

Annual report and accounts 2023/24

About PSAA

Public Sector Audit Appointments Limited (PSAA) is a not-for-profit company limited by guarantee without share capital. The company's sole member and guarantor is the Improvement and Development Agency (IDeA), which is a subsidiary of the Local Government Association (LGA). PSAA is operationally independent of both organisations. PSAA's financial statements are not consolidated into the LGA's as neither the IDeA nor the LGA exercise control over PSAA or benefit from its results and financial performance.

PSAA began operations in April 2015 when the then Secretary of State for Communities and Local Government delegated a number of statutory functions to PSAA on a transitional basis following the closure of the Audit Commission. These responsibilities included appointing auditors and setting audit fees for bodies subject to audit under the provisions of the Local Audit and Accountability Act 2014 (the Act).

PSAA is specified by the Secretary of State as an appointing person under the provisions of The Act. This means that PSAA is responsible for appointing an external 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. The role also includes setting audit fees for opted-in bodies, overseeing issues of auditor appointment, and monitoring compliance with the contracts awarded to firms to carry out local government audits.

We operate in accordance with the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015 (the Regulations).

PSAA's changing responsibilities over time

PSAA has two significant business cycles which run in parallel. Firstly, the annual process for managing and reporting on the contracts and auditor compliance, setting the audit fees and fulfilling all the requirements of a Companies Act company. Secondly, the development of the arrangements (at least once every five years) for an appointing period - the national auditor appointment opt-in scheme. This requires a significant and complex procurement of audit contracts and the appointment of auditors with a lengthy intense period of activity leading to the start of a new appointing period.

Contents

About PSAA2

Overview of the year5

Strategic report.....11

Directors’ report22

Remuneration report26

Governance report28

Financial statements32

Notes to the financial statements35

Auditor’s report44

Annual Report

Overview of the year

During this financial year, 467 2022/23 audits were due to be completed under our contracts that cover 98% of eligible bodies. However, there is a large backlog of outstanding opinions. Only five 2022/23 audit opinions (1%) were given by the target date of 30 September 2023, adding to the backlog and the serious concerns about local public accountability and the impact on assurance about the sector's governance and financial management.

Challenges in the local audit system

Since 2018 local government external audit has been affected by regulatory reforms, capacity issues and increased complexity, which has had a devastating impact on the delivery of audits and has resulted in the backlog. This has had a profound effect on PSAA, impacting on many different areas of our appointing person role and increasing both the volume and complexity of our work.

The National Audit Office (NAO), the Public Accounts Committee (PAC) and the Levelling Up, Housing and Communities (LUHC) Select Committee have all highlighted the important challenges facing the local audit system and the serious consequences for accountability and effective management of the public bodies and services concerned.

In March 2023 the PAC considered the timeliness of local auditor reporting and published the outcome of its work in June 2023. [Timeliness of local auditor reporting - Committees - UK Parliament](#) The report detailed the ongoing issues which are contributing to the deterioration. Delayed audits reduce accountability over £100 billion of local government spending and raise risks of financial issues going undetected. The report recommended that the Department of Levelling Up, Housing and Communities (DLUHC)¹ take action across a number of areas to address the deteriorating situation.

The LUHC Select Committee reported in November 2023 on the ongoing crisis in local audit and accountability. [Financial Reporting and Audit in Local Authorities \(parliament.uk\)](#) The report recognised the urgent action being taken by DLUHC to address the backlog but flagged up the need for longer-term solutions to prevent future backlogs. The report proposed five core purposes local authority accounts should serve to uphold local democracy and accountability.

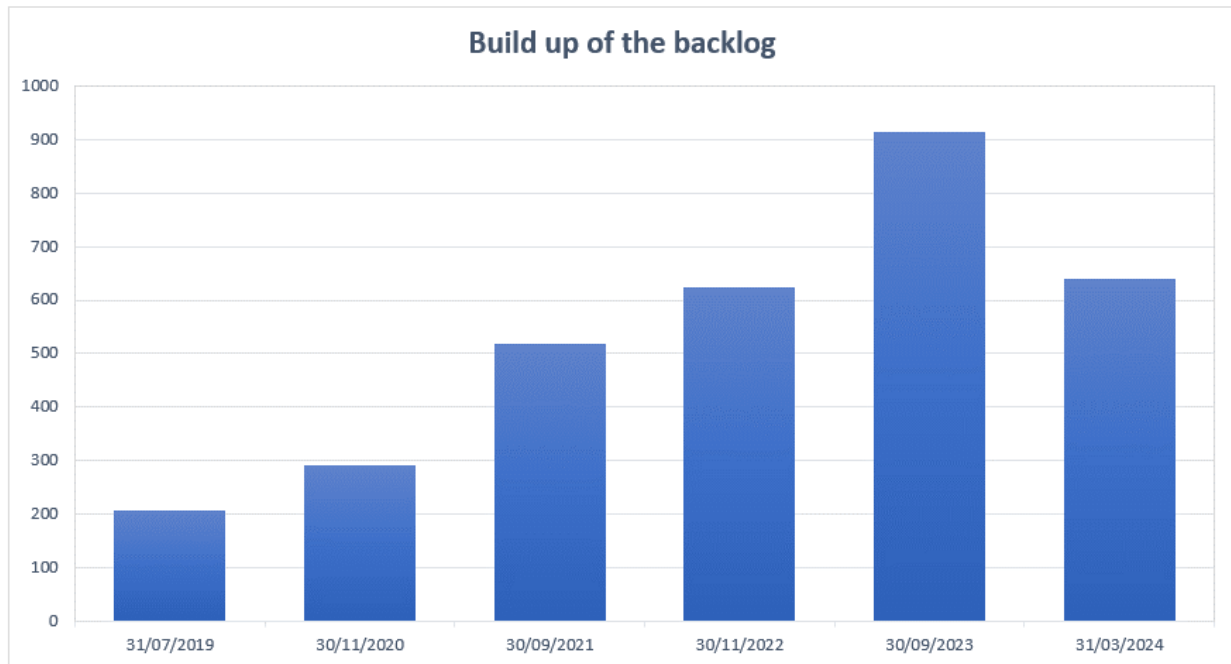
Timeliness of audit completion

As at 31 March 2024 642 audits remained outstanding. Of these 164 related to 2022/23 and 478 to earlier years, meaning that only 119 (25%) audited bodies had up to date assurance on their financial position.

This position has built up incrementally year on year and has become pervasive. The table shows the number of outstanding audit opinions at each publishing date over the

¹ On 9 July 2024 DLUHC became the Ministry for Housing, Communities and Local Government (MHCLG)

last five years, along with the position at 31 March 2024 which is half way through the current year.



