



Public Sector
Audit Appointments

**Annual report and
accounts 2017/18**

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Annual Report

Overview of the year

PSAA had a successful third operating year in 2017/18, with the implementation of our 'appointing person' collective auditor appointment scheme for principal local government and police bodies. The twin objectives driving PSAA's design for these arrangements were to secure value for money and audit quality for bodies that opted into the scheme.

Having achieved a 98 per cent take-up for the scheme from eligible bodies, we undertook a complex procurement to let contracts for audit services worth £140 million over five years. We awarded six audit services contracts, the target number set in our procurement strategy, which we believe will help to sustain breadth of supply in the local audit market. We consulted on and confirmed auditor appointments under the new contracts for the 484 opted-in bodies, with a very high level of support for our proposals.

The company consulted on and confirmed the 2018/19 fee scale, at the same time outlining our thinking in relation to the fee strategy for the medium term. The savings made as a result of the procurement, as well as PSAA's own internal cost efficiencies, have enabled a reduction of 23 per cent in 2018/19 scale fees for opted-in bodies. We hope, if possible, to maintain fee stability at this level for at least the first three years of the appointing period.

The new contracts began on 1 April 2018, the start of the appointing period, and are structured to enable PSAA to discharge its statutory appointing person responsibilities for the five years 2018/19 to 2022/23. The company has worked hard to understand the priorities and preferences of bodies eligible to join its scheme, and we have put engagement and consultation at the heart of our work in developing the national arrangements. Our Advisory Panel, whose members represent the different types of opted-in bodies, has provided helpful feedback and insights into all aspects of our policy making and has enabled the company to adopt approaches which work for opted-in bodies.

We have been developing our approach for managing the new audit contracts, giving priority to monitoring and reporting on audit quality and contract compliance. The company is also establishing the Local Audit Quality Forum, which will place particular emphasis on supporting the effectiveness of local audit committees on audit quality.

The company confirmed membership of its Board for the next three years, re-appointing the four existing members for a second three-year term and appointing a new Board member, Cllr Keith House, who brings valuable experience as an elected council member and leader.

We started a significant restructuring and cost reduction exercise during 2017/18, to ensure the company is fit for purpose in the context of its responsibilities and objectives from 1 April 2018. This programme of work will be completed during the calendar year 2018, reducing staff numbers, aligning skills and experience with the company's remit and reducing the operating costs that must be funded from audit fees charged to opted-in bodies.

We look forward to building on the progress outlined in this report, to managing the first year of the new national scheme and to working closely with all our partners and stakeholders in the new local audit landscape.

