



Public Sector
Audit Appointments

**Annual report and
accounts 2018/19**

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Annual Report

Overview of the year

The 2018/19 financial year was one of transformation for PSAA, with significant strategic changes to the service we provide, and to the company's staffing and organisation. The company's focus is now on providing a national auditor appointment scheme for our opted-in bodies, following completion of our work under transitional arrangements put in place in 2015 to support implementation of the new local audit framework.

Our new responsibilities as the 'appointing person' for principal local government, fire and police bodies, under the provisions of the Local Audit and Accountability Act 2014, began officially from 1 April 2018. This followed a preparatory year in 2017/18 when we completed a complex procurement to let contracts for audit services worth £140 million over five years, made auditor appointments under those contracts to the 486 authorities that opted into our national auditor appointment scheme (98% of eligible bodies), and set our scale fees for 2018/19 audits. These arrangements lay the foundations for the five years of the current appointing period, covering the audits of the accounts of opted-in bodies from 2018/19 to 2022/23.

We have worked hard to understand the priorities and preferences of opted-in bodies, and have put at the heart of our work significant engagement and consultation with authorities, their representative organisations and our national stakeholders. We see our Advisory Panel, whose members are drawn from representative organisations of opted-in bodies, and our Local Audit Quality Forum, targeted at audit committee chairs and directors of finance, as particularly important channels for the exchange of information and views. We will be taking this work forward in 2019/20 with audit quality surveys and increasing face to face engagement.

During 2018/19 we decided it would be helpful to have an independent view about the design and implementation of our appointing person role to help shape our thinking about future arrangements. We therefore commissioned a 'lessons learned' review from Cardiff Business School (CBS). The final report of the review concludes that PSAA has produced a well thought through, organised, and governed programme which delivers substantively on its objectives to the benefit of local bodies. It describes our work as "an outstanding example of sector led improvement". The project has also identified some key messages for the future, and we have a clear plan to address its recommendations. Key challenges include sustaining a competitive local public audit market and maintaining an adequate supply of suitably qualified and experienced audit staff.

The challenges facing PSAA are made more complex by current turbulence in the wider audit market. Following a number of significant corporate failures, the role and performance of auditors is under intense scrutiny. A number of formal inquiries have been commissioned by Government with the possibility of future changes to audit regulation, auditing standards and audit firms. Although these developments are focused primarily on the audit of large commercial entities, any resulting changes are also likely to impact local public audit in due course. We are monitoring the situation carefully and working hard to understand the potential implications for PSAA, opted-in bodies and our suppliers.

We are very aware that audit quality is a high priority for our opted-in bodies and we are committed to ensuring that PSAA secures audit quality through our contracts with suppliers. This was a fundamental aspect of the procurement and remains a key strand of our ongoing appointing person arrangements. We have designed and implemented a comprehensive framework to manage the contracts robustly, monitoring audit quality against criteria relating to adherence to professional standards, compliance with contractual requirements and the effectiveness of relationship management. This includes the work performed in respect of maintaining the audit firms' independence. We will publish quarterly reports on our website to help opted-in bodies understand how we are monitoring the performance of audit firms on their behalf.

We are also aware that value for money is an important requirement for opted-in bodies. During 2018 we completed a significant restructuring and cost reduction exercise within PSAA, reducing staff numbers by 50 per cent and cutting operating costs. Together with the favourable prices achieved in the audit services procurement, these efficiencies enable our small team to offer a cost-effective service that delivers outstanding value and quality to opted-in bodies.

This financial year saw the completion of PSAA's work under the transitional arrangements made by the Secretary of State for Housing, Communities and Local Government on the closure of the Audit Commission in March 2015. The company has been responsible for a number of the statutory functions previously discharged by the Audit Commission, managing novated contracts in relation to audits of local government, police, fire and NHS bodies. The company now moves forward into its appointing person role.

In view of the change in our responsibilities and the restructuring of our operations, we said farewell to our chief officer, Jon Hayes. We thank Jon for his sterling work to help establish PSAA following the closure of the Audit Commission and to develop the appointing person arrangements. We have welcomed Tony Crawley into a new role as our chief executive, as we navigate this new phase of our responsibilities.

Steve Freer, Chairman



Tony Crawley, Chief Executive



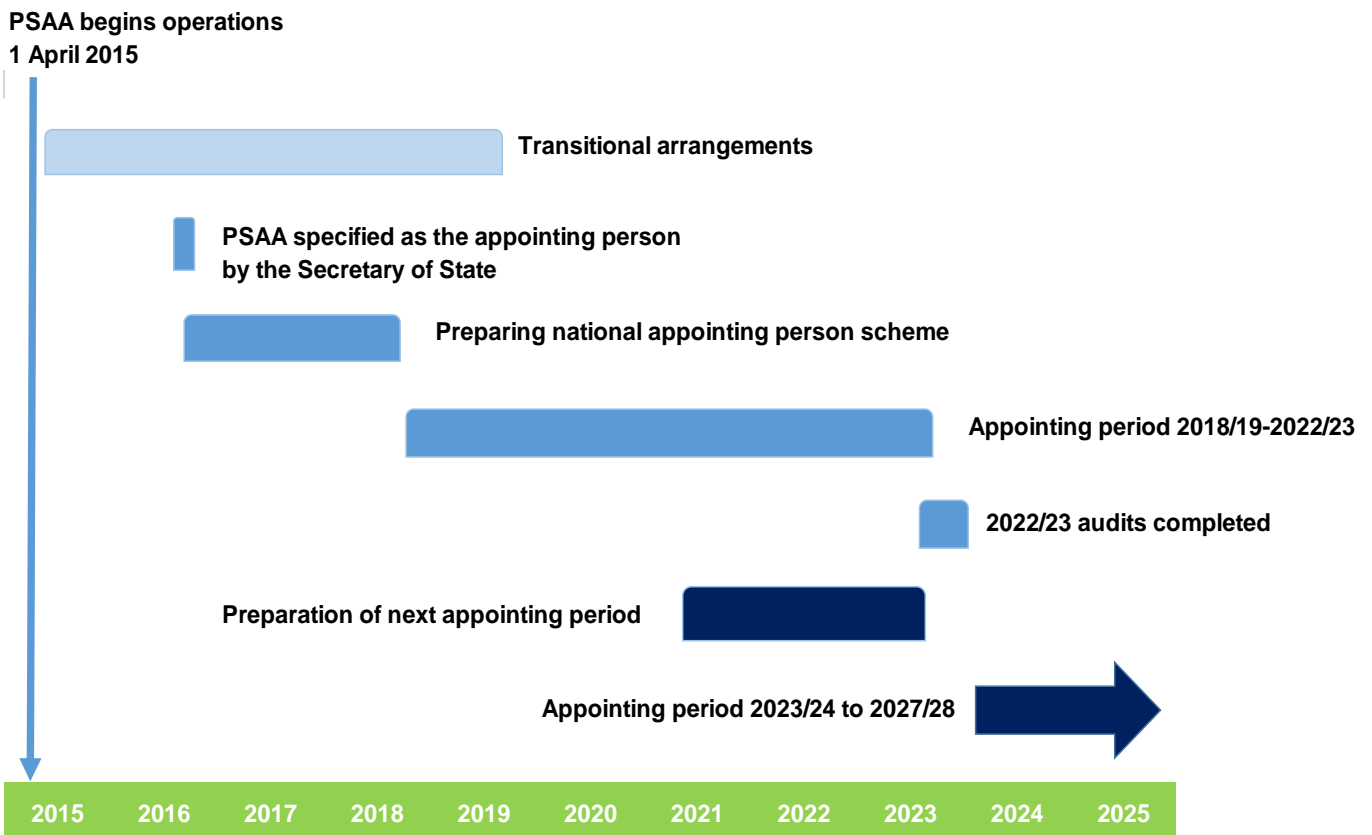
About PSAA

Public Sector Audit Appointments Limited (PSAA) is a company limited by guarantee without share capital. The company is wholly owned by the Improvement and Development Agency, itself wholly owned by the Local Government Association.

PSAA was incorporated in August 2014 and began operations on 1 April 2015, when the then Secretary of State for Communities and Local Government delegated to the company on a transitional basis a number of statutory functions relating to local audit, following the closure of the Audit Commission. Under this delegation, PSAA has been responsible for appointing auditors and setting audit fees for bodies subject to audit under the provisions of the Local Audit and Accountability Act 2014, and for making arrangements for housing benefit subsidy claim certification. The majority of these transitional responsibilities came to an end in early 2019.