The graph above illustrates that the number of audit opinions given in each of the last five years falls short of the circa 465 opinions due meaning that each annual shortfall is contributing to the total backlog.

As a result, too many bodies are making decisions, managing multiple financial challenges and laying plans for the future without the expected external audit assurance about their underlying financial positions.

Since the last publishing date of 30 September 2023 through to 30 June 2024 there have been 412 audit opinions given

Developments to address the issues

Following on from a number of Ministerial roundtables in Spring 2023, the Minister for Local Government published a cross-system statement in July 2023 setting out proposals to establish a series of backstop dates to tackle the audit backlog in England and embed timely audit [Local Audit Delays - Cross-system statement on proposals to clear the backlog and embed timely audits.](#)

The Statement included commitments from organisations involved in the regulation and oversight of local body financial reporting and audit (“system partners”). These system partners have been working collaboratively with the aim of designing a solution to clear the outstanding historical audit opinions and ensure that delays do not return.

PSAA has significant involvement in this process, proactively engaging with the local audit system to support the development of proposals to tackle the backlog along with fellow members of the Local Audit Liaison Committee. A number of groups were established to develop components of a proposed solution, and PSAA was a member of the Task and Finish Group and chaired the Handover Panel which considered the handover issues arising from the backlog. We are also a member of the workforce strategy steering group and the system risk register group.

In February 2024 a further cross-system Ministerial statement was published detailing the three stages (Reset, Recovery and Reform) of a proposed solution [Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit - GOV.UK \(www.gov.uk\)](#).

The proposals were the subject of separate consultations led by DLUHC and the NAO. A third consultation was launched by CIPFA on temporary changes to the Accounting Code of Practice. PSAA responded to the DLUHC and NAO consultations [PSAA response to the DLUHC and NAO consultations to address the Local Audit Backlog in England](#) CIPFA has since clarified that it is not going ahead with temporary changes and has moved its focus to longer term reform.

The proposed solution requires sustained goodwill and commitment from all parties to remove the backlog, but it is critical to acknowledge that neither the reset nor the recovery phases address the fundamental and systemic problems in the supply market, or the capacity and recruitment/retention problems faced by finance teams in local bodies. These problems are acknowledged in the Joint Statement.

On 30 July the Government issued a statement setting out their intention to lay secondary legislation to provide for a series of backstop dates to clear the backlog over the next four years. This difficult but necessary solution has unprecedented consequences for the sector and the bodies affected, and recovery from the backlog will be challenging for all parties. We look forward to the longer-term plans in the Autumn, and to playing our part in the welcome overhaul of the local audit system

Audit services market

Our last main procurement took place in 2022 against a challenging backcloth of a troubled audit profession, a turbulent market and a local audit system facing unprecedented difficulties including large volumes of delayed audit opinions. Our procurement secured just enough audit supply for the bodies that opted into our scheme, but there was and remains little or no spare audit capacity. This is very concerning, as robust and timely audit is particularly vital in a period which is likely to continue to be challenging for local bodies.

Over the next few years, we anticipate that we will be required to make new auditor appointments when the new bodies created by the devolution agenda choose to opt into our scheme. We have used our dynamic purchasing system in 2023 to procure new auditor appointments, but with mixed success to date. This reflects the audit supply challenges, which was compounded by the uncertainty about how the audit backlog will be addressed and the resulting ask of auditors.

Commissioning and undertaking research to inform our work

We commission research each year on the impact on audit fees of changes in local audit requirements. It considers the likely fee implications of changes applicable under the Code of Audit Practice, including updated auditing and financial reporting standards. The research helps us to update scale fees and to review fee variation proposals. We publish the findings of the research to assist planning for local bodies and audit firms.

This year we commissioned independent consultants Touchstone Renard to perform a review of our work to develop the national auditor appointment scheme for the audits

from 2023/24. The review concluded that PSAA had communicated and engaged effectively. Further details of the findings of the review are set out on page 13 of this annual report.

Setting audit fees and fee variations

PSAA's work on fee scales and fee variations is driven by detailed requirements set out in regulations. There is a statutory deadline for us to set a fee scale, which is significantly in advance of the audit work. The early date combined with delayed audits and increasing audit requirements has added significant complexity to setting the fee scale, and also results in more fee variations. Ideally, we would set the fee scale with full information on all audit requirements and following completion of the previous audits.

During 2023 PSAA consulted on and set the 2023/24 fee scale, the first of the new five-year appointing period. We updated all the scale fees to reflect the increased audit requirements. Our consultation set out the changes expected to have an impact on local audit work, and PSAA's proposals for the additional fees needed. Our approach is to consolidate additional fees for ongoing requirements into the fee scale where we have sufficiently reliable information, for example from completed audits or from our externally provided technical research. Our proposals also included a substantial fee increase (151% on total fees) arising from our 2022 procurement, reflecting the very challenging market conditions.

Our consultation paper explained the difficulties in setting the fee scale at a time of significant change in the local audit system. While there was broad support for the fee scale proposals, particularly for the clarity it provided on audit fees, responses did also highlight concerns about the increase needed. We published the new fee scale on our website in November 2023.

Many of the issues raised by respondents extend beyond PSAA's remit and relate to the need for radical change in the local audit system, and to achieve a more proportionate audit and a more sustainable audit system. We use this feedback when raising issues within the local audit system.

Monitoring our contracts and the quality of audit services

We published our fourth Annual Quality Monitoring Report (AQMR) that covered the work of local auditors appointed by us for the 2021/22 financial year. Our report aims to provide a rounded, well-informed view of performance and quality for each audit firm. The report included the outcome of the FRC's inspections on the quality of local audit work. However, the audit backlog meant that the regulators inspected a much smaller sample of audit reviews than in previous years 10 rather than 37 – and only four of them were local government bodies. The FRC reported that the 10 financial statement audits and the nine value for money arrangements that they reviewed all met the required standard, as they judged them as either good or with only limited improvements required.

Our AQMR also summarised our client survey of Audit Committee Chairs and Chief Finance Officers. The results reflected continuing challenges facing local audit with respondents expressing their concerns about the wider local audit regime. Recurring themes included the local impact of delayed audit opinions, the shortage of auditor

resources, the level of fee variations, and the extent of the audit work now required on valuations of both property and pensions.

We have used the opportunity of moving to new contracts with audit firms to significantly evolve our monitoring and reporting arrangements. We have strengthened compliance requirements within the new contracts and have restructured ourselves to create additional capacity to deliver the new regime.