Steve Freer, Chairman



Jon Hayes, Chief Officer



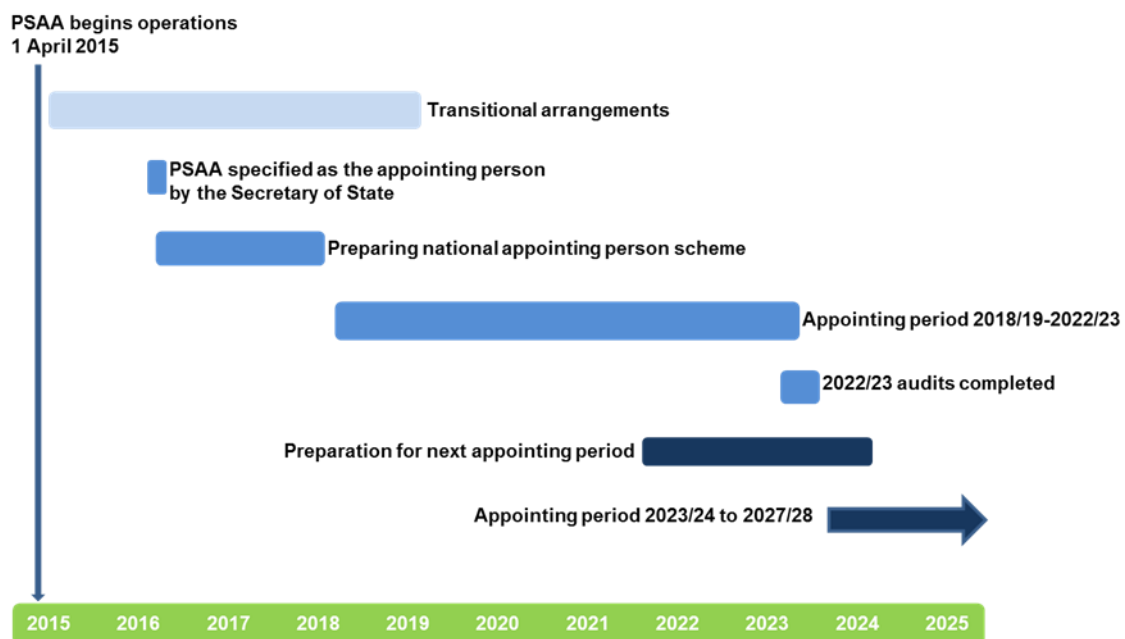
About PSAA

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

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

In June 2016 the Secretary of State specified the company as an appointing person under the provisions of the Local Audit and Accountability Act 2014. This means that for audits of accounts from 2018/19, PSAA will appoint an auditor to eligible principal authorities (councils, local police bodies, fire authorities and other relevant bodies) that have chosen to opt into the national auditor appointment scheme developed by the company. At the time of publication of this annual report, 484 of the 494 eligible bodies had opted into PSAA's national auditor appointment arrangements. Once opted in, bodies remain in the scheme for the specified appointing period, covering audits of the accounts for the five financial years 2018/19 to 2022/23.

Timeline



Strategic report

The directors present their strategic report for the year ended 31 March 2018.

1. Objectives and operating environment

PSAA's responsibilities and aims are expressed through a series of objectives, covering:

- appointing auditors to relevant authorities;
- setting a scale or 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;
- ensuring that public money from audit fees continues to be properly accounted for and protected;
- 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.

A memorandum of understanding with the Ministry of Housing, Communities and Local Government sets out the broad framework in which PSAA operates¹. The memorandum 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 audit fees charged to audited bodies.

During 2017/18 the company was responsible for a set of statutory functions delegated to it on a transitional basis from the Audit Commission Act 1998. These functions required PSAA to manage audit and assurance contracts novated to it in relation to audits of local government and NHS bodies. This work ends in phases, with the last audits of principal NHS bodies and final assurance assignments in relation to small bodies² completed in 2017. Audits of principal local government bodies³ under the transitional arrangements will continue into early 2019. In fact, much of the work in relation to local government bodies will continue beyond 2019, under new audit contracts linked to PSAA's new appointing person responsibilities.

In terms of the company's new role, our functions relating to auditor appointments and the associated responsibilities derive from provisions of the Local Audit and

¹ Signatories to the memorandum of understanding also include the Department of Health, the Local Government Association, and the Improvement and Development Agency.

² Small bodies include parish councils and internal drainage boards with annual turnover below £6.5 million.

³ Principal local government bodies include councils, fire and rescue authorities, local police bodies and other local government bodies.

Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 made under that Act. These functions require the company to ensure provision of good quality audits at a cost which represents good value for money to relevant authorities. The company has been preparing for these responsibilities since its specification in 2016 as the appointing person for principal local government and police bodies. These new responsibilities became operational with effect from 1 April 2018.

2. Business review

In our third full year of business, covered by this report, the company's focus has been on developing and implementing the arrangements necessary to discharge our statutory auditor appointment and associated responsibilities as an appointing person from 1 April 2018. We have also continued to deliver the functions delegated to PSAA under the transitional arrangements, which end in early 2019.

Audit services procurement

During 2017/18 PSAA undertook a major audit services procurement exercise, for the audits of opted-in bodies for the appointing period 2018/19 to 2022/23. Work on the procurement started in February 2017 and concluded in July with the award of contracts. The procurement was designed to test thoroughly the audit quality to be provided by prospective bidders, as well as attracting highly competitive prices. The tender process also encouraged bidders to think creatively about maximising the social value benefits that could be delivered from the contracts. Their responses promise the creation of more than 400 new apprenticeships over the life of the contracts, many to be filled from more disadvantaged communities.

Contracts were awarded on the basis of the most economically advantageous tender, with 50 per cent of the available score awarded to price and 50 per cent to quality. The successful firms possess a wealth of public sector audit experience, inspiring confidence that high standards of service will be maintained. An element of our procurement strategy was to maintain breadth in the number of firms with PSAA contracts. We were able to award six contracts, to five firms plus a consortium of two firms, from the ten firms eligible (that is, approved by the relevant recognised supervisory bodies) when the procurement was undertaken.

The results of the procurement, announced on 20 June 2017, meant PSAA was able to award the following contracts:

Lot	Value per audit year	Firm
1	£14.6 million	Grant Thornton LLP
2	£10.9 million	Ernst and Young LLP
3	£6.6 million	Mazars LLP
4	£2.2 million	BDO LLP
5	£2.2 million	Deloitte LLP
6	no guaranteed value of work	consortium of Moore Stephens LLP and Scott-Moncrieff LLP

Auditor appointments

Following completion of the audit services procurement, PSAA prepared proposals for the allocation of auditor appointments to each firm, taking account of any potential independence considerations for individual firms and the joint working arrangements of opted-in bodies. We consulted opted-in bodies on our proposals and confirmed final appointments to each of the 484 bodies that had opted into PSAA's national scheme before the statutory deadline of 31 December 2017.

