

# Public Sector Audit Appointments

# **Annual report and accounts 2020/21**

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# Annual Report

# Overview of the year

PSAA is an appointing person for principal local government and police bodies for audits from 2018/19, specified by the Secretary of State in July 2016 under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person Regulations 2015). PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

2020/21 was the second year of the current appointing period during which PSAA was responsible for audits carried out in 478 opted-in bodies (98% of eligible bodies). During this financial year, the audits in respect of 2019/20 were performed in a challenging context which included the COVID-19 pandemic.

## Local audit market landscape

A number of high-profile corporate failures in the private sector have led to significant government and public concern about the role of the auditor and have created instability in the wider audit market. As a result, the government commissioned reviews into different aspects of audit, led by Sir John Kingman, the Competition & Markets Authority and Sir Donald Brydon. This has led to consequences for local audit, with a change in emphasis of audit work and a significant increase in audit quality requirements set by regulators. As a result, audits are taking longer, auditors are applying greater scepticism and audits are requiring more resource and a different mix of skills. These factors were not envisaged when audit firms submitted tenders during the 2017 procurement, and this is leading to a significant level of additional audit fees being proposed as managed through our fee variations process.

The global pandemic has had wide reaching implications for the delivery of the 2019/20 audits, impacting both finance and audit teams. Remote working brings practical challenges in terms of the efficiency and effectiveness of interaction between auditors and opted-in body staff, training/coaching members of the audit team and audit completion tasks. In terms of the financial statements, the Financial Reporting Council (FRC) has highlighted that the timing of the pandemic results in auditors needing to consider the potential impact on matters such as asset valuation, debt recoverability and going concern (financial resilience being particularly relevant to local audit). Auditors have also needed to assess the requirement for additional Post Balance Sheet Event disclosures and amendments to the audit opinion. A further factor is the personal toll on both finance and audit teams - through sickness as well as shielding and personal responses to lockdown - which reduce the resilience and capacity of the financial reporting supply chain.

We will continue to monitor the repercussions of the COVID-19 pandemic including its impact on fees and signing of audit opinions.

## Review of Local Authority Financial Reporting and Audit

In September 2020 Sir Tony Redmond's review of local authority financial reporting and external audit was published. The report highlighted the significant challenges and turbulence within the new system of local audit, emphasising that at present local government audit is under-resourced, undervalued and is not having impact in the right areas. The report made a number of recommendations in relation to external audit

regulation, smaller authorities audit regulation, financial resilience of local authorities and transparency of financial reporting.

In December 2020, the Ministry of Housing, Communities and Local Government - MHCLG delivered its response to the Redmond Review setting out proposed actions to implement the majority of the recommendations made in the report. This was followed by a further announcement in May 2021 which responded to the options for systems leadership with the proposal to strengthen the Audit, Reporting and Governance Authority (ARGA) -- the new regulator being established to replace the FRC -- with new powers in relation to local government audit, protecting public funds and ensuring councils are best serving taxpayers. Furthermore, it is proposed that the new regulator will contain a dedicated local audit unit which will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

MHCLG confirmed that PSAA would remain responsible and accountable for the appointment of auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, as specified by the Secretary of State for Housing Communities and Local Government under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. This is based on MHCLG's view that PSAA is the organisation best placed to act as the appointing body, including overseeing the next procurement, due to its strong technical expertise and the proactive work that has been performed to help identify improvements that can be made to the process. This will also help to provide continuity, given the proximity of the next procurement exercise.

As MHCLG takes forward and refines its proposals in response to the Redmond Review, the next few years are likely to continue to be significantly challenging for the world of local audit and for stakeholders, PSAA included, in the system.

### **Completion of 2018/19 and 2019/20 audits**

Last year, we reported that for 2018/19, audit opinions had not been given at 40% (208 of our opted-in bodies) at the target publishing 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. Subsequent sign-off has been gradual rather than rapid and as at 31 March 2021 there were still 19 opinions outstanding from 2018/19.

Disappointingly, the position has deteriorated in relation to 2019/20 audits as audit teams have struggled with the lack of capacity to address the previous year's backlog as well as dealing with the impact of COVID-19 on the audit work required. In respect of the 2019/20 audits, 55% (264 out of 478) of the audit opinions were not issued by the revised target date of 30 November 2020. By 31 March 2021, this total had reduced to 116 outstanding audit opinions (24%).

This increase in delayed opinions is a significant concern and we recognise the inconvenience and disruption it causes. The COVID-19 pandemic has added a further layer of difficulty to these challenges and has impacted the speed with which some delayed 2018/19 audits can be completed. It has also had 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.

## Audit market sustainability

It is critically important that the market remains competitive and sustainable for the long term. 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 Redmond Review has served to raise awareness of these challenges.

Much of our work, including commissioning independent research and working collaboratively with other stakeholders including the Redmond Review, has been directed to support market sustainability. At the beginning of 2020, we commissioned a particularly important project exploring the sustainability of the local audit market to gain a more in-depth understanding of potential challenges. 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 [PSAA-Future-Procurement-and-Market-Supply-Options-Review](#) highlighted that sustainability of audit supply is likely to be a major challenge and identified a number of distinctive challenges in the local audit market. In particular it highlighted the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which (prior to recent adjustments) expected publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams. The report was shared widely as this is an area where we need to work with key stakeholders to address issues which are not within our singular control.

The findings have helped to inform our work around developing our procurement strategy and our consideration of a further procurement exercise designed to access additional auditor resources. In the event we decided not to proceed because of the continuing uncertainties facing audit firms following Redmond and the other government commissioned reports from the CMA, Kingman and Brydon.

The report is also mentioned in the Public Accounts Committee Report entitled "Local auditor reporting on local government in England" published on 14 July where a full section is devoted to stabilising the local authority audit market.

Linked to our work on market sustainability, we commissioned a review of scale fees focusing on gathering and analysing data on audit risks and costs to gain a more in-depth understanding about the current level of scale fees and to explore the changes in audit requirements over the past two years. The results will inform our approach to the next procurement and have provided the Board with invaluable insights into the current position.