In June 2016 the Secretary of State specified the company as an appointing person under the provisions of the Local Audit and Accountability Act 2014. This means that for audits of accounts from 2018/19 PSAA appoints an auditor to eligible principal authorities (councils, local police bodies, fire authorities and other local government bodies) that have chosen to opt into the national auditor appointment scheme developed by the company. At 31 March 2019, 486 of the 497 eligible bodies (98 per cent) had opted into PSAA’s national auditor appointment arrangements for 2018/19. Bodies remain in the scheme for the specified appointing period. The current appointing period covers audits of the accounts for the five financial years 2018/19 to 2022/23.

Timeline



Strategic report

The directors present their strategic report for the year ended 31 March 2019.

1. Objectives and operating environment

PSAA's responsibilities derive from provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 made under that Act. The company is specified as an appointing person for principal local government bodies, including local police bodies. These responsibilities became operational from 1 April 2018, and are the focus of the company's purpose from that date. PSAA's responsibilities and aims are expressed through a series of objectives, covering:

- appointing auditors to relevant authorities;
- consulting on and setting a scale or scales of fees, and charging fees, for the audit of accounts of relevant authorities;
- ensuring that public money from audit fees continues to be accounted for properly and is protected;
- overseeing the delivery of consistent, high quality and effective audit services to relevant authorities;
- ensuring effective management of contracts with firms for audit services to relevant authorities;
- being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
- leading its people as a good employer.

A memorandum of understanding with the Ministry of Housing, Communities and Local Government sets out the broad framework in which PSAA operates. The memorandum contains the agreed principles regarding PSAA's operation and the mechanisms for its accountability for, and safeguarding of, public money in the form of audit fees charged to audited bodies.

The 2018/19 financial year saw the completion of audits under the previous statutory framework for audits of local public bodies. These responsibilities were delegated to the company on a transitional basis following the closure of the Audit Commission in 2015.

The PSAA Board believes that strong corporate governance supports the future long-term success of PSAA and has established a comprehensive governance framework to support its functions as an appointing person. The Board takes very seriously its duty under Section 172 of the Companies Act 2006 to promote the success of the company. The Act states that '*A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:*

- *the likely consequences of any decision in the long term;*
- *the interests of the company's employees;*
- *the need to foster the company's business relationships with suppliers, customers and others;*

- *the impact of the company's operations on the community and the environment; and*
- *the desirability of the company maintaining a reputation for high standards of business conduct.'*

PSAA is wholly owned by the Improvement and Development Agency (IDeA). IDeA is the company's sole member. As founder of the company IDeA's role is to support PSAA in discharging its functions and achieving its objectives. The IDeA acknowledges the independence of the company and the responsibility for running the company as that of PSAA and the Board. The Board has satisfied itself that consideration of the requirements of Section 172, and the directors' duties under it, have informed and guided the Board's work in the past year.

The following explains how we consider we have had regard to promoting the success of the company in relation to each of the specific requirements of Section 172.

(a) The likely consequences of any decision in the long term

The Board considers how to promote the long-term success of the organisation on a continuous basis, providing effective leadership and oversight of PSAA as it seeks to achieve its objectives. Its decision making is influenced by active consideration of PSAA's position, role and relationships within the new local audit system as a whole. The Board is mindful of the fact that PSAA's success depends to a large extent upon the ability of the larger system to deliver for and meet the needs of audited bodies and users of audited accounts.

This year, the Board commissioned the CBS review of our work to design and implement our appointing person arrangements in order to seek the views of audited bodies and other stakeholders and help identify improvements to be implemented during this appointing period, and longer term changes for consideration in relation to the next appointing period, commencing in 2023/24.

CBS's report concluded that PSAA had produced a well thought through, organised, and governed programme which delivered substantively on its objectives to the benefit of local bodies. While CBS highlighted that there was general satisfaction from opted-in bodies with our arrangements, there are some key messages and challenges to address. We will address the report's recommendations and engage with our stakeholders to ensure that our future work programmes are also informed by their views and priorities.

Our 5 year Medium Term Financial Plan (MTFP) reflects a healthy financial position. PSAA operates on a not-for-profit basis. From time to time the Board approves the distribution of surplus funds to audited bodies. The transitional arrangements (2015-18) and now current appointing person arrangements are accounted for separately in the MTFP. The Board reviews the company's financial position at every Board meeting, including the most up-to-date forecast. We approve our annual accounts following detailed scrutiny by, and a recommendation to do so from, the audit committee. Our treasury management policy is also reviewed annually by the audit committee which makes recommendations to the Board as appropriate.

As a Board we are responsible for overseeing the company's arrangements for risk management, identifying key risks, considering risk appetite, and agreeing appropriate mitigation strategies. More detail on our risk management processes is included in Section 3 of the Strategic Report.

All decisions are taken with due regard to the company's purpose and objectives (as set out in the Articles of Association and other operating documents), the effective and efficient

use of public funds and the need to ensure delivery of high quality and cost-effective audit services.

(b) The interests of the company's employees

We aim to be a good employer, encouraging a culture of openness and transparency, developing people to the best of their abilities and offering competitive remuneration and benefits to recruit and retain staff. The Board recognises that our small team of well qualified staff are crucial to the success of PSAA.

We completed a significant staff restructuring exercise in 2018/19, to align the number and skills of staff with our business needs. The restructure was undertaken in the context of the company's new responsibilities and aims as an appointing person from 1 April 2018, and of the conclusion of the transitional arrangements put in place in April 2015. As a result of the restructure we incurred redundancy costs, which are included in the remuneration report (add link) on pages 24 to 27.

Twelve staff transferred to PSAA on the closure of the Audit Commission at the end of March 2015, to undertake the work required on a transitional basis to manage the novated audit contracts relating to principal NHS, local government, police and fire bodies, smaller local government bodies (town and parish councils), and providing housing benefit subsidy certification for the Department for Work and Pensions. The restructuring has reduced the number of PSAA staff to six, establishing a team which has the right skills and experience for the company's new role, and contributing to savings of £370,000 per annum (39%) in our cost base.

The management of change was implemented in consultation with all staff and included a review of the rates of pay, benefits and terms and conditions. We will continue to monitor the pay and benefits package with reference to market rates and company requirements.

We are committed to developing our staff and enabling them to realise their potential. During 2018/19 the focus has been on bedding in the new structure and developing the team in their new roles. New staff have received induction training and tailored development programmes are being put in place to support individual staff needs as appropriate.

To ensure that the new structure has bedded in successfully, the Board monitors the organisational work streams and capacity via regular updates from the Chief Executive. All staff are familiar with and observe the company's staff code of conduct which is accessible on PSAA's intranet.

With a small team, good communication is imperative. Board and audit committee papers are accessible to all staff. All employees are kept up to date with items considered at Board meetings and in relation to PSAA's finances, and these are standing agenda discussion items at team meetings.

(c) The need to foster PSAA's business relationships with suppliers, customers and others

Positive business relationships are recognised to be critical to the company's future success. The Board is committed to building and maintaining strong, effective links with other organisations which perform specialist roles in the new local audit system so that the system as a whole operates efficiently and in a way that meets the needs of audited bodies and users of accounts. Relationships with audit providers are also vitally important. Local audit requires specialist knowledge and expertise. Retaining existing suppliers and, if possible, encouraging new firms to enter will help to ensure that the market remains sustainable and competitive. Close links and open communications with audited bodies will enable us to understand and better meet their needs. The Board is very keen to

maintain the current high proportions of eligible bodies opting into the PSAA scheme. The structure of the scheme is such that high levels of participation increase the benefits for each and every participant.

The long-term success of PSAA is therefore critically dependent on the way we work with our customers, suppliers and other stakeholders. As part of the Lessons Learned review, CBS invited stakeholders to participate in surveys and workshops providing views about different aspects of PSAA's services and activities.

Our customers

Our customers under the appointing person arrangements are opted-in local authorities, police and fire authorities. We operate on a not-for-profit basis, and any surpluses are returned to the audited bodies.