Within the overall context of developing auditor appointments that represent value for money for opted-in bodies, we had regard to six principles approved by the PSAA Board:

- ensuring auditor independence;
- meeting our contractual commitments;
- accommodating joint/shared working arrangements where possible;
- ensuring a blend of authority types for each audit firm;
- taking account of a firm's principal locations; and
- providing continuity of audit firm, if possible.

The primary consideration in allocating proposed appointments to individual opted-in bodies was to ensure independence, and then to balance the remaining principles. PSAA's stakeholder advisory panel confirmed its support for this approach.

The PSAA Board approved all proposed appointments from 2018/19, following consultation with audited bodies, at its meeting in December 2017. We wrote to each opted-in body on 18 December 2017 to confirm the auditor appointment.

Setting audit fees

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

We consulted on a proposal to reduce scale fees for 2018/19 by 23 per cent, and to maintain fee stability if possible, during the appointing period. Responses to the consultation welcomed the proposal. PSAA set the 2018/19 fee scale such that individual scale fees for all opted-in bodies are the fees applicable for 2017/18 with a reduction of 23 per cent. This gives opted-in bodies the benefit of the cost savings achieved in the audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to audit a particular opted-in body. The fee reduction also reflects and passes on the benefit of economies which PSAA is making in its own operating costs.

PSAA hopes to be able to maintain the 2018/19 reduction of 23 per cent in scale fees for at least the first three years of the appointing period, based on current assumptions about inflation and the amount of work auditors are required to undertake. However, the uncertainties are such that we cannot guarantee this at this stage. The most significant variables which are likely to influence our decision-making are:

- Inflation: there is uncertainty about the expected level of inflation but a generally rising trend. Our contracts with audit firms include provision for inflation adjustments in the later years of the appointing period.
- Code of Audit Practice: the NAO is required to publish a new Code every five years. The next Code will be applicable from 2020/21, the third year of the appointing period. Any changes to the approach required from auditors, whether this increases or decreases the work required, must be reflected in scale fees.
- Changes in financial reporting requirements: current scale fees reflect the audit work needed based on current financial reporting requirements. Changes to those requirements may have an impact on scale fees.

During the appointing period we will consult on scale fees each year, reviewing all our key assumptions and estimates, before publishing the fee scale for the following year.

Audit quality

PSAA is committed to ensuring that contracted firms provide good quality audits for opted-in bodies. We have undertaken significant work during 2017/18 on the arrangements to be used for monitoring audit quality and contract compliance from 2018/19.

We have adopted the International Auditing and Assurance Standards Board's *Framework for Audit Quality* (the IAASB Framework) as the model for the appointing person audit quality arrangements. Audit quality formed a core part of the evaluation of tenderers in the 2017 audit services procurement, with tenderers encouraged to have regard to the IAASB Framework in their responses. Ongoing contract management arrangements have the dual purpose of reporting results to opted-in bodies and ensuring that the company meets our obligations under the Local Audit (Appointing Person) Regulations 2015 to monitor compliance of auditors against the requirements in the audit contracts.

Our approach is based on the expectation that a quality audit is likely to be achieved by an engagement team that:

- exhibits appropriate values, ethics and attitudes;
- is sufficiently knowledgeable, skilled and experienced and has sufficient time allocated to perform the audit work;
- applies a rigorous audit process and quality control procedures that comply with law, regulation and applicable standards;
- provides useful and timely reports; and
- interacts appropriately with relevant stakeholders.

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

Local Audit Quality Forum

PSAA's commitment to continuous improvement in audit quality for opted-in bodies will feature strongly in our work going forward. The company is sponsoring the establishment of a Local Audit Quality Forum (LAQF) to support the role of audit committees of opted-in bodies in relation to audit quality. The LAQF's inaugural meeting took place in April 2018.

We believe that the forum will be a meeting place in which all parties that have a role in the responsibility for audit quality can share experiences and good practice. In particular we want to give a special focus to the work of local bodies and their audit committees, to help them play their critical and demanding roles effectively. We hope that audit committee chairs and chief finance officers will be regular attendees and active participants in all LAQF events.

