



Public Sector Audit Appointments

Annual report and accounts 2022/23



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Annual Report

Overview of the year

PSAA is the appointing person for audit services for principal local government, fire 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 (the Act) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations).

PSAA is responsible for appointing auditors and setting scales of fees for eligible bodies 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 2021/22 were expected to be performed at 474 opted-in bodies (98% of eligible bodies). However, due to a high proportion of earlier years' audits being delayed, the reality was that auditors were still working on the backlog of outstanding opinions. Disappointingly, 88% of 2021/22 audits were not concluded by the target date of 30 November 2022, adding to the backlog and underscoring serious concerns about the impact on local public accountability and good governance and financial management.

Audit services procurement

2022/23 was a particularly significant year because PSAA undertook a major procurement of audit services for opted-in bodies for the second appointing period, which covers the audits of the financial years spanning 2023/24 to 2027/28. Work on the procurement started in 2021/22 with consultation with eligible bodies, suppliers and wider stakeholders leading to the development of a Scheme Prospectus and Procurement Strategy. The procurement concluded at the end of September 2022 with the award of the new contracts. From the outset the procurement met a huge challenge to secure sufficient capacity for all the bodies that opted into our scheme.

This significant programme of work undertaken included:

- completion of two concurrent procurement processes. A main procurement to let contracts with audit firms for audit services for opted-in bodies for the period covering 2023/24 to 2027/28 secured 96.5% of the required capacity. The second established a Dynamic Purchasing System (DPS) for use, as necessary, for the next eight years;
- a rapid supplementary procurement in August-September 2022 to seek to secure the remaining capacity not secured in the first round; and
- consultation with opted-in bodies and successful firms on proposed auditor appointments. The PSAA Board approved the appointments in December 2022.

Over 99 % of eligible local government, fire and police bodies in England decided to opt into the scheme from April 2023. Only 5 eligible local bodies decided to make local arrangements for their auditor appointment.

The procurement took place against a challenging backdrop of a troubled audit profession, a turbulent market and a local audit system facing unprecedented difficulties including large volumes of delayed audit opinions. Only ten audit suppliers were registered to undertake local audits in England, three of which opted not to take part in this procurement. At the time of writing, there are now only nine registered audit suppliers.

Following a protracted competitive process reflecting the limited capacity available in the market, contracts were secured with six audit suppliers representing 99.5% of the audit work detailed in the tender. The services of three existing suppliers were retained (providing 78.5% of the required capacity), one former supplier returned to the market (14%) and two new suppliers were attracted to enter the market for the first time (6%). Local government reorganisation from April 2023 means that this level of capacity is sufficient.

Average bid prices reflected a significant increase compared to rates secured in the previous procurement in 2017. The audit industry has faced major challenges in the intervening period. In addition, local audit faces several distinctive difficulties which have resulted in a less competitive market. We will consult on the proposed scale of audit fees payable by opted-in bodies in respect of the audit of 2023/24 accounts in the autumn of 2023. Bodies have been informed that a major re-set of fees for 2023/24 is expected involving an increase of the order of 150% on the overall fees for 2022/23. The extent of this anticipated increase will pose a significant funding challenge for local bodies already facing a daunting range of financial pressures.

Having awarded new contracts, we developed proposals for auditor appointments to each opted-in body. The need to ensure auditor independence in relation to each individual appointment meant this was a challenging process. All but one appointment were made on a timely basis with the support of bodies and the cooperation of the firms. The process further evidenced the resource challenges that local audit faces and that firms are wary about committing to work which they may be unable to deliver.

The results of the procurement and appointment processes will help to maintain the system for the next five years, recognising that robust audit is particularly vital in a period which is likely to continue to be challenging for local public services. It will also provide time for critical local audit system changes to be developed and implemented under the direction of new system leader arrangements.

The challenging local audit market landscape

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. A number of reforms have followed from the resulting reports, but others - particularly the establishment of the proposed Audit, Reporting and Governance Authority - are awaited pending relevant legislation.

The Kingman Review into the regulation of audit has already led to significant changes in regulatory requirements. As a result, auditors are carrying out more work and exercising greater scepticism and, in turn, audits require increased resources and a different mix of skills. While Kingman's primary focus was on large, listed companies, the impact of his review has had major implications for the conduct of local audits.

The resulting changes were not envisaged when audit firms submitted tenders to PSAA during the 2017 procurement and the enhanced requirements have led to a significant increase in the volume and scale of claims for fee variations in respect of necessary additional audit work. This has also 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 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 in 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), has provided its response to the Redmond Review in a series of statements setting out proposed actions to implement the majority of the Review's recommendations. Key steps this year have included the appointment of Neil Harris, the FRC's first Director of Local Audit and the development of detailed plans for the leadership and co-ordination of the local audit system going forward. (See footnote1)

Timeliness of audit completion

The publishing date for 2020/21 audits was 30 September 2021. Eighteen months on from that milestone, at 31 March 2023, 145 (31%) of those audits are still incomplete. 2021/22 audits have seen a further deterioration in the position. The vast majority of 2021/22 opinions (88%), due for delivery by the extended target of 30 November 2022, were also delayed. By 31 March 2023, 347 (74%) of those audits are still incomplete. At 31 March 2023 the aggregate number of delayed opinions totalled 545, as an audited body can have more than one audit outstanding.

A table containing a breakdown of these figures is included on page 12 of the annual report.