## Setting audit fees

All of the pressures and challenges outlined have added significant complexity and practical difficulty for PSAA in setting audit fee scales. The regulations currently require that the fee scale must be set before the start of the financial year. A significant proportion of audit work is undertaken after the end of the relevant financial year, making it impossible for PSAA to set a realistic fee scale with the benefit of up-to-date information on the outcome of the audits for the preceding year. Increased regulatory scrutiny and new audit requirements have meant that additional audit work, the extent of which is not known at the time the fee scale must be set, has ultimately been necessary at most audits. The

regulations require that such additional audit fees are approved retrospectively once the work has been undertaken. Helpfully, MHCLG is consulting on a number of proposed changes to the regulations, to allow for updating of audit fee scales in a more timely way.

We consulted in November 2020 on changes to our fee variations arrangements, with the aim of reducing, if possible, the volume of local discussions about fee variations. We proposed a new approach to apply in the case of national fee variations, where changes in audit requirements relate to the conduct of all or most audits and where a standard additional fee could reasonably be estimated across groupings of bodies. The consultation also set out a proposed increase in the fee rates for additional work.

The response to the consultation was positive, with significant support for the proposal to introduce national fee variations where appropriate for some new audit requirements and a significant majority in support of the fee variation rate card increase. We have resolved to implement the proposed changes and will consider possible national fee variations when the consultation on relevant regulations, referred to above, is concluded.

A programme of research is under way to consider the likely impact on audit work and fees of some expected changes in audit requirements, such as the new NAO Code of Audit Practice and some new or revised auditing and financial reporting requirements. We will consult opted-in bodies and other stakeholders on proposals where we identify changes for which a national approach would be appropriate.

We consulted in January and February 2021 on the proposed fee scale for 2021/22 and set the fee scale in March as required under current regulations. We received a good response to the 2021/22 fee scale consultation, with support for the proposal to build into the fee scale the ongoing elements of the additional fees determined for 2018/19 audits. While there was a wide range of views reflected in consultation responses, most stakeholders accept that audit fees must rise in response to the evolving local audit environment/market.

### **Monitoring our contracts and the quality of audit services**

We published our first Annual Quality Monitoring Report under the appointing person arrangements, covering the work of local auditors appointed by us for the 2018/19 financial year and providing a rounded, well-informed view of performance and quality for each supplier. The report included the results of our first client survey on the quality of audit services and the outcome of the regulators' reports (FRC and ICAEW) on the quality of local audit work.

The FRC reported that only 62% of the financial statement audit reviews they completed met their expectations and were assessed as requiring no more than limited improvements. The FRC's sample is of higher risk major local audits and included NHS and other bodies not in the PSAA contract. Nevertheless, we were disappointed by this result. In contrast, the ICAEW reported that 91% of the financial statement reviews they completed of non-major local audits met the required standard. All VFM arrangements work inspected by both regulators was assessed as meeting the required standards. We have discussed with the firms their plans to address the matters raised by the professional regulators.

Helpfully, in recognition of the unprecedented challenges on local audit, MHCLG adjusted the target date for publication of 2019/20 audited accounts to 30 November 2020. For the subsequent two audit years, 2020/21 and 2021/22, the Accounts and Audit (Amendment) Regulations 2021 have revised the target date for publication to 30 September.



## **The second appointing period**

Following the government's confirmation that PSAA will continue as the appointing body for local audit, we have continued preparations for the next appointing period which is due to commence on 1 April 2023. We are working on developing our procurement strategy and approach in key areas such as procurement route, lot structure, evaluation ratios, basis for bid pricing and social value. The next procurement exercise will include strong focus on audit quality and market development, to support the long-term competitiveness and sustainability of the market.

Given the current local audit landscape, the early indications are that devising a successful procurement strategy will be more complex and challenging than for the 2017 procurement.

## **Looking ahead**

With the government's expected response to the various audit-related reviews and the consultation on its proposals in response to the Redmond Review, we are likely to continue to face an uncertain operating environment over the medium term. We will continue to closely monitor the local audit landscape and work hard to understand the potential implications of any change for opted-in bodies, audit suppliers, key stakeholders and ourselves. We have worked closely with MHCLG, prior to and since publication of its response to Redmond and we will fully engage with activities that support the design and development of the new arrangements. It is critically important that the market remains competitive and sustainable for the long term.

A significant focus over the next two years will be to prepare for the next appointing period. We will work closely with MHCLG and other stakeholders to determine the timing of and to develop proposals for the next main procurement, including our approach to fees and auditor appointments.

## **PSAA Board**

We were delighted to congratulate Caroline Gardner, a founding member of our Board, who was awarded a CBE for her services to the Scottish public sector in the 2021 New Year's Honours List.

As a result of our process for Board succession planning and rotation, we said farewell to Clive Grace, a founding member of our Board. We thank Clive for his invaluable contribution to help establish PSAA and develop our role and arrangements as the appointing person.

In April 2021 Marta Phillips OBE was appointed as a Board member and director of PSAA to succeed Clive. We welcome Marta to the Board. We are also pleased to welcome Alan Edwards to Marta's former role as the independent member of the PSAA audit committee.

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 (IDeA), itself wholly owned by the Local Government Association (LGA). The LGA is a national membership body for local authorities which works on behalf of members to support, promote and improve local government.

PSAA began operations on 1 April 2015 when the then Secretary of State for Communities and Local Government delegated to PSAA on a transitional basis a number of statutory functions following the closure of the Audit Commission. These responsibilities included appointing auditors and setting audit fees for bodies subject to audit under the provisions of the Local Audit and Accountability Act 2014. Whilst most of these transitional responsibilities have come to an end, PSAA is still responsible for a small residual number of audits under these arrangements.

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. The scheme formally commenced in April 2018. The duration of the first appointing period was set at five years and therefore runs until 31 March 2023. The second appointing period will commence on 1 April 2023.

At 31 March 2020, 478 of the 487 eligible bodies (98%) had opted into PSAA's national auditor appointment arrangements including all principal authorities created since 1 April 2018. 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.

In May 2021 the Government confirmed that PSAA would continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors. Our work to prepare for the second appointing period is well underway.

This project will be a significant undertaking for the company over the next two years. The timeline below shows the indicative timetable. We hope to secure positive outcomes including progress towards a more resilient, sustainable local audit system.



# Strategic report

The directors present their strategic report for the year ended 31 March 2021.

## 1. Objectives and operating environment

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

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

A memorandum of understanding with the MHCLG sets out the broad framework in which PSAA operates for the transitional arrangements. It 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 opted-in bodies. An updated MoU will be agreed to support the delivery of a positive outcome at the next procurement.

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 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 opted-in 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.