Board appointments

During 2017/18 the company secured the membership of its Board for the next three years. The Chair and the other three existing members were re-appointed for a second three-year term, and the company made a new appointment of a fifth member of the Board from a strong field of candidates. The new Board member, Cllr Keith House, brings valuable experience as an elected council member and leader.

Other developments

Alongside these significant developments during 2017/18, PSAA's work also included other notable achievements:

NHS bodies and smaller local government bodies

Under the transitional arrangements, PSAA has been responsible for overseeing the novated contracts for audit services at local NHS bodies and assurance assignments at smaller local government bodies. This work concluded at the end of 2017 with the completion of the 2016/17 audits, enabling PSAA to return £2 million of surplus income to NHS bodies in November 2016.

NHS bodies are now responsible for appointing their own auditors under the provisions of the Local Audit and Accountability 2014 Act. Appointments to smaller local government bodies (those with annual income or expenditure under £6.5 million) will be made by a separate specified appointing person, Smaller Authorities Audit Appointments Limited, for accounting periods starting from April 2017, unless relevant bodies opt to appoint their own auditor.

Securing the future of the VFM profiles

On the closure of the Audit Commission in March 2015, responsibility for maintaining the VFM profiles tool developed by the Commission was transferred to PSAA while a longer-term solution for the tools was considered. During 2017/18 PSAA reached agreement with the Local Government Association to move the data and analysis in the profiles to the LG Inform suite of tools, and the transfer was completed in January 2018.

This means the profiles are now freely available to audited bodies and auditors as part of a wider suite of data and analysis, and will no longer rely on, or require PSAA to maintain, legacy systems previously developed by the Audit Commission.

Restructuring

Anticipating the changes in its responsibilities from 1 April 2018, the company began a restructuring exercise in 2017/18, as part of a wider review of its costs. This has enabled the company to align the number and skills of the staff it employs with its business needs.

The restructure was undertaken in the context of the company's new responsibilities and aims as the appointing person from 1 April 2018, and of the conclusion of the transitional arrangements put in place in April 2015 by the Secretary of State. Twelve staff transferred to PSAA on closure of the Audit Commission at the end of March 2015 to undertake the work required to manage the novated audit contracts under these transitional arrangements, covering principal NHS and local government bodies and smaller local government bodies, and providing housing benefit subsidy certification on a transitional basis for the Department for Work and Pensions.

As a result of the restructuring exercise, the number of staff employed by the company will reduce to six during 2018/19, and will enable the company to fill the posts in its new structure with the specific skills and experience its new responsibilities require. The exercise has enabled a significant reduction in the company's cost base for the appointing period and has contributed to the reduction of 23 per cent in the fee scale for 2018/19.

Lessons learned review

PSAA is undertaking an important piece of work to understand what worked well in the appointing person project and to identify areas for improvement for the future. The review will be completed in 2018/19 and includes both an internal lessons-learned review, covering the opt-in invitation and procurement process, and a comprehensive project review following the completion of the fee setting process in March 2018. The review is being undertaken with the support of Cardiff Business School.

Procurement award finalist

PSAA was pleased to be highly commended in the category of Outstanding Procurement Initiative of the year in the [2018 Public Finance Innovation Awards](#), and to be shortlisted for the Government Opportunities public procurement awards 2018/19, for our procurement of audit services for the 484 opted-in principal authorities in England.

Office accommodation

In October 2016 PSAA moved with the Local Government Association (LGA) to temporary office accommodation in Farringdon, London while its permanent base in Westminster was refurbished. We returned to Westminster in November 2017 and continue to be co-located with the LGA, enabling close co-operation on our appointing person responsibilities.

3. Risks and future developments

Risk management

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 2017/18, PSAA managed an average of 12 risks in the corporate risk register. The Board undertook a strategic review of our risks in the context of its appointing person responsibilities from 2018/19. This review was designed to ensure that the company's rigorous approach to risk management is appropriately focused on our future remit.

In addition to the strategic review, the audit committee reviewed the risk register on a quarterly basis. The residual principal risks facing PSAA are that:

- PSAA is going through a major business re-organisation which may lead to disruption to its operations; and

- the security of PSAA's data may be compromised, taking into account the contracting-out of data processing to the LGA and by the LGA to the London Borough of Brent.

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

Future developments

The financial year 2018/19 will be significant for PSAA. We will:

- begin operating our appointing person responsibilities from 1 April 2018, for the appointing period covering the accounts of relevant authorities for 2018/19 to 2022/23;
- hold the inaugural meeting of the Local Audit Quality Forum in April 2018, and establish a forward programme for the forum;
- complete the staff restructuring, which contributes significantly to the company's overall cost reductions; and
- oversee delivery of the final audits under the transitional arrangements.

