

Public Sector Audit Appointments

**Annual report and
accounts 2019/20**

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Annual Report

Overview of the year

This financial year saw PSAA move forward fully into its appointing person role. Our new responsibilities as the 'appointing person' for principal local government, fire and police bodies, under the provisions of the Local Audit and Accountability Act 2014, began officially from 1 April 2018. The company provides a national auditor appointment scheme for our 486 opted-in bodies (98% of eligible bodies). This year saw delivery of the first audits undertaken under the new regime in respect of the 2018/19 financial year.

Whilst the new local audit model has been successfully implemented, continuing pressures and new challenges still need to be addressed to future-proof and maximise the effectiveness of the new arrangements. The 2019/20 financial year has been both challenging and turbulent for all parties involved in the local audit market, including PSAA. Following a number of high-profile corporate failures in the private sector, the role and performance of auditors is under intense scrutiny. Three separate reviews were commissioned by Government and recommendations from the Kingman, Competition & Markets Authority and Brydon reviews are already in the public domain. A further review by Sir Tony Redmond has been commissioned to look specifically at financial reporting and audit in local government. The recommendations arising from the first three reviews primarily focus on the audit of large commercial entities. However, any resulting changes in audit regulation, auditing standards, audit firms or audit services will almost inevitably impact local public audit. Whilst the long term implications arising from these reviews are not yet clear, there has been an immediate impact with significantly greater regulatory pressure on audit firms to deliver higher quality audits which demonstrate much greater professional scepticism.

We are monitoring the situation carefully and working hard to understand the potential implications for opted-in bodies, audit suppliers and PSAA itself. It is critically important that the market remains competitive and sustainable for the long term. Much of our work during the year, including commissioning independent research and working collaboratively with other stakeholders and the Redmond Review, has been directed towards this objective.

Disappointingly the number of delayed audit opinions in local government rose sharply for 2018/19. More than 40% (210 out of 486) of audit opinions were not available by the target date of 31 July 2019. The comparable position in relation to the 2017/18 accounts was 13%. Increased regulatory pressure, including the need to demonstrate scepticism at every step of the audit process, requires auditors to do more and different testing before a confident, safe opinion can be issued. This adds to the already significant challenges for both audited bodies and auditors of meeting the demands of the early accounts closure timetable which is characterised by a very tight window for the preparation and audit of increasingly complex and lengthy financial statements.

This increase in delayed opinions is a significant concern and we recognise the inconvenience and disruption it causes. We have been working closely with our audit suppliers to ensure that they have appropriate plans in place to address the backlog of outstanding opinions as quickly as possible, commensurate with meeting all of their obligations in relation to audit quality. The COVID-19 pandemic has added a further layer of difficulty to these challenges and will inevitably impact the speed with which some delayed 2018/19 audits can be completed. It will also inevitably have implications for the conduct of 2019/20 audits as local authority resources are reduced through enforced absence or prioritised to support delivery of frontline services. In the mean-time audit firms are grappling with audit-related issues arising from the crisis such as valuations in unprecedented market conditions, reviews of post balance sheet events and the logistical and practical challenges of scheduling and gaining access to organisations.

Helpfully, in recognition of these unprecedented challenges, MHCLG has adjusted the target date for publication of 2019/20 audited accounts to 30 November 2020. This revised timetable will hopefully help to ease some of the pressures and audits have now been rescheduled accordingly.

We have worked hard to understand the priorities and preferences of opted-in bodies and have tried to place significant engagement and consultation with authorities, their representative organisations and other stakeholders at the heart of our work. We see our Advisory Panel, whose members are drawn from a variety of Treasures societies and groups, and our Local Audit Quality Forum, targeted at audit committee chairs and directors of finance, as particularly important channels for the exchange of information and views. Additionally, this year we have introduced a very detailed audit quality survey to help gather extensive feedback and insights from directors of finance and audit committee chairs. We have also worked with the LGA and CIPFA to develop a leaderships essentials training event for audit committee chairs. Pilot events have been delivered and there are now plans to roll out the training as part of the LGA's overall leadership essentials programme.

Ensuring audit quality is a recurring theme throughout our work. This year, coinciding with the first audits under our Appointing Person mandate, we have introduced a new framework for monitoring and publicly reporting on the performance and quality delivered by each of our audit suppliers. The final inputs to the framework – the results of regulatory inspections of a sample of audits – are expected to become available during the Summer, at which point we will be able to publish a rounded, well informed view of performance and quality for each supplier and across the system as a whole. Importantly, the results will provide a helpful basis from which to discuss areas for priority improvements with each supplier.

Throughout the year we have maintained a strong focus on planning for the future including striving to strengthen the resilience and sustainability of local audit arrangements. We welcome the fact that the terms of reference of Sir Tony Redmond's Review also address these challenges and we have sought to work closely with Sir Tony and his team and to support their efforts.

Our work has been informed by the 'lessons learned' review undertaken for PSAA by Cardiff Business School (CBS) and reported in last year's annual report. Where appropriate, it is also tailored to reflect the continuously evolving dynamics of the audit profession and the sector. Touchstone Renard, an independent consultancy, have completed a particularly important project exploring the sustainability of the local audit market. This included capturing the views of actual and potential audit providers concerning the attractiveness of the market relative to auditing in other sectors of the economy and the possible features of a future procurement which would influence decision making about future participation in the market. The report highlights that sustainability of audit supply is likely to be a major challenge. It has been shared widely because this is an area where we need to work with key stakeholders to address issues which are not within PSAA's singular control. It will also inform our future work around developing our procurement strategy.