Both the National Audit Office and the Public Accounts Committee have highlighted the significance of this unprecedented problem, publishing further reports in early 2023. The scale of the backlog of outstanding opinions is such that it poses a serious threat to the financial management, governance and accountability of local government bodies.

¹Sources:

Redmond review [Redmond Review.pdf \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/redmond-review)

NAO report [Timeliness of local auditor reporting on local government in England, 2020 \(nao.org.uk\)](https://nao.org.uk/timeliness-of-local-auditor-reporting-on-local-government-in-england-2020)

Progress update: [Timeliness of local auditor reporting on local government in England - National Audit Office \(NAO\) report](https://nao.org.uk/timeliness-of-local-auditor-reporting-on-local-government-in-england-progress-update)

PAC report [Timeliness of local auditor reporting on local government in England \(parliament.uk\)](https://parliament.uk/timeliness-of-local-auditor-reporting-on-local-government-in-england)

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

At 31 March 2023 145 bodies were still awaiting audit opinions for both 2020/21 and 2021/22 and for some even earlier years. As a result, the bodies are making decisions, managing multiple financial challenges and laying plans for the future with limited assurance about their underlying financial positions. The local audit system needs to find a way of clearing the backlog and restoring the norm of timely opinions as quickly as possible.

Progress on audit completions during this year has been hampered by uncertainties concerning the valuation of infrastructure assets, leading to delays in finalising opinions. This has added to the significant ongoing challenges of increased regulatory focus; recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard; and the demands on auditors to evidence scepticism throughout every step of the audit process.

The system needs to develop a well-coordinated collective effort to address the problem of delayed opinions with urgency. The Financial Reporting Council's Director of Local Audit is leading this work with the support of members of the Local Audit Liaison Committee. However, without a rapid increase in the number of auditors and/or a reduction in the work required to be undertaken, it is unlikely that a full recovery of the position will be possible in the short term.

This issue has a significant knock-on impact for the next appointing period. Instead of an early switch from existing to new audit contracts, the transition is expected to be gradual and take place over a longer period.

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.pdf](#) 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 Code of Audit Practice requirements. We have published the findings of this work to assist planning for local bodies and suppliers. We have also commissioned further work in 2023 to consider the ongoing impact of existing and new changes in audit requirements, the findings of which will be published in due course.

Setting audit fees and fee variations

During 2022 PSAA consulted on and set the fee scale for audits of the 2022/23 financial year, the last year of the current five-year appointing period. We published the new fee scale on our website in November 2022. The local audit regulations require that a fee scale must be set before 1 December of the financial year to which it relates. Audit work under this fee scale will largely be undertaken from autumn 2023 onwards.

The consultation on the 2022/23 fee scale set out the changes in audit requirements expected to have an impact on local audit work, and PSAA's proposals to address the additional fees needed. Our approach is to consolidate additional fees for ongoing requirements into the fee scale where we have sufficiently reliable information, for example from completed audits or from our externally provided technical research. At the time in 2022 when we were consulting on and setting the 2022/23 fee scale,

appointed auditors were generally completing their work on the 2020/21 audits and undertaking the 2021/22 audits. In ideal circumstances the fee scale would be set with full information on all audit requirements and following completion of all audits for the preceding year. A variety of practical difficulties arise from the fact that this is not possible given the current backlog.

There was a substantial and broadly positive response to the consultation proposals. Many of the issues raised by respondents extend beyond PSAA's remit and relate to the need for radical change in the local audit system, to achieve a more proportionate audit and a more sustainable audit system. We support this argument strongly and continue to seek action on these issues with government and key stakeholders.

Monitoring our contracts and the quality of audit services

We published our third Annual Quality Monitoring Report under the appointing person arrangements, covering the work of local auditors appointed by us for the 2020/21 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 third 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 29 (78%) that met the required standard (which is being assessed as 'good or limited improvements required'). This proportion is the same as the previous year and an improvement on 2018/19, when the proportion was 63%. However, four of this year's inspections concluded that significant improvement was needed (the lowest grade) compared to one in 2019/20 and two in 2018/19. The FRC reported their concern at the ongoing inconsistency in the quality of audits inspected; they identified good practice in areas where improvements were identified at other audits conducted by the same firm. The results this year highlight the need for adequate financial review procedures, effective evaluation of identified misstatements and the continued need to challenge management judgements and estimates.

The inspections found that the quality of value for money (VFM) arrangements work remained high, with all but one (96% based on 32 reviews) meeting the required standards. In the previous two years all VFM arrangements work inspected had been judged as meeting the standards.

Our client survey collected the views of both Audit Committee Chairs and Chief Finance Officers. Results reflected the current challenges we have highlighted, and respondents expressed their concerns about the wider local audit regime. Recurring themes included the local impact of delayed audit opinions, the shortage of auditor resources, the level of fee variations, and the extent of the audit work now required on property and pension valuations.

Establishing a framework of robust contract management processes for the next appointing period will be a significant focus for PSAA over the next year.

Looking ahead

As the government takes forward its audit reform legislation, and system leadership responsibilities transfer initially to the FRC and subsequently to ARGA, we are likely to

continue to face an uncertain operating environment next year and beyond. The financial and service pressures facing local bodies are also likely to exacerbate ongoing challenges.