4. 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 audited bodies;
- ensuring the company's internal auditors review the internal control environment annually to provide assurance on the financial controls and confirm these are working as intended;
- meeting the company's statutory obligations; and
- meeting PSAA's duties as a good employer.

The company's internal auditors, TIAA Limited, have reported substantial assurance on all areas reviewed, covering: PSAA's management of income flows (WIP), governance framework, members and staff expenses, and bank reconciliations.

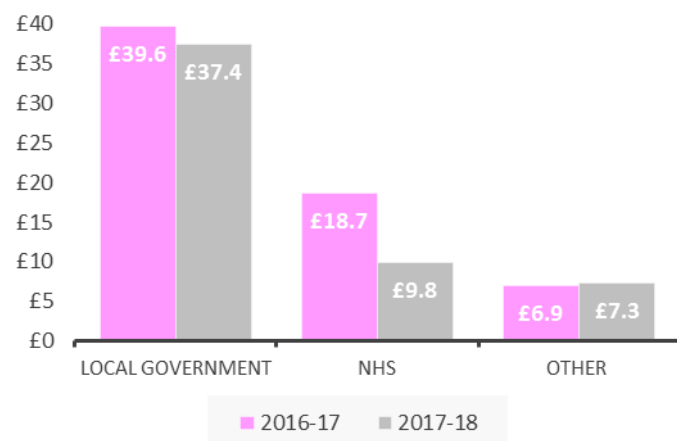
Turnover and profit on ordinary activities

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

PSAA's accounts show a £nil profit for the 12 months to 31 March 2018 as revenue is matched to expenditure and any monies not required to cover costs are returned to audited bodies.

Revenue, including investment income, for the 12 months to 31 March 2018 was £54.547 million (2016/17 £65.277 million) which covered the costs including corporation tax incurred by PSAA for the period 1 April 2017 to 31 March 2018 of £54.547 million (2016/17 £65.277 million). The reduction in revenue and associated costs is mainly because of the completion of our responsibilities for NHS audits.

Revenue by sector - £m

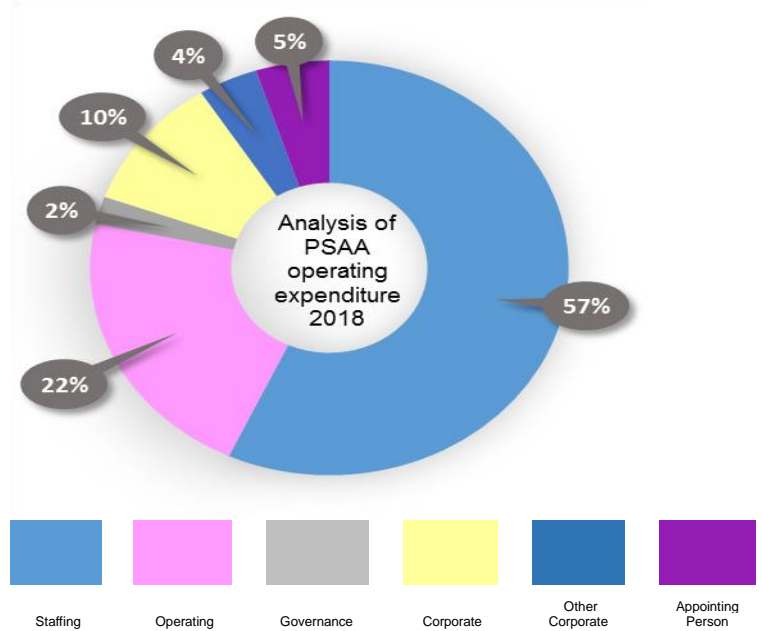


Controlling costs

PSAA incurred total costs of £54.547 million, of which the cost of the novated audit contracts for the period were £51.624 million, 94.6% of total costs (2016/17: £63.051 million which represented 96.6%).

PSAA incurred operating expenses of £2.918 million in 2017/18 which represents 5.4% of total costs (2016/17: £2.220 million which represented 3.4% of total costs) and taxation of £0.005 million (2016/17: £0.006 million).