Proposals for local audit systems leadership

The Government commissioned Sir Tony Redmond to review local government financial reporting and audit, and our submission to him called for systems leadership. In response to his report the Government proposed that a new regulator, the Audit, Reporting and Governance Authority (ARGA) will be the local audit system leader when it is created to replace the FRC. The FRC has created a Local Audit Unit in preparation, and in March 2023 the FRC and DLUHC published a memorandum of understanding outlining the FRC's role and responsibilities in relation to the local audit system.

Since July 2021 DLUHC has acted as interim system leader, and established the Local Audit Liaison Committee (LALC). This Committee enables closer working between system partners, with improved communications and coordination to work together to resolve the issues currently impacting local audit. We are on the LALC and are committed to playing an active role in addressing the challenges to move towards a local audit system which is more stable, resilient and sustainable.

As referenced on page 7 above, the new Government intends in the Autumn to set out its longer term plans, and it plans to overhaul the local audit system.

Looking ahead

We will continue to monitor the local audit landscape and work hard to understand the potential implications of any change for opted-in bodies, audit firms, and key stakeholders. It is particularly important that the local audit market evolves, improving competition and assuring sustainability for the future.

The third appointing period will commence in April 2028. PSAA will need to secure audit services for opted-in bodies, so there is now a critical window to develop and strengthen the local audit system. The local audit market must improve to restore competition, and the system as a whole must explore all options to increase audit capacity and to ensure that audit work is proportionate and appropriate to the needs of the sector.

Confirmation of the implementation of the initial element of the backlog solution is a significant starting point on a long and crucially important journey. The intention to overhaul the local audit system to address the systemic challenges that have led to the current local audit backlog is welcome. PSAA is ready to do everything we can as part of a collective systemwide effort to develop and deliver the critical changes required.

Board changes

On 31 March 2024 we said farewell to Steve Freer, a founding member and the Chair of PSAA's Board. We are indebted to Steve for his outstanding contribution and dedication to PSAA's work and development and to local audit over the last nine years.

We welcome our new Chair, Bill Butler who took up his appointment on 1 April 2024.



Bill Butler, Chair



Tony Crawley, Chief Executive

Strategic report

The directors present their strategic report for the year ended 31 March 2024.

1. Objectives and operating environment

PSAA's responsibilities and aims are expressed through a series of objectives, set out in our Articles of Association, covering the following areas of activity:

- 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 opted-in bodies; and
- leading our people as a good employer.

During 2024 we hope to agree a new memorandum of understanding (MoU) with key partners including MHCLG and the LGA setting out the broad framework within which PSAA operates. A similar MoU was agreed in 2015 but now needs to be updated.

The Board believes that strong and effective corporate governance supports the future long-term success of PSAA. It has in place, and regularly reviews and updates, a comprehensive governance framework to support the company's functions as an appointing person.

Whilst our core functions as an appointing person remain unchanged, continuing to operate in a complex and evolving environment means that communication and engagement with opted-in bodies and wider stakeholders remains a hugely important part of our work.

2. Business review

This report covers our ninth full year of business. Our audit services contracts for the second appointing period began in April 2023 and embedding our contract monitoring arrangements has been a particular focus of this year.

Auditor appointments from 2018/19 to 2027/28

Our first set of contracts with five firms covered audit appointments for 2018/19 to 2022/23. Contracts continue until every audit under it has been delivered, and so proposals to implement backstop dates could heavily influence the end point.

Our procurement for firms to deliver 2023/24 to 2027/28 audits did not secure enough capacity for us to appoint to all bodies that opted into our scheme. We carried out a rapid response supplementary procurement and managed to obtain the further capacity required.

The firms' market shares across our two appointment periods are as follows:

Firm	PSAA market share 2018/19 - 2022/23 %	PSAA market share 2023/24 - 2027/28 %
Grant Thornton UK LLP	40.00	36.00
Ernst and Young LLP	30.00	20.00
Forvis Mazars LLP	18.00	22.50
KPMG LLP	-	14.00
Bishop Fleming LLP	-	3.75
Azets Audit Services Ltd		3.25
BDO LLP	6.00	-
Deloitte LLP	6.00	-

For the first appointing period 98% of eligible bodies opted in. For the second appointing period, 456 eligible bodies (over 99%) chose to opt into the national scheme, with only 4 eligible bodies preferring to make local arrangements for their auditor appointments.

This high level of support from eligible bodies has enabled us to offer a scheme that strives to maximise benefits for participating bodies.

There are small changes every year in the number of eligible bodies because of local government reorganisations and/or the establishment of new bodies. Where a new eligible body chooses to opt into the scheme, PSAA is charged with finding an auditor.

Annual Report and Accounts 2023/24

Making occasional appointments is becoming increasingly difficult because of the paucity of the market.

A full list of opted-in bodies is maintained on our website in accordance with the regulations. [List of auditor appointments and scale fees.](#)

Alongside the main audit services procurement, we established a dynamic purchasing system (DPS). This offers several benefits including providing an alternative source from which to seek new appointments when required. It also enables firms without a main audit services contract to bid for our work and provides greater flexibility in our approach to future procurements.

Independent review of the 2022 procurement

During 2023 independent consultants Touchstone Renard carried out a 'lessons learnt' review of our work to develop the national auditor appointment scheme for the audits from 2023/24. [Independent review of PSAA's preparations for the second appointing period](#) The review focused on:

- reviewing, assessing and commenting on the effectiveness of our external communications and engagement activities for the project; and
- providing an independent, insightful view informed by external stakeholder feedback as to whether we could have adopted different or better approaches to any aspects of our preparations.

The review concluded that PSAA had communicated and engaged effectively throughout all phases of the project in the face of major headwinds including the statutory limitations of our role and a fragile and under-resourced local audit market. The report has made a number of recommendations for PSAA including some relating to the next procurement. We are addressing these points as we review our processes.

The report also highlighted concerns for the wider local audit system to consider, reflecting the wide range of issues that respondents raised with Touchstone Renard that go beyond our role. We continue to raise these concerns ensuring that they are heard by the local audit system partners as work progresses to address the challenges.

Looking ahead to the next appointing period

We are already looking ahead to the next appointing period to the audits for financial year 2028/29 onwards and are considering the options for approaching the procurement and appointment of auditors.

Timeliness of audit completion

The challenges facing local audit which first emerged during the course of the audits of the 2018/19 accounts have continued to be a significant and escalating problem during

subsequent years. The result is that at 31 March 2024 642 opinions were delayed, as summarised in the table below.

Audit year <i>Publishing date</i>	Number of opted in bodies	Percentage of audits complete by publishing date	Number of audits outstanding per financial year at 31 March 2024	Number of audits by oldest year outstanding
2022/23 – 30 Sep	467	1%	348 (75%)	164
2021/22 - 30 Nov	467	12%	184 (39%)	111
2020/21 - 30 Sep	474	9%	73 (15%)	48
2019/20 - 30 Nov	478	45%	25 (5%)	16
2018/19 - 31 Jul	486	57%	9 (2%)	8
2017/18 - 31 Jul	494	87%	1	
2016/17 - 30 Sep	497	95%	1	
2015/16 - 30 Sep	497	97%	1	1
Total			642	348

As at 30 June 2024, 559 opinions were delayed.

