its own legal advice as necessary.
- 5.6 This process applies to Statements of Reasons, Reports in the Public Interest, statutory written recommendations (recommendations that have specific publicity requirements, rather than recommendations under s27(6)), advisory notices and judicial review – collectively known as “statutory reports” within these Terms.
- 5.7 PSAA will comment on pre-issue draft statutory reports and related documents in so far as they might impact on the application of the contractual indemnity against court costs and liabilities resulting from challenge work provided to Firms (Appendix 1).
- 5.8 The process for obtaining comments is set out below.
 - a. Firm to submit the “draft” statutory reports as soon as possible. Where they contain personal details such as the name and address of the elector, these details must be redacted. This “draft” version 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. PSAA does not comment on provisional views or consultation drafts which may be subject to amendment.
 - b. PSAA will consult with its legal advisers and seek to respond with comments on the draft within 10 working days. Where the matter is complex so may take longer, PSAA will inform the Firm.
 - c. Where time is an important factor in the response the Firm must make this clear to PSAA and give advance notice so we can inform our legal advisers of the urgency.

- d. PSAA's response to a "draft" statutory report will cover:
 - Indemnity concerns.
 - Other observations.
 - Drafting notes.
- e. In some cases, PSAA may request confirmation of a matter (e.g. that material documents have been shared with the elector, or that the consultation process has been followed), and/or to review the updated "draft" statutory reports.
- f. Where PSAA have requested confirmation or to review the updated "draft", the Firm must not publish the final version until we have provided a response.
- g. Where PSAA provides comments and does not request any confirmations or to review an updated "draft", the Firm may make any amendments that it decides to, except in relation to PSAA's indemnity concern points.

5.9 Firms must provide PSAA with a redacted copy of the final version of the statutory report when issued.

Elector questions and objections

5.10 Firms must also follow the process set out at paragraphs 5.4 to 5.8 to enable PSAA to comment on draft SoRs as they may impact on the application of the indemnity that it provides to Firms.

5.11 Firms must also provide information about their progress with dealing with eligible objections on a quarterly basis to PSAA through the "Objection Tracker". This covers information such as:

- The audit to which it relates.
- Description of subject of the objection.
- Status of the objection (from PSAA list of options).
- Date the objection was Accepted, and Finalised/Issued.
- Dated summary of progress each quarter.

5.12 PSAA may from time to time have additional or amended information requirements and may share summarised information on auditors' use of statutory powers and duties with the local audit stakeholders. PSAA may also request evidence of communication from the Firm to the elector where an objection is not concluded within six months.

5.13 Under the Code auditors should use best endeavours to:

- Determine eligibility of an objection within one week of receipt.
- Decide whether to consider the objection within a further month.
- Aim to conclude on the objection within six months of deciding to consider it.

5.14 Where an objection is not concluded within six months, the auditor should inform the objector and the body and provide updates every three months to the objector and body until the objection is decided.

- 5.15 For clarity 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.
- 5.16 Firms must have systems and processes in place to provide support to their staff in dealing with objections.

Cost of objections at audit work

- 5.17 Firms may propose a fee variation (paragraphs 5.4 and 5.8) for the costs incurred in dealing with questions and objections prior to legal action. The proposed fees must be discussed with audited bodies at the earliest opportunity.

Communications with objectors

- 5.18 Auditors must provide written reasons for their decision to an objector (commonly referred to as Statements of Reasons) in the following cases:
- declining to consider an eligible objection under s27(4) (AGN04 para 37), including where requested to do so by the objector in accordance with s28(3) of the Act.
 - deciding not to apply for a declaration under s28 after considering an objection (AGN04 para 52), including where requested to do so by the objector in accordance with s28(3) of the Act.
 - deciding not to issue a PIR after considering an objection (AGN04 para 52).

