

PUBLIC SECTOR AUDIT APPOINTMENTS LIMITED

Annual Report and Accounts 2015/16

Company registration number: 09178094

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Annual Report

Introduction

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

PSAA was registered as a company on 15 August 2014 by the IDeA. The period from 15 August 2014 to 31 March 2015 was concerned with setting up the company in readiness for it to open for business on 1 April 2015, and was covered by the report and accounts for 2014/15.

The 2015/16 report and accounts covers the first full year of operation for PSAA. The functions for which the company is responsible were delegated to it from 1 April 2015 by the Secretary of State for Communities and Local Government, following the closure of the Audit Commission on 31 March 2015.

Strategic report

The directors present their strategic report for the year ended 31 March 2016.

1. The company's objectives

PSAA (the company) is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims. Before 1 April 2015, these responsibilities were discharged by the Audit Commission.

The company had the following objectives for 2015/16, set out in the Articles of Association and related documents:

- appointing auditors to all relevant local public bodies;
- setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
- making arrangements for the certification of claims in respect of housing benefit subsidy from applicable audited bodies;
- helping to ensure a smooth transition to the new audit regime established under the Local Audit and Accountability Act 2014;
- ensuring that public money continues to be properly accounted for and protected during the transition to the new local appointment regime to be established under the Local Audit and Accountability Act 2014;
- overseeing the delivery of consistent, high quality and effective audit services to relevant authorities;
- ensuring effective management of contracts with audit firms for the delivery of 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, ensuring that it continues to be fit-for-purpose, motivating and supporting its staff, and communicating with them in an open, honest and timely way.

To enable the company to perform its functions, the audit services contracts previously let by the Audit Commission were novated to PSAA with effect from 1 April 2015.

2. Operating environment

A memorandum of understanding (MOU) between the Department for Communities and Local Government (DCLG), Department of Health, the LGA, IDeA and PSAA sets out the broad framework within which PSAA operates. The MOU reflects the content of PSAA's articles of association and other founding documents and contains the agreed principles regarding PSAA's operation and the mechanisms for its accountability for, and safeguarding of, public money in the form of fees charged to audited bodies.

The Secretary of State for Communities and Local Government has delegated specific statutory functions from the Audit Commission Act 1998 to PSAA. This is by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014 (Commencement No. 7 (Transitional Provisions and Savings) Order 2015).

In support of the statutory functions delegated to it, PSAA is responsible for overseeing the contracts for audit services (the audit contracts) with audit firms from 1 April 2015 until the contracts end, enabling PSAA to ensure it is securing good quality audits at a cost which represents good value for money. The company also has a role in supporting a smooth transition from the current arrangements to the new external audit framework set out in the Local Audit and Accountability Act 2014.

The audit contracts were novated from the Audit Commission to PSAA from 1 April 2015 for the period to the conclusion of the audits of 2016/17 accounts, but could be extended for a period of up to three years.

In October 2015, the Secretary of State for Communities and Local Government confirmed that the current transitional provisions would be amended to allow an extension of the audit contracts by PSAA for a period of one year, for 2017/18 audits of principal local government bodies only, including police bodies. DCLG revised the transitional arrangements in June 2016 to reflect this updated position. The arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will therefore apply to local NHS bodies for accounting periods starting from April 2017, and for principal local government and police bodies for accounting periods starting from April 2018.

It was also confirmed during 2015 that auditor appointments to small bodies will be made by a specified appointing person, Smaller Authorities Audit Appointments Limited, for accounting periods starting from April 2017, unless bodies opt to appoint their own auditor.

In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under the Local Audit (Appointing Person) Regulations 2015. PSAA will make auditor appointments for audits of the accounts from 2018/19 for relevant principal authorities that choose to opt into the arrangements it will develop.

3. Business review

In its first full year of business, covered by this report, the company's focus has been on establishing the necessary arrangements to deliver the functions delegated to PSAA under the transitional arrangements and the objectives set for it by its Board. This section of the report presents an outline of the year.