As set out in the Overview of the year of our annual report, various reports and parliamentary committee hearings have highlighted the challenges facing the local audit system and the impact of delayed auditor reporting. They have also set out that the cause is a mix of individual and systemic failures. The frustrations of all parties where audited accounts are not able to be published on a timely basis are well documented, as is the disruptive impact on the day-to-day delivery of other tasks.

The level of interest and concern demonstrated by the NAO, the PAC and the LUHC Select Committee is a reflection of the seriousness of the position and the potential implications for good governance, financial management and local accountability.

Setting audit fees

PSAA's statutory appointing person responsibilities include setting a scale or scales of fees for the audit of accounts of opted-in bodies. The local audit regulations require PSAA to consult on and set the fee scale by 1 December of the financial year to which the fee scale relates. The fee scale cannot be amended after this date.

We recognise the significant financial pressures on all local government bodies and understand that any further cost pressure because of increased audit fees is unwelcome.

Many of the factors affecting the local audit system and which have led to higher audit fees and delayed audit completions are complex and outside PSAA's remit. We have highlighted the need for urgent action to reform the local audit system in England and

our view that radical changes are needed to achieve a more proportionate and timely audit and a more sustainable audit system.

We consulted on and set the 2023/24 fee scale between September and November 2023. The consultation explained the difficulties in setting the fee scale at a time of significant difficulties and change in the local audit system as set out in this report.

PSAA awarded the new contracts in 2022 to six audit firms, following a challenging and protracted procurement. It demonstrated the limited audit capacity available to meet the demands of the local audit market, and resulted in an increase of 151% on our audit fees.

We commission annual independent technical research on changes in local audit requirements. We construct our fee scale proposals each year using the resulting recommendations, our own information on fee variations, and other factors such as inflation.

Our consultation on 2023/24 scale fees proposed to update them as fully and consistently as possible for the start of the new appointing period. The elements of our strategy were:

2023/24 fee scale elements
<p>A. The scale fees for 2022/23</p> <p>Plus:</p> <p>B. Approved fee variations for recurrent additional audit work in prior years not yet included in scale fees, or estimates where audits have been delayed</p> <p>C. Changes in local audit requirements</p> <p>D. Adjustments at specific bodies for local circumstances</p> <p>E. Adjustment of 151% to total audit fees, for the procurement outcome,</p>

We set the 2023/24 fee scale using the latest data available to us.

Fee variations

Fee variations are required when an auditor needs to undertake substantially more or less work than was envisaged when we set the fee scale for the audit.

Fee variations have increased in recent years, reflecting that local audit no longer operates in its relatively stable pre-2018 conditions. Auditors have needed to increase their work substantially to meet rising regulatory requirements including revised accounting and auditing standards, and producing a VFM arrangements commentary from 2020/21 onwards.

Auditors should have local discussions with bodies about any proposed fee variations at the earliest opportunity. Wherever possible the auditors should highlight at the planning stage any likely additional work, including potential fee implications. While it may not be possible to quantify the proposed fee until the work is complete, early discussion can help to avoid misunderstandings at a later stage. Where fee variations relate to ongoing audit requirements, we aim to build the approved variations into scale fees at the earliest opportunity.

The table below sets out the expected number of fee variations (as at 31 March 2024) over the last two financial years. The increase in larger fee variations reflects a rise in long-delayed audits coming to a conclusion, as typically they require the most complicated and input intensive work.

Number of fee variations

Fee variation proposals submitted	April 2022 to March 2023	April 2023 to March 2024	% difference
<= £25,000	171	223	30%
>£25,000 and <= £50,000	79	129	63%
>£50,000 and <= £75,000	24	69	188%
>£75,000 and <= £100,000	10	36	260%
>£100,000 and <= £200,000	25	62	148%
>£200,000	4	24	500%
Total	313	543	73%
Number of fee variations submitted	1,664	3,628	118%

Contract monitoring arrangements

Our contract monitoring arrangements reflect our statutory responsibility to monitor firms' performance against the audit services contracts. It also enables us to report the results of auditors' work to audited bodies and other stakeholders.

We oversee any issues relating to our auditors' independence. This includes reviewing proposals to provide non-audit consultancy services and monitoring the rotation of senior audit staff to minimise the threat of familiarity arising from long association.

We have evolved our contract monitoring regime to align with the service delivery and compliance requirements in our new contracts, which are in line with feedback from bodies. We have restructured our staffing and created additional capacity to support the new regime.

We have regular dialogue with our contracted firms and formal quarterly meetings covering any issues, performance and contract compliance, and discussion on actions needed.

Quality of audit services

We are very aware that quality of audit service delivery is a high priority for our bodies. We work within the boundaries of our remit and the limitations of the local audit market, and endeavour to secure appropriate quality audit services through our contracts with firms, albeit that our remit and paucity of the supply market restrict how effective we can be in doing so.

We use the International Auditing and Assurance Standards Board (IAASB) Framework for Audit Quality as our model for monitoring the performance of auditors and the quality

Annual Report and Accounts 2023/24

of the audit services they provide. It sets out the expectations for the provision of a good quality audit service, which we have distilled into three key tests:

- adherence to professional standards and guidance, obtained from the results of professional regulatory reviews;
- compliance with contractual requirements, obtained from monitoring; and
- relationship management, obtained from our annual client surveys.

We publish quarterly reports on our website to help bodies understand how we are monitoring the performance of audit firms on their behalf, along with other information such as the results of our client surveys.

The results of our monitoring are published annually in our summary Audit Quality Monitoring Review, incorporating the results of the latest professional regulatory reviews undertaken by the FRC and ICAEW. Our latest annual review ([Audit Quality Monitoring Report 2023](#)) was published in February 2024.

As expected, the timeliness of audit delivery is seen by audited bodies as the single factor that most impacts on their view on the quality of the audit service they currently receive.

Other projects

We have delivered on other projects during the year. We strengthened our data security arrangements by implementing multi factor authentication (MFA) across all our systems. We performed a major refresh of our website to improve communication with stakeholders and reviewed the arrangements for the provision of our support services.

Transitional arrangements

PSAA 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. In December 2023 the Secretary of State extended these transitional powers for a further five years to 31 December 2028 to enable us to deal with the outstanding elements of this work. At 31 March 2024 audit closure certificates have not been issued at 10 principal authorities as a result of ongoing audit work on financial statements, outstanding electors' objections, or where other investigative work has to be concluded. There also remains one smaller authority where the certificate and opinion has not been issued.