Linked to our work on market sustainability, we are also undertaking a review of scale fees focusing on gathering and analysing data on audit risks and costs. We hope to build a database which will inform our future work and annual consultations on setting the audit fees scale.

The setting of the fee scale for audits of 2020/21 financial statements has been complicated by the current huge pressures on the audit profession. It has been particularly challenging due to a number of factors, reflecting the introduction of tougher regulatory tests by the Financial Reporting Council, revised auditing and accounting standards, and a new Code of Audit Practice by the National Audit Office. Against this unprecedented backcloth creating a high level of uncertainty, we are conscious of the lack of sufficient reliable information about the extent to which each of these variables will impact different local bodies. Despite all the uncertainty, we must honour the statutory requirement to set the 2020/21 scale of fees before the start of the financial year, and well ahead of completion of audit work on 2019/20. This has led us to maintain the scale for 2020/21 at the same level set for 2019/20 audits. In doing so, however, we have acknowledged that with so much turbulence and change in the environment, auditors will need to engage early on with audited bodies to discuss the impact of these variables on the audit fees for individual bodies. We recognise that additional fee variations are likely to arise for most if not all bodies.

During the year we have also reported on the outcomes of objections work and statements of reasons issued since the establishment of PSAA in April 2015. The outcome of the 109 objections raised during this period showed that one resulted in a public interest report, and that auditors made recommendations in 42 other cases. There were no applications to the courts for a declaration of unlawful expenditure. In the remaining 66 cases auditors took no action, although in 20 cases the auditor reported that the authority had taken steps to address the issues raised. The analysis also included details of auditor costs and time taken to conduct investigation work. This report has also been included in the PSAA response to Sir Tony Redmond and his team and shared with other key stakeholders.

Finally, in accordance with PSAA's non-for-profit philosophy, we distributed a total of £3.5m to local bodies in the final quarter of 2019/20. Looking ahead, we plan to continue this practice of periodically returning elements of surplus income to audited bodies in proportion to scale audit fees.

Steve Freer, Chairman



Tony Crawley, Chief Executive



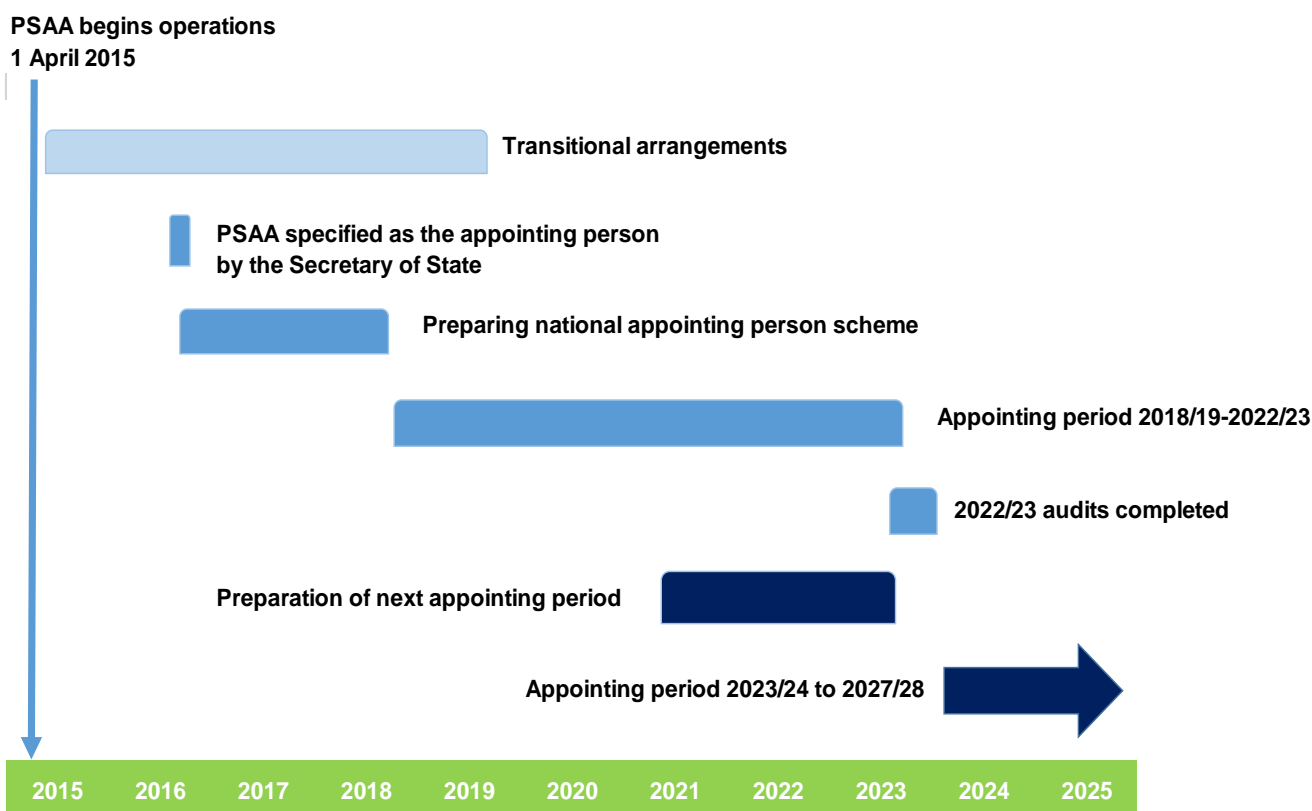
About PSAA

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

PSAA was incorporated in August 2014 and began operations on 1 April 2015, when the then Secretary of State for Communities and Local Government delegated to the company on a transitional basis a number of statutory functions relating to local audit, following the closure of the Audit Commission. Under this delegation, PSAA was 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. Most of these transitional responsibilities came to an end in early 2019.