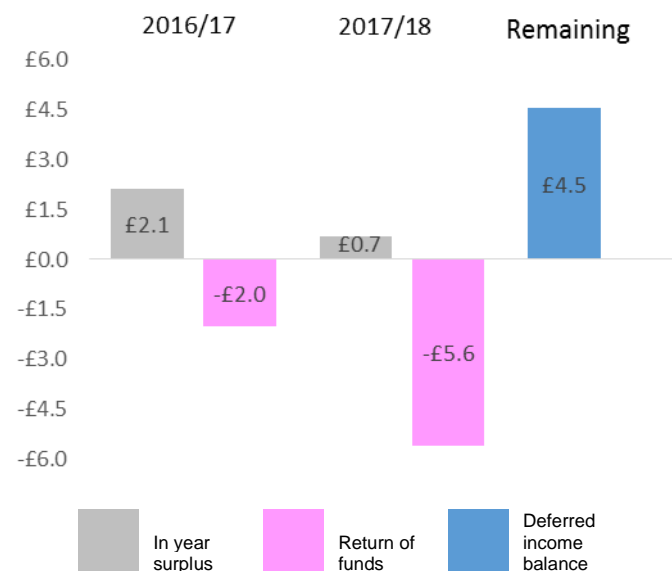
Analysis of operating expenditure



Financial position

PSAA's total assets equal total liabilities at the end of 31 March 2018 (31 March 2017: total assets also equalled total liabilities). PSAA is required to pay any surplus funds to principal audited bodies, as provided for in its articles of association and the memorandum of understanding with MHCLG and other parties. Surplus funds are shown as a liability in the balance sheet as part of deferred income. The deferred income is regularly reviewed to ensure PSAA has sufficient funds to pay for its operating expenses and manage its cash flow. Funds no longer required are returned once approved by the Board. At the end of 31 March 2018 the surplus funds remaining were £4.5 million. This reflects the Board's decision to return £5.6 million in December 2017 to local government and police bodies, following a return of funds to NHS bodies in 2016/17.

Movement in deferred income (excluding WIP) at the end of the financial year against return of funds to NHS, police and local government bodies - £m



By order of the Board

Steve Freer
Chairman

18 July 2018

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2018.

Directors

For the year from 1 April 2017 the PSAA Board's composition was as set out in the table below:

Board members	Position	Period of office
Steve Freer	Chairman	1 April 2017 to 31 March 2018
Caroline Gardner	Non-executive director	1 April 2017 to 31 March 2018
Clive Grace	Non-executive director	1 April 2017 to 31 March 2018
Stephen Sellers	Non-executive director	1 April 2017 to 31 March 2018
Keith House	Non-executive director	1 December 2017 to 31 March 2018

Keith House was appointed during the financial year, in December 2017. The four existing directors were re-appointed for a second three-year term in September 2017. There were no resignations of directors during the financial year, and there have been no changes since the end of the financial year.

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

Register of interests

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

During 2017/18 the Board reviewed and strengthened the company's standing orders in relation to declarations of conflicts of interest.

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 transitional arrangements for 2017/18 audits of local government bodies, for which audit work will be completed during 2018 and early 2019. The appointing person responsibilities will last until at least 2023. It is appropriate to prepare PSAA's accounts on a going concern basis.

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

Subsequent events

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

Disclosure of information to auditors

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

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

Independent auditors

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

By order of the Board

Steve Freer
Chairman

18 July 2018

Remuneration report

Chief Officer and other senior appointments

During the 2017/18 financial 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. 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 2018	Number of employees 2017
60 - 65	1.0	1.0
65 - 70	1.0	3.0
70 - 75	1.0	
85 - 90	3.0 ¹	1.0
95 - 100	1.0	1.0
100 - 105	1.0	1.0
135 - 140	1.0	1.0

¹ One employee was made redundant in the year and is included as a result of their contractual redundancy payment.

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	2018	2017
Chief Officer	£139,086	£136,933
Chief Finance Officer	£102,013	£100,101
3 Other Senior Managers - salary range	£89,744 to £98,078	£67,000 to £97,000 ¹

¹ One senior manager, recruited during 2017, had part-year service only in that year

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	2018	2017
Band of highest paid - total remuneration	125k - 130k	125k - 130k
Median - total remuneration	65	61
Ratio	2.0	2.1

Remuneration policy for Directors

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

None of the Directors serving between 1 April 2017 and 31 March 2018 received other benefits from PSAA, nor were they members of the pension scheme.

Director - £'000	2018	2017
Stephen Freer	30	30
Clive Grace	8	8
Stephen Sellers	8	8
Keith House	3	0
Caroline Gardner ⁽¹⁾	0	0

(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.

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

By order of the Board

Steve Freer
Chairman

18 July 2018

Governance report

Principles of governance

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

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

Governance structure

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

The primary duty of the company is to discharge the statutory objects and powers set out in its Articles of Association in accordance with the Companies Act 2006 and the company's founding documents. The principal legislation governing the statutory functions of PSAA is the Local Audit and Accountability Act 2014 and certain provisions of the Audit Commission Act 1998, delegated in 2015 to the company on a transitional basis by the then Secretary of State for Communities and Local Government.