We attend the Forum for Local Audit Regulation in England (FLARE) along with representatives of government departments, the NAO, the FRC, ICAEW, CIPFA, and representatives of audit firms. The forum was established in May 2020 to focus on measures which can be taken co-operatively to strengthen both the local audit market and system.

During the year we have developed and approved our Business Plan, which sets out our plans for the next year. The plan is designed to be flexible to respond to system and market developments as well as any relevant Government decisions. It is regularly monitored by the Board against a suite of KPIs. Alongside the Business Plan we have also developed and approved a Communications Strategy.

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 opted-in bodies after ensuring PSAA has sufficient funds to pay for its operating expenses and manage its cash flow. The transitional arrangements (2015-2018) and current appointing person arrangements are accounted for separately in the MTFP. The Board regularly reviews the company's financial position at Board meetings, 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 and emerging 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 meeting our statutory obligations as an Appointing Person.

#### **(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 a team of well qualified staff



is critical to the success of PSAA. To this end, the Board monitors the organisational work streams and capacity via regular updates from the Chief Executive.

As a result of the pandemic, staff have been required to work remotely since March 2020. We have recognised the importance of supporting our workforce during these difficult times and have put in place a number of measures to ensure that staff are able to work effectively and remain connected whilst working remotely. This has included twice weekly team check-ins using virtual meeting technologies, regular manager contact, financial support to purchase office equipment, and access to the Employee Assistance Programme. We have also held well-being support sessions and regular virtual social events.

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 recognised the need to enhance the existing structure with additional resource and skills. During 2020 we engaged a consultant to develop a work force plan alongside a review of capacity and anticipated workload. As a result of the recommendations from the review, capacity has been increased and specialist skills have been introduced in key areas such as procurement and communications. These appointments have been made through fixed term contracts. This provides an agile model which can be flexed to adapt to changing skills and capacity requirements as circumstances alter and whilst we await the implementation of the Government's response to Redmond and other reviews.

During 2020/21 our focus has been on developing the team in their new roles. Personal Development Plans are in place to support individual staff needs as appropriate. Employees have access to the LGA e-learning platform (provided as part of the agreement with the LGA for back office support services) for training on a variety of topics including annual mandatory refreshed training on IT security and information governance. We are also supportive of individuals' continuing professional development requirements.

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 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 opted-in bodies will enable us to understand and better meet sector 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 opted-in 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 opted-in 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 an Advisory Panel whose members represent the finance communities within 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 information and time to enable them to respond effectively 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.
- Our Local Audit Quality Forum (LAQF) has been set up 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. During 2020 due to the pandemic, the LAQF moved to a webinar platform when we hosted an event with Sir Tony Redmond speaking about his report. The event attracted over 200 attendees. Due to the success of the LAQF on this platform, we will consider using this format for future events until such time as we can hold events in person again.
- With the LGA and CIPFA we have developed a leadership essentials training course specifically tailored to meet the needs of audit committee chairs. This training is provided to LGA member organisations.
- Annually we survey customers as part of our monitoring arrangements in respect of the quality of the services they are receiving. The results of the first survey in respect of the 2018/19 audits were reported in May 2020 and included within the 2019/20 Audit Quality Monitoring Report. The key messages were discussed with the audit firms. In recognition of the pressures on bodies due to the burden of responding to the pandemic, our 2020 survey (in respect of the 2019/20 audits) was condensed, and the results will be reported as part of our 2020/21 Annual Quality Monitoring Report.
- We have attended and presented at a number of local finance, audit and networking group events.

We have developed a communications strategy which identifies our key stakeholders and the channels of communication through which we engage with each group. We keep this under constant review as a pre-requisite 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 quality audit services under the current contract but also for future sustainability of the local audit market.

The resourcing difficulties and other challenges which emerged during the course of the audits of the 2018/19 accounts which resulted in the target publishing date for publishing audited accounts by 31 July 2019 being missed in over 40% of audits (208 out of 486), has continued to be a problem for 2019/20 audits. The knock-on impact of the delayed 2018/19 audits combined with the impact of the pandemic have meant that even with a revised target deadline of 30 November 2020, 56% of audited accounts (264 out of 478) were not published by the target date. Staff recruitment and retention continues to be a major challenge in the current climate.

We are disappointed that these difficulties have arisen and recognise the importance of auditors meeting the target deadline set wherever possible and we are committed to working with other stakeholders to find solutions to ensure that the position improves as rapidly as possible.

As a result of the Redmond review published in September 2020, there is now a wider recognition and understanding of the underlying issues which have created a fragile local audit market. In March 2021 the NAO published their report on [Timeliness of Local Auditor Reporting on Local Government in England, 2020](#). The report concluded that since the last review on local authority governance and audit in 2019, despite efforts by the various organisations involved in the local audit system and by MHCLG, the local audit system is exhibiting signs of increasing stress. The increase in late audit opinions, concerns about audit quality and doubts over audit firms' willingness to continue to audit local authorities all highlight that the situation needs urgent attention.

We are very conscious of the disappointment of opted-in bodies whose audited accounts were not published by the target dates and of the disruptive impact on the work plans of those bodies of rescheduling their audits. We will continue to monitor the position and have discussed with the firms concerned their recovery plans to complete the audits as soon as possible. However, it is recognised that there are no quick or easy solutions to the developing issue of scarce auditor resource resulting in the need to implement effective long-term solutions.

During the year, the Chief Executive and on occasions the Chair met 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 discussions about audit resources.

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 audit services they deliver. Latest fee variation information is also included in our quarterly quality monitoring reports.

PSAA participates in the groups established to manage the implementation and delivery of the Local Audit and Accountability Act 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 and the Forum for Local Audit Regulation in England (FLARE). 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 LGA which provides our back-office support 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 contributed to the Redmond review providing a large volume of information and responding to questions. Following the publication of the Redmond review in September 2020 and MHCLG's initial response in December 2020, we have been working with MHCLG by providing detailed briefings in relation to our work under the appointing person regime and our procurement processes.

We also engage with sector wide initiatives and contribute views and information for Government commissioned reviews and studies. We responded to the NAO's consultation on their revised Code of Audit Practice for local audit and subsequently on the NAO's supporting Auditor Guidance Notes (AGN03) which provide more detail on the auditor's responsibilities under the new Code, with a view to securing positive outcomes for opted-in bodies and users of accounts. We also responded to the Public Audit Forum's revised Statement of Recommended Practice - Practice Note 10: Audit of financial statements of public sector bodies in the UK.