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

Timeline



Strategic report

The directors present their strategic report for the year ended 31 March 2020.

1. Objectives and operating environment

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

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

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

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

- *the likely consequences of any decision in the long term;*
- *the interests of the company's employees;*
- *the need to foster the company's business relationships with suppliers, customers and others;*
- *the impact of the company's operations on the community and the environment;* and
- *the desirability of the company maintaining a reputation for high standards of business conduct.'*

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

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

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

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

The Sir Tony Redmond review, commissioned by the Government, is expected to make recommendations for the improvement and strengthening of the local audit system. It is therefore of great interest to PSAA. The company has endeavored to assist and support the review and provided information, evidence and explanations to the review team throughout its work. Reports derived from research projects have also been shared.

Our 5 year Medium Term Financial Plan (MTFP) reflects a healthy financial position. PSAA operates on a not-for-profit basis. From time to time the Board approves the distribution of surplus funds to audited bodies after ensuring PSAA has sufficient funds to pay for its operating expenses and manage its cash flow. A distribution of £3.5m in respect of the transitional period was made in December 2019. The transitional arrangements (2015-2018) and current appointing person arrangements are accounted for separately in the MTFP. The Board reviews the company's financial position at every Board meeting, including the most up-to-date forecast. We approve our annual accounts following detailed scrutiny by and a recommendation to do so from the audit committee. Our treasury management policy is also reviewed annually by the audit committee which makes recommendations to the Board as appropriate.

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

All decisions are taken with due regard to the company's purpose and objectives (as set out in the Articles of Association and other relevant documents), the effective and efficient use of public funds and the need to ensure delivery of high quality and cost-effective audit services.

(b) The interests of the company's employees

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

We completed a significant staff restructuring exercise in 2018/19, to align the number and skills of staff with our business needs in the context of the company's new responsibilities as an appointing person. The restructuring reduced the number of staff to six, establishing a team which has the right skills and experience for the company's new role, and contributing to savings of £370,000 per annum (39%) in our cost base. The Board monitors the organisational work streams and capacity via regular updates from the Chief Executive. Given the challenges faced by the company and the local audit system more widely during the year, which has generated a significant amount of additional work, the Board has recognised the need to enhance the existing structure with additional resource and skills. This has been achieved through three fixed term contracts. This provides a flexible model which can be reviewed in light of skills and capacity requirements as circumstances change. We will continue to monitor the pay and benefits package with reference to market rates and company requirements.

We are committed to developing our staff and enabling them to realise their potential. During 2019/20 the focus has been on bedding in the new structure and developing the team in their new roles. To this end, all staff attended an away day aimed at developing team working and setting out the vision for the company as it evolved into an 'appointing person'. Personal Development Plans are being put in place to support individual staff needs as appropriate. Employees have access to the LGA e-learning platform in order to receive regular training on a variety of topics including annual mandatory refreshed training on IT security and information governance.

During the year, PSAA's suite of HR policies were reviewed to ensure that they were appropriate for a small organisation and suitable for the culture of the company going forward. All staff were consulted on the changes as part of the development process.

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

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

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

The long-term success of PSAA is therefore critically dependent on the way we work with our customers, suppliers and other stakeholders.

Our customers

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

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

- We have established an Advisory Panel, whose members represent the different types of opted-in bodies. This forum provides helpful feedback and insights into all aspects of our policy making and has enabled PSAA to consult stakeholders and adopt approaches which work for opted-in bodies.
- We ensure that all stakeholders have sufficient time to respond to our consultations, for example, in relation to fees and appointments. Additionally, relevant bodies are consulted in relation to any changes to our new auditor appointments in accordance with PSAA's governance framework.
- We have established the Local Audit Quality Forum (LAQF) to support the role of audit committees of opted-in bodies in relation to audit quality. Our commitment to audit quality for opted-in bodies features strongly in our monitoring work. We believe that the forum provides a meeting place in which all of the parties that have a responsibility for audit quality can share experiences and good practice. In particular we aim to help local audit committees to play their critical and demanding roles effectively. We hope that audit committee chairs and chief finance officers will be regular attendees and active participants in LAQF events.
- With the LGA and CIPFA we have developed a leaderships essentials training course specifically tailored to meet the needs of audit committee chairs.
- Annually we survey customers as part of our monitoring arrangements in respect of the quality of the services they are receiving. The first survey was conducted in December 2019 and reported in May 2020. The key messages from the survey have been discussed with the audit firms.
- We have attended and presented at a number of local finance, audit and networking group events.
- We will continue to work on enhancing our communications with customers through development of a stakeholder communications strategy as we consider this to be a prerequisite for our continued success.

Our suppliers

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

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

possible and to mitigate against a repetition of such problems in subsequent years. However, it is recognised that there are no quick and easy solutions to the issue of scarce auditor resource and implementing any long-term solutions will require all stakeholders to work collaboratively together.

During the year, the Chair and the Chief Executive met regularly with audit suppliers both individually and as a group. This facilitates discussion of issues of common concern, and specifically these meetings have been used as a forum for discussion of the audit resource issue.

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

PSAA staff have ongoing communication with firms and audited bodies to agree fee variations. Latest fee variation information is included in the quarterly quality reports that are published on PSAA's website.

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

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

Other key suppliers of services to the company are: the Local Government Association which provide us with our back office services and accommodation; and CIPFA which provide technical reports and publications. PSAA staff meet regularly with these suppliers to ensure positive relationships and early resolution of any concerns.