Appointing auditors

The bodies to which PSAA is required to appoint auditors are listed in schedule 2 of the Local Audit and Accountability Act 2014. For 2015/16, PSAA was responsible for the auditor appointments to the following local public bodies in England:

- 353 local authorities;
- 299 NHS bodies;
- 76 police bodies;
- 31 fire and rescue authorities; and
- 35 other local government bodies, including the Greater London Authority and associated bodies, combined authorities, national parks authorities and transport bodies.

For audits of principal bodies from 2015/16 onwards, PSAA has contracts with five audit firms: BDO LLP, EY LLP, Grant Thornton UK LLP, KPMG LLP, and Mazars LLP. For audits of the accounts for 2014/15, undertaken during 2015, there were also contracts with Deloitte LLP and PwC LLP.

PSAA is also responsible for making appointments to nearly 10,000 smaller bodies (such as parish and town councils, parish meetings and internal drainage boards). The contracts for this work are with: BDO LLP, Grant Thornton UK LLP, Mazars LLP, and PKF Littlejohn LLP.

Setting fees

At the request of DCLG, the Audit Commission consulted on and set the scale fees for 2015/16 before it closed. These fees are published on the [PSAA website](#), and relate to the work to be undertaken under the audit contracts during 2016.

The first work programme and scale fees published by PSAA is for the 2016/17 audit year, for principal bodies only, for work to be undertaken during 2017. The small body fees for 2016/17 were set by the Audit Commission in 2012.

PSAA consulted on the proposed work programme and scale fees for 2016/17 in autumn 2015, on the basis of no change from the work programme and scale fees applicable for 2015/16. Responses to the consultation proposals were positive, and the finalised 2016/17 work programme and scale fees were published in March 2016. Before prescribing any scale of fees, PSAA has a statutory duty to consult with associations of local authorities, organisations connected with the NHS, and the accountancy profession. To ensure the consultation was as productive as possible, audited bodies and other stakeholders were also consulted.

Making certification arrangements

PSAA is required to make arrangements, under the transitional provisions put in place by DCLG, for certification by its appointed auditors of annual housing benefit subsidy claims from local authorities to the Department for Work and Pensions (DWP). PSAA issued auditor guidance for 2015/16 certification to auditors in February 2016. Auditors' work must be completed by the DWP deadline of 30 November 2016 for 2015/16 certification.

Certification fees are reviewed and reset annually because the amount of work required can vary from year to year. Indicative certification fees for 2015/16 were set by the Audit Commission before it closed, and published in March 2015. Indicative fees for 2016/17 certification were covered in the fees consultation undertaken by PSAA in autumn 2015 and published on the [PSAA website](#) in March 2016.

Managing audit quality

PSAA is committed to ensuring that the quality of the audit work provided by our audit suppliers is of the appropriate standard. To promote transparency and encourage best practice, we publish reports on the assessments we make of each audit supplier. Our work takes into account the work undertaken by each firm on reviewing the quality of its audit work, along with the results of reviews we commission the Financial Reporting Council (FRC) to undertake for us.

In 2015/16 we published the *Annual Regulatory Compliance and Quality Review Programme Annual Report 2015*, and individual reports on the work of the firms with which we held audit services contracts. All reports are available on the [PSAA website](#).

Managing the audit contracts

PSAA's regulatory requirements of each audit firm are set out in our [Terms of Appointment](#), available on the PSAA website. We monitor compliance against specific reporting indicators and publish, on a quarterly basis, a monitoring report for each firm during each audit year.

As part of our work programme, we also published reports during 2015 on the results of auditors' work on 2014/15 audits of principal NHS and local government bodies.

All reports are available on the [PSAA website](#).

Supporting a smooth transition to the new audit regime

PSAA has a key part to play in the transition to the new local audit regime introduced by the Local Audit and Accountability Act 2014. We have good relationships with key national stakeholders, and our knowledge of the current regime puts us in a unique position to help the key players prepare to play their respective roles in the new audit framework effectively.

