

**We are an independent
watchdog, driving economy,
efficiency and effectiveness
in local public services
to deliver better outcomes
for everyone**

Underlining our vital role

Annual report and accounts 2008/09

Audit Commission

Annual report and accounts

Report and accounts of the Audit Commission, showing the income and expenditure for the year ended 31 March 2009 and balance sheet as at 31 March 2009, together with the Report of the Comptroller and Auditor General thereon.

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Audit Commission annual report and accounts

April 2008 to March 2009

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Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing and inspecting some 11,000 local public bodies.

Basing judgements on the evidence

We pledge to lighten regulation, but our first commitment is safeguarding the interests of those who supply the money: the taxpayers. We connect what they pay to the quality of the services they get in return, giving particular concern to vulnerable people.

We promote sustainability, both in services at large and in our own backyard.

A watchdog exists to bark – but only when it needs to grab attention. Regulators deserve notice when they speak, provided they have an argument and proof to back it up. People want to hear what we have to say. We provide evidence to parliament, respond to consultations, and talk to government and the opposition parties.

The intellectual force of our judgements relies on empirical research and rigorous analysis.

We want to be a constructive collaborator with other regulators and a fair but critical friend to the bodies we audit and inspect.

As an employer, we want to be exemplary. As a public body we must be accountable and transparent. The Commission should practise what it preaches.

What our vital role looks like

Pursuing our aims of driving
economy, efficiency and
effectiveness through
five strategic objectives...

To raise standards of financial management and financial reporting

To challenge public bodies to deliver better value for money

To encourage continual improvement in public services so they meet the changing needs of diverse communities and provide fair access for all

To promote high standards of governance and accountability

To stimulate significant improvement in the quality of data and the use of information by decision makers

Our work means we have a unique perspective [Underlining our vital role](#)

over our four areas of
operation, working across
five sectors.

We appoint auditors to assure taxpayers and promote value for their money in councils, health trusts, community safety, fire and rescue and the police. Some auditors work for private firms, but the majority work for our own audit practice.

audit

We assess performance in councils and housing associations. Since Comprehensive Performance Assessment began in 2002, councils have improved. In Comprehensive Area Assessment we have now joined five other inspectorates to ask whether services – from health trusts and the police as well as councils – are improving quality of life, according to people’s own sense of priorities.

assessment

We help detect fraud and error by comparing sets of data, such as payroll or benefits. The National Fraud Initiative has found around £450 million of fraud and overpayments since it began in 1996.

data matching

We study spending and strategy. In 2008/09 subjects included NHS reform, deposits with Icelandic banks, regeneration in the English coalfields, children’s trusts and services for older citizens. Comparison is the usual method. We commend best practice where we find it, encouraging other public bodies to learn by example.

research



Underlining the vital role we have played this year

Our **Audit Practice** is one of the largest ‘firms’ of auditors in the UK. We are helping local public bodies adopt International Financial Reporting Standards (IFRS). A second annual report on audit quality witnessed our professionalism; audited bodies are satisfied; we achieved high levels of compliance. External scrutineers of our work from the Audit Inspection Unit reported positively.

More on Page 11 >>

Comprehensive Area Assessment (CAA) launched in April 2009. After consulting the public, councils and government, we agreed a plan of campaign and are sharing analysis and knowledge with the other inspectorates. We appointed 41 CAA leads to work with councils, trusts and other local players. We are alerting the public to CAA’s potential, to be displayed in a dedicated website.

More on Page 12 >>



Over the year we notched achievements under the **corporate and social responsibility** heading. Our staff are more diverse: 51 per cent of employees are women (35 per cent in senior management roles) and 10 per cent are from ethnic minorities (4 per cent in senior management roles). Under the sustainability heading, we cut business mileage by 12 per cent, saving an estimated £106,000. By 'greening' the car fleet, we cut emissions and made cost savings. We installed energy-efficient equipment in our offices and apply sustainable development criteria in buying goods and services.

[More on Page 13 >>](#)

We became **more efficient** by rendering more value for our own spending. We capped annual fee increases for audited bodies. CAA will cut the cost of inspection. In addition, we have saved £300,000 on telecoms; £227,000 through buying IT better; £350,000 on data management and IT; £2.3 million through procurement; and £600,000 through SMARTpensions. We have slimmed our estate by 20 per cent over four years.

[More on Page 15 >>](#)



The **Local Government** directorate presided over Comprehensive Performance Assessment's (CPA) final year. Some 62 councils won the top 4-star rating, 31 of 149 leaping two or more star categories, and 35 were improving strongly. Over the years since 2002 when we introduced CPA, the number of top performing councils tripled; 27 kept up their 4-star rating. Some 92 received a higher CPA score in 2008 than 2002 and four climbed from poor to 4 stars. A new benefits inspection regime made big savings without losing sight of how vulnerable people fare.

[More on Page 19 >>](#)

In **Health**, 50 per cent of trusts performed well or strongly in their use of resources and 58 per cent raised their score over that of 2007/08. The financial health of NHS bodies is improving. We offered the first comprehensive picture of the quality of data they use. Our Trust Practice remains the leading external auditor of foundation trusts.