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

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

The PSAA Board

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

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

approval of the IDeA, in February 2015 and re-appointed in September 2017 for a further three years. A fifth director was appointed in December 2017.

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 2017/18

Board members	Position	Board meetings
Steve Freer	Chairman	8/8
Caroline Gardner	Non-executive director	7/8
Clive Grace	Non-executive director	7/8
Stephen Sellers	Non-executive director	8/8
Keith House	Non-executive director	2/2 (Appointed 01/12/17)

Audit Committee

The Audit Committee is chaired by Caroline Gardner, a non-executive director of PSAA. Membership of the Audit Committee comprised two of the other non-executive directors of PSAA and an independent member, Kathryn Cearns, who has a professional background in financial reporting. Kathryn was appointed for a second three-year term during the 2017/18 financial year. The 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.

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 for 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. 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 corporate governance framework sets out clearly which matters are delegated and which are reserved to the Board, and incorporates the company's financial policies. The Board and Audit Committee review the framework regularly. It was reviewed during 2017 and updated in November 2017.

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 2017, confirming substantial assurance in all areas reviewed, covering: management of income, governance framework, members' and staff expenses, and bank reconciliations.

By order of the Board

Steve Freer
Chairman

18 July 2018

Annual Accounts

Financial statements

for the year ended 31 March 2018

Profit and loss account

		Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Turnover	4	54,523	65,220
Cost of sales	5	(51,624)	(63,051)
Gross Profit		2,899	2,169
Administrative expenses	6	(2,918)	(2,220)
Loss on ordinary activities before interest and taxation		(19)	(51)
Interest receivable and similar income		24	57
Profit on ordinary activities before taxation		5	6
Tax on profit on ordinary activities	8	(5)	(6)
Profit for the financial year		-	-

Statement of comprehensive income

		Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Profit for the year		-	-
Total comprehensive income for the year		-	-

Balance Sheet

		Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Current assets			
Debtors	9	1,742	2,441
Accrued income	10	158	113
Short term investments	11	5,280	5,944
Fixed term deposits	11		3,835
Cash at bank and in hand		10	10
		7,190	12,343
Creditors - amounts falling due within one year			
Trade and other payables	12	(262)	(518)
Deferred income	13	(1,731)	(7,964)
Provisions	14	(666)	-
		(2,658)	(8,482)
Net current assets		4,532	3,861
Creditors – amounts falling due after more than one year			
Deferred income	13	(4,532)	(3,861)
Net liabilities		-	-
Reserves			
Retained earnings		-	-
Total Reserves		-	-

The notes on pages 30 to 39 are an integral part of these financial statements.

The financial statements on pages 27 to 39 were authorised for issue by the Board of Directors on 18 July 2018 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 2016	-	-
Reserves for the period	-	-
Balance at 31 March 2017	-	-
Balance as at 1 April 2017	-	-
Reserves for the period	-	-
Balance as at 31 March 2018	-	-

Statement of cash flows

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Net cash from operating activities	15	(1,123)
Taxation paid	-	(7)
Net cash generated from operating activities	(5,187)	(1,130)
Cash flow from financing activities		
Interest received	24	57
Fixed maturity deposits	4,499	1,925
Net cash generated from financing activities	4,523	1,982
Net (decrease) / increase in cash at bank and in hand	(664)	852
Cash and cash equivalents at the beginning of the year	5,954	5,102
Cash and cash equivalents at the end of the year	5,290	5,954
Cash and cash equivalents consists of:		
Cash at bank and in hand	10	10
Short term deposits	5,280	5,944
Cash and cash equivalents	5,290	5,954

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 16 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).

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 was for audit year 2016/17, and is 2017/18 for local government and police bodies. The transitional arrangements will last until early 2019 and we will operate the appointing person regime for five 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. Consequently, 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 return specific funds, all potential surplus funds are shown as a liability in the form of deferred income, as PSAA has a constructive obligation to repay the funds. Once a decision is made by the Board to return specific funds, 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 2018/19, 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 2018 £'000	Year ended 31 March 2017 £'000
Audit fee income local government - principal bodies	42,260	44,431
Audit fee income local government - small bodies	2,424	2,096
Audit fee income National Health Service	9,819	18,673
Other income	20	20
	54,523	65,220

Analysis of turnover by category

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Audit services	54,503	65,200
Licenses for HBCount	20	20
	54,523	65,220