During 2015/16 we published our corporate plan, which includes further information on how PSAA can contribute its skills and knowledge as the new local audit arrangements develop. We have also established a dedicated area of the [PSAA website](#) to provide access to relevant information to support the transition. We will continue to use our

knowledge and experience to assist those with responsibilities under the new audit framework to move as seamlessly as possible from the current arrangements.

The LGA has established a project to develop a sector-led auditor appointment option for local government bodies for audits from 2018/19, following the end of the transitional arrangements and the current audit contracts. PSAA has participated in this work. In response to the market enquiry issued by DCLG, PSAA submitted its formal expression of interest in early June 2016, outlining the company's unique credentials and experience for the role of specified appointing person. PSAA was approved in July 2016 as a specified appointing person under the provisions of the Local Audit and Accountability Act 2014. This means PSAA will appoint auditors and set audit fees for principal local government bodies who choose to opt in to these arrangements rather than appointing their own auditors.

Managing our people

We had 12 staff in post at 31 March 2016. PSAA recognises it needs to retain its staff wherever possible, as they provide specific knowledge and expertise to support PSAA's functions and will be difficult to replace. The ability to react promptly to issues is essential to our success and requires high-performing, motivated staff, committed to our organisational values and objects.

We undertook substantial work during 2015/16 to ensure our staffing arrangements support the achievement of PSAA's responsibilities and objectives. This included reviewing and updating policies and procedures following transfer from the Audit Commission, establishing new working arrangements and introducing a programme of training. We will continue to take action to ensure PSAA is fit-for-purpose by motivating and supporting staff, communicating with them in an open, honest and timely way, and giving them the best future prospects we can.

4. Risks and future developments

Risk management

The PSAA Board approved the company's risk management strategy and policy in March 2015. 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 in 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 or medium.

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 Officer 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 management team reviews the corporate risk register and members of the management team are responsible for managing the individual risks to their functions and projects.

During 2015/16, the Board took on responsibility for detailed scrutiny of the corporate risk register until the audit committee was operational, in November 2015. From April 2016, the arrangements will operate as set out in the risk management strategy and policy.

During 2015/16, PSAA managed 20 risks in the corporate risk register. Six of these risks related to the setting up and operational commencement of the company and were closed early in the year.

The principal risks facing PSAA are:

- engaging and retaining a sufficient number of motivated staff to deliver the company's delegated functions;
- managing and maintaining services from late 2016 onwards, when the company's current office accommodation will be refurbished and the provision of key support services, particularly ICT, may be adversely affected and could result in disruption to its operations; and
- following specification as an appointing person for principal local government bodies, ensuring that the new functions can be delivered to the required deadlines while also continuing to deliver PSAA's delegated functions.

The audit committee and the Board are sighted of these risks and are satisfied that the arrangements in place to manage them are robust.

Future developments

The financial year 2016/17 will be an important one for PSAA. The company will need to build on the operational arrangements it has already established, and will be affected by or responsible for the following developments:

- in June 2016 DCLG revised the transitional arrangements that support the statutory functions delegated to PSAA;
- in line with the new transitional arrangements, PSAA has extended the audit contracts for local government and police bodies to include audits of the accounts for 2017/18;
- PSAA will continue to provide support to Smaller Authorities Audit Appointments Limited, the specified appointing person for smaller bodies, in developing its arrangements to let audit contracts and make 2017/18 auditor appointments to small bodies during 2016;
- PSAA will continue to work with the DWP on defining and developing the new certification arrangements for housing benefit subsidy that are required following the end of the current audit contracts;
- the PSAA Board will undertake further work during 2016/17 on the policy and timetable for distribution of the retained earnings transferred from the Audit Commission, and any additional surplus that arises, to NHS and local government principal bodies; and
- in the autumn 2016, PSAA will need to consult on the proposed work programme and scale fees for 2017/18, for local government and police bodies only.