3. Risk management

Risk management arrangements

PSAA has in place a risk management framework which:

- provides appropriate assurance to the Board on the degree to which strategic and operational risks and issues are being managed effectively in relation to the company's objectives;
- ensures that risk management is an integral part of PSAA's culture and operations; and
- contributes to making informed decisions and effective resource planning.

The Board is responsible for taking a balanced view of the company's approach to managing opportunity and risk. The Board's responsibilities include:

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

As a company responsible for handling public money, PSAA's tolerance of risk is low.

The Chief Executive is responsible for maintaining the company's system of internal control and assurance, providing the Board and Audit Committee with assurance on its ongoing effectiveness and appropriateness, and advising on any material changes.

The Chief Operating Officer and Deputy Chief Executive provides oversight of risk management arrangements and is the Senior Information Risk Officer.

The PSAA team reviews the corporate risk register on a regular basis to assess mitigations and new risks, and specific members of the management team are responsible for managing individual risks.

The Board has delegated routine oversight of PSAA's risk management to the Audit Committee (AC). The exact scope and duties of the AC are documented in its terms of reference, which are reviewed annually by the AC. The AC meets three times per year and the AC Chair reports back to the Board after every meeting.

The AC is responsible for reviewing and challenging the team's assessment and management of risk, and the adequacy of the internal controls established to manage strategic and operational risks. The AC scrutinises the corporate risk register at each meeting and asks for further information as it considers necessary.

Current risks and issues

During the year PSAA has monitored the potential risks to achievement of our objectives. Mitigating actions were put in place wherever possible.

A significant number of risks in our register which are outside of our control have become issues reflecting the crisis in local government audit. This is demonstrated by

the size of the local audit backlog. Sector stakeholders are working together to resolve the issues.

Many of the risks in our register arise from matters which are largely beyond our direct control. We have raised with system stakeholders the risks to the sustainability of local audit and other issues to inform the sector-wide risk assessment and response. During the year we have contributed to the development of a local audit system risk register.

There are a number of significant risks currently facing PSAA. These include that:

- if progressed by the new Government, a proposed solution to the audit backlog may have a number of consequences for PSAA, including a significant impact on fee variations and PSAA's capacity to process these; and
- the continuing uncertainty within the local audit sector could result in further challenges in market capacity.

Future risks

Over the next few years we expect there will be wider challenges and further change within the local audit system. These include:

- if a backlog solution is delivered by the Government there will be a number of implications including consequences for audit fee variations and the build back of audit assurance;
- whatever the way forward system leadership, there will be challenges to ensure that the local audit system as a whole works effectively and meets the needs of audited bodies and users of accounts;
- the need for the FRC to develop and to maintain a sustainable, competitive local audit market;
- possible changes in audit regulation, auditing standards and audit firms;
- the related challenge to ensure an adequate supply of suitably qualified and experienced audit staff; and
- our preparation for the next appointing period and consideration of our approach to securing sufficient auditor capacity.

4. Financial review

Being financially responsible

PSAA is committed to securing value for money, ensuring it delivers its objectives while minimising costs. PSAA is a not-for-profit organisation and 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 opted-in bodies;
- ensuring PSAA's internal auditors review the internal control environment annually to provide assurance on the financial controls and confirm these are working as intended;
- meeting PSAA's statutory obligations; and
- meeting PSAA's duties as a good employer.

The internal auditors, TIAA Limited, perform an annual work programme which covers key systems and aspects of the control framework. The results of this work programme are included in the governance report on page 28.

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.

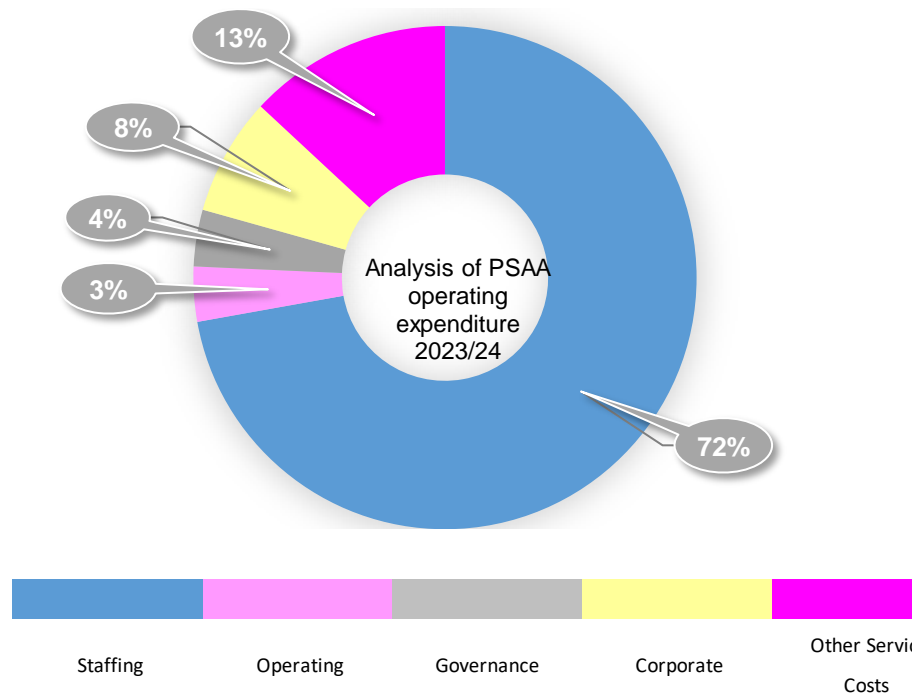
PSAA's accounts show a £nil profit for the 12 months to 31 March 2024 as revenue is matched to expenditure and retained. Any monies that we are satisfied are not required to cover our costs are returned to opted-in bodies.

For the 12 months ending 31 March 2024, our revenue was £52.401 million (2022/23: £40.838 million). A surplus of £2.831 million was transferred to deferred income aligning revenue with costs of £52.401 million. This practice allows us to absorb any surplus or deficit in a given year.

Controlling costs

PSAA incurred total costs of £52.401 million, of which the cost of the audit contracts for the period was £50.630 million, 96.6% of total costs (2022/23: £39.341 million which represented 96.3%).

The chart shows the split of PSAA incurred operating expenses of £1.771 million in 2023/24. This represents 3.4% of total costs (2022/23: £1.473 million which represented 3.7% of total costs) and £nil taxation (2022/23: £nil).



