

PUBLIC SECTOR AUDIT APPOINTMENTS LIMITED

Annual Report and Accounts 2016/17

Company registration number: 09178094

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Annual Report

Introduction

Public Sector Audit Appointments Limited (PSAA) is a company limited by guarantee without 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 2016/17 report and accounts covers the second full year of operation for PSAA. The functions for which the company was responsible during this period fall into two categories: those which 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, and those which arise from the company's specification as an appointing person under the provisions of the Local Audit and Accountability Act 2014 (the 2014 Act).

In June 2016, the Secretary of State extended by one year the period for which the transitional arrangements, originally delegated to the company from April 2015, apply, to allow for completion of 2017/18 audits of principal local government bodies.

In July 2016, the Secretary of State specified PSAA as an appointing person under the 2014 Act. This means that for audits of accounts from 2018/19, PSAA will appoint an auditor to relevant principal local government bodies that have chosen to opt into the national auditor appointment scheme established by the company. In contrast, again in accordance with the provisions of the 2014 Act, local NHS bodies will appoint their own auditors from 2017/18.

The company began a significant programme of work during the 2016/17 financial year to: design the national appointing person scheme; enable relevant authorities to opt into the scheme; and undertake a procurement to let contracts with audit firms for audits of opted-in bodies from 2018/19 onwards. As a result of a successful procurement exercise and a high level of opt-ins to the national scheme, 484 local government and police bodies in England will benefit from reduced scale fees for audit services in 2018/19. Aggregate savings are expected to exceed £6 million per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies compared to 2016/17. The formal consultation on 2018/19 scale fees will start in December 2017 as part of the ongoing programme of work to establish the appointing person scheme fully by 1 April 2018.

Strategic report

The directors present their strategic report for the year ended 31 March 2017.

1. The company's objectives

Under the transitional arrangements for local audit made by the Secretary of State for Communities and Local Government, PSAA (the company) was responsible during the 2016/17 financial year 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 transitional arrangements end on a phased basis following the audits of the accounts of relevant bodies for 2016/17 and 2017/18.

In addition to these transitional responsibilities, in July 2016 the Secretary of State specified PSAA as an appointing person under the provisions of the Local Audit and Accountability Act 2014, for audits of the accounts of principal local government bodies from 2018/19. During 2016/17 the company has been developing the arrangements to support these new statutory responsibilities, which become fully operational from 1 April 2018.

The company had the following objectives for 2016/17, set out in the articles of association and related documents:

- performing and discharging its transitional functions, including:
 - 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;
- performing and discharging the functions of an appointing person specified by the Secretary of State for Communities and Local Government under the Local Audit (Appointing Person) Regulations 2015;
- 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 arrangements established under the provisions of 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 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.

In support of the statutory functions delegated to it, PSAA is responsible for overseeing the novated contracts for audit services (the audit contracts) with audit firms from 1 April 2015 until the contracts end, enabling the company to ensure provision of good quality audits at a cost which represents good value for money. The audit contracts end with the conclusion of the audits of 2016/17 accounts for NHS bodies and small bodies in 2017, and the audits of the 2017/18 accounts for principal local government and police bodies in 2018. The transitional arrangements made by the Secretary of State end with the conclusion of the current audit contracts.

The company also has a significant role in supporting the transition to the new external audit framework set out in the Local Audit and Accountability Act 2014. 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 accounts from 2018/19 for relevant principal local government bodies that choose to opt into the arrangements it has developed. Auditor appointments to small bodies will be made by a separate specified appointing

person, the Smaller Authorities Audit Appointments Limited for accounting periods starting from April 2017, unless relevant bodies opt to appoint their own auditor.

3. Business review

In its second full year of business, covered by this report, the company's focus has been on delivering the functions delegated to PSAA under the transitional arrangements, and establishing the new arrangements that will be needed to support its appointing person functions from 1 April 2018. This section of the report presents a brief outline of the main activities undertaken during the year.