The views of our customers are very important to us and we aim to understand their priorities. We engage with our customers through a variety of different means:

- We have established an Advisory Panel, whose members represent the different types of opted-in bodies. This forum provides helpful feedback and insights into all aspects of our policy making and has enabled PSAA to consult stakeholders and adopt approaches which work for opted-in bodies.
- We are responsive to concerns raised by opted-in authorities. The Lessons Learned review raised some concerns in relation to the possible impact of audit fee reductions on the quality of audits. In our view these fears are misplaced. During the procurement process conducted by PSAA, firms were able to bid freely for a variety of different lot sizes. Following the award of contracts, suppliers are being remunerated in accordance with their successful bids. Subsequent reductions to the audit fees payable by audited bodies have no impact upon the remuneration of firms. Audit fee reductions are possible as a result of the range of successful bids submitted and the significant savings in PSAA's cost base. The company has in place a robust quality monitoring regime which is subject to regular review. We report publicly on PSAA's website on quality and promptly follow up on any issues reported to us by customers.
- We ensure that all stakeholders have sufficient time to respond to our consultations, for example, in relation to fees and appointments.
- We have established the Local Audit Quality Forum (LAQF) to support the role of audit committees of opted-in bodies in relation to audit quality. Our commitment to audit quality for opted-in bodies will feature strongly in our work going forward. We believe that the forum provides a meeting place in which all of the parties that have a responsibility for audit quality can share experiences and good practice. In particular we aim to help local audit committees to play their critical and demanding roles effectively. We hope that audit committee chairs and chief finance officers will be regular attendees and active participants in LAQF events.
- Annually we will survey customers as part of our monitoring regime concerning the quality of the services they are receiving.
- We will continue to work on enhancing our communications with customers as we consider this to be a prerequisite for our continued success.
- Relevant bodies are consulted in relation to any changes to or new auditor appointments in accordance with PSAA's governance framework.

Our suppliers

Our main suppliers are the audit firms with whom we contract to provide audit services to our customers. The development of strong, long-term relationships with audit firms is not only critical for delivering high quality audit services under the current contract but also for future sustainability of the local audit market.

During the course of audits of 2018/19 accounts, it has become apparent that some firms are experiencing difficulties resourcing all of the audits for which they are responsible on a timely basis, to enable audited accounts to be published by the target date of 31 July 2019. The new earlier target deadline for publication has significantly reduced the time available for firms to carry out their post-year end examination of draft accounts leading up to the issue of the final audit opinion. Staff recruitment and retention have proved to be major challenges in the current climate in which the value of audit and the role of auditors is being widely questioned. There is no statutory deadline for the publication of audited accounts but all parties - audited bodies, firms and PSAA - are committed to meeting the 31 July target deadline wherever possible. PSAA is disappointed that these difficulties have arisen and is committed to finding solutions which will avoid similar issues arising in future years. We are very conscious of the disappointment of audited bodies whose audited accounts cannot be published by 31 July and of the disruptive impact on the work plans of those bodies of rescheduling their audits. We are discussing with the firms concerned their plans to complete the audits as soon as possible and to avoid a repetition of such problems in the future.

PSAA meets regularly with audit suppliers both individually and as a group. This facilitates discussion of issues of common concern. We recognise that it is important that PSAA's arrangements and contracts, and the wider local audit system, work satisfactorily for audit firms, encouraging their long term commitment to the sector.

To provide transparency and encourage best practice, we publish quality monitoring reports on PSAA's website on the performance of each of our contracted firms and the quality of the audits they deliver.

PSAA staff has ongoing communication with firms and audited bodies to agree fee variations. Latest fee variation information is included in the quarterly quality reports that are presented to us for our review.

PSAA participates in the groups established to manage the implementation and delivery of the Local Audit and Accountability 2014 (LAAA 2014): the Ministry of Housing, Communities and Local Government (MHCLG) Delivery Board, its local audit sub-group and NAO's Local Audit Advisory Group. These groups include representatives of the firms, the regulatory bodies and government departments.

PSAA staff carry out annual monitoring of each contracted firm addressing both financial health and significant threats to reputation which might be relevant to the firm's contractual responsibilities to PSAA. The results of this work is reported to the Board by the Chief Executive.

Other key suppliers of services to the company are: the Local Government Association who provide us with our back office services and accommodation; the Financial Reporting Council (this contract ceases in 2019) who provide independent quality review services; and CIPFA who provide technical reports and publications. PSAA staff meet regularly with these suppliers to ensure positive relationships and early resolution of any concerns.

Wherever feasible, we use the services of smaller suppliers to support the general day to day running of our business.

Other stakeholders

Given our unique position within the local audit environment, we work with a number of key stakeholders and regulators to ensure the quality of local audit services, and are represented on various key fora.

Our other main stakeholders include MHCLG, the National Audit Office, the FRC, ICAEW, CIPFA and DWP. The Chairman and the Chief Executive attend meetings held by MHCLG, and officers attend meetings with the other stakeholders as appropriate, with updates in the Chief Executive's regular reports to the Board.

PSAA has provided support to the DWP in developing their arrangements for housing benefits certification from 2018/19 onwards but has no role with respect to the implementation and ongoing operation of those arrangements.

We also engage with sector wide initiatives and contribute views and information for national reviews and studies. During 2018/19 we contributed to separate reviews led by Sir John Kingman and The Competition and Markets Authority. Going forward we have identified the NAO's review of the Code of Audit Practice for local audit and the MHCLG commissioned post implementation review of the LAAA 2014 as key developments which PSAA must actively support with a view to securing positive outcomes for audited bodies and users of accounts.

(d) The impact of the company's operations on the community and the environment

The Board regards local audit as an important cornerstone of local accountability. PSAA's most significant contribution to the community therefore lies in its responsibility to ensure that affordable, high quality audits continue to be delivered to each and every opted-in body by competent suppliers.

The LGA provides a range of support services to the company, including provision of serviced accommodation, HR, and payroll support. As well as operating efficiencies and economies of scale, this arrangement enables PSAA to subscribe to and participate in a range of LGA policies and initiatives. These include an apprentice scheme (LGA currently have 10 apprentices), ways of working which encourage working from home and a reduction in printing, an office recycling scheme, and use of energy efficient office equipment.

PSAA is wholly owned by the Improvement and Development Agency (IDeA) and we have embraced its environmental policy, which includes a commitment to reduce our environmental footprint by:

- continually reducing waste and increasing recycling rate;
- reducing paper use;
- ensuring that procurement of goods and services adheres to the green purchasing and procurement policy; and
- complying with all applicable legislation, regulation and other relevant requirements relating to our environmental impacts.

Our appointing person procurement scheme required suppliers to identify the social value benefits which would accrue from any contract award. This secured commitments to apprenticeships, training and other arrangements which are included in firms' method statements. Our on-going monitoring of the contract reviews performance against this commitment.

Customers and their local communities will benefit from the significant cost savings realised from our procurement exercise and the re-structuring of PSAA and the related review of our cost base.

The Board has approved a statement on modern slavery which is published on the website and staff have completed appropriate training.

(e) The desirability of PSAA maintaining a reputation for high standards of business conduct

High standards of corporate governance are a key factor in underpinning the integrity and efficiency of PSAA. We believe that they are critical in helping us to achieve our core objectives as set out in our Articles of Association. Our arrangements draw on a number of good practice sources including the principles set out in the Code of Conduct for Board Members of Public Bodies (issued by the Cabinet Office) and in the UK Corporate Governance Code, to the extent that the latter can be applied to a small company without shareholders. We review our corporate governance framework annually to ensure it remains fit for purpose and publish full details on our website.

Board recruitment

Our Chairman is appointed by the IDeA and other non-executive Directors are appointed by the Chairman. The Chairman leads the process for Board appointments and makes relevant recommendations to the IDEA. The Board also considers Board succession planning and the leadership needs of PSAA.

Our staff

Our recent restructure was designed to ensure PSAA is fit for purpose to fulfil the company's new appointing person responsibilities. The roles in the new organisational structure are filled by candidates with the necessary skills, qualifications and experience. Most PSAA staff are members of professional accountancy bodies. We encourage and fund staff to attend training and maintain continuing professional development (CPD).

Our stakeholders

We aim to be as transparent as possible about our business, finances, statutory responsibilities and governance including making information available in accordance with the Local Government Transparency Code. PSAA's website provides detailed information about the company and its functions including:

- Articles of association;
- Audit committee terms of reference;
- Directors' interest and gifts and hospitality;
- Annual report and accounts;
- Quarterly spend data; and
- PSAA's consultation policy which is based on the principles published by the Cabinet Office.

Corporate Governance framework

PSAA has established a robust corporate governance framework which is regularly reviewed. Further details are included in Section 3 of the Strategic Report on Risk Management and within the Governance Report on pages 28 to 30.

