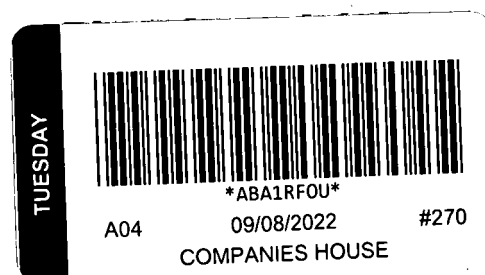




Public Sector Audit Appointments

Annual report and accounts 2021/22



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Annual Report

Overview of the year

PSAA is the appointing person for audit services for principal local government and police bodies. It was originally specified as such by the Secretary of State in July 2016 and reaffirmed in May 2021. It operates in accordance with the provisions of the Local Audit and Accountability Act 2014 (LAAA2014) and the Local Audit (Appointing Person) Regulations 2015 (LAPR2015).

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 administering and monitoring compliance with the contracts awarded to suppliers to carry out local audits.

During this financial year audits in respect of 2020/21 were performed at 474 opted-in bodies (98% of eligible bodies) in a challenging context which included the COVID-19 pandemic. Disappointingly, a high proportion of those audits were not concluded in a timely manner adding to a growing backlog of outstanding audit opinions which represents a major concern for all interested parties. The absence of timely audit opinions poses a serious threat to public accountability, undermining the ability of local bodies to account effectively for their stewardship of public money to taxpayers.

Preparing for the second appointing period

A critical theme during this year has been the making of plans and preparations for the second appointing period which will commence in April 2023 and will cover the audits of the financial years spanning 2023/24 - 2027/28.

During 2021/22 PSAA embarked on a significant programme of work to:

- develop its offer for the national appointing person scheme for the second appointing period;
- invite eligible bodies to opt into the scheme; and
- undertake procurements, launched in February 2022, to let contracts with audit firms for audits of opted-in bodies from 2023/24 onwards and to establish a new Dynamic Purchasing System (DPS) for use, as necessary, during the second appointing period.

Encouragingly, 470 local government and police bodies in England (99% of the current total of eligible bodies) decided to opt into the scheme from April 2023. Only 5 eligible local bodies decided to make local arrangements for their auditor appointment.

PSAA launched two procurements, one for the main procurement of audit services for the period covering the audit of accounts from 2023/24 to 2027/28 and one to establish a DPS from which a number of audits are likely to be procured during the five- year appointing period. For example, the DPS may be used in situations where a change of auditor is required at a local body or as a result of new eligible bodies joining the scheme due to local government reorganisation.

PSAA's procurement strategy has been developed and implemented with careful attention to detail. It reflects the results of extensive consultations with local bodies, the market and partners in the local audit system. The focus throughout has been to try to develop the best possible procurement approach which will meet the sector's needs and be attractive to both new and existing suppliers. As well as meeting immediate needs, it is hoped that the procurement will mark real progress and contribute towards the development of a more sustainable market for local government audit services.

At the time of writing the main procurement of audit services is drawing to a conclusion with tenders due to be returned on 11 July 2022. The market for local audit services continues to face a number of significant difficulties which have been thoroughly documented following the Redmond Review and in related reports published by the National Audit Office and the Public Accounts Committee. (See footnote* on page 5) The outcome of the procurement is therefore eagerly awaited.

The challenging local audit market landscape

Local audit continues to be impacted by developments and trends in the wider audit industry. Following a number of high-profile corporate failures in the private sector, the Government commissioned a series of reviews in 2017-18 into different aspects of audit, led by Sir John Kingman, the Competition and Markets Authority (CMA) and Sir Donald Brydon.

The Kingman Review into the regulation of audit has already led to significant changes in regulatory requirements. As a result, auditors are exercising greater scepticism and audits are taking longer due to a requirement for increased resources and a different mix of skills. While Kingman's primary focus was on large listed companies, the impact of his review has trickled down to local audit very rapidly.

The resulting changes were not envisaged when audit firms submitted tenders to PSAA during the 2017 procurement and, as well as introducing marked workload pressures, enhanced requirements have also led to a significant increase in the volume and scale of claims for fee variations in respect of necessary additional audit work. This has created significant additional work for PSAA.

Review of Local Authority Financial Reporting and Audit

The local audit system has also been the subject of a further review commissioned by the then Ministry for Housing, Communities and Local Government (MHCLG) and carried out by Sir Tony Redmond. Reporting in 2020, his review of local authority financial reporting and external audit, highlighted the significant challenges and turbulence within the local audit system, emphasising that 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.

The Department for Levelling Up, Housing and Communities (DLUHC), MHCLG's successor, has provided its response to the Redmond Review in a series of statements issued during the year, setting out proposed actions to implement the majority of the Review's recommendations. (See footnote¹)

Timeliness of audit completion

Last year, we reported that at the target publishing date of 30 November 2020, only 45% of 2019/20 audit opinions had been given at opted-in bodies. Increased regulatory requirements, including the need to demonstrate scepticism throughout 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 at 31 March 2022 there were 11% of 2019/20 opinions still outstanding.

The position has further deteriorated in relation to 2020/21 audits which have been affected by a variety of pressures including the impact of COVID-19 on the work required, additional audit requirements in the revised NAO Code of Audit Practice 2020, retention of experienced staff and increased regulatory focus, especially in relation to infrastructure assets. In respect of the 2020/21 audits, only 9% of audit opinions were issued by the revised target date of 30 September 2021. By 31 March 2022, 48% of opinions remained outstanding.

Both the NAO and the Public Accounts Committee have reported on this issue, emphasising the fundamental importance of timely opinions. The matter has been discussed at the Local Audit Liaison Committee, which brings together all the key stakeholders providing an appropriate forum given the whole-system nature of the action required to address the problem. In December 2021 DLUHC published a statement setting out its plan to chart a return to more timely opinions throughout the sector. Because of the scale and complexity of the problem, the Department acknowledges that a full recovery is likely to take several years.

This issue has a significant knock-on impact to the next appointing period. Instead of an early shift from existing to new contracts, it is now likely that the transition will be gradual and extend over a lengthy period. We are monitoring the situation closely and discussing potential implications with DLUHC on a regular basis.