[More on Page 22 >>](#)

In **Housing** new legislation made the Audit Commission the statutory inspector of standards in social housing. We launched short-notice inspection of housing associations and for a sixth year evaluated the market renewal pathfinders.

[More on Page 25 >>](#)



Under the **Community safety** heading, we conducted a learning and development exercise in preventing violent extremism. Most **Fire and rescue services** are better at preventing fires but could offer better value for money. We produced a tool with which fire services can compare themselves with others.

[More on Page 27 >>](#)

The **Chief Executive's office** liaises with government departments, answers parliamentary questions and coordinates responses to inquiries by Commons select committees. It also manages the complaints process, which includes an independent third stage.

[More on Page 28 >>](#)

The **Research** directorate published 23 reports on subjects from children's trusts to planning how to serve an ageing population.

[More on Page 30 >>](#)

The Audit Commission aspires to be a **great place to work**. Our diversity strategy won praise and in recruitment the technologically-innovative Engagement and Attraction 2.0 brought us some good candidates. We are investing in an extended graduate recruitment scheme. Voluntary turnover dropped by 1.5 per cent. Sickness levels of 6.7 days for each employee are well below the public sector annual average of 9 days.

[More on Page 33 >>](#)

Chairman and
Chief Executive's
foreword

1

Pursuing

efficiency

Setting an example to those we audit Underlining our vital role



We reduced the amount of our headquarters office space by **30%**

This will increase our 2009/10 savings to **£1.64m**



We are repaying our clients **£3.3m**

This helped them cover costs of introducing IFRS

Pursuing efficiency, inside as well as out

Quakes have shaken the economic landscape during the past year. But amid the storms of recession and the chill of straitened public finance, our role in pursuing economy, efficiency and effectiveness in public services is more necessary than ever.

We exist to protect the public purse, looking at the value from the money dispensed by councils, police authorities, health trusts and other local services. But as well as looking out, we must examine what goes on inside the Commission. We cannot require councils and health trusts to seek savings unless we too continuously test what we do, and at what cost.

As the fiscal climate darkens, we must also become more efficient and so have been making strides in that direction. For example, we studied how long staff worked in our Millbank offices or at home, on the move and at our other sites. How many desks did we really need? The answer was fewer, so we cut headquarters space by 30 per cent. We then re-let the free floorspace to the Charity Commission who estimate that the move will save them £13.1 million over nine years, with us saving £7 million over the same period.

Not only did we cap annual fee increases, we are committing £3.3 million to audited bodies to help with bringing in the IFRS. And the introduction of Comprehensive Area Assessment (CAA) gives us an opportunity (that we are taking) to cut the costs of inspection.

But this year's report isn't just about savings. In the following pages we run through how we are meeting our corporate and social responsibilities. We are cutting travel, using less energy, buying goods and services with sustainable development in mind. We champion diversity and are building a safe environment for everyone working at or visiting the Commission.

We are building a world-class audit practice. The second annual quality report showed how we are laying the bricks, cemented by external scrutiny from an independent regulator, the Audit Inspection Unit. Its verdict on the practice was positive – with room for improvement.

The Care Quality Commission, Ofsted and other inspectors are joining us in CAA to create a new way of reporting how public services affect quality of local life. We spent the year to April 2009 forging partnerships and developing methods. CAA has already proven itself a rare instance of joined-up government.

Our new powers to advise and assist public bodies in the UK and abroad began in April 2008. In our first year we completed more than 100 projects helping both local and national organisations, across all the sectors we serve.

We have moved forward this year. Our thanks to all staff for making things happen 'out there' where public bodies serve the public, the ground that counts most.



Michael O'Higgins Chairman
Steve Bundred Chief Executive

Our organisation –
evolving with the times

2

Striving for

quality

In everything we do Underlining our vital role



We are the **fifth largest** audit practice in the UK

We now audit over **966 principal bodies** and **2,450 smaller bodies**

Audit practice: making quality our priority

Gross fee income £135 million

Fifth largest audit practice in the UK

Second annual audit quality report published

966 principal bodies and 2,450 smaller bodies audited

Almost 1,400 staff within the Practice

In brief

The Commission's Audit Practice was the appointed auditor to 966 public and non-profit organisations and 2,450 smaller entities such as parish and town councils. Gross fee income for the practice was £135 million. The Commission runs the fifth largest audit practice in the UK; its 1,400 staff are two-thirds of our total workforce.

IFRS

In regular contact with the Department of Health and the Chartered Institute of Public Finance and Accountancy (CIPFA) we are supporting the implementation of IFRS's arrival in the NHS and local government. We briefed audited bodies and trained staff.

Second annual quality report

We are monitoring our own performance and the latest yearly summary said that our work meets professional standards, but has room for improvement.

Most clients are satisfied although local performance audit work could be better. The quality of our reports is up but we could do better here too. Compliance with local quality systems and regulatory requirements is high.