The Board is committed to continuing to assess and review its performance and arrangements in relation to the framework as we transition from a regulatory body exercising powers delegated by the Secretary of State to an organisation operating as a specified appointing person under the Local Audit and Accountability Act 2014.

2. Business review

In our fourth full year of business, covered by this report, the company has focused on embedding the arrangements to discharge its appointing person responsibilities.

Auditor appointments

Auditor appointments for the current five-year appointing period began with effect from 1 April 2018. We had confirmed all appointments to opted-in bodies in December 2017, following a major procurement exercise. In order to be eligible for our contracts, firms must be approved by a relevant recognised supervisory body and, as at 31 March 2019, five approved suppliers are contracted to provide audit services to opted-in bodies.

Lot	Firm	PSAA market share
1	Grant Thornton UK LLP	40%
2	Ernst and Young LLP	30%
3	Mazars LLP	18%
4	BDO LLP	6%
5	Deloitte LLP	6%

Appointments have been made for the five years of the appointing period, covering audits of the accounts of opted-in bodies for 2018/19 to 2022/23.

At 31 March 2019 there were 497 local government bodies eligible to opt into the PSAA scheme, 486 (98%) of which had opted in. This high level of support from eligible bodies has enabled us to offer a scheme which maximises benefits and provides excellent value for money for participating bodies.

There have been some minor changes in the number of bodies eligible to opt in. A small number has either ceased to exist or been created (such as new Fire and Rescue Commissioning Authorities). There will be further movement for 2019/20 and 2020/21, as various council re-organisations are implemented, and other proposals progress.

Setting audit fees

PSAA's statutory appointing person responsibilities include specifying a scale or scales of fees for the audit of accounts of opted-in bodies. Before setting a scale of fees, we are required to consult opted-in bodies, appropriate representative associations of principal authorities and appropriate bodies of accountants.

PSAA set the 2019/20 fee scale on the basis that individual scale fees for all opted-in bodies are maintained at the same level as 2018/19 unless there are specific circumstances which require otherwise. Opted-in bodies therefore continue to enjoy the benefit of the cost savings achieved in the audit procurement as well as those arising from PSAA's own restructuring. We have also continued the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to audit a particular opted-in body.

We consulted on our proposal to maintain scale fees and reiterated our commitment to try if possible to maintain fee stability throughout the current appointing period. We received 30 responses to our consultation and the vast majority supported our proposals. We published the confirmed 2019/20 fee scale in March 2019.

There were a range of issues raised in consultation responses. The Board has considered a number of the points made by opted-in bodies and our contracted audit firms and has decided to carry out further analysis and research to develop an in-depth understanding of the concerns raised. We have thanked those who responded to our consultation and replied individually where responses requested clarification or further information.

We will continue to review scale fees each year as we update our assumptions and estimates. The most significant variables which are likely to influence our decision-making are:

- Inflation: our contracts with audit firms include provision for inflation adjustments in the later years of the appointing period.
- Code of Audit Practice: the National Audit Office is required to publish a new Code every five years. The next Code will be applicable from 2020/21, the third year of the appointing period. Any changes to the approach required from auditors, whether this increases or decreases the work required, will need to be reflected in scale fees.
- Changes in financial reporting requirements: current scale fees reflect audit work based on current financial reporting requirements. Changes to those requirements may have an impact on scale fees. However, as the impact of standards may vary between bodies and periods, it may be the case that individual fee variations will be more appropriate.

Audit quality

PSAA is committed to ensuring that its contracted firms provide good quality audits for opted-in bodies. During 2018/19 we have undertaken a careful review and developed new arrangements for monitoring audit quality and contract compliance during the five-year appointing period.

We have adopted the International Auditing and Assurance Standards Board's *Framework for Audit Quality* (the IAASB framework) as the model for the appointing person audit quality arrangements. Audit quality formed a core part of the evaluation of tenderers in the 2017 audit services procurement, with tenderers encouraged to have regard to the IAASB framework in their responses. Ongoing contract management arrangements have the dual purpose of reporting results to 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 requirements in the audit contracts.

Our approach is based on the expectation 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;
- provides useful and timely reports; and
- interacts appropriately with relevant stakeholders.

While responsibility for providing a quality audit rests ultimately with the auditor, audit quality, efficiency and effectiveness are shared responsibilities. The IAASB framework notes that all parts of the financial reporting supply chain (including audit firms, regulators, standard setters and audit committees) have a role in contributing to and encouraging an audit environment that supports high quality audits.

End of the transitional arrangements

The company has been responsible since 1 April 2015 for specific functions delegated to it on a transitional basis by the then Secretary of State for Communities and Local Government. These responsibilities included appointing auditors and setting fees for principal local government and NHS bodies and for making arrangements for housing benefits subsidy claim certification, managing contracts novated to PSAA on the closure of the Audit Commission in March 2015.

The final elements of this work related to the 2017/18 audits of local government bodies, undertaken during 2018/19. During 2019/20 there will be a distribution of surplus income after PSAA expenses for this period to the relevant audited bodies.

3. Risk management

Risk management arrangements

The objectives of PSAA's risk management arrangements are to:

- maintain a risk management framework which provides assurance to the Board that strategic and operational risks are being managed effectively;
- ensure that risk management is an integral part of PSAA's operations;
- contribute to making informed decisions and effective resource planning; and
- inspire trust and confidence amongst our key stakeholders.

In relation to risk management, the Board is responsible for taking a balanced view of the company's approach to managing opportunity and risk. The Board's responsibility includes:

- ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control;
- ensuring that the risks it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance; and
- approving the risk management strategy.

The Board is also responsible for setting the company's overall corporate risk appetite. As a company responsible for handling public money, PSAA's tolerance of risk is generally low.

The PSAA audit committee is responsible for reviewing and challenging the company's assessment and management of risk and the adequacy of internal controls established to manage strategic and operational risks identified. The audit committee scrutinises the corporate risk register, and may ask for further reports or presentations on specific risks as it considers necessary. The audit committee reports to the Board on risk management.

The Chief Executive is responsible for maintaining the company's system of internal control and assurance framework, providing the Board and audit committee with assurance on the system's ongoing effectiveness and appropriateness, and advising the Board and audit committee as to material changes.

The PSAA team reviews the corporate risk register on a regular basis and specific members of the management team are responsible for managing the individual risks. The team review each of the risks to ensure that the actions identified are up to date/remain appropriate and considers whether there are any new risks that should be added to the risk register.

Current risks

During 2018/19, PSAA managed an average of 8 risks in the corporate risk register and the audit committee reviewed the risk register at each meeting.

PSAA undertook a review of its risks in the context of the company commencing its appointing person responsibilities, and as such moving away from the regulatory role that existed under the transitional arrangements. This review was designed to ensure that the company's risk management approach (Strategy and corporate risk register) was still fit for purpose.

Some of the key risks facing PSAA are that:

- the audit suppliers fail to meet PSAA's contractual requirements, either in terms of delivery or quality;
- PSAA fails to maintain suitable relationships with existing and potential audit suppliers; and
- in the next appointing period it may not be possible to maintain the current high level of opting in by eligible authorities.

These risks have the potential to impair PSAA's ability to deliver its functions efficiently and effectively. The audit committee and the Board are sighted in relation to these risks and are satisfied that the arrangements in place to manage them are robust.

Future risks

There are also a number of wider challenges which have the potential to impact on local audit, audited bodies and PSAA. These include:

- possible changes in audit regulation, auditing standards and audit firms;
- the challenge of ensuring that the local audit system as a whole works effectively and meets the needs of audited bodies and users of accounts;
- the need to maintain a sustainable, competitive local audit market; and
- the related challenge to ensure an adequate supply of suitably qualified and experienced audit staff.

PSAA is seeking to raise the profile of these issues with other stakeholders in the local audit system and is commissioning research and other work to explore options to address these important challenges.

4. Financial review

Being financially responsible

PSAA is committed to securing value for money, ensuring it delivers its objectives while minimising costs. PSAA strives to be financially responsible by:

- exercising financial discipline and maintaining a robust control environment;
- keeping running costs to a minimum;
- returning surplus funds to audited bodies;
- ensuring the company's internal auditors review the internal control environment annually to provide assurance on the financial controls and confirm these are working as intended;
- meeting the company's statutory obligations; and
- meeting PSAA's duties as a good employer.