PSAA received confirmation in July 2016 that its application to be specified as an appointing person for principal authorities had been successful. During 2016 authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies, or they can use the national collective scheme to be developed by PSAA. Choosing the national scheme should pay dividends in quality, cost, responsiveness and convenience.

PSAA plans to run the scheme in a way that will save time and resources for local bodies - time and resources that can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act 2014) and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme should attract the best audit suppliers and command highly competitive prices. We are confident that we can create a scheme that delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.

5. Financial review

Being financially responsible

PSAA is committed to securing value for money, ensuring we deliver our objectives while minimising costs. We strive to ensure that PSAA is financially responsible by:

- exercising financial discipline and maintaining a robust control environment;
- keeping our running costs, including any closedown costs, to a minimum;
- returning the maximum possible level of any surplus to principal audited bodies;
- ensuring our internal auditors review our internal control environment annually to provide assurance on the financial controls and confirm these are working as intended;
- meeting our statutory obligations; and
- meeting our duties as a good employer.

We review and assess the necessity of all expenditure and our level of resources on a continual basis. During 2015/16 this helped us to achieve savings by taking the decision not to recruit to vacancies included in our budgeted establishment. This has been delivered with no loss or diminution in our financial and other controls.

PSAA exercises financial discipline and a robust control environment. Our internal auditors, TIAA Limited, presented their first report in November 2015, with substantial assurance on our controls in all areas reviewed.

Following completion of the Audit Commission's 2014/15 accounts, we received the final payment of Audit Commission retained earnings from DCLG, amounting to £5.5m. This surplus, along with any additional surplus that may arise in the remaining years of the audit contracts, will be redistributed to principal audited bodies.

Turnover

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

Revenue for the financial year was £73.79 million which covered the costs incurred by PSAA for the period 1 April 2015 to 31 March 2016 of £73.45 million and the prior year 2014/15 deficit of £0.37 million.

Controlling costs

Total costs of the audit contracts for PSAA for the period were £71.43 million (2014/15: £nil). PSAA commenced trading on 1 April 2015, after the Audit Commission closed on 31 March 2015 and there were therefore no costs relating to the audit contracts incurred by PSAA in the prior year.

PSAA incurred administrative expenses of £2.01 million in 2015/16 (2014/15: £0.37 million). PSAA was registered as a company on 15 August 2014 and the period from 15 August 2014 to 31 March 2015 was concerned with setting up the company in

readiness for it to open for business on 1 April 2015. PSAA incurred set-up costs of £0.37 million in 2014/15.

Profit on ordinary activities

PSAA recognised a surplus for the period 1 April 2015 to 31 March 2016 of £0.37 million. This surplus offsets the prior year deficit. Any monies not required to cover PSAA's costs must be redistributed to audited bodies.

Financial position

PSAA's total assets equal total liabilities at the end of 31 March 2016 (2014/15: net liability of £0.37 million). PSAA is required to pay surplus funds back to principal audited bodies, as provided for in its articles of association and its agreement with DCLG to administer and return the surplus funds transferred from the Audit Commission. Surplus funds are shown as a liability in the balance sheet and are paid to principal audited bodies once approved by the Board.

The net liability shown in the prior year represents amounts due to the LGA for costs they incurred on the company's behalf when setting up PSAA.

By order of the Board



Steve Freer
Chairman

1 September 2016

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2016.

Directors

From 1 April 2015 the PSAA Board comprised of a chairman and three non-executive directors. All directors, shown in the table below, held office for the whole of the period from 1 April 2015 to 31 March 2016:

Board members	Position
Steve Freer	Chairman
Caroline Gardner	Non-executive director
Clive Grace	Non-executive director
Stephen Sellers	Non-executive director

There were no appointments or 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' interest is maintained, and is publically 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, including FRS 102, have been followed, 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.