We will continue to monitor closely the local audit landscape and work hard to understand the potential implications of any change for opted-in bodies, audit suppliers, and key stakeholders, particularly those on the Local Audit Liaison Committee. We will continue to work closely with all our partners and engage fully with activities that support the design and development of new arrangements. It is particularly important that the local audit market evolves, improving competition and assuring sustainability for the future.

We strongly support the call for urgent solutions and the need for radical changes in the local audit system. We hope that those changes will include more proportionate audit requirements which auditors are required to undertake before arriving at their opinion on the financial statements, enabled by a combination of revisions to the accounting and auditing requirements. In our view this is an absolute pre-requisite to achieve a more sustainable audit system.

Steve Freer, Chairman



Tony Crawley, Chief Executive



About PSAA

Public Sector Audit Appointments Limited (PSAA) is a not-for-profit company limited by guarantee without share capital. The company is a subsidiary of the Improvement and Development Agency (IDeA), which is a subsidiary of the Local Government Association (LGA). However, it is operationally independent of both organisations.

PSAA began operations on 1 April 2015 when the then Secretary of State for Communities and Local Government delegated a number of statutory functions to PSAA on a transitional basis 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 (the Act). While most of these transitional responsibilities have come to an end, PSAA is still responsible for two principal authority audits under these arrangements. Formal certificates of audit closure remain outstanding at 15 authorities.

During 2016 PSAA was specified by the Secretary of State as an appointing person under the provisions of The Act. 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 role also includes setting audit fees for opted-in bodies, procurement and contract management. The scheme 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.

In May 2021 the Government confirmed that PSAA would continue as the appointing person for local government, fire and police audits.

Eligible bodies were invited to notify us whether they wished to join the national scheme for the second appointing period. In the event, over 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. Bodies remain in the scheme for the duration of the specified appointing period.

PSAA's changing responsibilities over time

PSAA has two significant business cycles which run in parallel. Firstly, the development of the arrangements (at least once every five years) for an appointing period - the national auditor appointment opt-in scheme. This requires a significant and complex procurement of audit contracts with an intense period of activity during the 18-24 months leading to the start of a new appointing period. Secondly, the annual process for managing and reporting on the contracts and auditor compliance and fulfilling all the requirements of a Companies Act company. Having completed the procurement for the second appointing period in late 2022, the main focus now turns to developing and embedding a robust contract management framework for the new contracts.

Strategic report

The directors present their strategic report for the year ended 31 March 2023.

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.

During 2023 we hope to agree a new memorandum of understanding (MoU) with key partners including DLUHC and the LGA setting out the broad framework within which PSAA operates. A similar MoU was agreed in 2015 but now needs to be updated and refreshed.

The Board believes that strong and effective corporate governance supports the future long-term success of PSAA. It has in place, and regularly reviews and updates, a comprehensive governance framework to support the company's functions as an appointing person.

2. Business review

In our eighth full year of business, covered by this report, PSAA has focused on discharging its appointing person responsibilities against a backdrop of increasing turbulence in the local audit sector. The procurement for audit services contracts for the second appointing period commencing in April 2023 has been a particular focus this year.

2018/19 to 2022/23 auditor appointments

Appointments made for the five years of the first appointing period cover audits of the accounts for the period 2018/19 to 2022/23. In order to be eligible for our contracts, legislation requires firms to be registered by a relevant recognised supervisory body.

The five suppliers contracted to provide audit services to opted-in bodies for this period are set out below:

Lot	Firm	PSAA market share 2018/19-2022/23
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 2022 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 that strives to maximise benefits and 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 regulations. [List of auditor appointments and scale fees – PSAA.](#)

Timeliness of audit completion

The resourcing difficulties and other challenges which first emerged during the course of the audits of the 2018/19 accounts have continued to be a significant and escalating problem during subsequent years. The result is that at 31 March 2023 545 opinions are delayed, as summarised in the table below.

Audit year Publishing date	Number of opted in bodies	Percentage of audits complete by publishing date	Number of audits outstanding at 31 March 2023
2021/22 - 30 Nov	467	12%	347
2020/21 - 30 Sep	474	9%	145
2019/20 - 30 Nov	478	45%	39
2018/19 - 31 Jul	486	57%	10
2017/18 - 31 Jul	494	87%	2
2016/17 - 30 Sep	497	95%	1
2015/16 - 30 Sep	497	97%	1

We are concerned and disappointed that these difficulties have arisen and recognise the importance of auditors meeting target deadlines wherever possible. We are very conscious of the frustrations 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.

During 2021 the NAO reported on the timeliness of local auditor reporting in local government in England which was also the subject of a Public Accounts Committee (PAC) inquiry and a resultant report. Tony Crawley, PSAA's Chief Executive, gave evidence to the Committee which subsequently published its report "Local auditor reporting on local government in England". The report can be found at: Public Accounts Committee - Reports, special reports and government responses - Committees - UK Parliament.

The NAO published a follow up report in January 2023 (Progress update: Timeliness of local auditor reporting on local government in England - National Audit Office (NAO) report) and a further PAC hearing took place in March 2023 to which Tony Crawley again gave evidence. The level of interest and concern demonstrated by both the NAO and the PAC is a reflection of the seriousness of the position and its potential implications for good governance, financial management and local accountability.

Audit services procurement for the second appointing period

In May 2021 the Secretary of State confirmed that PSAA would continue as an appointing person under the Act. Towards the end of 2020/21 PSAA began a significant programme of work to develop the national appointing person scheme for the second appointing period commencing in April 2023.