Appointing auditors

Under the transitional arrangements, PSAA is required to appoint auditors to relevant authorities listed in schedule 2 of the Local Audit and Accountability Act 2014. During 2016/17, the company was responsible for the auditor appointments to 787 principal audited bodies in England, comprising local authorities, NHS bodies, fire and rescue authorities, police bodies, and a range of other principal local government bodies.

For audits of principal bodies, PSAA manages novated contracts with five audit firms: BDO LLP, EY LLP, Grant Thornton UK LLP, KPMG LLP, and Mazars LLP.

PSAA is also responsible under the transitional arrangements 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.

In preparation for its role as an appointing person from 2018/19, PSAA began a significant project during 2016/17 to establish the necessary arrangements to meet its new statutory responsibilities. It invited all eligible local government bodies to opt into its national auditor appointment scheme from 2018/19, securing 484 opt-ins (over 98 per cent of eligible authorities). It also established a procurement exercise for the audit work needed from 2018/19. This project will complete in December 2017, when all 2018/19 auditor appointments for opted-in bodies must be confirmed as required by the Local Audit and Accountability Act 2014.

Setting fees

The duty to prescribe scales of fees is a statutory function delegated to PSAA under the transitional arrangements. Before prescribing any scale of fees, there is a statutory requirement to consult on proposals.

PSAA consulted on the proposed work programme and scale fees for 2016/17 audits in autumn 2015, on the basis of no changes required to the work programme and no increase in scale fees compared to those 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. A similar exercise was undertaken during 2016/17, also on the basis of no changes to the work programme, with no increase in the scale fees applicable for 2017/18 audits.

PSAA operates on a not-for-profit basis. Accordingly from time to time surplus income is distributed to relevant audited bodies. During 2016/17 the company made a distribution of surplus income, totalling £2.001 million to all NHS trusts and clinical commissioning groups.

Under its appointing person responsibilities, PSAA will consult in late 2017 on the scale fees to be applied for 2018/19 audits. This will be the first year of audits undertaken under the appointing person arrangements and new audit contracts let in June 2017.

Making certification arrangements

PSAA is currently required to make arrangements for certification by its appointed auditors of annual housing benefit subsidy claims from local authorities to the Department for Work and Pensions (DWP). This is a provision of the Audit Commission Act 1998 delegated to PSAA under the transitional arrangements. Certification for 2017/18 claims will be the final year for which auditors will undertake this work for PSAA.

PSAA issued auditor guidance for 2016/17 certification to auditors in February 2017. Auditors' work must be completed by the DWP deadline of 30 November 2017.

Managing audit quality

PSAA is committed to ensuring that the quality of the audit work provided by audit suppliers is of the appropriate standard. To promote transparency and encourage best practice, the company publishes reports on the assessments it makes of each audit supplier. This work takes into account the work undertaken by each firm on reviewing the quality of its audit work, along with the results of reviews PSAA commissions from the Financial Reporting Council (FRC).

In 2016/17 the company published the *Annual Regulatory Compliance and Quality Review Programme Annual Report 2016*, and individual reports on the work of the firms with which it 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. The company monitors compliance against specific reporting indicators and publishes, on a quarterly basis, a monitoring report for each firm.

As part of its work programme, the company also published reports during 2016/17 on the results of auditors' work on 2015/16 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 an important part to play in the transition to the new local audit regime introduced by the Local Audit and Accountability Act 2014. The company has good relationships with key national stakeholders and knowledge of the current regime which puts it in a unique position to help the key players prepare to play their respective roles in the new audit framework effectively.

During 2016 PSAA was specified by the Secretary of State for Communities and Local Government under the provisions of the Local Audit and Accountability Act 2014 as the appointing person for auditor appointments for local government and police bodies. The specification is for audits from 2018/19, following the end of the transitional arrangements and the current audit contracts.

This means PSAA will appoint auditors and set audit fees for principal local government bodies who choose to opt in to the national arrangements it is developing, rather than appointing their own auditors.