Public Interest Reports and statutory written recommendations

- 5.19 Firms must also follow the process set out at paragraphs 5.4 to 5.8 to enable PSAA to comment on draft PIRs and SRs as they may impact on the application of the indemnity that it provides to Firms.
- 5.20 Auditors must send final versions of PIRs and SRs to the Secretary of State as set out in AGN07 at the same time as they are issued using the information below:

Type of body	Government department	Email address
Local government or County fire and rescue services	Ministry of Housing, Communities & Local Government	localaudit@communities.gov.uk
Police and Fire	Home Office	Policeresourcespolicy@homeoffice.gov.uk Emma.Lawrence8@homeoffice.gov.uk

- 5.21 Non-statutory recommendations under s27(6) do not require a public response and do not need to be sent to PSAA unless included in a Statement of Reasons.

Advisory notices

- 5.22 If the Auditor thinks that a body (or an officer of a body) has made or is about to make a decision which would involve the body incurring unlawful expenditure, taking action which is unlawful and likely to cause a loss or deficiency, or entering an unlawful item of account, they can issue an advisory notice under s29 of the 2014 Act.
- 5.23 Firms must also follow the process set out at paragraphs 5.4 to 5.8 to enable PSAA to comment on draft advisory notice as they may impact on the application of the indemnity that it provides to Firms.

Judicial review

- 5.24 Under s31 of the 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.
- 5.25 Firms must also follow the process set out at paragraphs 5.4 to 5.8 to enable PSAA to comment on an application for judicial review as they may impact on the application of the indemnity that it provides to Firms.

6. Other matters

6.1 This section covers other requirements relevant to Firms including:

- Audit fee information.
- Audit fee variations.
- Work in progress and fee information.
- Indemnity.
- Key Audit Partners.
- Cooperation with other auditors.
- Complaints.
- Audit contract quality monitoring.
- Responding to information requests.

Audit fee information

6.2 Under the Regulations, PSAA must specify the scale fee for each body by 30 November of the financial year to which it relates. PSAA will consult Firms on the proposed scale fees and confirm the scale fees once set.

6.3 Auditors must formally report the fee to bodies twice per audit cycle:

- At the planning stage when the audit planning report is presented to Those Charged with Governance.
- Upon the conclusion of the audit.

6.4 At both stages, the reported fee must be broken down into Code audit work and any non-Code work, including audit related services. If no non-Code work was undertaken for the body, a confirmation statement must be included.

6.5 Both communications must specify comparative fee information. At the planning stage, the auditor should compare the proposed fee with the prior year actual fee and the published scale fee. At the completion stage, the auditor should compare the proposed final fee with the fee proposed at the planning stage and the original scale fee. Auditors must provide an explanation for all variances.

6.6 When reporting the proposed fee for the audit, auditors must make clear to the audited body:

- The specific factors 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.
 - The process 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.
- 6.7 PSAA will use the information provided in the audit planning report, auditor's annual audit report, audit completion report or other ISA (UK 260 communication) to verify the communication of fee information to Those Charged with Governance.
- 6.8 PSAA will review audit documents on a sample basis for financial reconciliation purposes.

Audit fee variations

- 6.9 PSAA publishes the scale of fees (audit fees) for bodies, based on the work auditors are required to undertake each year.
- 6.10 Under Regulation 17 of the Regulations, PSAA may vary fees where it determines that substantially more or less audit work was required than envisaged by the scale fee. It will determine each variation on a case-by-case basis, unless it is a standard fee variation.
- 6.11 The auditor will decide the work necessary to complete the audit, provide a full explanation and seek to agree a variation to the scale fee with the body, subject to final determination by PSAA. The auditor must give notice to the body of the proposed fee variation and the reasons. Where possible PSAA expects such information to be included in audit planning and/or audit completion communications.
- 6.12 PSAA publishes its [fee variation process](#) on its website.
- 6.13 Firms must submit proposed variations to scale fees in line with set methodology set out in clause 18 of the contract which includes:
- Providing fee variation proposals in the required format along with all supporting documentation, as per the documentation contract management activity timetable.
 - Informing the body of the proposed variations including the amount of time spent by different categories of fee earner and reasons for them.
 - Maintain appropriate billing records.
 - Respond to any PSAA requests for further information or file review within the specified timescale.

Work in progress and fee information

- 6.14 Firms must submit Work in Progress (WIP) returns to report the position at quarter end i.e. June, September, December, and March.