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

Other stakeholders

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

Our other main stakeholders include MHCLG, the NAO, the FRC, ICAEW, and CIPFA. The Chair and the Chief Executive and/or officers attend meetings with the stakeholders as appropriate, with updates in the Chief Executive's regular reports to the Board.

We also engage with sector wide initiatives and contribute views and information for Government commissioned reviews and studies. We have contributed to reviews led by Sir John Kingman and the Competition and Markets Authority. During 2019 we have provided information to Sir Tony Redmond and his team for his review of financial reporting and audit in local government as well as responding in detail to his call for evidence. The NAO consulted on their revised Code of Audit Practice for local audit and we responded to both stages of the consultation with a view to securing positive outcomes for audited bodies and users of accounts. In summer/autumn 2020, we will be responding to the NAO's supporting Auditor Guidance Notes which will provide more detail on the auditor's responsibilities under the new Code.

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

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

The LGA provides a range of support services to the company, including provision of serviced accommodation, HR, ICT and payroll support. As well as operating efficiencies and economies of scale, this arrangement enables PSAA to subscribe to and participate in a range of LGA policies and initiatives. These include flexible/home working, an office recycling scheme, and use of energy efficient office equipment.

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

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

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

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

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

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

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

Board recruitment

Our Chairman is appointed by the IDeA and other non-executive Directors are appointed by the Chairman. The composition of the Board is intended to bring together a range of skills and experience relevant to the governance of the company and its distinctive role and sphere of business. The Board also considers Board succession planning and the leadership needs of PSAA.

Our staff

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

Our stakeholders

We aim to be as transparent as possible about our business, finances, statutory responsibilities and governance including making information available in accordance with the Local Government Transparency Code. From April 2019 PSAA has been subject to the requirements of the Freedom of Information Act. We have developed a policy and staff procedures to ensure that we are compliant with such requirements. PSAA's publication scheme is on our website and provides detailed information about the company and its functions.

Corporate Governance framework

PSAA has established a robust corporate governance framework which is regularly reviewed. Further details are included in Section 3 of the Strategic Report on Risk Management and within the Governance Report on pages 31 to 32.

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

2. Business review

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

Auditor appointments

Appointments have been made for the five years of the appointing period, covering audits of the accounts of opted-in bodies for 2018/19 to 2022/23. Auditor appointments began with effect from 1 April 2018. In order to be eligible for our contracts, firms had to be approved by a relevant recognised supervisory body and five approved suppliers were contracted to provide audit services to opted-in bodies.

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

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

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

2018/19 audits

This year saw delivery of the first audits under the new contract, relating to the 2018/19 financial year. Regrettably, one of the features of the year has been the high number of cases of delayed audit opinions such that at the end of March 2020 there remained nearly 61 opinions still outstanding. The background to these difficulties is outlined in the Overview of the Year at the beginning of this Annual Report.

We have tried to address two of the main concerns bodies have raised about their 2018/19 experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the target date for publication of audited accounts, they want to know that is the case at the earliest opportunity. Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, again bodies want early information and explanation.

PSAA has worked with auditors to address both of these issues in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.

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. PSAA is legally required by regulations to set a scale of fees before the start of the financial year to which the fees relate and cannot amend the scale after the start of the relevant financial year. In practical terms, the fee scale must therefore be set more than a year before the relevant audit work is actually started, and before audit work is undertaken under the previous year's scale fee. This means that for 2020/21 we were required to set the scale fee without complete data for 2018/19 or any data for 2019/20 audits. Additionally, 2020/21 is expected to see the introduction of a series of new developments including revised auditing and accounting standards as well as a new Code of Audit Practice. The impact of these changes is likely to vary between bodies, depending on local circumstances.

We consulted in January and February 2020 on the proposed fee scale for 2020/21. In the absence of any data on the impact of current audit issues on 2019/20 fees, our consultation proposal was to set the fee scale at the same level as 2019/20. In doing so, however, we expect that local auditors will need to engage with individual bodies to discuss the impact of general regulatory pressures and the new developments outlined above on audit fees for 2020/21 and utilise the existing fee variation process, which is subject to our vetting procedures, to reflect the appropriate fee. We recognise that this is likely to lead to additional fees for most if not all bodies.

When we have sufficient information on fee variations, we will be able to establish the extent of additional fees required at each authority where more audit work is needed than is currently provided for in the scale fee.

We welcome all the feedback received to our consultation and thank those who responded. We have published a 'Q&A' on our website, setting out the main points from the consultation responses in more detail and providing answers to the particular issues raised. We will update the Q&A periodically to take account of ongoing developments affecting scale fees.

The nature of the challenges facing the local audit environment are such that they do not lend themselves to immediate or easy solutions. Nevertheless, PSAA is committed to work closely with stakeholders to develop solutions and help to build a more resilient sustainable system.

Audit quality

PSAA is also committed to ensuring that its contracted firms provide good quality audits for opted-in bodies. We have developed new arrangements for monitoring audit quality and contract compliance during the five-year appointing period.

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

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

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

While responsibility for providing a quality audit rests ultimately with the auditor, audit quality, efficiency and effectiveness are shared responsibilities. The IAASB framework notes that all parts of the financial reporting supply chain (including audit firms, regulators, standard setters and audit committees) have a role in contributing to and encouraging an audit environment that supports high quality audits. There is a complex interplay of many factors. We have taken the attributes that the IAASB Framework expects to be present within a quality audit and distilled them into three key tests:

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

The results from the professional regulatory reviews undertaken by the Financial Reporting Council and Institute of Chartered Accountants in England and Wales are not yet available.