Following the end of the 2015/16 financial year, PSAA was specified as an appointing person for principal authorities under the provisions of the Local Audit and Accountability Act 2014. This extends the responsibilities of the company for the future. There is no impact from this development on PSAA's financial statements for 2015/16 or its going concern status.

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 concluded this 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.

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 indicated their willingness to continue in office and a resolution concerning their appointment was approved by the Board at its meeting in December 2015.

By order of the Board

A handwritten signature in black ink that reads "Steve Freer". The signature is written in a cursive style with a large initial 'S' and a long horizontal stroke at the end.

Steve Freer
Chairman

1 September 2016

Remuneration report

The company was registered on 15 August 2014. The period from 15 August 2014 to 31 March 2015 was concerned with setting up the company in readiness for it to open for business on 1 April 2015. Staff did not transfer to PSAA until 1 April 2015 and therefore no staff costs were incurred during 2014/15.

Chief Officer and other senior appointments

During the 2015/16 year there were no changes to the PSAA management team.

Remuneration policy for the Chief Officer and senior staff

For the Chief Officer remuneration was set by the PSAA Board. For the remaining members of the management team, remuneration was set by the Chief Officer, in line with PSAA's normal terms and conditions of employment.

The main details of the remuneration package for the Chief Officer and 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 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 Officer and management team all had permanent employment contracts. A travel card for travel within London was available to all staff based in London. The Chief Officer and management team are required to give eight weeks' notice if they resign. All other terms and conditions are the same as for other staff.

Salaries over £50,000

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

Band £'000	Full time equivalent
50 – 55	1.0
60 – 65	2.0
90 – 95	2.0
95 -100	1.0
100 – 105	1.0
130 – 135	1.0

Senior management remuneration

Remuneration details for the Chief Officer and 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	Amount
Chief Officer	£134,524
Chief Finance Officer	£96,670
3 Other senior managers - remuneration range between	£91,524 to £100,374

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 and contractual allowances and benefits. PSAA does not have performance-related pay. These figures do not include employer pension contributions.

Description	2016
Band of highest paid - total remuneration £'000	120 - 125
Median - total remuneration £'000	57
Ratio	2.2

Remuneration policy for Directors

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

None of the Directors serving between 1 April 2015 and 31 March 2016 received other benefits from PSAA, nor were they members of the pension scheme.

Director	2016	2015 ⁽¹⁾
	£'000	£'000
Stephen Freer	30	17
Clive Grace	8	3
Stephen Sellers	8	3
Caroline Gardner ⁽²⁾	-	-

(1) The IDeA sponsored the setting up of PSAA and agreed to cover directors' fees for 2014/15. PSAA was not charged for these fees.

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

The above report does not include any amounts paid by PSAA to Directors for expenses directly incurred in the performance of the individual's duties.

By order of the Board



Steve Freer
Chairman

1 September 2016

Governance report

The principles of the governance structure of PSAA are set out in the Articles of Association and the Memorandum of Understanding with DCLG, 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 IDeA, which in turn is wholly owned by the 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 Audit Commission Act 1998 and the Local Audit and Accountability 2014.

The overarching role of the IDeA, as founder of the company, is to support PSAA in successfully discharging the functions delegated to it by the Secretary of State for Communities and Local Government and achieving its objectives. The IDeA acknowledges the independence of the company and the responsibility for running the company as that of PSAA and its Board.

PSAA's governance structure and corporate governance framework are underpinned by the seven principles of conduct in public life as set out by Lord Nolan.

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. The remaining three non-executive directors were appointed by the Chairman, with the approval of the IDeA, in February 2015. The Chairman is the leader of the Board, working closely with the Board, the Chief Officer and the staff of the company.

Board members act collectively, and do not have individual executive authority.

Board members attended the following meetings during 2015/16:

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

Audit committee

The audit committee was established in November 2015 and is chaired by Caroline Gardner, a non-executive director of PSAA. Membership of the audit committee comprises the other two non-executive directors of PSAA and an independent member. The independent member, Kathryn Cearns, was recruited in October 2015 with the assistance of the Whitehall and Industry Group and has a professional background in financial reporting. The Chairman of PSAA attends the audit committee as an observer.