Commissioning and undertaking research to inform our work

Where appropriate PSAA has continued to commission or conduct its own research to inform its work. This year our procurement strategy has drawn on, and been shaped by, the independent research report [PSAA-Future-Procurement-and-Market-Supply-Options-Review](#) commissioned in 2020 and subsequent consultations with the sector and the market. We have also commissioned research in relation to the likely implications for audit resources and fees of a number of revised auditing standards and

¹Sources:

Redmond review [Redmond Review.pdf \(publishing.service.gov.uk\)](#)

NAO report [Timeliness of local auditor reporting on local government in England, 2020 \(nao.org.uk\)](#)

PAC report [Timeliness of local auditor reporting on local government in England \(parliament.uk\)](#)

DLUHC response in December 2021 [Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](#)

Code of Audit Practice requirements. The findings of this work have been published to assist planning for local bodies and suppliers. Further work has been commissioned in 2022 to consider the ongoing impact of these changes, and a second information paper for audited bodies is planned.

We have also carried out research focusing on audit risks and costs including a project to explore the estimated minimum cost of a Code-compliant audit. In the interests of transparency we have consulted on the possibility that we may propose the introduction of a minimum scale fee to coincide with the commencement of the second appointing period.

Setting audit fees and fee variations

Before 2022, the local audit regulations required that fee scales must be set before the start of the relevant financial year. In contrast, a significant proportion of audit work is undertaken after the end of the relevant financial year. This timetable has meant that PSAA has had to set fees without the benefit of up-to-date information on the outcome of the audits for the preceding year and without knowledge of the very latest developments in relation to changing regulatory requirements. In practice, having been set in accordance with this timetable, fee scales have quickly been overtaken by new and better information, creating a necessity for fee variations to compensate suppliers for additional audit work. Both audited bodies and audit firms have understandably found these arrangements frustrating.

During 2021 DLUHC consulted on proposed changes to the regulations, to allow for audit fee scales to be set to a more realistic deadline and providing more flexibility in relation to the impact on fees of changes in audit requirements. The updated regulations took effect in February 2022 and apply to the fee scale for 2022/23 audits, which PSAA must now set before 1st December 2022.

In January 2021 PSAA consulted on the 2021/22 fee scale. The consultation highlighted the pressures on audit fees of recurring additional audit work needed during 2018/19 audits in response to increased regulatory requirements in areas of the accounts such as property and pension valuations. (Fee variations in respect of 2018/19 audits totalled £4.835m – 17% more than the original scale fees for the year). As a result, we made some changes to 2021/22 scale fees, where it was possible within the statutory fee setting timescale to identify the ongoing impact of the additional fees needed at individual audited bodies. Our next consultation, on the 2022/23 fee scale, is likely to reflect the need to build in further additional fees, based on the outcome of 2019/20 audits and potentially 2020/21 audits. (By June 2022 fee variations received so far in respect of 2019/20 audits totalled £10.222m – 36% more than the original scale fees for the year, and variations in respect of 2020/21 audits total £3.027m – 11% more than the original scale fees for the year). The consultation will also cover the impact of recent increases in inflation, for which PSAA is required under the provisions of its audit contracts to adjust payment to audit suppliers.

Monitoring our contracts and the quality of audit services

We published our second Annual Quality Monitoring Report under the appointing person arrangements, covering the work of local auditors appointed by us for the 2019/20 financial year, with the aim of providing a rounded, well-informed view of performance and quality for each supplier. The report included the results of our second

client survey on the quality of audit services and the outcome of the regulators' inspection reports (FRC and ICAEW) on the quality of local audit work.

The regulators' inspection reports covering a sample of 37 local government financial statement audits reported that there were eight (22%) that did not meet the required standard (which is being assessed as 'good or limited improvements required'). In their previous report ten (37%) audits were judged as not meeting the required standard. The FRC identified that they had seen tangible actions taken by the firms to respond to quality issues previously identified, but further work was needed to ensure that the observed improvement is both permanent and continuous. We have discussed with the firms their plans to address the matters raised by the professional regulators.

The inspections found that the quality of VFM arrangements work remained high, with all reviews (32 reviews) meeting the standard as in the previous year (27 reviews).

The client survey results reflected the current challenges, and respondents expressed their concerns about the wider local audit regime. Responses highlighted a number of recurring themes including the local impact of delayed audit opinions, the shortage of auditor resources, the level of scale fee variations, and the extent of the audit work now required on property and pension valuations.

Looking ahead

As the Government takes forward its proposals to implement the recommendations from the various audit-related reviews and DLUHC implements proposals contained within its technical response to the Redmond Review, we are likely to continue to face an uncertain operating environment over the medium term.

We have particular concerns about the level of uncertainty and the large backlog of delayed audits. They have the potential to have an adverse impact on both the outcome of the current procurement, and the health and stability of the local audit regime as a whole.

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 will continue to work closely with DLUHC, 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.

We are particularly keen to engage with and exploit the potential of the new Local Audit Liaison Committee (LALC), working with the other stakeholders with the aim of helping to build a more sustainable system, with timely delivery that meets the relevant quality requirements. We recognise that this will take time to achieve and that it will require all stakeholders to work together effectively through a challenging period.

Preparations for the next appointing period will continue to be a significant focus for PSAA over the next year. The outcome of our main procurement will be critically important and will set the context for the appointment of auditors to the opted-in bodies.

We look forward to moving on from managing serial problems within a fragile system to working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Refreshing the Board

During the course of the year we continued to refresh the membership of the PSAA Board, saying farewell to Stephen Sellers and Caroline Gardner, two founding members of our Board. We are indebted to both for the outstanding contributions which they have made to PSAA's work and development.

Two new Board members, Fraser McKinlay and Mike O'Donnell have joined the Board following an open recruitment process and we look forward to working with them as PSAA goes forward.

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 (LAAA2014). 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.

During 2016 PSAA was specified by the Secretary of State as an appointing person under the provisions of the LAAA2014. 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, covering audits of the accounts for the financial years 2018/19 to 2022/23.

At 1 April 2021, 467 of the 476 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.

In May 2021 the Government confirmed that PSAA would continue as the appointing person for local government, fire and police audits, with responsibility for procurement and contract management. This means PSAA will continue to appoint auditors and set audit fees for those eligible bodies who choose to opt in to the national arrangements, rather than appointing their own auditors. The second appointing period will commence on 1 April 2023.

The project to prepare for the second appointing period is a significant undertaking for the company spanning a two-year period. The timeline below shows the indicative timetable. PSAA hopes to develop arrangements which will secure positive outcomes including progress towards a more resilient, sustainable local audit system.

PSAA has made significant progress during 2021/22 in developing the appointing person arrangements including:

- consulting on and publishing a new prospectus for the appointing person scheme;
- setting out a procurement strategy and initiating a major procurement exercise to award new audit contracts, and to establish a DPS;
- determining the detail of our approach to ensure that all aspects of our methodology support the aim and objectives of our strategy, placing particular

emphasis upon meeting the needs of the sector and making the procurements attractive to both new and existing suppliers.