Eligible bodies were required to notify PSAA if they wished to join the national scheme by March 2022. We were delighted that over 99% of eligible bodies chose to opt in, with only 5 eligible bodies preferring to make local arrangements for their auditor appointments.

The total number of opted-in bodies from 2023/24 is 456 following local government reorganisation in three county areas. This includes one body who were unable to make

a local appointment so asked the Secretary of State to intervene to enable PSAA to appoint their auditor.

Given the importance of the procurement for the next appointing period, we put in place formal project management arrangements to support good governance and manage risk. We also increased the frequency of Board meetings to enable careful and thorough consideration of strategic matters and timely decision-making.

The procurement initially secured 96.5% of the capacity required to enable auditor appointments to all opted-in bodies. We launched a rapid response supplementary procurement for all pre-qualified suppliers, from which we managed to achieve the further capacity required.

Based on the contracts awarded, from 2023/24 the respective shares of the audits of opted-in bodies will be as follows:

Audit firm	Status of firm	PSAA market share 2023/24 - 2027/28
Grant Thornton UK LLP	Existing	36.0%
Mazars LLP	Existing	22.5%
Ernst & Young LLP	Existing	20.0%
KPMG LLP	Returning	14.0%
Bishop Fleming	New	3.75%
Azets Audit Services	New	3.25%

Average bid prices received in this procurement were a significant increase compared to our previous procurement in 2017, as a reflection of current market conditions.

We have communicated that bodies should anticipate a major re-set of fees for 2023/24 involving an increase of the order of 150% on the 2022/23 scale fees.

Following the completion of our main audit services procurement, we undertook a significant exercise to develop proposed auditor appointments. We consulted opted-in bodies on the proposed appointments, providing the opportunity to make representations about our proposals. The Board approved the final appointments in December 2022, following which all bodies were formally notified of their confirmed appointment.

Alongside the main audit services procurement, we undertook a procurement to establish a dynamic purchasing system (DPS). The establishment of a DPS has the potential to offer several benefits including providing an alternative source when new appointments are required. It will enable suppliers without a main audit services contract to bid for our work and provide greater flexibility in our approach to future procurements. Registered suppliers may apply to join the DPS at any point.

At the time of writing we are working with DLUHC as they consider and evaluate the different options for both the future commissioning and delivery of audit services.

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 local audit regulations applicable from February 2022 require PSAA to consult on and set the fee scale before 1 December of the financial year to which the fee scale relates. The fee scale cannot be amended once it has been set.

PSAA consulted on and set the 2022/23 fee scale during 2022. Our fee strategy focused on adjusting the fee scale to reflect recurring changes in requirements, removing the need for discussion between audited bodies and auditors each year about additional fees for ongoing work. We have received generally positive feedback on this approach from opted-in bodies and stakeholders in previous consultations. Our consultation for the 2022/23 fee scale therefore set out a proposal, which was subsequently confirmed, to construct scale audit fees using the following elements:

2022/23 fee scale elements

A. The fee scale set for 2021/22

Plus:

B. Fee variations for recurrent requirements in 2019/20 audits

C. Fee variations for recurrent requirements in 2020/21 audits

D. An adjustment of 5.2% for inflation required under our audit contracts, to be funded from the surplus which would otherwise be distributed to opted-in bodies (see table below for a worked example)

Additional fees needed for work relating to additional changes in auditing and financial reporting requirements and to the VFM arrangements commentary to be determined using the fee variations process in 2022/23 audits and considered for consolidation into a future fee scale.

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 have to consult before the audits of the preceding year, and currently in many cases more than one year, are complete. For the 2022/23 fee scale, set during 2022, we did not have:

- information on any completed 2021/22 audits;
- complete information on all 2020/21 audits; and
- information for earlier years where there had been significant delays in audit completion.

The challenges facing the local audit environment are such that they do not lend themselves to immediate or easy resolution. PSAA is continuing to work closely with stakeholders to develop solutions and help to build a more resilient and 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 before 2018.

Since PSAA's current contracts with audit suppliers were let in 2017, audits have been subject to increased scrutiny and regulatory pressures as outlined earlier. Additional work has been required at most audits to enable a safe audit opinion on the financial statements in accordance with rising regulatory requirements. Further changes in audit requirements including the requirement for a VFM arrangements commentary in the Code of Audit Practice 2020 and some updated auditing and accounting standards have also placed pressures on auditors' work and fees.

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 complete, early discussion can help to align expectations and avoid misunderstandings at a later stage. Where fee variations relate to ongoing audit requirements, PSAA aims to build the approved variations into scale fees at the earliest opportunity. As outlined in the previous section, this was a key element in our approach to setting the fee scale for 2022/23.

The table below sets out the expected number of fee variations (as at 31 March 2023) in respect of each of the relevant financial years. Projected numbers are based on the scope of the audit set out in the 2020 NAO Code of Audit Practice and may be subject to change as a result of measures to address the audit backlog.

Number of fee variations

Audit year	2018/19 actual	2019/20 expected	2020/21 expected	2021/22 expected
Number of FVs submitted	1,040	3,500	4,000	4,000
% Change compared to 2018/19		237%	285%	285%

Contract monitoring arrangements

Our contract monitoring arrangements reflect our statutory requirement under the Regulations to monitor firms' performance in relation to the requirements of PSAA's contracts and enable us to report the results of auditors' work to audited bodies and other stakeholders.