We responded to MHCLG's consultation on proposals to move the publishing deadlines for audited accounts for 2020/21 and 2021/22, and also its consultation on proposed changes to the Accounts and Audit Regulations.

We provided comments and detailed information relating to audit completions to the NAO for their review of the Timeliness of Local Auditor Reporting on Local Government in England 2020. The findings from this report were considered by the Public Accounts Committee, with Tony Crawley appearing before the PAC, responding to their questions over concerns about delays in audit completions, audit quality and doubts over audit firms' willingness to continue to audit local public bodies.

The Committee has now published its report with the title "Local auditor reporting on local government in England" which can be found at: [Public Accounts Committee - Reports, special reports and government responses - Committees - UK Parliament](#)

In March 2021 the Department for Business, Energy and Industrial Strategy (BEIS) issued a consultation on a package of measures aimed at improving the UK's audit, corporate reporting and corporate governance systems arising from the three independent reports produced by Kingman, CMA and Brydon. We have responded and highlighted the potential impact of these recommendations for the local audit sector.

**(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 audits which meet quality standards 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. This agreement was reviewed and renewed for a three-year period commencing in April 2021. 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.

Due to the measures put in place in response to the pandemic, since March 2020 our staff have been required to work remotely, removing the need to utilise office-based environmental schemes. However, there are significant benefits on the environmental impact of remote working. When we do return to the office, we will review our flexible working policy and will consider our environmental impact as part of this review.

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. Across our five firms over 400 positions were to be provided across the life of the contract with 90 in place in the first year. Initial information shows that 137 apprenticeship and other training positions were introduced in the first year of the contract.

Customers and their local communities will benefit from the value for money achieved from our procurement exercise and the reimbursement of surplus fees.

Our staff complete mandatory e-learning training modules on dignity at work and equality in the workplace. The Board annually approves a statement on modern slavery which is published on the website and staff complete annual on-line 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. 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, with support from Whitehall Industry Group and an interview panel of other Board members, 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.

In January 2021 the IDeA Board approved a Board succession plan for PSAA based upon a rotational retirement and replacement of directors in order to preserve skills and experience whilst providing the opportunity to refresh Board membership.

## **Our staff**

The company's structure is designed to ensure PSAA is fit for purpose to fulfil the company's appointing person responsibilities. The roles in the organisational structure are filled by employees 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 available 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 reviewed annually. Further details are included in Section 3 of the Strategic Report on Risk Management and within the Governance Report on pages 34 to 36.

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 sixth full year of business, covered by this report, the company has focused on embedding the arrangements to discharge its appointing person responsibilities against a backdrop of increasing turbulence in the local audit sector which has been exacerbated by the pandemic.

### Auditor appointments

Appointments made for the five years of the appointing period cover audits of the accounts of opted-in bodies for the period 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. Five such 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 2020 there were 487 local government bodies eligible to opt into the PSAA scheme, 478 (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 are small changes every year in the number of bodies eligible to opt in as a result of local government reorganisations or the establishment of new bodies. A full list of opted-in bodies is maintained on our website in accordance with the Local Audit (Appointing Person) Regulations 2015.

### 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. The regulations require PSAA to set the fee scale before the start of the financial year to which the fees relate. The fee scale cannot be amended once the relevant financial year has started.

A significant proportion of audit work is undertaken after the close of the relevant financial year by necessity. Setting the fee scale in advance of the start of that year, as the regulations explicitly require, therefore presents significant challenges when audit is subject to as much change as it is currently. Ideally, we would be able to set fees with the benefit of relatively complete information about all preceding years' audits. In practice, we had to consult on 2021/22 fees with incomplete information in relation to:

- audits of 2018/19 accounts, for which a minority of audit opinions remained outstanding;



- audits of 2019/20 accounts (a significant proportion of opinions remained outstanding); and
- audits of 2020/21 accounts (very limited if any audit work done at the time the fee scale was set).

Our position is therefore in essence comparable to a local body being required to set its budget with incomplete information about spending and revenues in preceding years, and with minimal information about the immediate prior year.

The regulations allow PSAA to consider requests for additional audit fees from audit firms where substantially more work is needed than was envisaged when the firms bid and the fee scale was set. Such requests can only be considered once the audit is complete and are managed under PSAA's fee variations process. Fee variation requests have been increasing in volume and value in response to greater regulatory scrutiny of auditors' work and changes in audit requirements such as revised auditing and accounting standards and the new Code of Audit Practice.

In setting the 2021/22 fee scale PSAA included additional fees approved for 2018/19 audits that relate to ongoing requirements that will apply in future audit years. While the impact of changes in audit requirements varies depending on the local circumstances of individual opted-in bodies, the overall trend is that additional audit fees are increasingly required across all opted-in bodies for auditors to discharge their statutory responsibilities. A high level of fee variations is expected for 2019/20 audits, and as these were not yet fully known they could not be included in the 2021/22 fee scale.

PSAA consulted in November 2020 on changes to fee variations arrangements with the aim of reducing, if possible, the volume of local discussions about fee variations. We proposed a new approach to allow for national variations, where changes in audit requirements relate to the conduct of all or most audits and where a standard cost can reasonably be estimated across groupings of bodies. The consultation also set out a proposed increase in the fee rates for additional work.

On the basis of the response to the consultation, PSAA resolved to implement the proposed changes and has taken the following steps:

- a programme of research is under way to consider the likely impact on audit work and fees of some expected changes in audit requirements;
- subject to MHCLG updating the regulations, the new approach to national variations could apply for the first time in relation to audits of 2020/21 financial statements and value for money arrangements where appropriate topics are identified; and
- all variations – both national and local – arising in relation to audits of 2020/21 financial statements and value for money arrangements onwards will be calculated in accordance with a new rate card reflecting increased hourly rates for different categories of audit staff.

Helpfully, the Government's policy response to the Redmond Review has included a commitment to review the Appointing Person regulations. We have worked with MHCLG on their consultation to reform the regulations. We hope the outcome of the consultation will be to provide the appointing person with greater flexibility to ensure the recurring costs to audit firms of additional work are built into scale fees in a more timely, flexible and seamless way. MHCLG has committed to having new regulations in place before the

summer recess 2021, and has announced the intention to provide additional one-off funding of £15 million in 2021 in relation to increased audit costs.

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

### Contract monitoring arrangements

We have robust contract monitoring arrangements in place to manage the contracts with the audit firms, and to fulfil our appointing person role and responsibilities. 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.