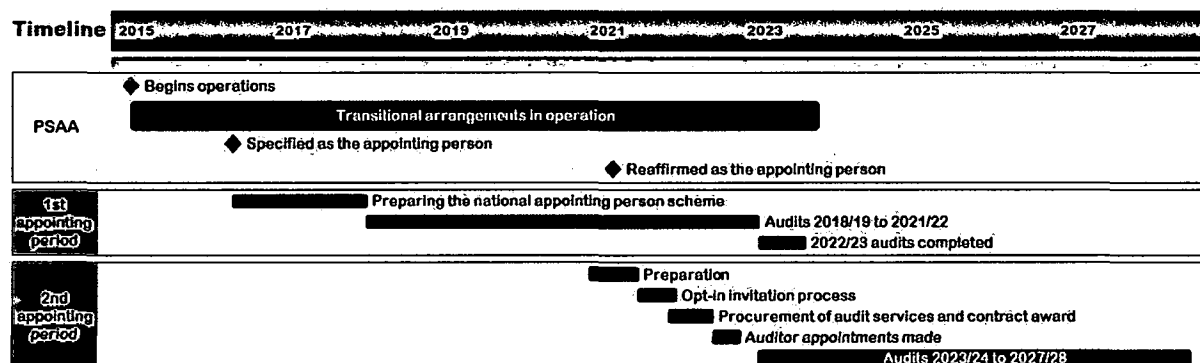
- increasing our communications and engagement activity over a nine-month period for the different stakeholder groups, during the period of the opt-in invitation:
 - consultation, webinars and e-bulletins for eligible bodies
 - market engagement with current and potential suppliers of audit services
 - members of the Local Audit Liaison Committee
 - regular engagement with DLUHC

Eligible bodies had until 11 March 2022 to notify us whether they wished to join the national scheme for the second appointing period. We engaged widely with eligible bodies, the market and key stakeholders to inform both the development of our offer for the national scheme and our procurement strategy.

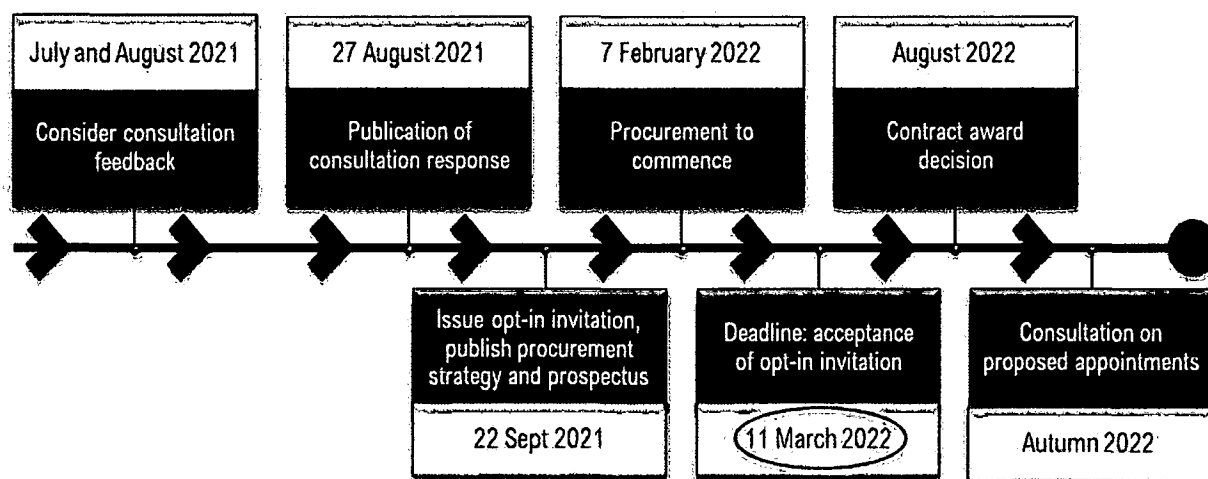
In the event, 470 bodies (99% of eligible bodies) chose to join the national scheme for the appointment of their external auditor for the audit of accounts from 2023/24 to 2027/28.

This project will complete during 2022/23, when, subject to a successful procurement outcome, PSAA will consult on and confirm auditor appointments to all opted-in bodies.

PSAA's changing responsibilities over time



Second Appointing Period: detailed timeline



Strategic report

The directors present their strategic report for the year ended 31 March 2022.

1. Objectives and operating environment

PSAA's responsibilities and aims are expressed through a series of objectives, 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 key partners including DLUHC and the LGA 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 is being developed to support the governance and working arrangements between the parties following the outcome of the current procurement.

The Board believes that strong corporate governance supports the future long-term success of PSAA. It has in place a comprehensive governance framework to support the company's 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.'*

The Board has satisfied itself that consideration of the requirements of Section 172, and the directors' duties under it, have informed and guided its work throughout the year. The details below explain how PSAA has had regard to promoting the success of the company in relation to each of the specific requirements of the legislation.

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

All decisions are taken with due regard to PSAA'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.

The Board considers how to promote the long-term success of PSAA on a continuous basis, providing effective leadership and oversight of the company's work and functions. It also ensures that PSAA plays an active role in discussions with partners concerning the development of 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 wider system to deliver for and meet the needs of opted-in bodies and users of audited accounts. With this in mind PSAA meets and works closely with other key players in the local audit system seeking to influence decisions for improvement of the system overall.

PSAA is represented on the Local Audit Liaison Committee (LALC) along with representatives of relevant government departments, the NAO, the FRC, ICAEW, CIPFA, and NHS England. The LALC is chaired by DLUHC and was established in 2021 to provide a joined-up response to the challenges and emerging priorities across local audit.

PSAA has in place a Business Plan for 2021/22 which sets out 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.

The five-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 each appointing period are accounted for separately in the MTFP to acknowledge the different groups of bodies receiving services from PSAA at each stage. The Board regularly reviews the company's financial position at Board meetings, including the most up-to-date forecast. The annual accounts are approved following scrutiny by the Audit Committee. The treasury management policy is also reviewed annually by the Audit Committee which makes recommendations to the Board as appropriate.

(b) The interests of the company's employees

PSAA aims 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 each of the company's work streams and related capacity via regular updates from the Chief Executive.

The company's structure is designed to ensure that PSAA is fit for purpose to fulfil the company's appointing person responsibilities including supporting the periodic requirement to undertake major procurement projects. The roles in the structure are filled by employees with the necessary skills, qualifications and experience. We

encourage and fund staff to attend training and development activities including, where staff are members of professional accountancy bodies, in order to fulfill continuing professional development obligations. 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.