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 audit work of our audit suppliers. However, this does not cover the judgements auditors have reached independently. We have a

Memorandum of Understanding with the ICAEW and FRC to clarify arrangements and responsibilities for the review of such complaints.

Quality of audit services

We are very aware that quality of audit service delivery is a high priority for our opted-in bodies. Working within the boundaries of our remit in the local audit system and the limitations of the local audit market, we endeavour to secure quality audit services through our contracts with suppliers.

We use the International Auditing and Assurance Standards Board's Framework for Audit Quality (the IAASB framework) as the model for monitoring the quality of audit services provided by our suppliers. This sets out the expectations for the provision of a good quality audit service which we have distilled 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 our annual client surveys.

We publish quarterly reports on our website to help opted-in bodies understand how we are monitoring the performance of audit firms on their behalf and include other information as it becomes available, for example the results of our client surveys.

The results of our monitoring are published annually in our summary Audit Quality Monitoring Review, incorporating the results of the latest professional regulatory reviews undertaken by the FRC and ICAEW. Our latest annual review ([Audit Quality Monitoring Report 2020/21 – PSAA](#)) was published in March 2023.

We have a continuous dialogue with our contracted firms through regular meetings which consider specific matters raised by either party, provide feedback information about performance and quality and discuss any actions necessary to achieve specific improvements.

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 benefit 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 2023 audit closure certificates had not been issued at 15 principal authorities as a result of ongoing audit work on financial statements (two authorities), or outstanding electors' objections, or where other investigative work has to be concluded. There also remains one small authority where the certificate and opinion has 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 the internal controls established to manage strategic and operational risks. The committee scrutinises the corporate risk register at each meeting and on occasion asks for further reports or presentations on specific risks as it considers necessary. The 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 individual risks. The review includes identification of appropriate mitigations and consideration of any new risks that should be added to the risk register.

A project risk register was established to consider the specific risks associated with the procurement for the 2022 audit services contracts. This was reviewed regularly by both the Board and audit committee. In January 2023 at the conclusion of the procurement, the residual risks were subsumed within the corporate risk register.

Current risks

During the year PSAA has monitored the potential risks to achievement of our objectives including delivering on the procurement. Mitigating actions were put in place wherever possible.

The significant risks currently facing PSAA are that:

- an audit supplier does not meet PSAA's contractual requirements in terms of audit quality and 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 reputation, and the wider local audit framework; and
- the volume of delayed audit opinions becomes unmanageably high, adversely impacting the governance, financial management and accountability systems of local bodies.

We recognise that many of the risks to the company achieving its objectives 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 with system stakeholders the risks to the sustainability of the local audit sector and emerging issues, in order to influence the sector-wide response to risk.

Future risks

Over the next few years there will be a number of wider challenges and further change within the local audit system, 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;
- following the creation of ARGA as the system leader, addressing the challenge of ensuring that the local audit system as a whole works effectively and meets the needs of audited bodies and users of accounts;
- the need to maintain a sustainable, competitive local audit market; and
- the related challenge to ensure an adequate supply of suitably qualified and experienced audit staff.

In February 2023 the Board considered the potential implications of a number of scenarios which could arise and reflected the discussion points in the corporate risk register.

4. Financial review

Being financially responsible

PSAA is committed to securing value for money, ensuring it delivers its objectives while minimising costs. PSAA is a not-for-profit organisation and 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 PSAA's internal auditors review the internal control environment annually to provide assurance on the financial controls and confirm these are working as intended;
- meeting PSAA's statutory obligations; and
- meeting PSAA's duties as a good employer.

The 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.

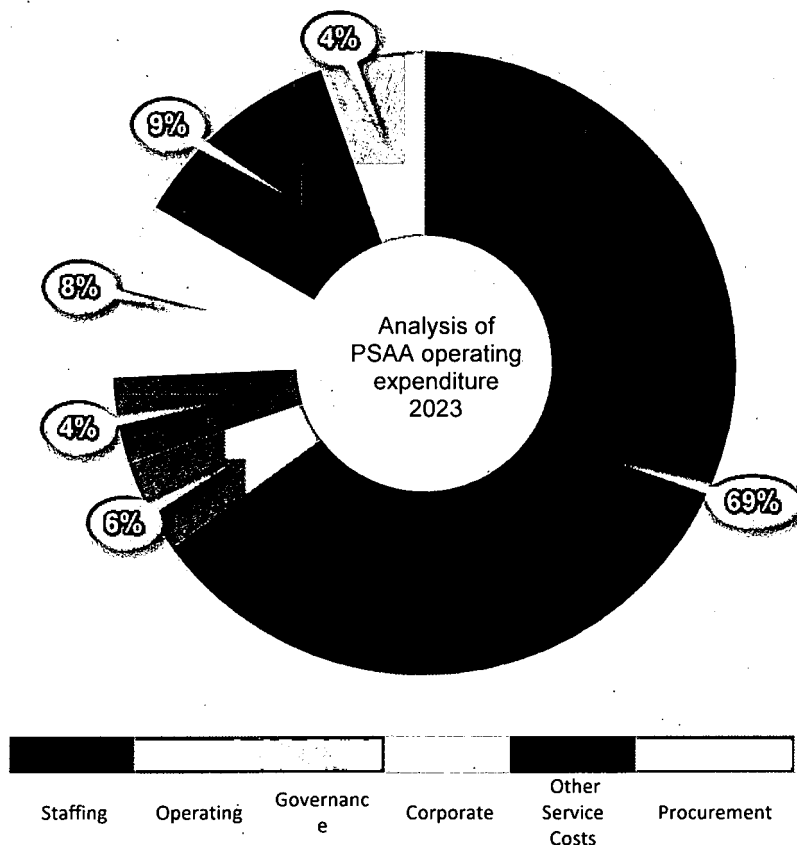
PSAA's accounts show a £nil profit for the 12 months to 31 March 2023 as revenue is matched to expenditure and any monies not required to cover costs are returned to opted-in bodies at appropriate intervals.