6.15 The WIP returns enable PSAA to:

- Calculate payments between PSAA and the Firm (based on scale fees, the published fee variation rate card and Firm-specific contract remuneration rates).
- Track performance against milestones (clause 20 of the contract).
- Reconcile final fees (as per clause 18 of the contract).
- Determine the final fee on completion of the audit.
- Support its financial management arrangements.

6.16 PSAA or its external auditor may need to examine a Firm's billing records so Firms must ensure adequate accounting records are maintained and comply with any such requests.

Contact information

6.17 PSAA maintains information about bodies to support its statutory responsibilities relating to auditor appointments and fees. Each quarter, PSAA will issue a list of relevant Directors of Finance to Firms to confirm or update.

6.18 PSAA is statutorily required to publish a directory of auditor appointments on its website including the contact details of the relevant KAP. Firms are therefore required to provide details on a quarterly basis of the appointed KAP and AM at each body.

Indemnity

6.19 PSAA indemnifies auditors against the first £75,000 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, providing PSAA have had the opportunity to comment on the "draft" version (paragraphs 5.4 to 5.8).

6.20 Firms must notify PSAA promptly 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. The indemnity may not apply if PSAA is not notified or consulted.

Key Audit Partners

6.21 Firms must ensure that each local audit engagement lead is authorised as a KAP by the Recognised Supervisory Bodies.

6.22 Firms are not required to consult on the allocation of KAPs with an individual body, but PSAA encourages this approach.

Cooperation with other auditors

6.23 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 or any guidance and requirements as may be published by any other entities, for example the Local Audit Office, pursuant to or as part of successor arrangements as made by the Government.

- 6.24 Outgoing Firms should cooperate with incoming Firms. Appendix 2 sets out PSAA's expectations of Firms on handover of a PSAA audit appointment.
- 6.25 Where disagreements between outgoing and incoming auditors arise, especially if this is likely to result in a qualified audit opinion or a PIR, the Firms should meet to discuss the issue and notify PSAA.

Complaints

- 6.26 Under the Regulations PSAA has a duty to design and implement systems to resolve disputes or complaints from local auditors, bodies and local government electors relating to the contract and the work carried out by the Firms it has appointed.
- 6.27 In the first instance, a Firm must deal with a complaint under their own procedure. PSAA will only consider a complaint if it has been through all appropriate stages of a Firm's procedures. Only if the complaint remains unresolved, can it be passed to PSAA.
- 6.28 PSAA will not investigate complaints about an auditor's professional judgements. The complaints procedure is set out in Appendix 3.
- 6.29 Firms must report any upheld complaints to PSAA on a quarterly basis. PSAA will inform a Firm of any upheld complaints against it.
- 6.30 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 complaint PSAA may pass their findings to the relevant RSB.

Audit contract quality monitoring arrangements

- 6.31 PSAA is committed to ensuring good quality delivery of audit services are provided to bodies. Its holistic approach considers three strands:
- Adherence to professional standards and guidance.
 - Compliance with contractual arrangements.
 - Relationship management.
- 6.32 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.
 - Audit inspection results by the FRC's Audit Quality Review (AQR) team and the ICAEW Quality Assurance Department.
 - Information provided in Firms' Transparency Reports.
 - Results from its satisfaction surveys issued to audited bodies.
- 6.33 PSAA's [audit contract quality monitoring arrangements](#) are published on its website.

- 6.34 Firms must cooperate with PSAA audit contract quality monitoring arrangements set out in the contract with PSAA. Contract monitoring enables PSAA to provide assurance to stakeholders about the quality of service delivered by the contracted Firms.
- 6.35 PSAA publishes [quarterly and annual contract monitoring reports](#) on its website.