Financial position

PSAA’s total assets equal total liabilities at the end of 31 March 2024 (31 March 2023: total assets also equalled total liabilities). PSAA is required to pay any surplus funds to opted-in bodies, as provided for in its Articles of Association. 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. Subject to Board approval, funds no longer required are returned to relevant bodies.

Future developments

During 2024/25 the company will continue to discharge its appointing person responsibilities in relation to the first appointing period and administer a robust contract and financial monitoring framework for the new audit services contracts which commenced on 1 April 2023. PSAA will continue to ensure that both these workstreams are performed to required standards and timescales.

By order of the Board

Bill Butler

Chair

9 August 2024

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2024.

Directors

For the year commencing 1 April 2023 the PSAA Board membership was as set out in the table below:

Board members	Position	Date of appointment
Steve Freer	Chair	1 October 2014
Keith House	Non-executive director	1 December 2017*
Marta Phillips	Non-executive director	1 April 2021*
Fraser McKinlay	Non-executive director	1 February 2022
Mike O'Donnell	Non-executive director	1 April 2022

* These appointments have been extended to 31 March 2025.

Board succession

The Chair is appointed by the IDeA, and other non-executive directors are appointed by the Chair following interviews with a panel of Board members and the approval of the IDeA. The composition of the Board is intended to bring together a range of skills and experience relevant to the governance of the company and its distinctive role and sphere of business.

The Chair, Steve Freer, stepped down on 31 March 2024 following a ten-year term. A new Chair, Bill Butler was appointed from 1 April 2024 for a three-year term.

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

Register of interests

Board directors are required to notify and register any issues on which they might have a conflict of interest. Declarations of interest are also invited at the outset of each Board meeting. The register of directors' interests 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. 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.

The directors take seriously their duties under Section 172 of the Companies Act 2006 to promote the success of the company for the benefit of its members as a whole. The directors have satisfied themselves that consideration of its requirements, and the directors' duties under it, have informed and guided their work throughout the year and have published on the PSAA website a [Section 172 statement](#) detailing how they have complied with this requirement.

Directors' indemnity provision

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Future developments

Looking forward, there are a number of key developments on the horizon which will have a significant impact on the local audit landscape and the environment within which we operate:

- The Government has committed to providing an update in the Autumn on their longer-term plans to overhaul local audit. We will assess the impact of these proposals on audit fees and our contracts:
- We are awaiting the outcome of the three NAO and DLUHC consultations which will feed into the backlog solution. We will work alongside other local audit sector

stakeholders as the agreed proposal is implemented, and will assess the impact on PSAA, most significantly in the area of fee variations; and

- The Government is currently implementing of a new framework for public procurement through The Procurement Bill which received royal assent on 25 March, coming into effect from October 2024 (or with at least six months' notice). PSAA's work to comply with the new procurement regime is at an advanced stage so we are well prepared for the planned changes.

Whilst these sector developments take shape and evolve, in the next year, we will:

- Continuously review our programme of activities to ensure we remain focused on the crucial issues as the changes to the local audit environment unfold and to ensure we provide the best possible service to our opted-in bodies. During 2024 we will begin the process to develop the Business Plan from 2025;
- Implement the recommendations from the review of how and where we work. This project has made a number of recommendations for sustainable long-term working arrangements around the themes of well-being and staff culture, working relationships and ensuring that business needs continue to be met;
- Both undertake and actively contribute to relevant research and projects, including annual fees-related research and analysis to inform the development of the fee strategy, and in support of projects commissioned by the shadow systems leader that seek to address the challenges faced by the local audit system. We will test the market to identify if a market/supply base exists for local auditor fees researchers; and
- Set the 2024/25 annual fee strategy and consult on the fee scale for the second year under the new audit services contract by 30 November 2024.
- Consider options for the third appointing period, which will include exploring whether to extend the contracts for up to two years.

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. In May 2021 DLUHC confirmed that PSAA would remain the appointing person responsible for the 2022 procurement. In that context it is appropriate to prepare PSAA's accounts on a going concern basis.

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

Annual Report and Accounts 2023/24

- 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

A resolution to appoint MHA LLP as auditors for the company for three years 2022/23 to 2024/25 was approved by the Board on 24 October 2022.

By order of the Board



Bill Butler
Chair

9 August 2024

Remuneration report

Chief Executive and other senior appointments

Throughout 2023/24 our senior management team remained unchanged, consisting of a team of three permanent senior managers, led by the Chief Executive, and with a fixed term part-time project manager focusing on fees and fee variation related work.

Remuneration policy for the Chief Executive and senior staff

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

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

- **pension arrangement:** PSAA operates a defined contribution plan with the same level of benefit for all its members. The Chief Executive and all staff are eligible to join the scheme. PSAA's contribution is 10% of salary for all staff.
- **other terms of employment:** The Chief Executive and senior managers all have permanent employment contracts and 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 2024	Number of employees 2023
50 - 55	2.0	
60 - 65		1.0
70 - 75	3.0	1.0
75 - 80	1.0	1.0
80 - 85	1.0	
100 - 105		1.0
105 - 110	1.0	1.0
110 - 115	1.0	1.0
115 - 120	1.0	
140 - 145		1.0
150 - 155	1.0	

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	2024	2023
Chief Executive	£154,455	£141,877
Chief Finance Officer	£116,884	£111,004
2 Other Senior Managers	£108,805 to £112,814	£103,133 to £107,151

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 - £'000	2024	2023
Band of highest paid - total remuneration	140k - 145k	125k - 130k
Median - total remuneration	64	62
Ratio	2.2	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 2023 and 31 March 2024 received other benefits from PSAA, nor were they members of the pension scheme.

Director - £'000	2024	2023
Stephen Freer	30	30
Keith House	8	8
Marta Phillips	8	8
Fraser McKinlay	8	8
Michael O'Donnell	8	8

(1) Amounts included in the table above exclude Employers' NIC and other reimbursed expenses.

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

Alan Edwards, the independent audit committee member received remuneration of £2,000 for the period 1 April 2023 to 31 March 2024.

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 not-for-profit company limited by guarantee without share capital. The company's sole member and guarantor is the Improvement and Development Agency (IDeA), which is a subsidiary of the Local Government Association (LGA). PSAA is operationally independent of both organisations. PSAA's financial statements are not consolidated into the LGA's as neither the IDeA nor the LGA exercise control over PSAA or benefit from its results and financial performance.

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. The Board alone is responsible for agreeing the company's strategy, and for determining its budget.

The Chair of the Board is a non-executive director appointed by the IDeA. The Chair stepped down in March 2024 and was replaced by a new Chair for a three-year term. The other four non-executive directors were appointed by the Chair, with the approval of the IDeA.

The Chair is the leader of the Board and works closely with Board members, the Chief Executive and PSAA staff. Board members act collectively, and do not have individual executive authority.