As a result of the pandemic, staff have worked remotely since March 2020. The Board has recognised the importance of supporting the workforce during this difficult period and has put in place measures to ensure that staff are able to work effectively and remain connected. This has included regular team check-ins and manager contact, financial support to purchase office equipment for use at home, and access to the Employee Assistance Programme.

During 2021 we commissioned an independent review of working arrangements. A key element of the review involved listening to staff and taking on board their views for the design of a model for effective working for the future. The recommendations for a combination of home working and flexible use of office space as appropriate to accommodate effective working and personal preferences were fed back to the team.

Given the challenges faced by both our suppliers and PSAA, the Board reviewed PSAA's staff establishment and recognised the need to enhance the existing structure to deal with a much greater volume of fee variations than experienced previously. The Board approved a new post of Assistant Finance Manager and various other changes, though without any overall increase in the total number of posts in the structure.

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 weekly team meetings.

We commission consultants for specific research projects where it is appropriate to do so, which brings in extra capacity and specialist skills to support the internal team.

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

Positive business relationships are recognised to be critical to PSAA's success. Relationships with audit providers are of vital importance. Local audit requires 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 and is able to provide the required capacity.

Close links and open communications with opted-in bodies enables us to understand and better meet sector needs. The Board is also committed to building and maintaining strong, effective links with those 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.

We have 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.

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, fire and other local government bodies. We operate on a not-for-profit basis, and any surpluses are returned to the opted-in bodies.

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 an important mechanism for communicating with our opted-in bodies by cascading information and obtaining helpful feedback and insights into all aspects of our national scheme and procurement arrangements. This has been particularly useful in relation to our preparations for the second appointing period and has enabled us to engage with bodies on opt-in arrangements.
- 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) and to our invitation to join our national scheme for the second appointing period. 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 provide an important channel for communicating and engaging with both officers and members of opted-in bodies. 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. Throughout 2021/22 the LAQF events were held online because of the Covid-19 restrictions.
- We hosted five LAQF webinars for opted-in bodies designed to provide information and answer questions on different aspects of the appointment scheme including key aspects of our work. In addition we organised three webinars specifically to discuss our draft prospectus with eligible local bodies. Using this platform, we were able to reach out to bodies and audit suppliers. These events attracted over 300 attendees from eligible bodies, existing and potential suppliers. Given the success of these events, we plan to continue with this form of delivery and are developing a further programme of webinars for 2022/23.
- We have collaborated with the LGA and CIPFA to develop and deliver 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 opted-in bodies as part of our monitoring arrangements in respect of the quality of the audit services they are receiving. The results of the second survey in respect of the 2019/20 audits were reported in August 2021. The key messages were discussed with the audit firms and feedback was used to inform the design of the procurement documentation for the second appointing period.
- During the year we engaged with our opted-in bodies on a number of topics and issues including our procurement strategy through presenting at a number of local finance, audit and networking group events.

- We introduced a monthly e-bulletin as a platform for providing information on a regular basis to bodies on a wide range of topics including PSAA updates and events, the opt-in and procurement processes, and wider local audit issues and developments in the sector.

Our suppliers

Our main suppliers are the audit firms with whom we contract to provide audit services to our opted-in bodies. 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 developing our procurement strategy and the 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 resulted in the target publishing date for audited accounts by 31 July 2019 being missed for a significant number of audits. This continued to be a problem for 2019/20 audits. There was a further significant deterioration in the position for 2020/21 audits.

Audit year	Target publishing date	Audits missing target date (%)	Audits missing target date (number)
2018/19	31 July 2019	43%	208 out of 486
2019/20	30 November 2020	55%	268 out of 478
2020/21	30 September 2021	91%	433 out of 474

We are concerned and disappointed that these difficulties have arisen and recognise the importance of auditors meeting the target deadline wherever possible. 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 of delayed audits on the work plans of those bodies.

The challenges posed by Covid-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact on performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is in itself a significant concern, with 51 (11%) of the 2019/20 audits and 228 (48%) of the 2020/21 audits still incomplete at 31 March 2022.

In May 2021 the Public Accounts Committee considered the findings of the NAO report [Timeliness of local auditor reporting on local government in England, 2020 \(nao.org.uk\)](https://nao.org.uk/publications/timeliness-of-local-auditor-reporting-on-local-government-in-england-2020). The report concluded that since the last review of local authority governance and audit in 2019, despite efforts by the various organisations involved in the local audit system and by DLUHC, 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. Our CEO, Tony Crawley appeared before the PAC, responding to questions spanning all of these themes. The Committee published its report "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](#). The issue has continued to be raised and discussed at the LALC.

We are committed to working with other stakeholders to find solutions to ensure that the position improves as rapidly as possible. 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 resources.

DLUHC has a vital role in helping to ensure co-ordinated action in response to Sir Tony Redmond's recommendations and in overseeing the overall progress and performance of the local audit system.

PSAA also participates in the DLUHC Local Audit Monitoring Board, established to oversee the implementation and delivery of the Local Audit and Accountability Act 2014 (LAAA 2014). This group includes representatives of the regulatory bodies as well as relevant government departments.

We 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. We also publish quality monitoring reports on our 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 these reports.

Other key suppliers of services to the company are: the LGA which provides our back-office support services and accommodation; and CIPFA which provides technical reports and publications including the sector Accounting Code. 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 key stakeholders and regulators to ensure the quality of local audit services and are represented on various important fora.

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

Following the publication of the Redmond review in September 2020 and DLUHC's initial response in December 2020, we have provided DLUHC with detailed briefings in relation to our work under the appointing person regime and the development of our procurement strategy and processes. During the year we have also sought to keep the Department informed of emerging risks and issues.

In September 2021 we responded to the DLUHC consultation on the Local Audit Framework technical consultation which covered proposals to implement the Redmond recommendations, building on its Spring update report on Local Authority Financial Reporting and External Audit.

We engage with sector wide initiatives and contribute views and information for Government commissioned reviews and studies. 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, the CMA and Brydon. We have responded and highlighted the potential impact of these recommendations for the local audit sector.

We responded to DLUHC's consultation on proposed changes to the Local Audit (Appointing Person) Regulations which have now been laid before Parliament and passed into law. The changes to the regulations provide PSAA as the appointing person with greater flexibility in relation to fee setting and fee variations, to ensure the recurring costs to audit firms of additional work are built into scale fees in a more timely, flexible and seamless way.

(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 at every opted-in body by competent suppliers.