The company's internal auditors, TIAA Limited, have reported substantial assurance on all areas reviewed, covering: General Data Protection Regulation implementation, risk management arrangements, redundancy payments, and the calculation of Audit Firms' remuneration rates.

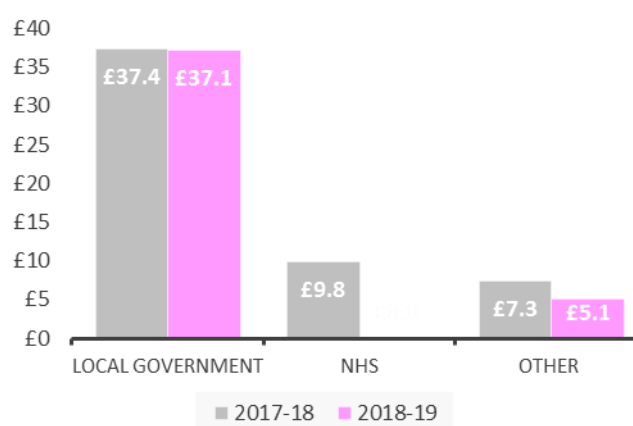
Turnover and profit on ordinary activities

The revenue received by PSAA must cover the costs of paying auditors for work under the audit contracts and the operating expenses of PSAA.

PSAA's accounts show a £nil profit for the 12 months to 31 March 2019 as revenue is matched to expenditure and any monies not required to cover costs are returned to audited bodies.

Revenue, including investment income, for the 12 months to 31 Mar 2019 was £42.214 million (2017/18 £54.547 million) which covered the costs including corporation tax incurred by PSAA for the period 1 April 2018 to 31 March 2019 of £42.214 million (2017/18 £54.547 million). The reduction in revenue and associated costs is mainly because of the near completion of our responsibilities for NHS audits and smaller local government bodies.

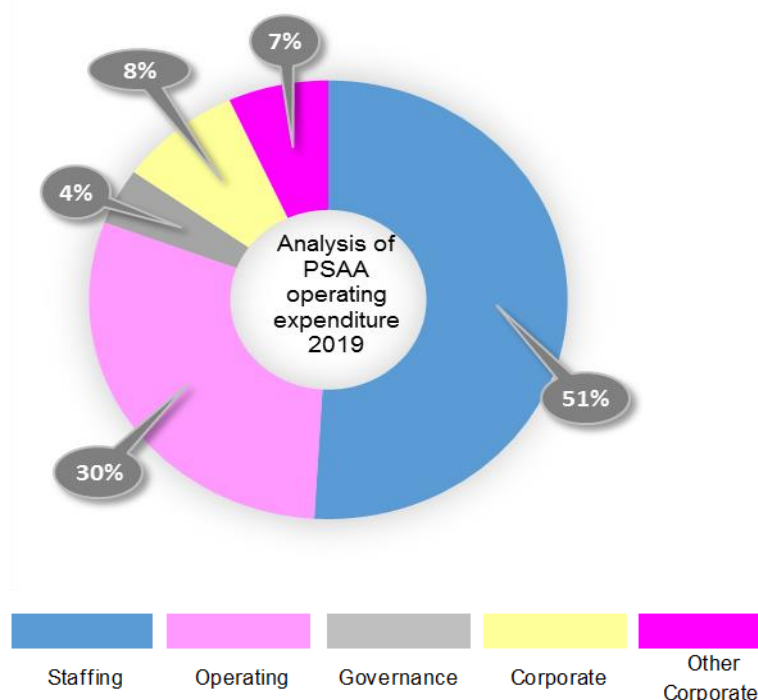
Revenue by sector - £m



Controlling costs

PSAA incurred total costs of £42.214 million, of which the cost of the novated audit contracts for the period was £40.612 million, 96.2% of total costs (2017/18: £51.624 million which represented 94.6%).

PSAA incurred operating expenses of £1.595 million in 2018/19 which represents 3.8% of total costs (2017/18: £2.918 million which represented 5.4% of total costs) and taxation of £0.007 million (2017/18: £0.005 million).



Financial position

PSAA's total assets equal total liabilities at the end of 31 March 2019 (31 March 2018: total assets also equalled total liabilities). PSAA is required to pay any surplus funds to principal audited bodies, as provided for in its articles of association and the memorandum of understanding with MHCLG and other parties. Surplus funds are shown as a liability in the balance sheet as part of deferred income. The deferred income is regularly reviewed to ensure PSAA has sufficient funds to pay for its operating expenses and manage its cash flow. Funds no longer required are returned once approved by the Board. At the end of 31 March 2019, the surplus funds remaining were £6.1 million. In the short term, the Board plans to distribute in the region of £3.5m to audited bodies under the transitional arrangements as the majority of these audits were completed by 31 March 2019. The final decision on the amount and timing of the distribution will be made towards the end of 2019. It is expected to leave approximately £2.6 million in the long term deferred income (see note 13 on pages 42 to 43).

Future developments

The financial year 2019/20 will be a significant one for local audit and PSAA in that:

- during 2019 appointed auditors will complete the first audits under the appointing person contracts;
- the National Audit Office will consult on the new Code of Audit Practice that will apply for five years from 2020/21 and this may have an impact on the work to be carried out under our audit contracts and the associated fee scale for the remaining three years of the appointing period;
- MHCLG is committed to carrying out an important post implementation review of the LAAA 2014 which may have implications for local audit arrangements going forward; and
- we are planning to undertake a number of projects to explore key issues in relation to local audit. Some of these link to the recommendations from our lessons learned project, while others arise from responses to the consultation on scale fees. The Board is also committed to exploring solutions to some of the wider challenges facing the local audit system.

Audit is increasingly in the public eye. Sir John Kingman has reported on the regulation of the audit market which has led to plans to replace the FRC, while the Competition and Markets Authority has put forward proposals to increase auditor competition. Meantime Sir Donald Brydon is now reviewing what is meant by an audit and the Public Accounts Committee are showing a keen interest in the results of local auditors' work. We will be monitoring all of these developments and assessing their potential impact on local audit, the company, opted-in bodies and contracted audit firms.

By order of the Board

Steve Freer
Chairman

17 July 2019

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2019.

Directors

For the year from 1 April 2018 the PSAA Board's composition was as set out in the table below:

Board members	Position	Period of office
Steve Freer	Chairman	1 April 2018 to 31 March 2019
Caroline Gardner	Non-executive director	1 April 2018 to 31 March 2019
Clive Grace	Non-executive director	1 April 2018 to 31 March 2019
Stephen Sellers	Non-executive director	1 April 2018 to 31 March 2019
Keith House	Non-executive director	1 April 2018 to 31 March 2019

There were no resignations of directors during the financial year, and there have been no changes since the end of the financial year.

More information on the PSAA Board and individual directors is available on the [PSAA website](#).

Register of interests

Board members are required to notify and register any issues on which they might have a conflict of interest. Declarations of interest are invited at each Board meeting. A register of members' interests is maintained, and is available on the [PSAA website](#).

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* (FRS 102).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether applicable United Kingdom Accounting Standards have been followed, including FRS 102, subject to any material departures disclosed in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Future developments

Future developments for the company are covered in the Strategic Report.

Going concern

In June 2016 PSAA was specified by the Secretary of State for Communities and Local Government as an appointing person for relevant principal local government bodies under the provisions of the Local Audit and Accountability Act 2014. This extends the responsibilities of the company beyond the transitional arrangements for which the company was responsible at its inception. The appointing person responsibilities will last until at least 2023, when the current appointing period ends. It is appropriate to prepare PSAA's accounts on a going concern basis.

The directors have considered the potential risks and uncertainties arising from the June 2016 referendum vote for the United Kingdom to leave the European Union, and subsequent actions taken by the Government, and concluded this matter is unlikely to give rise to solvency, liquidity or other risks that may threaten the long-term viability of the company or its future performance.

Subsequent events

There have been no other events affecting the company or the information provided in this annual report and accounts since the year end.

Disclosure of information to auditors

For each of the directors at the time this report was approved, the following applies:

- as far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Independent auditors

The auditors, UHY Hacker Young, have been re-appointed following a competitive process in autumn 2018. A resolution concerning their appointment for three years was approved by the Board in January 2019.

Steve Freer
Chairman
17 July 2019

Remuneration report

Chief Executive, Chief Officer and other senior appointments

During the 2018/19 financial year the structure of the PSAA management team changed in response to the changes in PSAA's responsibilities as the company migrates from its former transitional functions to its new appointing person role. The Chief Officer and two senior managers were made redundant and a new Chief Executive was recruited.