Board members attended the following meetings during 2023/24:

Board members	Position	Board meetings
Steve Freer	Chair	5/5
Marta Phillips	Non-executive director and Chair of the Audit Committee	4/5
Keith House	Non-executive director	5/5
Fraser McKinlay	Non-executive director	4/5
Mike O'Donnell	Non-executive director	5/5

Further information about the directors is available on our website at: [Board members](#).

Audit committee

During the year the audit committee was chaired by Marta Phillips. Membership comprised Fraser McKinlay, Mike O'Donnell, and Alan Edwards, an independent member.

The audit committee is responsible for keeping PSAA's governance arrangements under review, including the internal control framework and risk management arrangements. The committee is required to oversee production of the annual accounts, consider appointment and reports of the internal and external auditors, and to report annually to the Board on their work and any significant control issues which have emerged.

Procurement committee

The procurement committee is responsible for overseeing procurements where the total order value is expected to be above £25,000 (revised to £30,000 in November 2023) but excluding the main audit services procurement and PSAA's internal and external auditor appointments.

During the year the procurement committee was chaired by Keith House. Membership comprised Steve Freer and Fraser McKinlay.

Chief Executive

The Board has delegated authority to the Chief Executive for the day-to-day management of PSAA, with responsibility for the overall organisation, management and staffing, and for its procedures including conduct and discipline. The Chief Executive ensures that the Chair and Board have timely, accurate and clear information to carry out their responsibilities.

Annual Report and Accounts 2023/24

The Chief Executive has authority to act in accordance with the arrangements set out in the scheme of delegation in the corporate governance framework. The Chief Executive receives assurance from senior managers on the correct operation of these arrangements, and aspects of the arrangements are subject to review by the internal and external auditors.

Details of PSAA's executive team are available on the website: [Executive team](#)

Corporate governance framework

PSAA's corporate governance framework is available on our website at: [PSAA Corporate Governance Framework](#)

This sets out the arrangements in place for PSAA to conduct its business. It includes details of 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 annually and also formally review the effectiveness of the Board and committee decision making arrangements.

Our internal auditors, TIAA Limited, perform an annual work programme, which covers key systems and aspects of the control framework. The 2023/24 internal audit annual report, presented to the audit committee in April 2024, provided substantial assurance on financial compliance and data security.

By order of the Board



Bill Butler
Chair

9 August 2024

Annual Accounts

Financial statements

for the year ended 31 March 2024

Profit and loss account

		Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Turnover	4	52,079	40,712
Cost of sales	5	(50,630)	(39,341)
Gross Profit		1,449	1,371
Administrative expenses	6	(1,795)	(1,473)
Loss on ordinary activities before interest and taxation		(346)	(102)
Interest receivable and similar income		322	126
Profit on ordinary activities before taxation		(24)	24
Tax on profit on ordinary activities	8	24	(24)
Profit for the financial year		0	0

Statement of comprehensive income

		Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Profit for the year		-	-
Total comprehensive income for the year		-	-

Balance Sheet

		Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Current assets			
Debtors	9	2,334	4,020
Accrued income	10	3,152	2,333
Short term investments	11	8,174	5,159
Fixed term deposits	11	1,500	1,500
Cash at bank and in hand		10	10
		15,170	13,022
Creditors - amounts falling due within one year			
Trade and other payables	12	(1,575)	(1,078)
Deferred income	13	(650)	(1,829)
		(2,225)	(2,907)
Net current assets		12,945	10,115
Creditors – amounts falling due after more than one year			
Deferred income	13	(12,946)	(10,115)
Net liabilities		-	-

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

The financial statements on pages 32 to 43 were authorised for issue by the Board of Directors on 9 August 2024 and were signed on its behalf.



Bill Butler

Chair

Public Sector Audit Appointments Limited

Registered no. **09178094**

Statement of changes in reserves

	Retained Earnings £'000	Retained Earnings £'000
Balance as at 1 April 2022	-	-
Reserves for the period	-	-
Balance at 31 March 2023	-	-
Balance as at 1 April 2023	-	-
Reserves for the period	-	-
Balance as at 31 March 2024	-	-

Statement of cash flows

		Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Net cash inflow / (outflow) from operating activities	15	2,670	2,433
Taxation paid		24	(24)
Net cash generated from / (used in) operating activities		2,694	2,409
Cash flow from financing activities			
Interest received		322	126
Fixed maturity deposits		0	0
Net cash generated from financing activities		322	126
Net increase / (decrease) in cash at bank and in hand		3,016	2,535
Cash and cash equivalents at the beginning of the year		5,169	2,636
Cash and cash equivalents at the end of the year		8,185	5,171
Cash and cash equivalents consists of:			
Cash at bank and in hand		10	10
Short term deposits		8,174	5,159
Cash and cash equivalents		8,184	5,169

Note that as PSAA entity does not have any debt, an analysis of net debt has not been produced.

Notes to the financial statements

1. General Information

PSAA is responsible for appointing auditors to local government, fire and police bodies and for setting fees.

The company is limited by guarantee and has no share capital. The members of the company are set out in Note 15.

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). We qualify for Small Company exemptions; however we have adopted this approach for the purpose of transparency.

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 are applicable. These provisions have been reviewed and are not relevant to this financial year and prior accounting periods, 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. Our disclosure following our assessment of going concern is included within the Directors' report on page 22. We are operating under the appointing person regime for the five years from 1 April 2018. In May 2021 DLUHC confirmed that PSAA would remain the appointing person responsible for the next procurement. In that context it is appropriate to prepare PSAA's accounts on a going concern basis.

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.

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

Revenue and associated costs in relation to fee variations are recognised as follows:

Fee variation status	Calculation of revenue and associated costs
Fee variation proposals submitted by firms by 31 March and approved by PSAA	The amount of approved fee variations
Fee variation proposals submitted by firms by 31 March and are being considered by PSAA	Fee variation submitted by firms multiplied by previous year's approval rate*
No fee variation proposals submitted by firms by 31 March, audits are delivered, and fee variations are expected from firms for all audits.	Scale fee multiplied by average % of fee variations submitted by firms for the audit year** multiplied by the previous year's approval rate*
No fee variation proposals submitted by firms by 31 March and work in progress is 90%*** and above.	Scale fee multiplied by average level of fee variations submitted by firms for the audit year** multiplied by the previous year's approval rate* multiplied by % of work in progress
No fee variation proposals submitted by firms by 31 March and work in progress is below 90% except for where the percentage of Value For Money work can be separately identified.	0% or VFM additional fee multiplied by % of VFM work completed.