The LGA provides PSAA with a range of support services, including provision of serviced accommodation, HR, ICT and payroll support. This agreement was renewed for a three-year period commencing in April 2021. As well as securing 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 an office recycling scheme and use of energy efficient office equipment. Our aim is to reduce our environmental footprint by:

- continually reducing waste and increasing our 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, remote working has had a beneficial impact on the environment. As we emerge from the pandemic and are able to return to the office in some capacity, we will review our flexible working policy and will consider our environmental impact as part of this review.

Our current appointing person procurement scheme established in 2017 requires suppliers to identify the social value benefits which would accrue from any contract award. This secured commitments to apprenticeships, training and other arrangements. 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 243

apprenticeships and other training positions were introduced in the first two years of the contract.

Customers and their local communities will benefit from the value for money achieved from our procurement exercises and the periodic reimbursement of surplus funds.

Our staff complete mandatory e-learning training modules on dignity at work and equality in the workplace and awareness of modern slavery. The Board annually approves a statement on modern slavery which is published on the website.

(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 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 have a robust corporate governance framework which is reviewed annually to ensure that it remains fit for purpose and publish full details on our website. Further details are included in Section 3 of the Strategic Report on Risk Management (page 24) and within the Governance Report on pages 36 to 38.

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. PSAA's publication scheme is available on our website and provides detailed information about the company and its functions.

2. Business review

In our seventh full year of business, covered by this report, the company has focused on discharging its appointing person responsibilities against a backdrop of increasing turbulence in the local audit sector whilst also turning our attention to preparation for the next appointing period.

Auditor appointments

Appointments made for the five years of the current appointing period cover audits of the accounts for the period 2018/19 to 2022/23. In order to be eligible for our contracts, firms had to be approved by a relevant recognised supervisory body. The five suppliers contracted to provide audit services to opted-in bodies are set out below:

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 1 April 2021 there were 476 local government bodies eligible to be members of the PSAA scheme, 467 (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 eligible bodies 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. [List of auditor appointments and scale fees – PSAA](#)

Second appointing period

In May 2021 the Secretary of State confirmed that PSAA would continue as an appointing person under the LAAA2014.

The company began a significant programme of work in the latter part of 2020/21 to develop its offer for the national appointing person scheme for the second appointing period that will commence in April 2023, invite eligible bodies to opt into its national scheme, and undertake a procurement to let new contracts with audit firms.

Eligible bodies had from 22 September 2021 to 11 March 2022 to decide and notify PSAA if they wished to join the national scheme for the second appointing period. This period was well in excess of the minimum requirement of eight weeks under the regulations but was very necessary given the reduced frequency of full council, or equivalent, meetings and the impact of Covid-19. By the time the window for

notifications closed we had received 470 opt-in acceptances with only 5 eligible bodies preferring to make local arrangements for their auditor appointment.

We launched two procurements, one for the main procurement of audit services for the period covering the audit of accounts from 2023/24 to 2027/28 and one to establish a dynamic purchasing system (DPS) from which audits can be procured on a more ad hoc basis, for example, in situations where a change of auditor is required or as a result of new eligible bodies joining the scheme, for example due to local government reorganisations. New suppliers can apply to join the DPS at any time. We anticipate that this will encourage new entrants to the market.

Tenders in relation to the main procurement are due to be returned on 11 July 2022. A successful outcome will enable the award of contracts to successful suppliers during August 2022 and appointment of auditors to bodies later in the year. If the outcome does not identify all of the audit capacity required a number of contingency options will come into play including the possible extension of one or more existing contracts and/or use of the DPS.

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 applicable up to the end of 2021 required PSAA to set the fee scale before the start of the financial year to which the fees relate. From 2022 the fee scale must be set before December of the relevant financial year. The fee scale cannot be amended once it has been set.

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 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 in January 2021 on the 2021/22 fee scale with incomplete information in relation to:

- audits of all 2018/19 accounts, for which a minority of audit opinions remained outstanding;
- audits of 2019/20 accounts (a significant proportion of opinions remained outstanding at that time or fee variations had not been submitted for determination)
- audits of 2020/21 accounts (very limited if any audit work had been done at the time the fee scale was set in March 2021).

The new deadline of December for setting the fee scale, following the introduction of amended regulations in early 2022, should enable PSAA to base its fee scale consultation on more complete and up to date information on audit fees and requirements, depending on the position on delayed audit completions.

The regulations provide for PSAA to consider requests for additional audit fees from audit firms where substantially more work is needed than was envisaged when the fee scale was set. Such requests can generally 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 cases where PSAA could determine an additional fee nationally or for groupings of bodies, the updated regulations allow for this with some conditions. PSAA has consulted on changes to current fee variations arrangements with the aim of reducing, if possible, the volume of local discussions about fee variations. On the basis of the outcome of the consultation PSAA has:

- implemented a programme of research to consider the likely impact on audit work and fees of some expected changes in audit requirements;
- worked with DLUHC on changes to the regulations to provide the appointing person with greater flexibility in relation to fee setting and fee variations, to ensure the recurring costs to audit firms of additional work are built into scale fees in a more timely, flexible and seamless way; and
- introduced an updated rate card applicable to additional fees.

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.

Fee variations

Fee variations are the mechanism by which PSAA approves additional audit fees. Additional fees are required when an auditor needs to undertake substantially more work than was envisaged when the fee scale for the audit was set by PSAA. This is an increasingly common occurrence in the current climate, which is very different from the previously relatively stable conditions for local audit.

Since PSAA's current contracts with audit suppliers were let in 2017, audits have been subject to increased scrutiny and regulatory pressures following some controversial financial failures in the private sector. Additional work has been required at most audits to enable a safe audit opinion on the financial statements and to meet rising regulatory requirements. Changes in audit requirements, including the requirement for a VFM arrangements commentary in the Code of Audit Practice 2020 for audits from 2020/21, and some updated auditing and accounting standards have placed further pressures on audit fees. These pressures have been compounded by the restrictive statutory fee setting timetable before 2022, leading to an increasing need for fee variations for additional audit work.

Auditors are obliged to have local discussions with individual opted-in bodies about any proposed fee variations. These discussions should take place at the earliest opportunity, and wherever possible the auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. While it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage. Where fee variations relate to ongoing audit requirements, PSAA is building the approved variations into scale fees at the earliest fee setting opportunity.

We have previously reported the level of increase in fee variations from the audit year 2018/19 to 2019/20 where fee variations rose from £4.835m to £10.222m. We expect the level of fee variations for the audit year 2020/21 to be even higher than for 2019/20 due to the factors set out above. At the date of this report, fee variations for 2020/21 total £3.027m with a large number of anticipated claims still to be submitted to PSAA.