We have reported elsewhere on our disappointment that in 208 cases auditors were not able to give an opinion by 31 July 2019 and particularly in those cases where this was caused by insufficient auditor resources. We recognise that audit opinions will also be delayed until such time as the auditor judges they have sufficient assurance to give their opinion.

To coincide with the first audits under the Appointing Person arrangements, we commissioned the LGA Research Team to conduct a survey to obtain audited bodies' feedback on their audits of 2018/19 accounts. We introduced a new approach incorporating a number of important changes. These changes included a wider scope, confidentiality of responses and independence. The survey arrangements are an important strand of the new Quality Monitoring and Reporting Framework. We have published the results on our website. The survey responses have provided us with the opportunity to identify good practice and discuss specific areas for improvement with individual audit firms.

End of the transitional arrangements

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

The final elements of this work related to the 2017/18 audits of local government bodies. As at March 2020 some of this work is still on-going with 7 audit opinions still outstanding and 34 objections still being investigated. There are also 2 small authority bodies where opinions have not been issued.

During 2019/20 there was a distribution of surplus income, totalling £3.5 million, to relevant audited bodies.

3. Risk management

Risk management arrangements

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

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

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

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

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

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

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

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

Current risks

During the year the Board attended a risk management workshop which considered potential risks to the company as it commenced its appointing person responsibilities, moving away from the regulatory role that existed under the transitional arrangements. The exercise resulted in a fully revised and updated corporate risk register designed to identify emerging risks and to ensure that the company's risk management approach (strategic and corporate risk register) remains fit for purpose.

The significant risks facing PSAA in achieving its business objectives are that:

- Audit firms' risk/reward assessments of the local audit opportunities conclude that the market is insufficiently attractive leading to a reduction in the number of active suppliers and posing a threat to the competitiveness of the market.
- An audit supplier does not meet PSAA's contractual requirements in terms of delivery and/or quality.
- PSAA's scheme and the local audit framework is impacted by Government reviews of the wider audit profession and local audit framework.
- In March 2020 the COVID-19 pandemic meant that social distancing came into effect. This has had a significant impact not only for PSAA but also for our opted in bodies and audit firms. An immediate impact concerns the ability to perform audits and provide audit opinions. This and other repercussions are likely to remain as persistent challenges during 2020/21.

These risks have the potential to impair PSAA's ability to deliver its functions efficiently and effectively. The audit committee and the Board are sighted in relation to these risks and regularly monitor the arrangements in place to manage them, although recognising that there are significant market factors which are outside of PSAA's direct control. Where this is the case PSAA actively seeks to work with other stakeholders to influence a sector wide response to the management of risk.

Future risks

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

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

PSAA is seeking to raise the profile of these issues with other stakeholders in the local audit system, and with the review led by Sir Tony Redmond, and is commissioning research and other work to explore options to address these important challenges.

4. Financial review

Being financially responsible

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

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

The company's internal auditors, TIAA Limited, have reported substantial assurance on all areas reviewed, covering: income flows, the distribution process and a governance review.

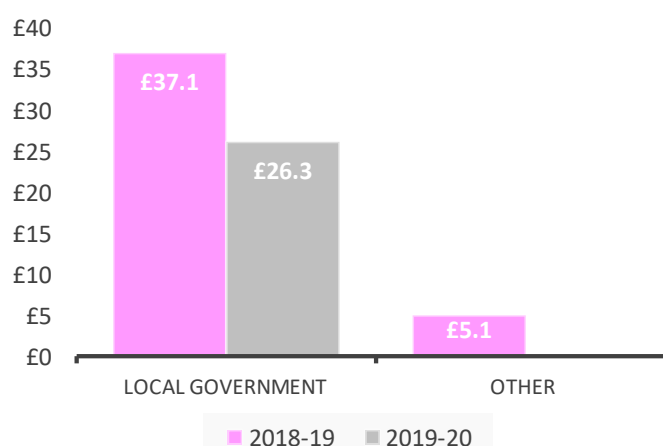
Turnover and profit on ordinary activities

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 2020 as revenue is matched to expenditure and any monies not required to cover costs are returned to audited bodies.

Revenue, including investment income, **Revenue by sector - £m**

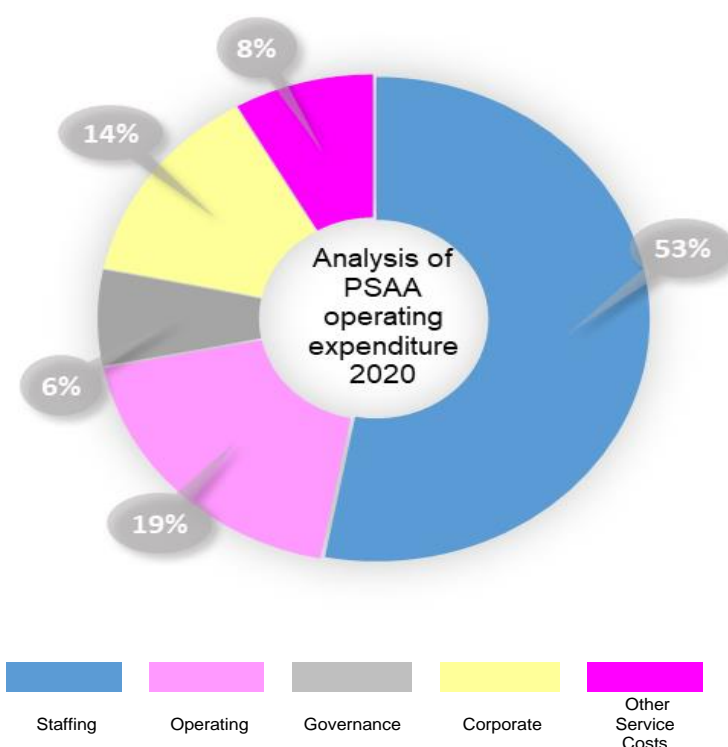
for the 12 months to 31 March 2020 was £26.304 million (2018/19 £42.214 million) which covered the costs including corporation tax incurred by PSAA for the period 1 April 2019 to 31 March 2020 of £26.304 million (2018/19 £42.214 million). The reduction in revenue and associated costs is mainly because of the reduction of the scale fees for audit year 2018/19 by 23% and the completion of our responsibilities for grant certification.