Responding to information requests

- 6.36 PSAA is subject to The Freedom of Information Act 2000 (FOIA) and The Environmental Information Regulations 2004 (EIR). Firms appointed by PSAA operate under their own statutory powers, separate from those of PSAA. Firms are not 'public authorities' for the purposes of the FOIA and the information they hold may therefore not be subject to the provisions of the FOIA or EIR.
- 6.37 PSAA's duties under the FOIA and/or EIR may require it to disclose information concerning the underlying procurement and/or the Firm's contracts to anyone who makes a reasonable request. PSAA will consult with a Firm to discuss relevant information requests.
- 6.38 PSAA's Publication Scheme lists the range of information we proactively make available without the need for specific FOI requests. It also gives details of how the information can be obtained and any charges.
- 6.39 PSAA will not be liable for any loss or prejudice caused by the disclosure of information that:
- Has not been clearly marked as "Not for disclosure to third parties" and / or for which supporting reasons for withholding (referring to the relevant category of exemption under the FOIA or EIR where possible) have not been provided; or
 - Does not fall into a category of information that is exempt from disclosure under the FOIA or EIR (for example, a trade secret or would be likely to prejudice the commercial interests of any person); or
 - In cases where there is no absolute statutory duty to withhold information, then notwithstanding the previous clauses, disclosure may still be appropriate if, under section 2 of the FOIA, the public interest favours release.
- 6.40 Firms must assist and cooperate with PSAA to enable it to comply with its information disclosure obligations as per clause 33 of the contract.

Statement of Responsibilities

- 6.41 PSAA publishes a [Statement of Responsibilities of auditors and audited bodies](#) which serves as the formal terms of the engagement. It summarises the extent of the responsibilities of the Firm and of the body including what the Firm can expect of the body in certain areas.
- 6.42 PSAA may update the document from time to time and will consult the Firm of any changes.

Appendix 1: Indemnity against court costs and liabilities

1. Where the Firm takes any such action in the discharge of their functions as is described in paragraph 2 below, PSAA will indemnify them against any Expenses (up to a maximum of seventy-five thousand pounds (£75,000)) which may be properly payable and are paid by the Firm if they are not recoverable or recovered from other persons or bodies under the provisions of the Act or the Regulations or by order of the Court, provided that the Firm has acted reasonably and has used all reasonable endeavours to recover such amounts from the relevant third party. Clause 27 of the contract provides full details.
2. The actions to which the indemnity in paragraph 1 applies are as follows (all references are to the Act):
 - (i) The consideration of and making of a public interest report or written recommendations under schedule 7.
 - (ii) The exercise of any function under section 22 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.
 - (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 Firm must notify PSAA.
4. A Firm's reasonable costs of dealing with questions and objections prior to legal action is a charge on the body, as is the initial cost of issuing an advisory notice.

Appendix 2: Expectations on handover of audits

1. These expectations apply to all audits for which the audit report has been issued prior to the change of an auditor. They align with the ICAEW Audit Protocol.
2. PSAA recognises that changing the appointment of the external auditor to a body could present difficulties for the body and both the outgoing and incoming auditors if not properly managed. 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.
 - 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.
 - 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 Period 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 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 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 to determine 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 them 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.
 - Annual reports on accounts including opinion and certificate pages.
 - Correspondence for up to 6 years prior to handover such as:
 - Copies of correspondence with members, officers, the public and others relating to the accounts and the audit.

Appendix 3: 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 must report complaints to PSAA as they progress through all stages of the Firms' complaints policy.
3. Each Firm will have 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 Firm's Contact Partner (the key contact point for the contract).
4. The Firm should progress the complaint through all stages of the Firm's own complaints process, until either satisfactory resolution, or the Firm is 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 their professional skills and judgements in performing their statutory functions.
 - Substitute its own judgements for those of an appointed auditor in the exercise of those functions.
 - Direct an appointed auditor to act or to review their decisions, as only the courts have the powers to do so.
7. PSAA will therefore not consider complaints about:
 - The judgements and decisions of auditors.
 - The processes followed by auditors of local authorities who are exercising their specific powers in relation to electors' objections to items in a council's accounts, as this is a matter for the courts. This extends not just to decisions about matters of substance, but also to the process by which those decisions are made.
8. 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.
- Failure to comply with standards.

10. PSAA will not consider any complaint that relates to ongoing audit investigations, until these have been concluded.

11. If PSAA receives a complaint that is partially or fully outside of its remit, wherever possible it will inform the complainant of the appropriate recipient.