The company has made significant progress during 2016/17 in developing the appointing person arrangements, including:

- consulting on and publishing a prospectus for the appointing person scheme;
- determining requirements under the appointing person scheme including audit quality and social value, and contractual requirements;
- setting out a procurement strategy and undertaking a major procurement exercise to award new audit contracts;
- establishing an advisory panel comprising representatives of the local government and police sector covered by our specification; and
- achieving an opt-in level of eligible bodies of more than 98 per cent.

The appointing person development project will complete during 2017/18, when PSAA will consult on and confirm auditor appointments to all opted-in bodies.

Managing our people

PSAA had 11 staff in post at 31 March 2017. The company has striven to retain its staff, as they provide specific knowledge and expertise and would be difficult to replace. This is particularly the case during the transitional period up to 1 April 2018, when PSAA's appointing person responsibilities take full effect. The ability to react promptly to issues

is essential to the company's success and requires high-performing, motivated staff, committed to its organisational values and objects. PSAA will continue to take action to ensure it remains fit-for-purpose by motivating and supporting staff, communicating with them in an open, honest and timely way, and responding to their development needs. PSAA's appointing person responsibilities from 2018/19 are likely to require fewer staff than are currently employed as well as a different staffing structure. PSAA will begin the process of considering its future staffing requirements during 2017/18.

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 named members of the management team are responsible for managing the individual risks.

During 2016/17, PSAA managed an average of 11 risks in the corporate risk register. A project risk register was set up during 2016 to manage the operational risks arising from the appointing person project. Following completion of work on the appointing person procurement of audit services, the project risk register has been subsumed in the corporate risk register. During 2017/18 the company will review its risks at a strategic level in the context of its new appointing person responsibilities from 2018/19, to ensure its rigorous approach to risk management is appropriately focused on the future remit.

The Board reviewed the risk register on a monthly basis. The residual principal risks facing PSAA are that:

- the company may not be able to retain experienced staff in key positions to undertake its transitional functions or recruit appropriate staff to deliver its appointing person functions;
- the legacy ICT systems inherited from the Audit Commission are not fit for purpose during the transitional period or to deliver the company's appointing person functions going forward; and
- uncertainty regarding PSAA's long-term office accommodation will result in possible disruption to its operations.

The impact of these risks is that PSAA's ability to deliver its statutory functions efficiently and effectively may be impaired. The audit committee and the Board are sighted in relation to these risks and are satisfied that the arrangements in place to manage them are robust.

Future developments

The financial year 2017/18 will be important for PSAA. The company will need to continue to build on the operational arrangements it has in place for the transitional period and deliver on the arrangements it has developed to discharge its appointing person responsibilities. It will need to continue to ensure that both these work streams are completed to required standards and timescales.

Building on the high level of participation achieved, with 484 (98 per cent) of eligible bodies opted into the appointing person scheme from 2018/19, the company is proceeding to award new contracts for audit services. Aggregate savings from the contracts are expected to exceed £6 million per annum, equivalent to a reduction of approximately 18 per cent in the scale fees payable by opted-in bodies.

The following key activities are planned during 2017/18. PSAA will:

- following the company's successful procurement process, finalise and enter into contracts with six audit suppliers: Grant Thornton (UK) LLP, EY LLP, Mazars LLP, BDO LLP, Deloitte LLP and Moore Stephens LLP.
- appoint auditors to opted-in bodies under the new audit contracts by 31 December 2017 and publish scale fees by 31 March 2018;
- review its operational and staffing arrangements, make decisions about its future appointing person requirements and implement appropriate changes;
- continue when required to provide support to Smaller Authorities Audit Appointments Limited, the specified appointing person for smaller bodies, in implementing arrangements for auditor appointments to small bodies during 2017/18;
- 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;
- make a distribution of surplus income to principal local government and police bodies; and
- develop plans for the establishment of an audit quality forum to support opted-in bodies on audit quality matters, and consider other possible related work programmes or developments that would be of benefit to opted-in bodies.