Controlling costs

PSAA incurred total costs of £26.304 million, of which the cost of the audit contracts for the period was £25.217 million, 95.9% of total costs (2018/19: £40.612 million which represented 96.2%).

The chart shows the split of PSAA incurred operating expenses of £1.077 million in 2019/20. This represents 4.1% of total costs (2018/19: £1.595 million which represented 3.8% of total costs) and taxation of £0.010 million (2018/19: £0.007 million).



Financial position

PSAA's total assets equal total liabilities at the end of 31 March 2020 (31 March 2019: 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 31 March 2020 the surplus funds remaining were £5.025 million (see note 13 on pages 43 to 44). During 2019 a distribution of the surplus funds under the transitional arrangement of £3.5m was approved by the Board of which £3.3m was paid by 31 March 2020. The remaining amount of £0.2m will be paid in 2020/21.

Future developments

The financial year 2020/21 will be a significant one for local audit and PSAA in that:

- Government is likely to make decisions concerning the implementation of some of the recommendations of the reviews of the audit sector (Kingman, Brydon and the Competitions and Market Authority). We will monitor any developments for their potential impact on local audit, the company, opted-in bodies and contracted audit suppliers.
- Similarly, Government is likely to make decisions in relation to recommendations arising from Sir Tony Redmond's Review and we will again monitor developments

in their impact on local audit, the company, opted-in bodies and contracted audit suppliers.

- The revised Code of Audit Practice has passed through Parliament and will be applicable for accounting periods from 2020/21 going forward. The NAO will be consulting on the Auditor Guidance Notes which will set out the auditor's responsibilities in relation to the new Code of Audit Practice. We will respond to the consultation and consider the impact on the associated fee scale for the remaining three years of the appointing period.
- We will monitor the repercussions of the COVID-19 pandemic on the delivery of audits and signing of audit opinions within the revised timetable set by MHCLG.

By order of the Board



Steve Freer
Chairman

20 July 2020

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2020.

Directors

For the year from 1 April 2019 the PSAA Board's composition was as set out in the table below:

Board members	Position	Period of office
Steve Freer	Chairman	Member since 1 October 2014
Caroline Gardner	Non-executive director	Member since 1 December 2014
Clive Grace	Non-executive director	Member since 1 December 2014
Stephen Sellers	Non-executive director	Member since 1 December 2014
Keith House	Non-executive director	Member since 1 December 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 also invited at each Board meeting. A register of members' interests is maintained and is available on the [PSAA website](#).

Statement of directors' responsibilities

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

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

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

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

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

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

Future developments

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

Going concern

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

COVID-19 – As part of PSAA's going concern assessment we considered potential uncertainties that may exist in our future cashflow because local authorities' finances are expected to be under significant pressure over the next 12 months due to the loss of income and additional spend in response to COVID-19. We are of the view that our short-term investments are adequate to cover any impact on our own cash flow over this period.

A number of local authorities have also referred publicly to the possibility of issuing section 114 notices. The Section 151 officer must make a report to the authority "if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure." The effect of such a notice is to prevent the authority from entering into "any new agreement which may involve the incurring of expenditure (at any time) by the authority" until the authority have considered the report and decided what action to take. Audit fees are a statutory debt payable under the Local Audit (Appointing Person) Regulations 2015 and are not affected by this temporary prohibition.

The directors have considered the potential risks and uncertainties arising from the United Kingdom's exit from the European Union in January 2020, 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

We have considered the ongoing impact of COVID-19. Whilst we have included a statement on this unprecedented world-wide event, we note that this has no material impact on the accounting period ending 31 March 2020. At present we are unable to

assess the value or financial impact of this event. Analysis and scenario planning for the potential risks to future financial plans and cashflow will be developed and considered.

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

Disclosure of information to auditors

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

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

Independent auditors

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

By order of the Board



Steve Freer
Chairman

20 July 2020

Remuneration report

Chief Executive and other senior appointments

During the 2019/20 financial year we recruited a Project Manager to manage the project on scale fees and a Senior Manager Business and Procurement who is predominately responsible for managing PSAA's work on procurement strategy. Both posts are fixed term contracts.

Remuneration policy for the Chief Executive and senior staff

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

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

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

Remuneration over £50,000

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

Band £k	Number of employees 2020	Number of employees 2019
55 - 60		1
65 - 70	1	
70 - 75	1	
75 - 80		*1
80 - 85		**1
90 - 95	1	
100 - 105	1	***3
110 - 115		**1
120 - 125	1	
140 - 145		*1
170 - 175		*1
185 - 190		*1
210 - 215		*1

* Includes employees who received contractual redundancy payments.

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

*** Includes two employees who received contractual redundancy payments one employee who received a payment to 'buy-out' previous contractual entitlement to a London travel card as described above.