The table below provides a summary of the number of fee variations we are expecting for audit years 2019/20 and 2020/21 compared to the audit year 2018/19.

Number of fee variations

Audit year	2018/19 actual	2019/20 expected	2020/21 expected
Number of FVs submitted	1,040	3,200	4,700
% Change compared to 2018/19		208%	352%

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. They also ensure that PSAA meets its obligations under the Local Audit (Appointing Person) Regulations 2015 to monitor compliance of auditors with the requirements of our audit contracts and our associated terms of appointment which clarify the standards for performing the services under the contracts and provide a source of reference for matters of practice and procedure which are of a recurring nature.

We oversee any issues relating to the independence of our appointed auditors. This includes reviewing requests to provide non-audit consultancy services and monitoring the rotation of audit staff to minimise the threat of familiarity arising 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.

Quality of audit services

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

The results of our monitoring are published annually in our summary Audit Quality Monitoring Review. Our latest review covering the 2019/20 audit engagements was published in March 2022. 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 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 commission the LGA Research Team to conduct a survey to obtain opted-in bodies' feedback on their audits each year. 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. We report the survey results separately as soon as available.

We have also 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. At 31 March 2022 audit closure certificates had not been issued at 20 principal authorities as a result of ongoing audit work under the transitional arrangements on financial statements (four authorities) or outstanding electors' objections or where other investigative work has to be concluded. There are also two small authority bodies where certificates and opinions have not been issued.

3. Risk management

Risk management arrangements

PSAA has in place 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;
- ensures that risk management is an integral part of PSAA's culture and operations;
- contributes to making informed decisions and effective resource planning; and
- inspires trust and confidence with our key stakeholders.

The Board is responsible for taking a balanced view of the company's approach to managing opportunity and risk. The Board's responsibilities include:

- ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control;
- ensuring that the risks faced 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.

The 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 on occasions asks for further reports or presentations on specific risks as it considers necessary. The audit committee chair 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, providing the Board and audit committee with assurance on its ongoing effectiveness and appropriateness, and advising on any 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 review includes identification of appropriate actions to ensure that risks are mitigated and consideration of any new risks that should be added to the risk register.

As part of the preparations for the next appointing period a project risk register was established. This is regularly reviewed by both the Board and audit committee. Following completion of the next appointing period project, any residual risks to be managed will be subsumed within the corporate 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.

The significant risks facing PSAA are that:

- an audit supplier does not meet PSAA's contractual requirements in terms of delivery and fails to deliver audits on a timely basis;
- a protracted period of inertia and uncertainty in the audit world impacts on PSAA's scheme and procurement, and the wider local audit framework; and
- the objectives of PSAA's main procurement are not fully met and do not identify sufficient audit capacity to meet all of the scheme's requirements.

The audit committee and the Board are sighted in relation to these risks and regularly monitor the arrangements in place to manage them, recognising that many of the risks arise from the turbulence in the local audit sector and market which are, to a large extent, factors beyond our control. However, wherever possible, we have sought to raise risks to the sustainability of the local audit sector and emerging issues with system stakeholders, in order to influence the sector-wide response to 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.

In December 2021 and May 2022, Board workshops considered the implications of a number of scenarios which could arise from the outcome of the procurement and, through an assessment of the risks, produced an action plan to mitigate those risks.

Whilst 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 and strive to identify 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, perform an annual work programme, which covers key systems and aspects of the control framework. The results of this work programme are included in the Governance report on page 36.

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 2022 as revenue is matched to expenditure and any monies not required to cover costs are returned to opted-in bodies at appropriate intervals.

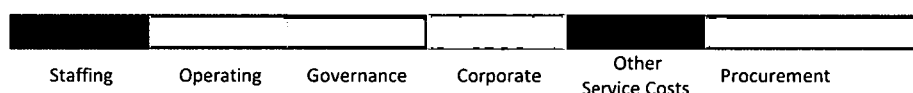
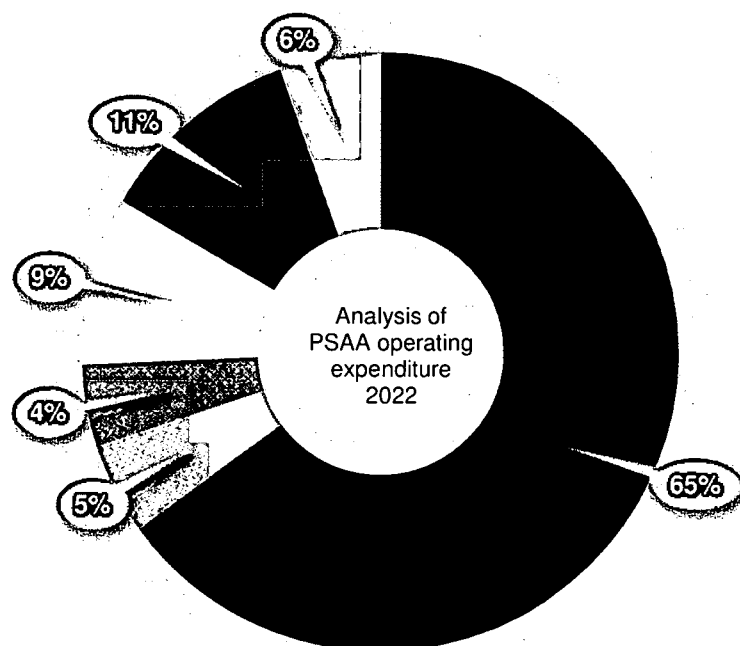
Revenue, including investment income, for the 12 months to 31 March 2022 was £32.911 million (2020/21 £30.535 million) which covered the costs including corporation tax incurred by PSAA for the period 1 April 2021 to 31 March 2022 of £32.911 million (2020/21 £30.535 million). The increase in revenue and associated audit costs are mainly due to higher levels of fee variations expected for audit year 2021/22.

Controlling costs

PSAA incurred total costs of £32.911 million, of which the cost of the audit contracts for the period was £31.401 million, 95.5% of total costs (2020/21: £29.240 million which represented 95.8%).

The chart shows the split of PSAA incurred operating expenses of £1.510 million in 2021/22. This represents 4.5% of total costs (2020/21: £1.293 million which represented 4.2% of total costs) and taxation of £0.0002 million (2020/21: £0.002 million).

The increase in operating costs is due to the procurement which commenced during 2021/22.



Financial position

PSAA's total assets equal total liabilities at the end of 31 March 2022 (31 March 2021: total assets also equalled total liabilities). PSAA is required to pay any surplus funds to 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.