5. Financial review

Being financially responsible

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

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

The company reviews and assesses the necessity of all expenditure and the resourcing of its activities on a continual basis. During 2016/17 savings were achieved by taking the decision not to recruit to vacancies included in the budgeted staff establishment, creating the capacity to buy in project management and procurement expertise on a short-term basis to support the company's appointing person project.

The company's internal auditors, TIAA Limited, have reported substantial assurance on PSAA's payroll, purchase order and invoice processes and limited assurance on data security.

Following completion of the Audit Commission's 2014/15 accounts, PSAA received the final payment of Audit Commission retained earnings from DCLG, amounting to £5.5m. This money will form part of a planned distribution of surplus funds to principal audited bodies before the end of the novated audit contracts.

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.

Revenue, including investment income, for the 12 months to 31 March 2017 was £65.277 million which covered the costs including corporation tax incurred by PSAA for the period 1 April 2016 to 31 March 2017 of £65.277 million.

Turnover has been reduced to the actual amount receivable from audited bodies and payable by PSAA. PSAA shows a £nil profit for the 12 months to 31 March 2017. Any monies not required to cover PSAA's costs will at the appropriate stage be distributed to audited bodies.

Controlling costs

Total costs of the novated audit contracts for PSAA for the period were £63.051 million (2015/16: £71.434 million).

PSAA incurred administrative expenses of £2.220 million in 2016/17 (2015/16: £2.010 million) and taxation of £0.006 million (2015/16: £0.007 million).

Financial position

PSAA's total assets equal total liabilities at the end of 31 March 2017 (31 March 2016: total assets also equalled total liabilities). PSAA is required to pay surplus funds back to principal audited bodies, as provided for in its articles of association and the memorandum of understanding with DCLG and other parties. Surplus funds are shown as a liability in the balance sheet and will be paid to principal audited bodies on a timescale approved by the Board.

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 'F'.

Steve Freer
Chairman

18 September 2017

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2017.

Directors

From 1 April 2016 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 2016 to 31 March 2017:

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 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.

Going concern

In June 2016 PSAA was specified by the Secretary of State for Communities and Local Government as an appointing person for relevant principal local government bodies under the provisions of the Local Audit and Accountability Act 2014. This extends the responsibilities of the company beyond the 2017/18 audits of local government bodies, for which audit work will be completed during 2018. There is no impact from this development on PSAA's 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 subsequent actions taken by the Government, and concluded this matter is unlikely to give rise to solvency, liquidity or other risks that may threaten the long-term viability of the company or its future performance.

Subsequent events

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

Disclosure of information to auditors

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

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

Independent auditors

The auditors, UHY Hacker Young, have indicated their willingness to continue in office. A resolution concerning their appointment was approved by the Board at its meeting in December 2015.

By order of the Board



Steve Freer
Chairman

18 September 2017

Remuneration report

Chief Officer and other senior appointments

During the 2016/17 year there was one change to the PSAA management team: a senior compliance manager resigned and left the company and was replaced following external recruitment.

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. Taxable benefits comprise a travel card for travel within London for 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.

Remuneration over £50,000

The number of staff with remuneration 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 £k	Number of employees 2017	Number of employees 2016
50 - 55	-	1
60 - 65	1	2
65 - 70	3	-
85 - 90	1	-
90 - 95	-	2
95 - 100	1	1
100 - 105	1	1
130 - 135	-	1
135 - 140	1	-

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	2017	2016
Chief Officer	£136,933	£134,485
Chief Finance Officer	£100,101	£98,070
3 Other Senior Managers - remuneration range	£67,000 to £97,000	£91,500 to £100,500

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 - £'000	2017	2016
Band of highest paid - total remuneration	125k - 130k	120k - 125k
Median - total remuneration	61k	57k
Ratio	2.1	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 2016 and 31 March 2017 received other benefits from PSAA, nor were they members of the pension scheme.