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.

The audit committee presents the minutes of its meetings to the Board as soon as possible after each committee meeting and makes recommendations to the Board as it considers appropriate.

Chief Officer

The company's Chief Officer 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 Officer 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 in place in relation to the aspects of the company's operations for which the Chief Officer is responsible are set out in the scheme of delegation in the PSAA corporate governance framework and are reflected in the Memorandum of Understanding with DCLG. The Chief Officer 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

The Board approved PSAA's corporate governance framework and scheme of delegation at its meeting in June 2015. 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 annually.

The Board agreed the scope for the first annual review of the corporate governance framework in March 2016, and is expected to approve the revised framework in September 2016. The corporate governance framework is published on the [PSAA website](#).

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, were appointed in September 2015. TIAA presented their first report in November 2015, with substantial assurance on controls and arrangements in all areas reviewed.

By order of the Board



Steve Freer
Chairman

1 September 2016

Independent auditor's report



UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

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

We have audited the financial statements of Public Sector Audit Appointments Limited for the year ended 31 March 2016 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 the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 13 and 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its surplus 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.

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

Opinion on other matter 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 the financial year for which the financial statements are prepared is consistent with those financial statements; and
- the Strategic Report and the Directors' Report for the financial year have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the Strategic Report and the Directors' Report for the financial year.

Opinion on other matter relating to comparative financial statements

The comparative financial statements for the period ended 31 March 2015 were not required to be audited. As part of our audit of the financial statements for the year ended 31 March 2016, we also audited the opening balances of the company's accounts at 1 April 2015 relating to the comparative financial statements.

We were not engaged to audit, review, or apply any procedures to the 31 March 2015 financial statements of the company other than with respect to the opening balances at 1 April 2015. Accordingly, we do not express an opinion or any other form of assurance on the 31 March 2015 financial statements taken as a whole.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.


Colin Jones (Senior Statutory Auditor)

for and on behalf of UHY Hacker Young

Chartered Accountants

Statutory Auditor

1st September 2016

Annual Accounts

Financial Statements for the year ended 31 March 2016

Profit and loss account

		Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Turnover	4	73,787	-
Cost of sales	5	(71,434)	-
Gross Profit		2,353	-
Administrative expenses	6	(2,010)	(371)
Profit/(loss) on ordinary activities before interest and taxation		343	(371)
Interest receivable and similar income		35	-
Profit/(loss) on ordinary activities before taxation		378	(371)
Tax on profit on ordinary activities	8	(7)	-
Profit/(loss) for the financial period		371	(371)

Statement of comprehensive income

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Profit/(loss) for the period	371	(371)
Total comprehensive income/(loss) for the period	371	(371)

Balance Sheet

		As at 31 March	
		2016	2015
		£'000	£'000
Current assets			
Debtors	9	2,004	-
Accrued trade income	10	247	-
Short term investments (includes fixed term deposits of £5,759k)	11	10,851	-
Cash at bank and in hand		10	-
		13,112	-
Creditors – amounts falling due within one year			
Trade and other payables	12	(1,128)	(371)
Deferred income	13	(4,187)	-
		(5,315)	(371)
Net current assets/(liabilities)		7,797	(371)
Creditors – amounts falling due after more than one year			
Deferred income	13	(7,797)	-
Net assets/(liabilities)		-	(371)
Reserves			
Retained earnings		-	(371)
Total reserves		-	(371)

The notes on pages 28 to 36 are an integral part of these financial statements.