Staffing structure

We carried out a significant restructuring and cost reduction exercise to ensure that PSAA is fit for purpose for its new responsibilities and objectives. This programme of work was completed during 2018, resulting in reduced staff numbers and reduced operating costs and the establishment of a team whose skills and experience are aligned with the company's new remit.

Our overall staffing establishment has reduced from 12 to 6, and as a result our annual staff costs will reduce from £0.95m to £0.58m.

During the year, as a result of restructuring, we incurred significant redundancy costs which are included in the tables below. Funding to meet the redundancy entitlements up to 31 March 2015 was provided from an earmarked reserve transferred to PSAA from the Audit Commission. We also reviewed terms and conditions of employment and this led to some further costs of change (£34.7k) associated with 'buying out' previous contractual entitlements which the company considers are no longer relevant to staff roles.

Remuneration policy for the Chief Executive, Chief Officer and senior staff

For all senior staff, remuneration was set by the PSAA Board, in line with PSAA's terms and conditions of employment.

Key terms of employment for the Chief Executive, Chief Officer and other members of the management team were as follows:

- **pension arrangement:** PSAA operates a defined contribution plan with the same level of benefit for all its members. The Chief Executive, Chief Officer and all staff were eligible to join the scheme. PSAA's contribution is 10% of salary for all staff.
- **other terms of employment:** the Chief Executive, Chief Officer and senior managers all had permanent employment contracts. The Chief Executive and senior managers are required to give between four to six months' notice if they resign.

Remuneration over £50,000

The number of staff with remuneration over £50,000 is shown in the table below. The bands are based on salary, employer pension contributions and contractual payments and benefits in line with the contractual terms and conditions of employment.

Band £k	Number of employees 2019	Number of employees 2018
55 – 60	1	
60 – 65		1
65 – 70		1
70 – 75		1
75 – 80	*1	
80 – 85	**1	
85 – 90		*3
95 – 100		1
100 – 105	***3	1
110 – 115	**1	
135 – 140		1
140 – 145	*1	
170 – 175	*1	
185 – 190	*1	
210 - 215	*1	

* Includes employees who received contractual redundancy payments (see also table under 'contractual redundancy payments' below).

** Includes a payment of between £9,800 and £12,460, to the employee to 'buy out' previous contractual entitlement to a London travel card, following a review of terms and conditions.

*** Includes two employees who received contractual redundancy payments (see also table under 'contractual redundancy payments' below) and one employee who received a payment to 'buy-out' previous contractual entitlement to a London travel card as described above.

Contractual redundancy payments

The table above shows remuneration including contractual redundancy payments. These payments are made in accordance with terms and conditions of employment. The redundancy payments are shown separately in the table below.

Band £k	Number of employees 2019	Number of employees 2018
45 - 50		1
50 - 55	1	
55 - 60	1	
75 - 80	1	
90 - 95	1	
115 - 120	1	
125 - 130	1	
135 - 140	1	

Senior management remuneration

Remuneration details for the senior management team are shown in the table below. This includes salary, employer pension contributions and contractual allowances and benefits in line with the contractual terms and conditions of employment.

Description	2019	2018
Chief Officer	*£142,973	£139,086
Chief Executive	**£55,372	-
Chief Finance Officer	***£113,926	£102,013
3 Other Senior Managers – range	***£103,949 to *£214,580	£89,744 to £98,078

* Includes a contractual redundancy payment (see also table under 'contractual redundancy payments' above).

** Recruited during 2018, had part-year service.

*** Includes a payment to 'buy-out' previous contractual entitlement to a London travel card.

Pay multiple

The relationship between the remuneration of the highest paid employee and the median remuneration of the organisation's workforce is shown in the table below. Total remuneration includes salary, contractual payments and benefits. PSAA does not have performance-related pay. These figures do not include employer pension contributions.

Description	2019 (including redundancy pay) £	2019 (excluding redundancy pay) £	2018 £
Band of highest paid - total remuneration	*205k - 210k	105k - 110k	125k - 130k
Median - total remuneration	101k	51k	65k
Ratio	2.1	2.1	2.0

*Total remuneration includes salary and redundancy pay. The figures excluding redundancy pay would be as follows: band of highest paid £105k - £110k, median £51k and ratio 2.1.

Remuneration policy for Directors

There have been no changes to Directors' remuneration during the year.

None of the Directors serving between 1 April 2018 and 31 March 2019 received other benefits from PSAA, nor were they members of the pension scheme.

Director	2019 - £000	2018 - £000
Stephen Freer	30	30
Clive Grace	8	8
Stephen Sellers	8	8
Keith House ⁽¹⁾	8	3
Caroline Gardner ⁽²⁾	0	0

(1) In 2018 Keith House worked part year as he was appointed on 1st December 2017.

(2) Audit Scotland does not charge PSAA for Caroline Gardner's services.

Directors are also reimbursed for expenses directly and necessarily incurred in the performance of their duties.

In addition, the independent audit committee member, Kathryn Cearns, received remuneration of £2,000 per year.

Governance report

Principles of governance

The principles of the governance structure of PSAA are set out in the Articles of Association and the Memorandum of Understanding, such that the company:

- has a governance structure which transmits, delegates, implements and enforces decisions appropriately;
- has trustworthy internal controls to safeguard, channel and record resources as intended;
- works cooperatively with partners while supporting the Board's duty to protect PSAA's independence;
- operates with propriety and regularity in all its transactions;
- treats its counterparties fairly, honestly and with integrity;
- offers appropriate redress for failure to meet agreed standards; and
- gives timely, transparent and realistic accounts of its business and decisions.

Governance structure

PSAA is a private company established under the Companies Act 2006, without share capital and limited by guarantee. It is wholly owned by the Improvement and Development Agency (IDeA), which in turn is wholly owned by the Local Government Association (LGA).

The primary duty of the company is to discharge the statutory objects and powers set out in its Articles of Association in accordance with the Companies Act 2006 and the company's founding documents. The principal legislation governing the statutory functions of PSAA is the Local Audit and Accountability Act 2014.

The role of the IDeA, as founder of the company, is to support PSAA in discharging its functions and achieving its objectives. The IDeA acknowledges the independence of the company and the responsibility for running the company as that of PSAA and the Board.

PSAA's governance structure and corporate governance framework are underpinned by the standards promoted by the Committee on Standards in Public Life.

The PSAA Board

The Board as a whole is legally responsible for the management and stewardship of the company in the discharge of its purpose and powers in accordance with the Companies Act 2006 and the company's founding documents. The Board alone is responsible for agreeing the company's strategy, and for determining its budget.

The Chairman of the Board is a non-executive director, appointed by the IDeA in February 2015 and re-appointed in September 2017 for a further three years. Three of the remaining four non-executive directors were appointed by the Chairman, with the approval of the IDeA, in February 2015 and re-appointed in September 2017 for a further three years. A fifth director was appointed in December 2017 for a period of three years.

The Chairman is the leader of the Board, working closely with the Board, the Chief Executive and the staff of the company. Board members act collectively, and do not have individual executive authority.

Board members attended the following meetings during 2018/19:

Board members	Position	Board meetings
Steve Freer	Chairman	5/5
Caroline Gardner	Non-executive director	5/5
Clive Grace	Non-executive director	5/5
Stephen Sellers	Non-executive director	5/5
Keith House	Non-executive director	5/5

Audit committee

The audit committee is chaired by Caroline Gardner, a non-executive director of PSAA. Membership of the audit committee comprised of Stephen Sellers, Clive Grace and Keith House, and an independent member, Kathryn Cearns, who has a professional background in financial reporting. Kathryn was appointed for a second three-year term during the 2017/18 financial year.

The audit committee is responsible for scrutinising the company's internal controls, key risks and risk management, and spending. Broadly, the audit committee is required to oversee production of the annual accounts, consider appointment of the internal and external auditors, and scrutinise aspects of PSAA's financial, accounting, risk management and governance arrangements and policies.

Chief Executive

The company's Chief Executive has executive responsibility to the Board for the work of the company and for its staff, and ensures that the Chairman and Board have timely, accurate and clear information to carry out their responsibilities.

The Board has delegated authority to the Chief Executive for the day-to-day management of the company, with responsibility for the overall organisation, management and staffing and for its procedures including conduct and discipline.