PSAA distributed £5.600 million to opted-in bodies in September 2021. This leaves approximately £5.610 million in long-term deferred income (see note 13 on pages 49 to 50).

Future developments

The financial year 2022/23 will be another significant one for local audit and PSAA. The company will continue to discharge its appointing person responsibilities in relation to the first appointing period and conclude its preparations for the second appointing

period. It will continue to ensure that both these workstreams are completed to required standards and timescales.

By order of the Board

Steve Freer

Chairman

6 July 2022

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2022.

Directors

For the year commencing 1 April 2021 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 from 1 December 2014 to 31 March 2022
Stephen Sellers	Non-executive director	Member from 1 December 2014 to 31 January 2022
Keith House	Non-executive director	Member since 1 December 2017
Marta Phillips	Non-executive director	Member since 1 April 2021
Fraser McKinlay	Non-executive director	Member since 1 February 2022

Board succession

In January 2021 the IDeA Board approved a Board succession plan for PSAA designed to refresh the Board membership over time.

The Chairman is appointed by the IDeA and other non-executive directors are appointed by the Chairman following interviews with a panel of Board members. 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.

On 31 January 2022 Stephen Sellers stepped down from the Board. Stephen has been succeeded by Fraser McKinlay. Subsequently, on 31 March 2022 Caroline Gardner stepped down from the Board. Caroline has been succeeded by Mike O'Donnell who joined the Board on 1 April 2022.

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

Register of interests

The register of members' interests is available on the [PSAA website](#).

Board members are also required to notify and register any issues on which they might have a conflict of interest. Declarations of interest are also invited at the outset of each Board meeting.

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. 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

Looking forward, there are a number of key changes on the horizon which will have a significant impact on the local audit landscape and the environment within which we operate:

- 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 CMA). 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.
- The appointment of the FRC's first Director of Local Audit, Neil Harris, who will play an important role in establishing a new local audit unit within the FRC, ahead

of the it assuming the “Systems Leader” role for local authority financial reporting and audit, as part of its transition to the ARGA.

- In December 2020 the government published its Green Paper on transforming public procurement in the UK. It has since consulted on these proposals and published its Response to this consultation. It will be a while before draft legislation effecting such changes is produced, and changes aren’t expected to take effect until 2023. We will keep this under review and assess the impact on PSAA procurement procedures. We will need to prepare for the implementation of these changes during 2023.

Whilst these sector developments take shape and evolve, in the next year, PSAA will:

- conclude the main audit services procurement process, finalise and enter into contracts with successful audit suppliers, and potentially implement contingency measures if the procurement fails to realise all of the required auditor capacity;
- appoint auditors to opted-in bodies under the new audit contracts by 31 December 2022 and consult on and publish scale fees for the 2023/24 audits by 30 November 2023 (aligned to revised timescales in the updated appointing person regulations);
- continue to develop a programme of webinars and events under the Local Audit Quality Forum to support opted-in bodies on local audit matters, and as part of our role in the evolving local audit landscape; and
- following amendments to the Local Audit (Appointing Person) Regulations 2015, we have 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.

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 extended the responsibilities of the company beyond the transitional arrangements for which the company was responsible at its inception. In May 2021 DLUHC 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 relation to 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 the pandemic, we note that this has no material impact on the accounting period ending 31 March 2022. We have included an estimate of income and audit costs

in relation to fee variations for audit years 2020/21. We will continue to monitor the position as we receive more information from suppliers.

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

A resolution to appoint UHY Hacker Young as auditors for the company for three years was approved by the Board in January 2019. This appointment was extended for an extra year by Board resolution on 14 March 2022.

By order of the Board



Steve Freer
Chairman

6 July 2022

Remuneration report

Chief Executive and other senior appointments

Throughout 2021/22 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 2022	Number of employees 2021
50 - 55	1.0	
55 - 60	1.0	
70 - 75	2.0	2.0
90 - 95		1.0
100 - 105	1.0	
105 - 110	2.0	2.0
135 - 140	1.0	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	2022	2021
Chief Executive	£137,745	£135,044
Chief Finance Officer	£107,890	£105,853
2 Other Senior Managers	£100,129 to £107,151	£98,165 to £105,050

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	2022	2021
Band of highest paid - total remuneration	125k - 130k	120k - 125k
Median - total remuneration	53	65
Ratio	2.4	1.9

Remuneration policy for Directors

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

None of the Directors serving between 1 April 2021 and 31 March 2022 received other benefits from PSAA, nor were they members of the pension scheme.

Director	2022 £000	2021 £000
Stephen Freer	30	30
Clive Grace		8
Stephen Sellers	7	8
Keith House	8	8
Caroline Gardner	8	8
Marta Phillips	8	8
Fraser McKinlay	1	

(1) Amounts included in the table above exclude Employers' NIC and other reimbursed expenses.

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

Alan Edwards, the independent audit committee member received remuneration of £2,000 for the period 1 April 2021 to 31 March 2022.

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

Board members attended the following meetings during 2021/22:

Board members	Position	Board meetings
Steve Freer	Chairman	12/12
Caroline Gardner	Non-executive director	12/12
Stephen Sellers	Non-executive director (until 31 January 2022)	10/11
Keith House	Non-executive director	12/12
Marta Phillips	Non-executive director	11/12
Fraser McKinlay	Non-executive director (appointed 1 February 2022)	1/1

Further information about the directors is available on our website at: [Board members – PSAA](#).

Audit committee

During the year the audit committee was chaired by Caroline Gardner. Membership comprised Keith House, Marta Phillips, and Alan Edwards, an independent member.

The audit committee is responsible for keeping PSAA's governance arrangements under review, including the internal control framework and risk management arrangements. The committee is required to oversee production of the annual accounts, consider appointment and reports of the internal and external auditors, and to report annually to the Board on their work and any significant control issues which have emerged.

Chief Executive

The Board has delegated authority to the Chief Executive for the day-to-day management of PSAA, with responsibility for the overall organisation, management and staffing, and for its procedures including conduct and discipline. The Chief Executive ensures that the Chairman and Board have timely, accurate and clear information to carry out their responsibilities.

The Chief Executive has authority to act in accordance with the arrangements set out in the scheme of delegation in the corporate governance framework. The Chief Executive receives assurance from senior managers on the correct operation of these arrangements, and aspects of the arrangements are subject to review by the 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 available on our website at: [PSAA Corporate Governance Framework – December 2021 – PSAA](#). This sets out the arrangements in place for PSAA to conduct its business. It includes details of which matters are delegated, and which are reserved to the Board, and incorporates the company's financial policies. The Board and audit committee review the framework annually and also formally review the effectiveness of the Board and audit committee decision making arrangements.