Revenue, including investment income, for the 12 months to 31 March 2023 was £40.838 million (2021/22 £32.911 million) which covered the costs including corporation tax incurred by PSAA for the period 1 April 2022 to 31 March 2023 of £40.838 million (2021/22 £32.911 million).

Controlling costs

PSAA incurred total costs of £40.838 million, of which the cost of the audit contracts for the period was £39.341 million, 96.3% of total costs (2021/22: £31.401 million which represented 95.5%).

The chart shows the split of PSAA incurred operating expenses of £1.473 million in 2022/23. This represents 3.7% of total costs (2021/22: £1.510 million which represented 4.5% of total costs) and taxation of £0.024 million (2021/22: £0.0002 million).



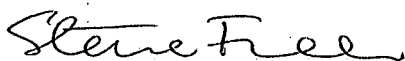
Financial position

PSAA's total assets equal total liabilities at the end of 31 March 2023 (31 March 2022: 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.

Future developments

During 2023/24 the company will continue to discharge its appointing person responsibilities in relation to the first appointing period and establish a robust contract and financial monitoring framework for the new audit services contracts which commenced on 1 April 2023. PSAA will continue to ensure that both these workstreams are performed to required standards and timescales.

By order of the Board



Steve Freer
Chairman

25 July 2023

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2023.

Directors

For the year commencing 1 April 2022 the PSAA Board membership was as set out in the table below:

Board members	Position	Date of appointment
Steve Freer	Chairman	1 October 2014
Keith House	Non-executive director	1 December 2017
Marta Phillips	Non-executive director	1 April 2021
Fraser McKinlay	Non-executive director	1 February 2022
Mike O'Donnell	Non-executive director	1 April 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.

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

Register of interests

Board directors are 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. The register of director' interests is available on the [PSAA website](#).

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. 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.

The directors take seriously their duties under Section 172 of the Companies Act 2006 to promote the success of the company for the benefit of its members as a whole. The directors have satisfied themselves that consideration of its requirements, and the directors' duties under it, have informed and guided their work throughout the year and have published on the PSAA website a [Section 172 statement](#) detailing how they have complied with this requirement.

Directors' indemnity provision

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

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 June 2022 the government published the consultation responses to the White Paper setting out 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 FRC appointed their first Director of Local Audit, Neil Harris, in September 2022. This is an important role in establishing a new local audit unit within the FRC. We will need to consider the potential for further developments to local audit as the FRC moves from operating in the role of shadow system leader for local authority financial reporting and audit to becoming system leader as part of its transition to the ARGA, at some point expected to be during 2024.
- Following BREXIT, the government has announced its intention to transform public procurement. The Procurement Bill is currently going through the legislative process and is expected to come into force in a phased way from late 2023 at the earliest. PSAA will need to comply with the new procurement regime and assess the 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:

- continuously review our programme of activities to ensure we remain focused on the crucial issues as the changes to the local audit environment unfold and to ensure we provide the best possible service to our opted-in bodies;
- both undertake and actively contribute to relevant research and projects, including annual fees-related research and analysis to inform the development of the fee strategy, and in support of projects commissioned by the shadow systems leader that seek to address the challenges faced by the local audit system;
- set the 2023/24 annual fee strategy and consult on the fee scale for the first year under the new audit services contract by 30 November 2023, reflecting audit risk and complexity;
- deliver a programme of Local Audit Quality Forum events such as themed all-day conferences and webinars to stimulate debate and to support opted-in bodies on local audit matters, and as part of our role in the evolving local audit landscape; and
- develop and implement updated arrangements for contract and financial monitoring to align with the 2022 audit services contracts.

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.

Subsequent events

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

Disclosure of information to auditors

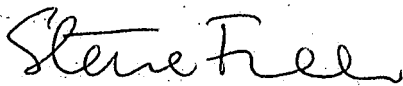
For each of the directors at the time this report was approved, the following applies:

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

Independent auditors

A resolution to appoint MHA LLP as auditors for the company for three years 2022/23 to 2024/25 was approved by the Board on 24 October 2022.

By order of the Board



Steve Freer
Chairman

25 July 2023

Remuneration report

Chief Executive and other senior appointments

Throughout 2022/23 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 2023	Number of employees 2022
50 – 55		1.0
55 – 60		1.0
60 – 65	1.0	
70 – 75	1.0	2.0
75 – 80	1.0	
100 – 105	1.0	1.0
105 – 110	1.0	2.0
110 – 115	1.0	
135 – 140		1.0
140 – 145	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	2023	2022
Chief Executive	£141,877	£137,745
Chief Finance Officer	£111,004	£107,890
2 Other Senior Managers	£103,133 to £107,379	£100,129 to £107,151

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	2023	2022
Band of highest paid - total remuneration	125k - 130k	125k - 130k
Median - total remuneration	62	53
Ratio	2.1	2.4

Remuneration policy for Directors

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

None of the Directors serving between 1 April 2022 and 31 March 2023 received other benefits from PSAA, nor were they members of the pension scheme.