Director - £'000	2017	2016
Stephen Freer	30	30
Clive Grace	8	8
Stephen Sellers	8	8
Caroline Gardner ⁽¹⁾	-	-

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

(2) 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.

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 period at the end.

Steve Freer
Chairman

18 September 2017

Governance report

Principals of governance

The principles of the governance structure of PSAA are set out in the Articles of Association and the Memorandum of Understanding with the Department for Communities and Local Government (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 Improvement and Development Agency (IDeA), which in turn is wholly owned by the Local Government Association (LGA).

The primary duty of the company is to discharge the statutory objects and powers set out in its Articles of Association in accordance with the Companies Act 2006 and the company's founding documents. The principal legislation governing the statutory functions of PSAA is the [Local Audit and Accountability Act 2014](#) and certain provisions of the Audit Commission Act 1998, delegated to the company on a transitional basis until 2018 by the Secretary of State for Communities and Local Government.

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 standards promoted by the Committee on Standards in Public Life.

The PSAA Board

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

The Chairman of the Board is a non-executive director appointed by the IDeA, in February 2015. 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 2016/17:

Board members	Position	Board meetings
Steve Freer	Chairman	8/8
Caroline Gardner	Non-executive director	7/8
Clive Grace	Non-executive director	8/8
Stephen Sellers	Non-executive director	8/8

Audit Committee

The Audit Committee 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, Kathryn Cearns, who has a professional background in financial reporting. The Chairman of PSAA attends the Audit Committee meetings 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

PSAA's corporate governance framework is published on the company's [website](#). The Board approved an update to the corporate governance framework and scheme of delegation at its meeting in September 2016, following a regular annual review. The corporate governance framework sets out clearly which matters are delegated and which are reserved to the Board, and incorporates the company's financial policies. The Board and Audit Committee review the framework regularly.

During 2016/17 the Board also established a working group to consider the changes that will be required to the corporate governance framework in response to PSAA's new responsibilities from April 2018 as an appointing person under the provisions of the Local Audit and Accountability Act 2014.

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

PSAA's internal auditors, TIAA Limited, presented their annual report in November 2016, confirming substantial assurance on payroll, purchase order and invoice processes and limited assurance on data security.

By order of the Board

A handwritten signature in black ink, appearing to read "Steve Freer". The signature is written in a cursive style with a prominent horizontal line across the top of the letters.

Steve Freer
Chairman

18 September 2017

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

Opinion

We have audited the financial statements of Public Sector Audit Appointments Limited (the 'company') for the year ended 31 March 2017 which comprise the Profit and loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in reserves, the Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102: *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Key audit matters

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

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

- *Management override of controls*

Management override of controls is deemed to be a significant risk in accordance with ISAs (UK) and presents the risk that management or those charged with governance could override the internal controls of the company in preparing the financial statements resulting in a material misstatement.

- *Revenue recognition*

Given the nature of the company's activities and its revenue streams, there is a risk over the accuracy, existence and completeness assertions relating to revenue recognition.

Our application of materiality

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

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

We determined materiality for the financial statements as a whole to be £245,000. In determining this we based our assessment on the gross assets of the company. On the basis of our risk assessment, together with our assessment of the company's control environment, our judgement is that performance materiality for the financial statements should be 75% of materiality, being £183,750.

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

An overview of the scope of our audit

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

Management override of controls

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

Revenue recognition

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

Other information

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

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 14 - 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

We were appointed by the Board of Directors on 15 February 2016. The period of total uninterrupted engagement of the firm is two years.

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

This report is made solely to the company's member, as a body, in accordance with part 3 of Chapter 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.