Our internal auditors, TIAA Limited, perform an annual work programme, which covers key systems and aspects of the control framework. The 2020/21 internal audit annual report, presented to the audit committee in November 2021, provided substantial assurance for the three areas reviewed: risk management, the governance framework and a high-level review of financial compliance.

By order of the Board



Steve Freer
Chairman

6 July 2022

Annual Accounts

Financial statements

for the year ended 31 March 2022

Profit and loss account

		Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Turnover	4	32,910	30,522
Cost of sales	5	(31,401)	(29,240)
Gross Profit		1,509	1,282
Administrative expenses	6	(1,510)	(1,293)
Loss on ordinary activities before interest and taxation		(1)	(10)
Interest receivable and similar income		1	13
Profit on ordinary activities before taxation		0	2
Tax on profit on ordinary activities	8	(0)	(2)
Profit for the financial year		(0)	0

Statement of comprehensive income

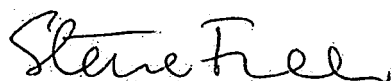
	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Profit for the year	-	-
Total comprehensive income for the year	-	-

Balance Sheet

		Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Current assets			
Debtors	9	3,027	2,008
Accrued income	10	1,438	1,186
Short term investments	11	2,626	6,598
Fixed term deposits	11	1,500	1,500
Cash at bank and in hand		10	10
		8,601	11,302
Creditors - amounts falling due within one year			
Trade and other payables	12	(862)	(858)
Deferred income	13	(2,129)	(8,336)
		(2,991)	(9,193)
Net current assets		5,610	2,108
Creditors – amounts falling due after more than one year			
Deferred income	13	(5,610)	(2,108)
Net liabilities		-	-
Reserves			
Retained earnings		-	-
Total Reserves		-	-

The notes on pages 43 to 51 are an integral part of these financial statements.

The financial statements on pages 39 to 51 were authorised for issue by the Board of Directors on 6 July 2022 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 2020	-	-
Reserves for the period	-	-
Balance at 31 March 2021	-	-
Balance as at 1 April 2021	-	-
Reserves for the period	-	-
Balance as at 31 March 2022	-	-

Statement of cash flows

		Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Net cash (outflow) / inflow from operating activities	14	(3,972)	2,364
Taxation paid		(2)	(10)
Net cash (used in) generated from operating activities		(3,974)	2,354
Cash flow from financing activities			
Interest received		1	13
Fixed maturity deposits		0	0
Net cash generated from financing activities		1	13
Net (decrease) / increase in cash at bank and in hand		(3,973)	2,367
Cash and cash equivalents at the beginning of the year		6,609	4,242
Cash and cash equivalents at the end of the year		2,636	6,609
Cash and cash equivalents consists of:			
Cash at bank and in hand		10	10
Short term deposits		2,626	6,599
Cash and cash equivalents		2,636	6,609

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 multiplied 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 multiplied by average % of fee variations submitted by firms for the audit year** multiplied 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 multiplied by average level of fee variations submitted by firms for the audit year** multiplied by the previous year's approval rate* multiplied 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 2019/20 is 75%.

**average level of fee variations submitted by firms for audit year 2020/21 is 54% 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;
- 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 2022 £'000	Year ended 31 March 2021 £'000
Audit fee income local government - principal bodies	32,910	30,522
	32,910	30,522

5. Cost of sales

Analysis of cost of sales

Bought in services

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Bought in services local government - principal bodies	31,401	29,240
	31,401	29,240

6. Administrative expenses

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Salaries and wages	816	703
Social security	96	85
Pension	71	63
Board members and non-Board members	64	64
Training	3	3
Rent and rates	33	40
Supplies & services	24	31
Travel & subsistence	2	0
Insurance	28	25
Legal and professional fees	208	140
Audit fees	17	14
Shared services	98	76
Subscriptions	50	50
Total administrative expenses	1,510	1,293

7. Directors, independent member of audit committee and Employees

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

	2022	2021
Directors	5	5
Independent member of Audit Committee	1	1
Employees	10	8

The directors' emoluments were as follows:

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Aggregate emoluments	64	64

Key management compensation

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Salaries and other short-term benefits	453	444

8. Taxation

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Current tax		
UK Corporation tax on profits for the current period	0	2
Total tax charge	0	2
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	0	2
Expected tax charge based on a corporation tax rate of 19% (2021 – 19%) on Interest receivable and similar income	0	0
Non-trade loan relationship credits	0	2
Brought forward / Carried forward loss relief	(0)	(0)
Tax expense for the year	0	2

9. Debtors

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Local government	3,027	2,008
Total debtors	3,027	2,008

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Trade Debtors	2,918	1,975
Prepayments	109	32
Total debtors	3,027	2,008

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

10. Accrued trade income

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Local government	1,438	1,186
Total accrued trade income	1,438	1,186

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 2022 £'000	Year ended 31 March 2021 £'000
Amounts owed to group undertakings	15	23
Accrual for holiday entitlement not yet taken	49	46
Corporation tax payable	0	2
Other taxation and social security	509	477
Accruals	289	309
Total Trade and other payables	862	858

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 £2.129m in relation to the arrangements under the Appointing Persons regime.

£1.746m of the £5.610m deferred income falling due after more than 1 year relates to the transitional arrangements and £3.864m 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 2022 £'000	Year ended 31 March 2021 £'000
Local government	2,129	8,336
Total deferred income	2,129	8,336

Deferred income - falling due after more than 1 year

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Local government	5,610	2,108
Total deferred income	5,610	2,108

14. Cash flow

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Operating loss	(1)	(10)
Working capital movements		
Increase in debtors	(1,271)	(1,433)
(decrease) / increase in payables	(2,700)	3,797
Net cash flow from operating activities	(3,972)	2,354

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 £141,816

(2021: £129,150). To date PSAA has paid a total of £127,223 in this financial year. £14,593 (2021: £23,296) 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 2022, 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 2022 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 2022 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 statement is 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 entity's ability to continue as a going concern for a period of at least twelve 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 £328,000. Calculating materiality centred 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 £246,000.

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 31, 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 and completeness of liabilities.

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. This description forms part of our auditor's report.

Other matters which we are required to address

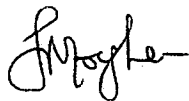
We were re-appointed by the Board of Directors on 24 January 2019. The period of total uninterrupted engagement of the firm is seven years.

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.



Jessica Moorghen (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young
Chartered Accountants
Statutory Auditor

8 July 2022