Director	2023 £000	2022 £000
Stephen Freer	30	30
Stephen Sellers		7
Keith House	8	8
Caroline Gardner		8
Marta Phillips	8	8
Fraser McKinlay	8	1
Michael O'Donnell	8	

(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 2022 to 31 March 2023.

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 a subsidiary of the Improvement and Development Agency (IDeA), which in turn is a subsidiary of 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 2022/23:

Board members	Position	Board meetings
Steve Freer	Chairman	10/10
Marta Phillips	Non-executive director and Chair of the Audit Committee	9/10
Keith House	Non-executive director	10/10
Fraser McKinlay	Non-executive director	10/10
Mike O'Donnell	Non-executive director	10/10

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 Marta Phillips. Membership comprised Fraser McKinlay, Mike O'Donnell, 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.

Procurement committee

In November 2022, PSAA established a procurement committee with responsibility for overseeing procurements where the total order value is expected to be above £20,000 but excluding the main audit services procurement and PSAA's internal and external auditor appointments.

The procurement committee was chaired by Keith House. Membership comprised Steve Freer and Fraser McKinlay.

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 – November 2022 – 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 2022/23 internal audit annual report, presented to the audit committee in April 2023, provided substantial assurance on our income flows, including fee variations.

By order of the Board



Steve Freer
Chairman

25 July 2023

Annual Accounts

Financial statements

for the year ended 31 March 2023

Profit and loss account

		Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Turnover	4	40,712	32,910
Cost of sales	5	(39,341)	(31,401)
Gross Profit		1,371	1,509
Administrative expenses	6	(1,473)	(1,510)
Loss on ordinary activities before interest and taxation		(102)	(1)
Interest receivable and similar income		126	1
Profit on ordinary activities before taxation		24	1
Tax on profit on ordinary activities	8	(24)	(0)
Profit for the financial year		0	0

Statement of comprehensive income

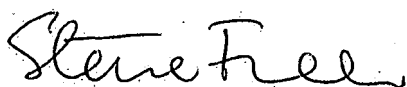
	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Profit for the year	-	-
Total comprehensive income for the year	-	-

Balance Sheet

		Year as at 31 March 2023 £'000	Year as at 31 March 2022 £'000
Current assets			
Debtors	9	4,020	3,027
Accrued income	10	2,333	1,438
Short term investments	11	5,159	2,626
Fixed term deposits	11	1,500	1,500
Cash at bank and in hand		10	10
		13,022	8,601
Creditors - amounts falling due within one year			
Trade and other payables	12	(1,078)	(862)
Deferred income	13	(1,829)	(2,129)
		(2,907)	(2,991)
Net current assets		10,115	5,610
Creditors – amounts falling due after more than one year			
Deferred income	13	(10,115)	(5,610)
Net liabilities		-	-

The notes on pages 34 to 42 are an integral part of these financial statements.

The financial statements on pages 31 to 42 were authorised for issue by the Board of Directors on 25 July 2023 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 2021	-	-
Reserves for the period	-	-
Balance at 31 March 2022	-	-
Balance as at 1 April 2022	-	-
Reserves for the period	-	-
Balance as at 31 March 2023	-	-

Statement of cash flows

		Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Net cash inflow / (outflow) from operating activities	15	2,433	(3,971)
Taxation paid		(24)	(2)
Net cash generated from / (used in) operating activities		2,409	(3,973)
Cash flow from financing activities			
Interest received		126	1
Fixed maturity deposits		0	0
Net cash generated from financing activities		126	1
Net increase / (decrease) in cash at bank and in hand		2,535	(3,973)
Cash and cash equivalents at the beginning of the year		2,636	6,609
Cash and cash equivalents at the end of the year		5,171	2,635
Cash and cash equivalents consists of:			
Cash at bank and in hand		10	10
Short term deposits		5,161	2,626
Cash and cash equivalents		5,171	2,636

Note that as PSAA entity does not have any debt, an analysis of net debt has not been produced.

Notes to the financial statements

1. General Information

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

The company is limited by guarantee and has no share capital. The 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). We qualify for Small Company exemptions; however we have adopted this approach for the purpose of transparency.

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 are applicable. These provisions have been reviewed and are not relevant to this financial year and prior accounting periods, 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 21. We are operating under the appointing person regime for the five years from 1 April 2018. 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.

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 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 73.7% (previously 75%), approval rate for audit year 2020/21 is 79.2%

**average level of fee variations submitted by firms for audit year 2019/20 is 49.5%, average level of fee variations submitted by firms for audit year 2020/21 is 75.9% (previously 54%) of scale fees, average level of fee variations submitted by firms for audit year 2021/22 is 72.0%

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

e) Corporation tax and deferred tax

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

f) Provisions

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

g) Employee benefits

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

i) Short term benefits

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

ii) Defined contribution pension plan

PSAA operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid, PSAA has no further payment obligations. The contributions are recognised as an expense when they

are due. Amounts not paid are shown as accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

h) Financial instruments

Financial instruments are shown as follows:

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

i) Contingent Liabilities

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

4. Turnover

Analysis of turnover

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Audit fee income local government - principal bodies	40,712	32,910
	40,712	32,910