We oversee issues of the independence of our appointed auditors. This includes reviewing requests to provide non-audit consultancy services and monitoring the rotation of audit staff to minimize the threat from long association.

We have a complaints process covering the carrying out of audit work by the auditors we have appointed, but not the judgements they have independently reached.

We also monitor compliance by local auditor against the contractual obligations in our contract. This is principally covered in our processes looking at the quality of audit services provided. These include compliance with our Terms of Appointment which clarify the standards for performing the services under the contracts and provide a reference for matters of practice and procedure which are of a recurring nature.

### Quality of audit services

One element of our contract monitoring framework is to monitor the quality of audit services.

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 quality of audit services monitoring arrangements. Audit quality formed a core part of the evaluation of tenderers in the 2017 audit services procurement, with tenderers also encouraged to have regard to the IAASB framework in their responses.

Our approach is based on the expectation that good quality audit services are 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 the quality of an 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 audits which meet quality standards. There is a complex interplay of many factors. We have taken the attributes that the IAASB Framework expects to be present within an 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.

We commissioned the LGA Research Team to conduct a survey to obtain opted-in bodies' feedback on their audits of 2018/19 accounts. The survey arrangements are an important strand of our Quality Monitoring and Reporting Framework and the survey responses have provided us with the opportunity to identify good practice and discuss specific areas for improvement with individual audit firms.

Overall, the survey results showed that 80% of respondents were content with the quality of the audit service provided, but the known tensions in the local audit world around resourcing and property and pension valuations were highlighted. The nature of the survey meant that it was difficult to draw meaningful comparisons between firms but there is work to be done by all to achieve improvements. Together with the other elements of our monitoring the survey results provide a strong evidence base from which firms will be able to develop tailored improvement plans where appropriate.

We reduced the number and detail of our questions this year (covering 2019/20 engagements) recognising the many calls on local authority staff whilst still obtaining the core information that we require.

Our first 2020 Audit Quality Monitoring Review covering the 2018/19 audit engagements was published in February 2021. This was later than planned because of pandemic induced delays for the Financial Reporting Council and Institute of Chartered Accountants in England and Wales in completing and reporting on their professional regulatory reviews.

We have continued to pay close attention to the results of audit inspections carried out by the FRC and the ICAEW and to discuss any key issues arising with suppliers.

### **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. In December 2020 the Secretary of State extended these transitional powers for a further three years to 31 December 2023.

The outstanding elements of this work relate mainly to the 2017/18 audits of local government bodies. As at March 2021 this work is still on-going at four authorities where there are conclusions outstanding. There are 20 objections being investigated. There are also two small authority bodies where certificates and opinions have not been issued.



## 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 to ensure that objectives can be achieved;
- ensure that risk management is an integral part of PSAA's culture and 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 and setting the risk appetite.

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

In October 2020 the risk management strategy was reviewed and updated to reflect changes to the approach which underpins our risk strategy - 'HM Treasury Orange Book: Management of Risk – Principles and Concepts'.

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 PSAA has monitored the potential risks to the company being able to achieve its objectives and has put in place mitigating actions wherever possible. Many of the risks to PSAA's objectives arise from the turbulence in the local audit sector and market sustainability, which are factors outside our control.

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 and its ability to meet the sector's needs;
- An audit supplier does not meet PSAA's contractual requirements in terms of delivery and/or quality of audit services; and
- PSAA's scheme and the local audit framework is impacted by the Government's responses to the reviews of the wider audit profession and local audit framework.

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, opted-in 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 opted-in 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.

The Redmond Review has helped to raise the profile of these issues. PSAA continues to commission research and to work closely with other stakeholders 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 opted-in 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 for payroll, purchase orders and invoices, treasury management and information governance arrangements. In respect of data security, the audit assurance was reasonable, flagging up the need for us to obtain appropriate assurances over control arrangements from our IT services provider, the LGA. We have now taken the relevant steps to address this recommendation.

### 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.

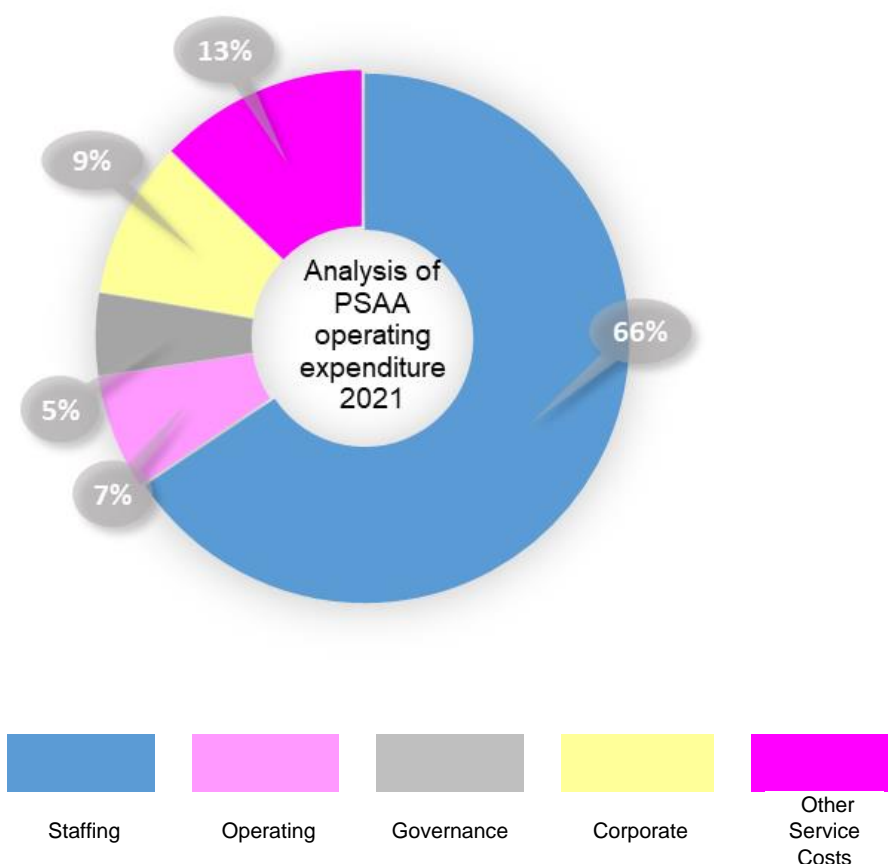
PSAA's accounts show a £nil profit for the 12 months to 31 March 2021 as revenue is matched to expenditure and any monies not required to cover costs are returned to opted-in bodies at appropriate intervals.