The arrangements for the aspects of the company's operations for which the Chief Executive is responsible are set out in the scheme of delegation in the PSAA corporate governance framework, and are reflected in the Memorandum of Understanding. The Chief Executive receives assurance from the company's senior managers on the correct operation of these arrangements, and aspects of the arrangements are subject to annual review by the company's internal and external auditors.

Corporate governance framework

PSAA's corporate governance framework is published on the company's website. The corporate governance framework sets out clearly which matters are delegated and which are reserved to the Board, and incorporates the company's financial policies. The Board and audit committee review the framework regularly. It was reviewed during 2018 and updated in October 2018.

PSAA's arrangements in relation to risk management are covered in the Strategic Report included in this Annual Report.

PSAA's internal auditors, TIAA Limited, presented their annual report in October 2018, confirming substantial assurance in all areas reviewed, covering: General Data Protection Regulation compliance, redundancy payments, risk management, and calculation of audit firms' remuneration rates 2018/19.

By order of the Board

Steve Freer
Chairman

17 July 2019

Annual Accounts

Financial statements

for the year ended 31 March 2019

Profit and loss account

		Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Turnover	4	42,179	54,523
Cost of sales	5	(40,612)	(51,624)
Gross Profit		1,567	2,899
Administrative expenses	6	(1,595)	(2,918)
Loss on ordinary activities before interest and taxation		(28)	(19)
Interest receivable and similar income		35	24
Profit on ordinary activities before taxation		7	5
Tax on profit on ordinary activities	8	(7)	(5)
Profit for the financial year		-	-

Statement of comprehensive income

		Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit for the year		-	-
Total comprehensive income for the year		-	-

Balance Sheet

		Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Current assets			
Debtors	9	1,107	1,742
Accrued income	10	230	158
Short term investments	11	4,931	5,280
Fixed term deposits	11	1,636	-
Cash at bank and in hand		10	10
		7,914	7,190
Creditors - amounts falling due within one year			
Trade and other payables	12	(543)	(262)
Deferred income	13	(4,729)	(1,731)
Provisions	14	-	(666)
		(5,271)	(2,658)
Net current assets		2,643	4,532
Creditors – amounts falling due after more than one year			
Deferred income	13	(2,643)	(4,532)
Net assets		-	-
Reserves			
Retained earnings		-	-
Total Reserves		-	-

The notes on pages 35 to 43 are an integral part of these financial statements.

The financial statements on pages 31 to 43 were authorised for issue by the Board of Directors on 17 July 2019 and were signed on its behalf.

Steve Freer
Chairman

Public Sector Audit Appointments Limited
Registered no. **09178094**

Statement of changes in reserves

	Retained Earnings £'000	Retained Earnings £'000
Balance as at 1 April 2017	-	-
Reserves for the year	-	-
Balance at 31 March 2018	-	-
Balance as at 1 April 2018	-	-
Reserves for the year	-	-
Balance as at 31 March 2019	-	-

Statement of cash flows

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Net cash inflow / (outflow) from operating activities	15	(5,187)
Taxation paid	(5)	-
Net cash generated from / (used in) operating activities	1,252	(5,187)
Cash flow from financing activities		
Interest received	35	24
Fixed maturity deposits	(1,636)	4,499
Net cash (reduction) / increase from financing activities	(1,601)	4,523
Net decrease in cash at bank and in hand	(349)	(664)
Cash and cash equivalents at the beginning of the year	5,290	5,954
Cash and cash equivalents at the end of the year	4,941	5,290
Cash and cash equivalents consists of:		
Cash at bank and in hand	10	10
Short term deposits	4,931	5,280
Cash and cash equivalents	4,941	5,290

Notes to the financial statements

1. General Information

PSAA is responsible for appointing auditors to local government, and police bodies, for setting fees, for making arrangements for the certification of housing benefit subsidy claims (not from 2018/19 onwards) and for helping to ensure a smooth transition to the new audit regime established under the Local Audit and Accountability Act 2014.

The company is limited by guarantee and has no share capital. The principal members of the company are set out in Note 16.

The company is incorporated and domiciled in the UK. The address of its registered office is: Local Government House, Smith Square, London, SW1P 3HZ.

2. Statement of compliance

The individual financial statements of PSAA have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland* (FRS 102) and the Companies Act 2006, under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

b) Public benefit entity

Under FRS102, PSAA qualifies as a public benefit entity and therefore the special provisions of section 34 of FRS 102 could be applicable. These provisions have been reviewed and are not relevant to this financial year, as PSAA did not make any business combinations and did not receive any concessionary loans. The provisions will be kept under review.

c) Going concern

The financial statements have been prepared on the going concern basis. The government extended the transitional audit arrangements for principal local government bodies by one year to include audits for 2017/18. The transitional arrangements are substantially complete (a small number of legacy issues remain), and we will operate mainly under the appointing person regime for the five years from 1 April 2018.

d) Revenue recognition and the treatment of surplus funds

Revenue and associated costs are recognised, excluding VAT, in the accounting period in which the services are rendered, when the outcome of contracts can be estimated reliably. The company uses the percentage of completion method based on the actual service performed as a percentage of the total services to be provided.

Scale fees belong to and are set by PSAA. For administrative convenience, PSAA requires audit firms to bill audited bodies on its behalf and to act as its agents to collect fees. PSAA invoices firms at the scale fee adjusted for the firm's agreed remuneration. Firms are required to update quarterly work in progress returns with the amount of work they have completed in the quarter to establish the percentage complete. The revenue received by PSAA is to cover directly the costs of the auditors and the operating expenses of PSAA. If at the end of the period there is a remaining surplus or a shortfall, as a result of expenses being over or under-estimated, revenue is adjusted to the actual amount receivable from the audited bodies and payable by PSAA in total. Surplus funds are repaid to the audited bodies the surplus was generated from; however, the repayment date and method are to be determined by the Board. Until a decision is made to return specific funds, all potential surplus funds are shown as a liability in the form of deferred income, as PSAA has a constructive obligation to repay the funds. Once a decision is made by the Board to return specific funds the amount outstanding at the year-end is shown as creditors.

PSAA accounts for and reports on the transitional arrangements and appointing persons separately.

PSAA will account for and report on each appointing period separately to enable PSAA to return surplus funds back to the bodies that opted-in the particular appointing period. The bodies opted-in may vary from one period to another, and the distribution will match the opt-in period. If a body ceases to exist then the appropriate share of the distribution may be due to a specific successor body (ies) in which case it will be paid to the body (ies) concerned. If a new body is created within an appointing period, the amount due to it will be based on the proportion of the appointing period for which the body existed.

e) Corporation tax and deferred tax

The company is liable for corporation tax on its profits, but it will not have any trading profits as it accounts for its trading activities on a no profit/no loss basis. As a consequence, there is no deferred tax in the financial year. The company is liable to corporation tax on investment income.

f) Provisions

Provisions are recognised when PSAA has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

g) Employee benefits

PSAA provided a range of benefits to employees including paid holiday arrangements and a defined contribution pension plan.

i) Short term benefits

Short term benefits including holiday pay and other non-monetary benefits are recognised as an expense in the period in which the service is received.

ii) Defined contribution pension plan

PSAA operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid, PSAA has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown as accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

h) Financial instruments

Financial instruments are shown as follows:

- i) trade and other receivables at their nominal amount;
- ii) deferred income at nominal amount. Amounts falling due after more than one year mainly represent potential surplus fees to be repaid to audited bodies at a future date. The potential surplus fees will be repaid in accordance with a formula which will be agreed by the Board during 2019/20, therefore deferred income falling due after more than one year is also reported at nominal amount;
- iii) trade and other payables at their nominal amount;
- iv) short-term financial assets, cash and cash equivalents are held by the LGA on PSAA's behalf in line with PSAA's treasury management policy. These balances are pooled and deposited in accordance with the investment strategy. These are measured approximate to their nominal fair values because of their short maturity period.

i) **Contingent Liabilities**

PSAA indemnifies appointed auditors for legal costs they incur when carrying out their special legal functions that are otherwise irrecoverable. The amount incurred in any one year from this indemnity depends on the progress of individual cases and so cannot be predicted or quantified until any liabilities crystallise. The indemnity under the Appointing Person arrangements is capped at £50,000. The indemnity under the transitional arrangements is not capped.