5. Cost of sales

Analysis of cost of sales

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Bought in auditing services local government - principal bodies	39,341	31,401
	39,341	31,401

6. Administrative expenses

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Salaries and wages	817	816
Social security	106	96
Pension	74	72
Board members and non-Board members	64	64
Training	9	3
Rent and rates	26	33
Bad Debt	0	0
Supplies & services	31	25
Travel & subsistence	7	2
Insurance	31	28
Legal and professional fees	143	208
Audit fees	18	17
Shared services	99	98
Subscriptions	50	50
Total administrative expenses	1,473	1,510

7. Directors, independent member of audit committee and Employees

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

	2023	2022
Directors	5	5
Independent member of Audit Committee	1	1
Employees	12	12

The directors' emoluments were as follows:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Aggregate emoluments	64	64

Key management compensation

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Salaries and other short-term benefits	463	453

8. Taxation

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Current tax		
UK Corporation tax on profits for the current period	24	0
Total tax charge	24	0
The charge for the year can be reconciled to the profit and loss as follows:		
Profit before taxation	24	1
Expected tax charge based on a corporation tax rate of 19% (2022 – 19%) on Interest receivable and similar income	5	0
Non-trade loan relationship credits	24	0
Brought forward / Carried forward loss relief	(5)	(0)
Tax expense for the year	24	0

9. Debtors

	Year as at 31 March 2023 £'000	Year as at 31 March 2022 £'000
Local government	4,020	3,026
Total debtors	4,020	3,026
	Year as at 31 March 2023 £'000	Year as at 31 March 2022 £'000
Trade Debtors	3,867	2,917
Prepayments	152	109
Total debtors	4,020	3,026

10. Accrued trade income

	Year as at 31 March 2023 £'000	Year as at 31 March 2022 £'000
Local government	2,333	1,438
Total accrued trade income	2,333	1,438

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 as at 31 March 2023 £'000	Year as at 31 March 2022 £'000
Amounts owed to group undertakings	45	13
Accrual for holiday entitlement not yet taken	56	49
Corporation tax payable	24	0
Other taxation and social security	642	509
Accruals	311	289
Total Trade and other payables	1,078	861

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 £1.829m in relation to the arrangements under the Appointing Persons regime.

£1.746m of the £10.115m deferred income falling due after more than 1 year relates to the transitional arrangements and £8.369m 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 as at 31 March 2023 £'000	Year as at 31 March 2022 £'000
Local government	1,829	2,129
Total deferred income	1,829	2,129

Deferred income - falling due after more than 1 year

	Year as at 31 March 2023 £'000	Year as at 31 March 2022 £'000
Local government	10,115	5,610
Total deferred income	10,115	5,610

14. Cash flow

	Year as at 31 March 2023 £'000	Year as at 31 March 2022 £'000
Operating loss	(102)	(1)
Working capital movements		
Increase in debtors	(1,887)	(1,270)
Increase / (decrease) in payables	4,421	(2,700)
Net cash flow from operating activities	2,433	(3,971)

15. Related party transactions

PSAA was incorporated at the behest of the Local Government Association (LGA). PSAA is a company limited by guarantee without share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is a subsidiary of the LGA. As such the IDeA as founder member retains an interest in PSAA.

The accounts for Public Sector Audit Appointments Limited (PSAA) are not consolidated into IDeA statements or the LGA Consolidated Accounts because neither entity exercises or has the ability to exercise control over PSAA and are 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. During the year PSAA received services from the LGA, such as IT, HR finance support and accommodation. The total value of these services was £142,993 (2022: £141,816). To date PSAA has paid a total of £98,348 in this financial year. £44,645 (2022: £14,593) is owed by PSAA to the LGA.

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 2023 or 31 March 2022, PSAA had no contingent liabilities.

Auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PUBLIC SECTOR AUDIT APPOINTMENTS LIMITED FOR THE YEAR ENDED 31 MARCH 2023

Opinion

We have audited the financial statements of Public Sector Audit Appointments Limited (the 'company') for year ended 31 March 2023 which comprise the Profit and Loss Account, Balance Sheet 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 2023, 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, 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 Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included critical reviews of its business plan, budgets and forecasts provided.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 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.

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 our 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 and 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 in the Directors' Report, 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 control 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 specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the entity operates in, focusing on those laws and regulations that had a direct effect on the financial statements;
- Enquiry of management and those charged with governance to identify any instances of known or suspected instances of fraud;
- Enquiry of management and those charged with governance concerning actual and potential litigation and claims;
- Enquiry of management about any instances of non-compliance with laws and regulations;
- Reviewing the control systems in place and testing the effectiveness of the controls;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness;
- Evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias;
- Challenging assumptions and judgements made by management and Directors on significant accounting estimates;
- Reviewing minutes of meetings of those charged with governance; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

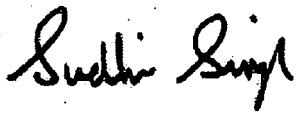
Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>.

This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 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.



Sudhir Singh FCA (Senior Statutory Auditor)

For and behalf of

MHA

Statutory Auditor

London, United Kingdom

Date: 4 October 2023

MHA are eligible to act as auditors in terms of section 1212 of the Companies Act 2006. MHA is the trading name of MacIntyre Hudson LLP, a limited liability partnership in England and Wales (registered number OC312313).