*approval rate for audit year 2019/20 is 77.6% (previously 73.7%), 2020/21 is 83.1% (previously 79.2%) and 2021/22 is 83.9%

**average level of fee variations submitted by firms for audit year 2019/20 is 53.0% (previously 49.5%), 2020/21 is 79.2% (previously 75.9%), 2021/22 is 78.7% (previously 72.0%) of scale fees

***audits where the % of work complete are 90% and above are considered to be near completion.

Scale fees belong to and are set by PSAA. For administrative convenience, PSAA requires audit firms to bill opted-in bodies on its behalf and to act as its agents to collect fees. PSAA invoices firms at the scale fee adjusted for the firms' 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 opted-in bodies and payable by PSAA in total. Surplus funds are repaid to the opted-in 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 person 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 for the particular appointing period. The opted-in bodies 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 opted-in bodies at a future date. The potential surplus fees will be repaid in accordance with a formula which will be agreed by the Board, 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; and
- 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 deposited in accordance with the PSAA's investment strategy. These are stated at their nominal value, which approximates to fair value because of their short maturity period of the assets.

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

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Audit fee income local government - principal bodies	52,079	40,712
	52,079	40,712

5. Cost of sales

Analysis of cost of sales

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Bought in services local government - principal bodies	50,630	39,341
	50,630	39,341

6. Administrative expenses

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Salaries and wages	1,063	817
Social security	123	106
Pension	90	74
Board members and non-Board members	64	64
Training	16	9
Rent and rates	26	26
Bad Debt	0	0
Supplies & services	51	31
Travel & subsistence	11	7
Insurance	47	31
Legal and professional fees	165	143
Audit fees	23	18
Shared services	107	99
Subscriptions	11	50
Total administrative expenses	1,795	1,473

7. Directors, independent member of Audit Committee and employees

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

	2024	2023
Directors	5	5
Independent member of Audit Committee	1	1
Employees	14	12

The directors' emoluments were as follows:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Aggregate emoluments	64	64

Key management compensation

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Salaries and other short-term benefits (*restated)	608	600*

8. Taxation

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Current tax		
UK Corporation tax on profits for the current period	61	24
Total tax charge	61	24
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	-24	24
Expected tax charge based on a corporation tax rate of 19% (2023 – 19%) on Interest receivable and similar income	-5	5
Non-trade loan relationship credits	61	24
Trading losses / Brought forward / Carried forward loss relief	(81)	(5)
Tax expense for the year	-24	24

9. Debtors

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Local government	2,334	4,020
Total debtors	2,334	4,020

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Trade Debtors	2,212	3,867
Prepayments	122	152
Total debtors	2,334	4,020

10. Accrued trade income

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Local government	3,152	2,333
Total accrued trade income	3,152	2,333

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 lent to financial institutions on the brokers approved counterparty list and to non-English local authorities. 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 and local authorities that meet agreed credit ratings criteria and subject to the cash limits (per counterparty) as shown in PSAA's Investment Strategy agreed by the PSAA Board. PSAA'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 PSAA does not expect any losses on short term investments.

12. Trade and other payables

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Amounts owed to group undertakings	(29)	(45)
Accrual for holiday entitlement not yet taken	(61)	(56)
Corporation tax payable	24	(24)
Other taxation and social security	(381)	(642)
Accruals	(1,127)	(311)
Total Trade and other payables	(1,575)	(1,078)

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 opted-in bodies at a future date.

Deferred income due within 1 year includes work in progress of £0.650m in relation to the arrangements under the Appointing Persons regime.

£1.746m of the £12.946m deferred income falling due after more than 1 year relates to the transitional arrangements and £11.200m 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 opted-in bodies, in accordance with a formula to be agreed by the Board (as explained in note 3d above).

Deferred income - falling due within 1 year	Year ended	Year ended
	31 March	31 March
	2024	2023
	£'000	£'000
Local government	650	1,829
Total deferred income	650	1,829

Deferred income - falling due after more than 1 year	Year ended	Year ended
	31 March	31 March
	2024	2023
	£'000	£'000
Local government	12,946	10,115
Total deferred income	12,946	10,115

14. Cash flow

	Year ended	Year ended
	31 March	31 March
	2024	2023
	£'000	£'000
Operating loss	(346)	(102)
Working capital movements		
Increase in debtors	868	(1,887)
Increase / (decrease) in payables	2,148	4,421
Net cash flow from operating activities	2,670	2,433

15. Related party transactions

Public Sector Audit Appointments Limited (PSAA) is a not-for-profit company limited by guarantee without share capital. The company's sole member and guarantor is the Improvement and Development Agency (IDeA), which is a subsidiary of the Local Government Association (LGA). PSAA is operationally independent of both organisations. PSAA's financial statements are not consolidated into the LGA's as neither the IDeA nor the LGA exercise control over PSAA or benefit from its results and financial performance.

The IDeA and the LGA are treated as related parties in these accounts. During the year PSAA received services from the LGA, such as IT, HR finance support and accommodation. The total value of these services was £166,756 (2023: £142,993). To date PSAA has paid a total of £137,369 in this financial year. £29,387 (2023: £44,645) is owed by PSAA to the LGA.

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

16. Contingent liabilities

At the end of 31 March 2024 or 31 March 2023, PSAA had no contingent liabilities.

Auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PUBLIC SECTOR AUDIT APPOINTMENTS LIMITED FOR THE YEAR ENDED 31 MARCH 2024

Opinion

We have audited the financial statements of Public Sector Audit Appointments Limited (the 'company') for year ended 31 March 2024 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of changes in reserves, Statement of Cash Flows and notes to the financial statements, including 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 2024, 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, 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included critical reviews of its business plan, budgets and forecasts provided.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 our 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 and 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 in the Directors' Report, 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 control 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations.

We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the entity operates in, focusing on those laws and regulations that had a direct effect on the financial statements;
- Enquiry of management and those charged with governance to identify any instances of known or suspected instances of fraud;
- Enquiry of management and those charged with governance concerning actual and potential litigation and claims;
- Enquiry of management about any instances of non-compliance with laws and regulations;
- Reviewing the control systems in place and testing the effectiveness of the controls;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness;
- Evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias;
- Challenging assumptions and judgements made by management and Directors on significant accounting estimates;
- Reviewing minutes of meetings of those charged with governance; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that

compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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/auditors/audit-assurance-ethics/auditors-responsibilities-for-the-audit

This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 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.



Sudhir Singh FCA (Senior Statutory Auditor)

For and behalf of

MHA

Statutory Auditor

London, United Kingdom

Date: 11 August 2024

MHA are eligible to act as auditors in terms of section 1212 of the Companies Act 2006. MHA is the trading name of MacIntyre Hudson LLP, a limited liability partnership in England and Wales (registered number OC312313).