4. Turnover

Analysis of turnover by segment

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Audit fee income local government - principal bodies	42,116	42,260
Audit fee income local government - small bodies	22	2,424
Audit fee income National Health Service	21	9,819
Other income	20	20
	42,179	54,523

Analysis of turnover by category

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Audit services	42,159	54,503
Licenses for HBCount	20	20
	42,179	54,523

5. Cost of sales

Analysis of cost of sales by segment

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Bought in services local government - principal bodies	40,578	40,764
Bought in services local government - small bodies	17	1,863
Bought in services - National Health Service	17	8,997
	40,612	51,624

6. Administrative expenses

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Salaries and wages	658	1,496
Social security	86	98
Pension	57	69
Board members and non-Board members	56	54
Training	7	3
Consultants & Contractors Fees	30	137
Rent and rates	51	56
Bad Debt	5	-
Supplies & services	49	86
Travel & subsistence	21	15
Insurance	34	34
Legal and professional fees	99	94
Audit fees	13	15
Shared services	76	246
Subscriptions	353	515
Total administrative expenses	1,595	2,918

The above table includes administrative expenses in relation to our appointing person functions as shown in the table below:

Administrative expenses – appointing person

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Salaries and wages	304	-
Social security	43	-
Pension	29	-
Board members and non-Board members	28	-
Training	4	-
Consultants & Contractors Fees	30	137
Rent and rates	26	-
Supplies & services	25	2
Travel & subsistence	11	-
Insurance	17	-
Legal and professional fees	9	6
Audit fees	7	-
Shared services	38	-
Subscriptions	5	-
Total administrative expenses	573	145

7. Directors, independent member of audit committee and Employees

The average monthly number of persons employed by the company during the year was:

	2019	2018
Directors	5	5
Independent member of Audit Committee	1	1
Employees	8	11

The directors' emoluments were as follows:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Aggregate emoluments	56	52

Key management compensation

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Salaries and other short-term benefits	816*	519

*Gross salary, pension contributions, benefit in kind and redundancy payments made during 2018/19

8. Taxation

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Current tax		
UK Corporation tax on profits for the current period	7	5
Total tax charge	7	5
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	7	5
Expected tax charge based on a corporation tax rate of 19% (2018 – 19%) on Interest receivable and similar income	1	1
Non-trade loan relationship credits	7	5
Brought forward / Carried forward loss relief	(1)	(1)
Tax expense for the year	7	5

9. Debtors

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Local government	1,107	1,742
Total debtors	1,107	1,742

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Trade Debtors	1,094	1,115
Other debtors	4	-
Prepayments	10	618
VAT Refund	-	10
Total debtors	1,107	1,742

This note provides an analysis of the debtors shown in PSAA's Balance Sheet.

No debtors were over 6 months old.

10. Accrued trade income

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Local government	230	130
Health	-	28
Total accrued trade income	230	158

This note provides an analysis of the accrued trade income (work completed, but not yet billed) shown in PSAA's Balance Sheet.

11. Current asset investments

Surplus cash balances are pooled with the Local Government Association (LGA) and lent to financial institutions on the LGA's approved counterparty list. Investments are typically for periods not exceeding twelve months and as such the loan amount is a reasonable assessment of fair value. The counterparty list is currently restricted to financial institutions that meet agreed credit ratings criteria and subject to the cash limits (per counterparty) as shown in the LGA's Investment Strategy as also agreed by the PSAA Board. The LGA's Investment Strategy strictly applies credit limits for all financial institutions on the approved counterparty list to ensure that investments are diversified. No credit limits were exceeded during the year and the LGA does not expect any losses on short term investments.

12. Trade and other payables

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Amounts owed to group undertakings	-3	-25
Accrual for holiday entitlement not yet taken	-10	-33
Corporation tax payable	-7	-5
Other taxation and social security	-129	-28
Accruals	-394	-171
Total Trade and other payables	-543	-262

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Local Government	543	206
Health		56
Total Trade and other payables	543	262

13. Deferred income

Deferred income represents invoices raised in advance for work the firms have yet to deliver and surplus fees to be paid to audited bodies at a future date.

Deferred income due within 1 year includes work in progress of £1.229m in relation to the arrangements under the Appointing Persons regime. It also includes an estimate of £3.5m planned to be distributed to audited bodies under the transitional arrangements in 2019/20 once the Board has made a decision on the exact amount to be distributed.

£1.743m of the £2.643m deferred income falling due after more than 1 year relates to the transitional arrangements and £0.900 relates to the Appointing Persons regime. Once it is clear the money is not required to meet PSAA costs the funds will be returned to audited bodies, in accordance with a formula to be agreed by the Board (as explained in note 3f and 3h above).

Deferred income - falling due within 1 year

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Local government	4,729	1,731
Total deferred income	4,729	1,731

Deferred income - falling due after more than 1 year

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Local government	2,643	4,532
Total deferred income	2,643	4,532

14. Provisions

There are no provisions in 2019. In 2018 a provision of £666,000 was included for the redundancy of six members of staff, which took effect in this financial year.

15. Cash flow

Note to the cash flow statement

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Operating loss	(28)	(19)
Working capital movements		
Decrease in debtors	563	654
Increase / (decrease) in payables	723	(5,822)
Net cash inflow / (outflow) from operating activities	1,258	(5,187)

16. Related party transactions

PSAA is wholly owned by the Improvement and Development Agency (IDeA), which is wholly owned by the Local Government Association (LGA). The LGA has taken the decision not to consolidate PSAA's accounts. Below (in italics) is an extract from the LGA's annual report: *'The accounts for Public Sector Audit Appointments Limited (PSAA) are not consolidated into these statements because the LGA does not exercise or have the ability to exercise control over PSAA and the LGA is not in a position to benefit from its results and financial performance.'*

The IDeA and the LGA are treated as related parties in these accounts in the interest of transparency. During the year PSAA received services from the LGA, such as IT, HR Finance support and accommodation, the total value of these services was £138,959 (2018: £187,075). To date PSAA has paid a total of £136,069 in this financial year. £2,890 is owed by PSAA to the LGA.

During the year there were no related party transactions carried out either by Directors or the management team (the Chief Officer, Chief Executive and four senior managers).

There were no transactions between PSAA and the key management personnel other than the compensation and expenses set out in the Remuneration Report.

17. Contingent liabilities

At the end of 31 March 2019, PSAA had no contingent liabilities.

Auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PUBLIC SECTOR AUDIT APPOINTMENTS LIMITED

Opinion

We have audited the financial statements of Public Sector Audit Appointments Limited (the 'company') for the year ended 31 March 2019 which comprise the Profit and loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in reserves, the Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102: *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following risks that we believe had the greatest impact on our audit strategy and scope:

- *Management override of controls*
Management override of controls is deemed to be a significant risk in accordance with ISAs (UK) and presents the risk that management or those charged with governance could override the internal controls of the company in preparing the financial statements resulting in a material misstatement.
- *Revenue recognition*
Given the nature of the company's activities and its revenue streams, there is a risk over accuracy, existence and completeness assertions relating to revenue recognition.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define financial statement materiality as the magnitude by which misstatements, including omissions, could influence the economic decisions taken on the basis of the financial statements by reasonable users.

We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £145,000. In determining this we based our assessment on the gross assets of the company. On the basis of our risk assessment, together with our assessment of the company's control environment, our judgement is that performance materiality for the financial statements should be 75% of materiality, being £108,750.

An overview of the scope of our audit

The approach we took to the assessed risks described above was as follows:

Management override of controls

- We tested the key controls applied to the company's IT systems to determine that they are operating effectively.
- We reviewed estimates included in the financial statements for any evidence of management bias arising in their calculation.
- We conducted enquiries of management and other staff to determine if they were aware of any unusual journals or other adjustments.
- We tested a sample of journal entries, other adjustments, large or unusual transactions in the year to determine that they are valid business transactions.
- There were no indicators of management override of controls occurring in the financial statements.

Revenue recognition

- We obtained a list of live contracts from the company and agreed a sample to source documentation including any deeds of variation.
- We obtained evidence of the stage of completion at the year-end for each contract and agreed the amounts to the company's WIP schedule.
- We recalculated the amount of expected revenue which we agreed to the company's supporting calculations and amounts included within revenue in the financial statements.
- Our testing of revenue did not identify any material misstatement of amounts included in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were re-appointed by the Board of Directors on 24 January 2019. The period of total uninterrupted engagement of the firm is four years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with part 3 of Chapter 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Subarna Banerjee (Senior Statutory Auditor)

For and on behalf of UHY Hacker Young

Chartered Accountants

Statutory Auditor

18 July 2019