5. Cost of sales

Analysis of cost of sales by segment

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Bought in services local government - principal bodies	40,764	44,161
Bought in services local government - small bodies	1,863	1,624
Bought in services - National Health Service	8,997	17,266
	51,624	63,051

6. Administrative expenses

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Salaries and wages	1,496	778
Social security	98	91
Pension	69	67
Board members and non-Board members	54	51
Training	3	7
Consultants & Contractors Fees	137	85
Rent and rates	56	45
Bad Debt	0	4
Supplies & services	86	33
Travel & subsistence	15	17
Insurance	34	31
Legal and professional fees	94	170
Audit fees	15	4
Shared services	246	254
Subscriptions	515	583
Total administrative expenses	2,918	2,220

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 2018 £'000	Year ended 31 March 2017 £'000
Consultants & Contractors Fees	137	79
Supplies & services	2	3
Legal and professional fees	6	69
Total administrative expenses	145	151

7. Directors, independent member of audit committee and Employees

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

	<u>2018</u>	<u>2017</u>
Directors	5	4
Independent member of Audit Committee	1	1
Employees	11	11

The directors' emoluments were as follows:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Aggregate emoluments	52	51
Key management compensation	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Salaries and other short-term benefits	519	492

*Gross salary, pension and benefit in kind

8. Taxation

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Current tax		
UK Corporation tax on profits for the current period	5	6
Total tax charge	5	6
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	5	6
Expected tax charge based on a corporation tax rate of 19% (2016 – 20%) on Interest receivable and similar income	1	1
Non-trade loan relationship credits	5	11
Brought forward / Carried forward loss relief	(1)	(6)
Tax expense for the year	5	6

9. Debtors

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Local government	1,742	1,733
Health	-	708
Total debtors	1,742	2,441

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Trade Debtors	1,114	1,666
Prepayments	618	718
VAT Refund	10	57
Total debtors	1,742	2,441

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

No debtors were over 6 months old.

10. Accrued trade income

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Local government	130	68
Health	28	45
Total accrued trade income	158	113

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 2018 £'000	Year ended 31 March 2017 £'000
Amounts owed to group undertakings	25	2
Accrual for holiday entitlement not yet taken	33	31
Corporation tax payable	5	7
Other taxation and social security	28	29
Accruals	171	449
Total Trade and other payables	262	518

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Local Government	206	396
Health	56	122
Total Trade and other payables	262	518

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 relates to work in progress.

The majority of the £4.532m 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 2018 £'000	Year ended 31 March 2017 £'000
Local government	1,731	7,361
Health	-	603
Total deferred income	1,731	7,964

Deferred income - falling due after more than 1 year

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Local government	4,532	3,861
Health	-	-
Total deferred income	4,532	3,861

14. Provisions

The Board has approved the redundancy of six members of staff, which will take effect in the next financial year. The provision amounts have been calculated in accordance with the respective individual's contracted terms and conditions. Funding to meet redundancy costs was provided by MHCLG and the Audit Commission when PSAA was established and is accounted for in deferred income.

15. Cash flow

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Operating loss	(19)	(51)
Working capital movements		
Decrease / (Increase) in debtors	654	(303)
Increase in payables	(5,822)	(769)
Cash outflow from operating activities	(5,187)	(1,123)

16. Related party transactions

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

The IDeA and the LGA are treated as related parties in these accounts in the interest of transparency. During the year PSAA received services from the LGA, such as IT, HR Finance support and accommodation, the total value of these services was £187,075 (2017: £175,596). To date PSAA has paid a total of £162,169 in this financial year. £24,906 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.

17. Contingent liabilities

At the end of 31 March 2018 PSAA had no contingent liabilities.

18. 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:

	2018	2017
	£'000	£'000
Within one year	20	86

Auditor's report

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

Opinion

We have audited the financial statements of Public Sector Audit Appointments Limited (the 'company') for the year ended 31 March 2018 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Use of our report

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

Conclusions relating to going concern

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

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

Key audit matters

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

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

- *Management override of controls*
Management override of controls is deemed to be a significant risk in accordance with ISAs (UK) and presents the risk that management or those charged with governance could override the internal controls of the company in preparing the financial statements resulting in a material misstatement.
- *Revenue recognition*
Given the nature of the company's activities and its revenue streams, there is a risk over 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 £172,000. 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 £129,000.

An overview of the scope of our audit

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

Management override of controls

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

Revenue recognition

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

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

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

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

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

Subarna Banerjee (Senior Statutory Auditor)

For and on behalf of UHY Hacker Young

Chartered Accountants

Statutory Auditor

18 July 2018