Revenue, including investment income, for the 12 months to 31 March 2021 was £30.535 million (2019/20 £26.304 million) which covered the costs including corporation tax incurred by PSAA for the period 1 April 2020 to 31 March 2021 of £30.535 million (2019/20 £26.304 million). The increase in revenue and associated audit costs are mainly due to higher levels of fee variations expected for audit year 2019/20 (our current projection is 40% of scale fees) compared to previous audit years (the fee variation rate for audit year 2018/19 is 15% of scale fees). Requests have been increasing in volume and value and we expect firms to submit fee variations for every audit, mainly in response to greater regulatory scrutiny of auditors' work, property, plant and equipment valuations, pension valuations and COVID related costs. We have reviewed and updated our revenue recognition policy to include the treatment of fee variations. The decrease in investment income reflects the significantly lower interest rates available in the market.

## Controlling costs

PSAA incurred total costs of £30.535 million, of which the cost of the audit contracts for the period was £29.240 million, 95.8% of total costs (2019/20: £25.217 million which represented 95.9%).

The chart shows the split of PSAA incurred operating expenses of £1.293 million in 2020/21. This represents 4.2% of total costs (2019/20: £1.077 million which represented 4.1% of total costs) and taxation of £0.002 million (2019/20: £0.010 million).



## Financial position

PSAA's total assets equal total liabilities at the end of 31 March 2021 (31 March 2020: total assets also equalled total liabilities). PSAA is required to pay any surplus funds to principal opted-in bodies, as provided for in its Articles of Association. Surplus funds are shown as a liability in the balance sheet as part of deferred income. The deferred income is regularly reviewed to ensure PSAA has sufficient funds to pay for its operating expenses and manage its cash flow. Funds no longer required are returned once approved by the Board. At 31 March 2021 the surplus funds remaining were £7.708 million. The Board plans to distribute in the region of £5.600m to opted-in bodies in financial year ending 2021/22. It is expected to leave approximately £2.108million in the long term deferred income (see note 13 on pages 47 to 48).

## Future developments

The financial year 2021/22 will be yet another significant one for local audit and PSAA with a number of key changes on the horizon:

- In March 2021 the government published a White Paper setting out its plans to reform corporate audit, reporting and governance, based upon recommendations arising in the reviews of the audit sector (Kingman, Brydon and the Competitions and Market Authority). The government proposes to establish a new regulator, the Audit, Reporting and Governance Authority (ARGA) to replace the FRC. The government is considering the responses and will make decisions on implementation. These reviews are expected to impact audits of all types of entity

and will therefore have implications for local audit. We will monitor any developments for their potential impact on local audit, the company, opted-in bodies and contracted audit suppliers.

- In December 2020 MHCLG delivered its response to the Redmond Review setting out proposed actions to implement the majority of the recommendations made in the report. This was followed by a further announcement in May 2021 which responded to the options for systems leadership and confirmed that PSAA will continue as the appointing body for local audit.
- Redmond recommended that the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements. In response, MHCLG have consulted on proposals to make amendments to the Local Audit (Appointing Person) Regulations 2015 that will, subject to stakeholders' views, provide PSAA with more flexibility to agree additional fees more quickly and at the time that the relevant audit work is completed, as opposed to after the completion of the audit.
- The national appointing person scheme formally commenced in April 2018. The duration of the first appointing period was set at five years and so will run until 31 March 2023. The second appointing period will commence on 1 April 2023. Preparations are underway for the next opt-in arrangements and development of our procurement strategy. This will be an area of significant focus and activity during 2021/22.
- The revised Code of Audit Practice is applicable for accounting periods from 2020/21 going forward. We are working to quantify the impact on the associated fee scale for the remaining three years of the appointing period.
- We will monitor the implications of the COVID-19 pandemic on the delivery of audits and signing of audit opinions within the revised target timetable set by MHCLG.

By order of the Board



**Steve Freer**  
Chairman

23 July 2021

# Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2021.

## Directors

For the year commencing 1 April 2020 the PSAA Board membership 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 from 1 December 2014 to 31 March 2021
Stephen Sellers	Non-executive director	Member since 1 December 2014
Keith House	Non-executive director	Member since 1 December 2017

In January 2021 the IDeA Board approved our proposals for a PSAA Board succession plan which is designed to refresh the Board membership over time. In March 2021 Clive Grace stepped down from the Board as the first step in implementing the succession plan. Clive has been succeeded by Marta Phillips.

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

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.

### 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 2021. We have included an estimate of income and audit costs in relation to fee variations for audit year 2019/20. We will continue to monitor the position as we receive more information from the firms.

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

23 July 2021



# Remuneration report

## Chief Executive and other senior appointments

Throughout 2020/21 our senior management team remained unchanged, consisting of a team of three senior managers, led by the Chief Executive, and with a part time project manager focusing on specialist projects on aspects of scale fees and fee variations.

## 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 2021	Number of employees 2020
65 - 70		1.0
70 - 75	2.0	1.0
90 -95	1.0	1.0
100 - 105		1.0
105 - 110	2.0	
120 -125		1.0
135 - 140	1.0	

## Senior management remuneration

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

Description	2021	2020
Chief Executive	£135,044*	£123,344
Chief Finance Officer	£105,853	£103,371
2 Other Senior Managers	£98,165 to £105,050	£6,495 to £91,038

\*reflects pay increase following annual performance review

## Pay multiple

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

Description - £'000	2021	2020
Band of highest paid - total remuneration	120k - 125k	110k - 115k
Median - total remuneration	65	62
Ratio	1.9	1.8

## Remuneration policy for Directors

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

None of the Directors serving between 1 April 2020 and 31 March 2021 received other benefits from PSAA, nor were they members of the pension scheme.

Director	2021 £000	2020 £000
Stephen Freer	30	30
Clive Grace	8	8
Stephen Sellers	8	8
Keith House	8	8
Caroline Gardner <sup>(1)</sup>	8	0

(1) In 2020 Audit Scotland did not charge PSAA for Caroline Gardner's services. In 2021 Caroline Gardner retired from Audit Scotland. From this date Caroline has been remunerated at the same rate as the other directors.

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

In addition, the independent audit committee members received remuneration. Kathryn Cearns received £667 for the period 1 April 2020 to 31 July 2020, and Marta Phillips received £1,398 for the period 20 July 2020 to 31 March 2021.