Colin Jones (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young
Chartered Accountants
Statutory Auditor

18 September 2017

Annual Accounts

Financial Statements for the year ended 31 March 2017

Profit and loss account

		Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Turnover	4	65,220	73,787
Cost of sales	5	(63,051)	(71,434)
Gross Profit		2,169	2,353
Administrative expenses	6	(2,220)	(2,010)
(Loss) / profit on ordinary activities before interest and taxation		(51)	343
Interest receivable and similar income		57	35
Profit on ordinary activities before taxation		6	378
Tax on profit on ordinary activities	8	(6)	(7)
Profit for the financial year		-	371

Statement of comprehensive income

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Profit for the financial year	-	371
Total comprehensive income for the year	-	371

Balance Sheet

		Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Current assets			
Debtors	9	2,441	2,004
Accrued trade income	10	113	247
Short term investments (includes fixed term deposits of £3,834k. 2016 - £5,759k)	11	9,779	10,851
Cash at bank and in hand		10	10
		12,343	13,112
Creditors - amounts falling due within one year			
Trade and other payables	12	(518)	(1,128)
Deferred income	13	(7,964)	(4,187)
		(8,482)	(5,315)
Net current assets		3,861	7,797
Creditors – amounts falling due after more than one year			
Deferred income	13	(3,861)	(7,797)
Net assets (liabilities)		-	-
Reserves			
Retained earnings		-	-
Total Reserves		-	-

The notes on pages 33 to 43 are an integral part of these financial statements.

The financial statements on pages 30 to 43 were authorised for issue by the Board of Directors on 18 September 2017 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 1 April 2015	(371)	(371)
Profit for the period	371	371
Balance at 31 March 2016	-	-
Balance as at 1 April 2016	-	-
Profit for the period	-	-
Balance as at 31 March 2017	-	-

Statement of cash flows

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cash (outflow)/inflow from operating activities	14	(1,123)
Taxation paid	(7)	-
Net cash from operating activities	(1,130)	10,826
Cash flow from financing activities		
Interest received	57	35
Fixed maturity deposits (included in current asset investments)	1,925	(5,759)
Net cash from financing activities	1,982	(5,724)
Net increase in cash at bank and in hand	852	5,102
Cash and cash equivalents at the beginning of the year	5,102	-
Cash and cash equivalents at the end of the year	5,954	5,102
Cash and cash equivalents consists of:		
Cash at bank and in hand	10	10
Short term deposits (included in current asset investments)	5,944	5,092
Cash and cash equivalents	5,954	5,102

Notes to the financial statements

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 15 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 12 months ended 31 March 2017 are prepared in accordance with 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.

b) Public benefit entity

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

c) Going concern

The financial statements have been prepared on the going concern basis. The government 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 will operate the appointing person regime for a number of years starting on 1 April 2018.

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 are repaid to audited bodies at a later date. 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. 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 will be agreed by the Board during 2017/18, 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.

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.

4. Turnover

Analysis of turnover by segment

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Audit fee income local government - principal bodies	44,431	50,718
Audit fee income local government - small bodies	2,096	1,999
Audit fee income National Health Service	18,673	21,050
Other income	20	20
	65,220	73,787

Analysis of turnover by category

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Audit services	65,200	73,767
Licenses for HBCount	20	20
	65,220	73,787

5. Cost of sales

Analysis of cost of sales by segment

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Bought in services local government - principal bodies	44,161	49,141
Bought in services local government - small bodies	1,624	1,541
Bought in services - National Health Service	17,266	20,752
	63,051	71,434

6. Administrative expenses

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Salaries and wages	778	803
Social security	91	95
Pension	67	68
Board members and non-Board members	51	50
Training	7	7
Consultants & Contractors Fees	85	-
Rent and rates	45	39
Bad Debt	4	-
Supplies & services	33	38
Travel & subsistence	17	17
Insurance	31	19
Legal and professional fees	170*	69
Audit fees	4**	3
Shared services	254	284
Subscriptions	583	518
Total administrative expenses	2,220	2,010

*Legal and professional fees include £56,135 paid to Grant Thornton LLP under our auditor indemnity. This is in relation to an objector appealing 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. Costs awarded against the appellant were deemed to be irrecoverable as the appellant had no assets.