The financial statements on pages 25 to 36 were authorised for issue by the Board of Directors on 1 September 2016 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	Total £'000
Balance as at 15 August 2014	-	-
Profit/(loss) for the period	(371)	(371)
Balance at 31 March 2015	(371)	(371)
Balance as at 1 April 2015	(371)	(371)
Profit/(loss) for the period	371	371
Balance as at 31 March 2016	-	-

Statement of cash flows

		Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Net cash from operating activities	14	10,826	-
Taxation paid		-	-
Net cash generated from operating activities		10,826	-
Cash flow from investing activities			
Interest received		35	-
Fixed maturity deposits (included in current asset investments)		(5,759)	-
Net cash used in investing activities		(5,724)	-
Net increase in cash at bank and in hand		5,102	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		5,102	-
Cash and cash equivalents consists of:			
Cash at bank and in hand		10	-
Short term deposits (included in current asset investments)		5,092	-
Cash and cash equivalents		5,102	-

Notes to the financial statement

1. General Information

PSAA is responsible for appointing auditors to local government, police and local NHS bodies, for setting fees, for making arrangements for the certification of housing benefit subsidy claims and for helping to ensure a smooth transition to the new audit regime to be 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 3(d) below.

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).

These financial statements for the year ended 31 March 2016 are the first financial statements of PSAA prepared in accordance with FRS 102. The date of transition to FRS 102 was 15 August 2014 (the date of incorporation). The reported financial position and financial performance for the previous period are not affected by the transition to FRS 102.

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. The company has adopted FRS 102 in these financial statements.

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.

The financial statements for the prior period were for a shorter period because the company was registered on 15 August 2014. The period from 15 August 2014 to 31 March 2015 was concerned with setting up the company and therefore the comparative amounts presented in these financial statements are not directly comparable.

b) Public benefit entity

Under FRS102, PSAA qualifies as a public benefit entity and therefore the special provisions of section 34 of FRS102 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 has extended the transitional audit arrangements for principal local government bodies by one year, to include audits for 2017/18. The last year of audit for NHS bodies in this regime will be for audit year 2016/17, and 2017/18 for local government and police bodies. The transitional arrangements will last until the end of 2018 and we then expect to operate a specified appointing person regime for a number of years.

d) Revenue recognition

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 will be repaid to audited bodies at a later date in accordance with a formula to be agreed by the Board as required by PSAA's founding documents.

e) Corporation tax and deferred tax

PSAA is required to cover directly the costs of paying auditors and its operating expenses. If at the end of the period there is a remaining surplus, as a result of expenses being over-estimated, revenue is adjusted to reduce the total revenue and expenses to the actual amount receivable from the audited bodies and payable by PSAA in total. Surplus funds will be repaid to audited bodies at a later date. The company is liable for corporation tax on its profits but (after the first year deficit has been made up) 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. Surplus funds are repaid to audited bodies; however, the repayment date and method is at the Board's discretion. Until a decision is made to distribute, 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 distribute specific funds, to the extent they remain outstanding at the year end, those amounts are shown as creditors

g) Employee benefits

PSAA provided a range of benefits to employees, including paid holiday arrangements, travel cards 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 is likely to be agreed by the Board during 2016/17, 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 with financial institutions on the LGA's approved counterparty list and in accordance with the investment strategy. These are measured approximate to their nominal fair values because of their short maturity period.

4. Turnover

Analysis of turnover by segment

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Audit fee income local government - principal bodies	50,718	-
Audit fee income local government - small bodies	1,999	-
Audit fee income National Health Service	21,050	-
Other income	20	-
	73,787	-

Analysis of turnover by category

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Audit services	73,767	-
Licenses for HB Count	20	-
	73,787	-

5. Cost of sales

Analysis of cost of sales by segment

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Bought in services local government - principal bodies	49,141	-
Bought in services local government - small bodies	1,541	-
Bought in services - National Health Service	20,752	-
	71,434	-

6. Administrative expenses

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Salaries and wages	803	-
Social security	95	-
Pension	68	-
Board members and non-Board members	50	-
Training	7	-
Rent and rates	39	-
Supplies & services	38	60
Travel & subsistence	17	3
Insurance	19	-
Legal and professional fees	69	26
Audit fees	3	-
Shared services	284	282
Subscriptions	518	-
Total administrative expenses	2,010	371