# 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 subsequently reappointed in 2017 and again in January 2021 for a three-year term. The other four non-executive directors are appointed by the Chairman, with the approval of the IDeA. The Board has developed a succession plan which has been agreed by the IDeA Board. It involves the gradual refreshing of Board membership over the next few years.

As a first step in implementing the succession plan Marta Phillips, was appointed to the Board to succeed Clive Grace who stepped down on 31 March 2021.

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 2020/21:

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. Until July 2020 the independent member was Kathryn Cearns. In August we appointed Marta Phillips as independent member of the audit committee. However, with effect from 1 April 2021 Marta has been appointed to the PSAA Board. Alan Edwards has been appointed to succeed Marta in the role of independent member of the PSAA Audit Committee. Further information about the directors of PSAA are available on our website at: [Board members – PSAA](#). In March 2021 Stephen Sellers stepped down from the Audit Committee. We thank Stephen for his invaluable contribution.

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. 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.

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

## 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 2020 and updated in December 2020.

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 2020, confirming substantial assurance for payroll, purchase orders and invoices, treasury management and information governance arrangements. In respect of data security, the audit assurance was reasonable, flagging up the need for us to obtain appropriate assurances over control arrangements from our IT services provider, the LGA. We have now taken relevant steps to address this recommendation.

By order of the Board



**Steve Freer**  
Chairman

23 July 2021

# Annual Accounts

# Financial statements

## for the year ended 31 March 2021

### Profit and loss account

		Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
<b>Turnover</b>	<b>4</b>	<b>30,522</b>	<b>26,252</b>
Cost of sales	<b>5</b>	<b>(29,240)</b>	<b>(25,217)</b>
<b>Gross Profit</b>		<b>1,282</b>	<b>1,035</b>
Administrative expenses	<b>6</b>	<b>(1,293)</b>	<b>(1,077)</b>
<b>Loss on ordinary activities before interest and taxation</b>		<b>(10)</b>	<b>(43)</b>
Interest receivable and similar income		<b>13</b>	<b>53</b>
<b>Profit on ordinary activities before taxation</b>		<b>2</b>	<b>10</b>
Tax on profit on ordinary activities	<b>8</b>	<b>(2)</b>	<b>(10)</b>
<b>Profit for the financial year</b>		<b>-</b>	<b>-</b>

### Statement of comprehensive income

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
<b>Profit for the year</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>



## Balance Sheet

		Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
<b>Current assets</b>			
Debtors	9	2,008	1,212
Accrued income	10	1,186	550
Short term investments	11	6,598	4,232
Fixed term deposits	11	1,500	1,500
Cash at bank and in hand		10	10
		<b>11,302</b>	<b>7,504</b>
<b>Creditors - amounts falling due within one year</b>			
Trade and other payables	12	(858)	(586)
Deferred income	13	(8,336)	(1,892)
		<b>(9,194)</b>	<b>(2,479)</b>
<b>Net current assets</b>		<b>2,108</b>	<b>5,025</b>
<b>Creditors – amounts falling due after more than one year</b>			
Deferred income	13	(2,108)	(5,025)
<b>Net liabilities</b>		<b>-</b>	<b>-</b>
<b>Reserves</b>			
Retained earnings		-	-
<b>Total Reserves</b>		<b>-</b>	<b>-</b>

The notes on pages 41 to 49 are an integral part of these financial statements.

The financial statements on pages 37 to 49 were authorised for issue by the Board of Directors on 23 July 2021 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 2019	-	-
Reserves for the period	-	-
Balance at 31 March 2020	-	-
Balance as at 1 April 2020	-	-
Reserves for the period	-	-
<b>Balance as at 31 March 2021</b>	<b>-</b>	<b>-</b>

## Statement of cash flows

		Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
<b>Net cash inflow / (outflow) from operating activities</b>	<b>15</b>	2,364	(880)
Taxation paid		(10)	(7)
<b>Net cash generated from / (used in) operating activities</b>		<b>2,354</b>	<b>(887)</b>
<b>Cash flow from financing activities</b>			
Interest received		13	53
Fixed maturity deposits		-	136
<b>Net cash reduction from financing activities</b>		<b>13</b>	<b>189</b>
<b>Net decrease in cash at bank and in hand</b>		<b>2,367</b>	<b>(699)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>4,242</b>	<b>4,941</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>6,609</b>	<b>4,242</b>
<b>Cash and cash equivalents consists of:</b>			
Cash at bank and in hand		10	10
Short term deposits		6,599	4,232
<b>Cash and cash equivalents</b>		<b>6,609</b>	<b>4,242</b>

# 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 29. 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.

PSAA sets the fee scale annually and publishes the scale fee for each individual audited body. If the auditor subsequently considers that additional work is required that is not provided for in the scale fee for an individual body, a fee variation proposal can be submitted to PSAA. This is set out in the legal framework for audit fees and variations, in the Local Audit (Appointing Person) Regulations 2015 ('the Regulations'). Regulation 17(2) provides for the auditor to propose to PSAA (as the Appointing Person) that fees should be varied where the work involved in a particular audit was substantially more or less than envisaged by the appropriate scale.

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

Fee variation status	Calculation of revenue and associated costs
Fee variation proposals submitted by firms by 31 March and approved by PSAA	The amount of approved fee variations
Fee variation proposals submitted by firms by 31 March and are being considered by PSAA	Fee variation submitted by firms <b>multiplied</b> by previous year's approval rate*
No fee variation proposals submitted by firms by 31 March, audits are delivered, and fee variations are expected from firms for all audits	Scale fee <b>multiplied</b> by average % of fee variations submitted by firms for the audit year** <b>multiplied</b> by the previous year's approval rate*
No fee variation proposals submitted by firms by 31 March and work in progress is 90%*** and above	Scale fee <b>multiplied</b> by average level of fee variations submitted by firms for the audit year** <b>multiplied</b> by the previous year's approval rate* <b>multiplied</b> by % of work in progress
No fee variation proposals submitted by firms by 31 March and work in progress is below 90%	No fee variation accrued

\* approval rate for audit year 2018/19 is 84%.

\*\*average level of fee variations submitted by firms for audit year 2019/10 is 40% of scale fees.