Senior management remuneration

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

Description	2020	2019
Chief Officer		*£142,973
Chief Executive	£123,344	**£55,372
Chief Finance Officer	£103,371	***£113,926
2 Other Senior Managers (3 Senior Managers in 2019)	****£6,496 to £92,174	***£103,949 to *£214,580

* Includes a contractual redundancy payment.

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

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

**** Recruited during March 2020.

Pay multiple

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

Description	2020 £	2019 (including redundancy pay) £
Band of highest paid - total remuneration	110k - 115k	*205k - 210k
Median - total remuneration	62	101
Ratio	1.8	2.1

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

Remuneration policy for Directors

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

None of the Directors serving between 1 April 2019 and 31 March 2020 received other benefits from PSAA, nor were they members of the pension scheme.

Director	2020 £000	2019 £000
Stephen Freer	30	30
Clive Grace	8	8
Stephen Sellers	8	8
Keith House	8	8
Caroline Gardner ⁽¹⁾	0	0

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

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

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

Governance report

Principles of governance

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

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

Governance structure

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

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

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

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

The PSAA Board

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

The Chairman of the Board is a non-executive director, appointed by the IDeA in February 2015 and re-appointed in September 2017 for a further three years. Three of the remaining four non-executive directors were appointed by the Chairman, with the approval of the IDeA, in December 2014 and re-appointed in September 2017 for a further three years. A fifth director was appointed in December 2017 for a period of three years.

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

Board members attended the following meetings during 2019/20:

Board members	Position	Board meetings
Steve Freer	Chairman	6/6
Caroline Gardner	Non-executive director	6/6
Clive Grace	Non-executive director	6/6
Stephen Sellers	Non-executive director	6/6
Keith House	Non-executive director	6/6

Audit committee

The audit committee is chaired by Caroline Gardner, a non-executive director of PSAA. Membership of the audit committee comprised of Stephen Sellers, Keith House, and an independent member, Kathryn Cearn, who has a professional background in financial reporting. Kathryn was appointed for a second three-year term during the 2017/18 financial year however due to other work commitments she will be leaving at the end of July 2020. We are currently in the process of recruiting an independent member to succeed her.

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

Chief Executive

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

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

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

Corporate governance framework

PSAA's corporate governance framework is published on the company's website. The corporate governance framework sets out clearly which matters are delegated and which

are reserved to the Board, and incorporates the company's financial policies. The Board and audit committee review the framework regularly. It was reviewed during 2019 and updated in December 2019.

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

PSAA's internal auditors, TIAA Limited, presented their annual report in October 2019, confirming substantial assurance in all areas reviewed, covering: income flows, the distribution process and a governance review.

By order of the Board



Steve Freer

Chairman

20 July 2020

Annual Accounts

Financial statements

for the year ended 31 March 2020

Profit and loss account

		Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Turnover	4	26,252	42,179
Cost of sales	5	(25,217)	(40,612)
Gross Profit		1,035	1,567
Administrative expenses	6	(1,077)	(1,595)
Loss on ordinary activities before interest and taxation		(43)	(28)
Interest receivable and similar income		53	35
Profit on ordinary activities before taxation		10	7
Tax on profit on ordinary activities	8	(10)	(7)
Profit for the financial year		-	-

Statement of comprehensive income

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Profit for the year	-	-
Total comprehensive income for the year	-	-

Balance Sheet

		Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Current assets			
Debtors	9	1,212	1,107
Accrued income	10	550	230
Short term investments	11	4,232	4,931
Fixed term deposits	11	1,500	1,636
Cash at bank and in hand		10	10
		7,504	7,914
Creditors - amounts falling due within one year			
Trade and other payables	12	(586)	(543)
Deferred income	13	(1,892)	(4,729)
		(2,479)	(5,271)
Net current assets		5,025	2,643
Creditors – amounts falling due after more than one year			
Deferred income	13	(5,025)	(2,643)
Net liabilities		-	-
Reserves			
Retained earnings		-	-
Total Reserves		-	-

The notes on pages 37 to 45 are an integral part of these financial statements.

The financial statements on pages 34 to 45 were authorised for issue by the Board of Directors on 20 July 2020 and were signed on its behalf.



Steve Freer
Chairman

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

Statement of changes in reserves

	Retained Earnings £'000	Retained Earnings £'000
Balance as at 1 April 2018	-	-
Result for the year	-	-
Balance at 31 March 2019	-	-
Balance as at 1 April 2019	-	-
Result for the year	-	-
Balance as at 31 March 2020	-	-

Statement of cash flows

		Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Net cash outflow from operating activities	15	(880)	1,257
Taxation paid		(7)	(5)
Net cash generated (used in)/from operating activities		(887)	1,252
Cash flow from financing activities			
Interest received		53	35
Fixed maturity deposits		136	(1,636)
Net cash reduction from financing activities		189	(1,601)
Net decrease in cash at bank and in hand		(699)	(349)
Cash and cash equivalents at the beginning of the year		4,941	5,290
Cash and cash equivalents at the end of the year		4,242	4,941
Cash and cash equivalents consists of:			
Cash at bank and in hand		10	10
Short term deposits		4,232	4,931
Cash and cash equivalents		4,242	4,941

Notes to the financial statements

1. General Information

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

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

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

2. Statement of compliance

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

3. Summary of significant accounting policies

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

a) Basis of preparation

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

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

b) Public benefit entity

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

c) Going concern

The financial statements have been prepared on the going concern basis. Our disclosure following our assessment of going concern is included within the Directors' report on page 25. We are operating under the appointing person regime for the five years from 1 April 2018.

d) Revenue recognition and the treatment of surplus funds

Revenue and associated costs are recognised, excluding VAT, in the accounting period in which the services are rendered, when the outcome of contracts can be estimated reliably.