**Audit fees include £500 for non-audit services provided by the external auditor.

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

Administrative expenses – appointing person

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Consultants & Contractors Fees	79	-
Supplies & services	3	-
Legal and professional fees	69	-
Total administrative expenses	151	-

7. Employees and directors

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

	2017	2016
Employees	11	12
Directors	4	4

The directors' emoluments were as follows:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Aggregate emoluments	51	50

Key management compensation

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Salaries and other short-term benefits	492	517

*Gross salary, pension and benefit in kind

8. Taxation

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Current tax		
UK Corporation tax on profits for the current period	6	7
Total tax charge	6	7
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	6	378
Expected tax charge based on a corporation tax rate of 20% (2016 – 20%)	1	76
Non-trade loan relationship credits	11	7
Brought forward / Carried forward loss relief	(6)	(76)
Tax expense for the year*	6	7

*The actual tax charge for 31 March 2016 was £2,292 and not £7,007 and is due to allowable tax loss relief, in the first year of trading, against non-trade loan relationship credits. A tax refund of £4,715 has been received from HMRC. The amount was considered not to be material and therefore has been offset against the charge for 31 March 2017 (the tax charge for 31 March 2017 is £6,674 and is calculated as the actual charge for 31 March 2017 of £11,389 less the £4,715 relating to 31 March 2016).

9. Debtors

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Local government	1,733	1,414
Health	708	590
Total debtors	2,441	2,004

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Trade Debtors	1,670	1,710
Provision for bad debts (small bodies)	(4)	-
Prepayments	718	294
VAT Refund	57	-
Total debtors	2,441	2,004

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

No debtors were over 6 months.

10. Accrued trade income

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Local government	68	207
Health	45	40
Total accrued trade income	113	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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Amounts owed to group undertakings	(2)	(30)
Accrual for holiday entitlement not yet taken	(31)	(26)
Corporation tax payable	(7)	(7)
Other taxation and social security	(29)	(467)
Accruals	(449)	(598)
Total Trade and other payables	(518)	(1,128)

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Local Government	(396)	(792)
Health	(122)	(336)
Total Trade and other payables	(518)	(1,128)

13. Deferred income

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

Deferred income due within 1 year includes work in progress of £2.364m and £5.600m which will be paid to audited bodies in 2017/18 (as approved by the Board at its March 2017 meeting). £2.001m was paid from deferred income to NHS bodies in the financial year ending 31 March 2017.

The majority of the £3.861m deferred income falling due after more than 1 year will be returned to audited bodies, in accordance with a formula agreed by the Board (as explained in note 3f and 3h above), once it is clear the money is not required to meet PSAA costs.

Deferred income - falling due within 1 year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Local government	(7,361)	(1,968)
Health	(603)	(2,219)
Total deferred income	(7,964)	(4,187)

Deferred income - falling due after more than 1 year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Local government	(3,861)	(7,462)
Health	-	(335)
Total deferred income	(3,861)	(7,797)

14. Cash flow

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Operating (loss) / profit	(51)	343
Working capital movements		
Increase in debtors	(303)	(2,251)
(Decrease) / increase in payables	(769)	12,734
Cash (outflow) / inflow from operating activities	(1,123)	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). The LGA has taken the decision not to consolidate PSAA's accounts. Below (in italics) is an extract from the LGA's annual report: *'The accounts for Public Sector Audit Appointments Limited (PSAA) are not consolidated into these statements because the LGA does not exercise or have the ability to exercise control over PSAA and the LGA is not in a position to benefit from its results and financial performance.'*

The IDeA and the LGA are treated as related parties in these accounts in the interest of transparency. During the year PSAA received services from the LGA, such as IT, HR

Finance support and accommodation, the total value of these services was £175,596 (2016: £230,000). To date PSAA has paid a total of £173,161 in this financial year. £2,582 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

At the end of 31 March 2017 PSAA had no contingent liabilities.

17. Financial commitments

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

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

	2017	2016
	£'000	£'000
Within one year	86	290