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

Scale fees belong to and are set by PSAA. For administrative convenience, PSAA requires audit firms to bill opted-in bodies on its behalf and to act as its agents to collect fees. PSAA invoices firms at the scale fee adjusted for the 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 opted-in bodies and payable by PSAA in total. Surplus funds are repaid to the opted-in bodies the surplus was generated from; however, the repayment date and method are to be determined by the Board. Until a decision is made to return specific funds, all potential surplus funds are shown as a liability in the form of deferred income, as PSAA has a constructive obligation to repay the funds. Once a decision is made by the Board to return specific funds the amount outstanding at the year-end is shown as creditors.

PSAA accounts for and reports on the transitional arrangements and appointing 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 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 opted-in bodies at a future date. The potential surplus fees will be repaid in accordance with a formula which will be agreed by the Board, therefore deferred income falling due after more than one year is also reported at nominal amount;
- iii) trade and other payables at their nominal amount; and
- iv) short-term financial assets, cash and cash equivalents are held by the LGA on PSAA's behalf in line with PSAA's treasury management policy. These balances are deposited in accordance with the PSAA's investment strategy. These are stated at their nominal value, which approximates to fair value because of their short maturity period of the assets.

### i) Contingent Liabilities

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

## 4. Turnover

Analysis of turnover

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Audit fee income local government - principal bodies	30,522	26,252
	<b>30,522</b>	<b>26,252</b>

## 5. Cost of sales

Analysis of cost of sales

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Bought in services local government - principal bodies	29,240	25,217
	<b>29,240</b>	<b>25,217</b>

## 6. Administrative expenses

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Salaries and wages	703*	520
Social security	85	65
Pension	63	47
Board members and non-Board members	64	56
Training	3	17
Rent and rates	40	40
Supplies & services	31	45
Travel & subsistence	-	13
Insurance	25	16
Legal and professional fees	140	119
Audit fees	14	13
Shared services	76	76
Subscriptions	50	50
<b>Total administrative expenses</b>	<b>1,293</b>	<b>1,077</b>

\*salaries and wages reflect the increase in specialist skills in key areas such as procurement and communications.

## 7. Directors, independent member of audit committee and Employees

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

	2021	2020
<b>Directors</b>	5	5
<b>Independent member of Audit Committee</b>	1	1
<b>Employees</b>	9	7

The directors' emoluments were as follows:

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Aggregate emoluments	64	56

Key management compensation

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Salaries and other short-term benefits	444	325



## 8. Taxation

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Current tax		
UK Corporation tax on profits for the current period	2	10
<b>Total tax charge</b>	<b>2</b>	<b>10</b>
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	2	10
Expected tax charge based on a corporation tax rate of 19% (2020 – 19%) on Interest receivable and similar income	-	2
Non-trade loan relationship credits	2	10
Brought forward / Carried forward loss relief	-	(2)
<b>Tax expense for the year</b>	<b>2</b>	<b>10</b>

## 9. Debtors

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Local government	2,008	1,212
<b>Total debtors</b>	<b>2,008</b>	<b>1,212</b>
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Trade Debtors	1,975	1,167
Prepayments	32	45
<b>Total debtors</b>	<b>2,008</b>	<b>1,212</b>

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

## 10. Accrued trade income

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Local government	1,186	550
<b>Total accrued trade income</b>	<b>1,186</b>	<b>550</b>

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

## 11. Current asset investments

Surplus cash balances are lent to financial institutions on the brokers approved counterparty list and to non-English local authorities. Investments are typically for periods not exceeding twelve months and as such the loan amount is a reasonable assessment of fair value. The counterparty list is currently restricted to financial institutions and local authorities that meet agreed credit ratings criteria and subject to the cash limits (per counterparty) as shown in PSAA's Investment Strategy agreed by the PSAA Board. PSAA's Investment Strategy strictly applies credit limits for all financial institutions on the approved counterparty list to ensure that investments are diversified. No credit limits were exceeded during the year and PSAA does not expect any losses on short term investments.

## 12. Trade and other payables

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Amounts owed to group undertakings	23	21
Accrual for holiday entitlement not yet taken	46	22
Corporation tax payable	2	10
Other taxation and social security	477	168
Accruals	309	365
<b>Total Trade and other payables</b>	<b>858</b>	<b>586</b>

## 13. Deferred income

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

Deferred income due within 1 year includes work in progress of £2.736m in relation to the arrangements under the Appointing Persons regime. It also includes an estimate of £5.600m planned to be distributed to opted-in bodies under the Appointing Persons regime in 2021/22.

£1.744m of the £2.108m deferred income falling due after more than 1 year relates to the transitional arrangements and £0.364m relates to the Appointing Persons regime. Once it is clear the money is not required to meet PSAA costs the funds will be returned to opted-

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

#### Deferred income - falling due within 1 year

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Local government	8,336	1,892
<b>Total deferred income</b>	<b>8,336</b>	<b>1,892</b>

#### Deferred income - falling due after more than 1 year

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Local government	2,108	5,025
<b>Total deferred income</b>	<b>2,108</b>	<b>5,025</b>

## 14. Cash flow

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Operating loss	(10)	(43)
Working capital movements		
Increase in debtors	(1,433)	(426)
(decrease) / increase in payables	3,797	(412)
<b>Net cash flow from operating activities</b>	<b>2,354</b>	<b>(880)</b>

## 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 £129,150 (2020: £145,512). To date PSAA has paid a total of £105,854 in this financial year. £23,296 (2020: £20,958) 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 2021, 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 2021 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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

## 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.
- *Fee variations*  
The change in audit delivery dates has resulted in delays in receiving fee variations, hence PSAA have calculated an estimated fee variation adjustment, using a number of key assumptions. There is a high level of judgement in estimating the total value of fee variations that are yet to be received or approved and hence the risk of material misstatement.

## 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 £305,000. 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 £229,000.



## An overview of the scope of our audit

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

### *Management override of controls*

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

### *Revenue recognition*

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

### *Fee variations*

- We assessed the reasonableness of the assumptions made in calculating the estimated fee variations.
- We obtained supporting documentation for the WIP completion percentages, fee variation approvals and scale fees.
- We agreed the remuneration rates to supporting documentation.
- We also performed a sensitivity analysis on the key assumptions to assess the impact of changes to the key assumptions.
- We found no significant or reportable adjustments were noted based on the work performed.

## 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 29, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

*The extent to which the audit was considered capable of detecting irregularities including fraud*

Based on our understanding of the company and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to the acts by the company, which were contrary to applicable laws and regulations including fraud, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to inflated revenue.

Audit procedures performed included: review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management and review of internal audit reports in so far as they related to the financial statements, and testing of journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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](http://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 six 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

9 August 2021