The company uses the percentage of completion method based on the actual service performed as a percentage of the total services to be provided.

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

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

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

e) Corporation tax and deferred tax

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

f) Provisions

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

g) Employee benefits

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

i) Short term benefits

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

ii) Defined contribution pension plan

PSAA operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a

separate entity. Once the contributions have been paid, PSAA has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown as accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

h) Financial instruments

Financial instruments are shown as follows:

- i) trade and other receivables at their nominal amount;
- ii) deferred income at nominal amount. Amounts falling due after more than one year mainly represent potential surplus fees to be repaid to audited bodies at a future date. The potential surplus fees will be repaid in accordance with a formula which will be agreed by the Board, 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 deposited in accordance with the PSAA's investment strategy. These are stated at their nominal value, which approximates to fair value because of their short maturity period of the assets.

i) Contingent Liabilities

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

4. Turnover

Analysis of turnover by segment

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Audit fee income local government - principal bodies	26,252	42,116
Audit fee income local government - small bodies	-	22
Audit fee income National Health Service	-	21
Other income	-	20
	26,252	42,179

Analysis of turnover by category

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Audit services	26,252	42,159
Licenses for HBCount	-	20
	26,252	42,179

5. Cost of sales

Analysis of cost of sales by segment

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Bought in services local government - principal bodies	25,217	40,578
Bought in services local government - small bodies	-	17
Bought in services - National Health Service	-	17
	25,217	40,612

6. Administrative expenses

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Salaries and wages	520	658
Social security	65	86
Pension	47	57
Board members and non-Board members	56	56
Training	17	7
Consultants & Contractors Fees	-	30
Rent and rates	40	51
Bad Debt	-	5
Supplies & services	45	49
Travel & subsistence	13	21
Insurance	16	34
Legal and professional fees	119	99
Audit fees	13	13
Shared services	76	76
Subscriptions	50	353
Total administrative expenses	1,077	1,595

7. Directors, independent member of audit committee and Employees

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

	2020	2019
Directors	5	5
Independent member of Audit Committee	1	1
Employees	7	8

The directors' emoluments were as follows:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Aggregate emoluments	56	56

Key management compensation

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Salaries and other short-term benefits	325	816*

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

8. Taxation

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Current tax		
UK Corporation tax on profits for the current period	10	7
Total tax charge	10	7
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	10	7
Expected tax charge based on a corporation tax rate of 19% (2019 – 19%) on Interest receivable and similar income	2	1
Non-trade loan relationship credits	10	7
Brought forward / Carried forward loss relief	(2)	(1)
Tax expense for the year	10	7

9. Debtors

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Local government	1,212	1,107
Total debtors	1,212	1,107

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Trade Debtors	1,167	1,094
Other debtors	-	4
Prepayments	45	10
Total debtors	1,212	1,107

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

10. Accrued trade income

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Local government	550	230
Total accrued trade income	550	230

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

11. Current asset investments

Surplus cash balances are lent to financial institutions on the brokers approved counterparty list. 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 PSAA's Investment Strategy agreed by the PSAA Board. PSAA's Investment Strategy strictly applies credit limits for all financial institutions on the approved counterparty list to ensure that investments are diversified. No credit limits were exceeded during the year and PSAA does not expect any losses on short term investments.

12. Trade and other payables

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Amounts owed to group undertakings	21	3
Accrual for holiday entitlement not yet taken	22	10
Corporation tax payable	10	7
Other taxation and social security	168	129
Accruals	365	394
Total Trade and other payables	586	543

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.

£1.672m of the £1,892m deferred income due within 1 year relates to invoices raised in advance for work the firms have yet to deliver (work in progress) under the Appointing Persons regime. The balance of £0.22m is the remaining amount payable to local authorities under the transitional arrangements following the Boards decision in December 2019 to distribute surplus funds of £3.5m. £3.3m was paid by 31 March 2020 and the remaining amount will be paid in 2020/21.

£1.744m of the £5.025m deferred income falling due after more than 1 year relates to the transitional arrangements and £3.281m relates to the Appointing Persons regime. Once it is clear the money is not required to meet PSAA costs the funds will be returned to audited

bodies, in accordance with a formula to be agreed by the Board (as explained in note 3d above).

Deferred income - falling due within 1 year

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Local government	1,892	4,729
Total deferred income	1,892	4,729

Deferred income - falling due after more than 1 year

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Local government	5,025	2,643
Total deferred income	5,025	2,643

14. Cash flow

Note to the cashflow statement

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Operating loss	(43)	(28)
Working capital movements		
(Decrease)/Increase in debtors	(426)	563
(Decrease) / increase in payables	(412)	723
Net cash flow from operating activities	(880)	1,258

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 £145,512

(2019: £138,959). To date PSAA has paid a total of £124,554 in this financial year. £20,958 (2019: £2,890) is owed by PSAA to the LGA.

During the year there were no related party transactions carried out either by Directors or the management team (the Chief Executive and three 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 2020, PSAA had no contingent liabilities.

Auditor's report

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

Opinion

We have audited the financial statements of Public Sector Audit Appointments Limited (the 'company') for the year ended 31 March 2020 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 2020 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.

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 £262,000. Calculating materiality centered on the perceived key driver of the financial performance of the business. The key driver was revenue recognised and subsequently, an appropriate percentage of 1% was applied to calculate materiality based on the level of revenue recognised during the financial year. 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 £196,500.

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 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at

www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

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

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with part 3 of Chapter 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we

do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Subarna Banerjee (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young
Chartered Accountants
Statutory Auditor