7. Employees and directors

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

	2016	2015
Employees	12	-
Directors	4	4

The directors' emoluments were as follows:

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Aggregate emoluments	50	-

Key management compensation

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Salaries and other short-term benefits*	517	-

*Gross salary, pension and benefit in kind

8. Taxation

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Current tax		
UK Corporation tax on profits for the current period	7	-
Total tax charge	7	-
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	378	(371)
Expected tax charge based on a corporation tax rate of 20% (2015 – 21%)	76	(78)
Brought forward / Carried forward loss relief	(69)	78
Tax expense for the year	7	-

9. Debtors

	2016 £'000	2015 £'000
Local government	1,414	-
Health	590	-
Total debtors	2,004	-

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

No debtors were over 6 months. Debtors do not include a provision for doubtful and irrecoverable debt.

10. Accrued trade income

	2016 £'000	2015 £'000
Local government	207	-
Health	40	-
Total accrued trade income	247	-

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

	2016	2015
	£'000	£'000
Amounts owed to related parties	(30)	(371)
Accrual for holiday entitlement not yet taken	(26)	-
Corporation tax payable	(7)	-
Other taxation and social security	(467)	-
Accruals	(598)	-
Total trade and other payables	(1,128)	(371)

13. Deferred income

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

Deferred income due within 1 year includes work in progress of £2.687m and £1.500m which will be refunded to NHS bodies.

The majority of the £7.797m deferred income falling due after more than 1 year will be returned to audited bodies, in accordance with a formula to be agreed by the Board (as explained in note 3f above), once it is clear the money is not required to meet PSAA costs.

Deferred income - falling due within 1 year

	2016 £'000	2015 £'000
Local government	(1,968)	-
Health	(2,219)	-
Total deferred income	(4,187)	-

Deferred income - falling due after more than 1 year

	2016 £'000	2015 £'000
Local government	(7,462)	-
Health	(335)	-
Total deferred income	(7,797)	-

14. Cash flow

	Year ended 31 March 2016 £'000	Period ended 31 March 2015 £'000
Operating profit (loss)	343	(371)
Working capital movements:		
(Increase) in debtors	(2,251)	-
Increase in payables	12,734	371
Cash flow from operating activities	10,826	-

15. Related party transactions

PSAA is wholly owned by the Improvement and Development Agency (IDEA), which is wholly owned by the Local Government Association (LGA). PSAA's accounts are not consolidated into the IDEa or LGA accounts because neither exercises, nor has the ability to exercise, control over PSAA, and are 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, the total value of these services was £230,000 (2015: £371,000). To date PSAA has paid a total of £200,000 in this financial year. £30,000 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 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.

16. Contingent liabilities

Litigation

PSAA indemnifies appointed auditors for any reasonable legal costs that they incur when carrying out their special legal functions. PSAA also indemnifies appointed auditors for any costs awarded against them as a result of such court proceedings. The amount incurred in any one year from these indemnities depends on the progress of individual cases and so cannot be predicted or quantified until they crystallise.

A local government objector has appealed to the Court against a decision by the auditor, Grant Thornton LLP, not to seek a declaration that an item of account was unlawful during the audit of Haringey Council. PSAA is liable for any charges, losses, expenses and liabilities against the auditor in so far as they are not recoverable from other persons or bodies under the provisions of the 1998 Act or by order of the Court, provided the auditor has acted reasonably.

The Court decided in the auditor's favour on all three appeal grounds and costs have been awarded against the appellant. A costs hearing will make a decision on costs payable by the appellant and PSAA will meet any costs of the auditors not so recovered. These are not expected to be material.

17. Financial commitments

Financial commitments represent amounts payable by PSAA for office rental, service agreements and licences.

At the year-end date the company had outstanding commitments for future minimum payments as follows:

	2016	2015
	£'000	£'000
Within one year	290	-