Seminars and conferences for professional leaders of the Audit Practice reinforced these initiatives along with a national technical training programme. We are pushing improvement in local quality plans.

Audit Inspection Unit inspection

The annual quality report includes a summary of what the independent Audit Inspection Unit found. It finished inspecting in May 2008 and its report went to the Commission Board in July last year. Its verdict was comprehensive and while identifying where it thought we needed to improve, its tone was positive: 'The Commission's commitment to improving audit quality is clearly evident'.

The Audit Inspection Unit recognised what we have done over the past couple of years. 'These changes, with the attitude and commitment of the Commission and its staff, indicate that the Commission is well placed to move forward.' Much remains to be done if we are to become a world-class audit provider.



The Commission's commitment to improving audit quality is clearly evident

Report of the Audit Inspection Unit

None of the findings came as a surprise. To address the recommendations for further improvement we put in place a comprehensive action plan, embracing longer run responses – for example, changes in general management with implications for finance and human resources. We will report on the Audit Inspection Unit's second annual inspection in our 2009 quality roundup.

Gearing up for the launch of CAA

Wide consultation with people, councils and central government

Trials in ten areas

Collaborative working, shared analysis

CAA framework agreed February 2009

Successful launch of CAA 1 April 2009

In brief

Two years of planning from 2007 led in April 2009 to the birth of a new form of joint regulation by multiple inspectorates. CAA will help local organisations improve the quality of life for their residents.

Developing our methods

In the summer of 2008, we published a second joint inspectorate consultation. This absorbed responses to an earlier consultation on principles and lessons from four pilot sites across England. A prototype web reporting tool carried into practice the ideas in the CAA framework.

We agreed a final version of that plan in February 2009, based on the summer consultation, city and county trials and focus groups run by Ipsos MORI. It also drew on workshops with chief executives and senior representatives of local service bodies.

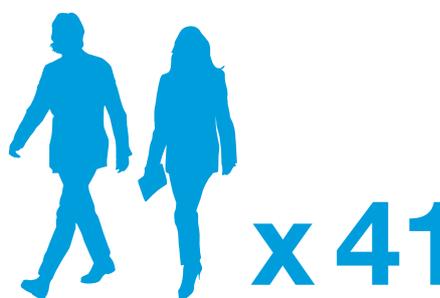
Working together

Sharing systems and a common frame of analysis with fellow inspectors we have been able to share evidence before making common judgements for each area.

We developed the Joint Assessment System for the narrative content of CAA; the Generic Analysis and Reporting System to take in performance information including the National Indicator Set.

A single website will showcase reports and findings and help the public find local detail.

We appointed 41 CAA leads to work with their counterparts at Ofsted, the Care Quality Commission, HM Inspectorate of Constabulary, HM Inspectorate of Prisons and HM Inspectorate of Probation. Trained teams are getting to know one another, their area and CAA's potential.



We appointed **41 CAA leads** to work with counterparts

Trained teams are getting to know one another, their area and CAA's potential

Raising awareness through communications and marketing

Focus groups and brand testing fed back insights into public attitudes; they will shape how we report findings. We've kept councillors up to speed. We published guidance on how the assessments will be made.



Focus groups and brand testing fed back insights into public attitudes

Creating a greener and fairer workplace

Workforce diversity growing

Safer workplaces

Meeting government sustainable development targets

Greener (and less) travel

Compliance with Greening Government ICT

More responsible procurement

In brief

As an assessor of others, the Commission must practise what it preaches. We aim to be socially responsible in procurement, as we are in our policies on diversity and health and safety at work.

In sustainable development, too, we made headway. In March 2008 we adopted the government's targets for Sustainable Operations on the Government Estate to cut energy use and waste. By the end of March 2009, we had met, or were on course to meet, 19 of 22 targets.



Our workforce is more diverse than ever

Championing diversity

A quarter of our board are women and a fifth from an ethnic minority. Our workforce is more diverse than ever. Just over half of our staff are women and one in ten from an ethnic minority. Of senior managers, 35 per cent are now women and 5 per cent from an ethnic minority (compared with 10 per cent and 2.3 per cent respectively of FTSE 100 directors). We aim to increase those figures by 2012 – to 50 per cent and 10 per cent respectively.

Promoting health and safety

To lessen office-related musculoskeletal problems and back pain we help staff with equipment, posture and screen breaks.

Greener travel

Increased use of videoconferencing has allowed us to better our target of a 5 per cent reduction in business mileage.

When we do drive, it's often in less-polluting vehicles. We changed our company car scheme with lower lease prices for greener models. This has cut the average emissions of cars ordered since June 2008 by around 20 per cent. The greening of our fleet will eventually save the Commission £180,000 a year. Twenty staff are now driving petrol-electric hybrids.

Staff who have to drive for work but don't qualify for a Commission car are advised to hire in line with Energy Savings Trust recommendations.



We are greening our car fleet

This will save us **£180,000** a year

Using less energy

We have been installing low energy light bulbs and closely monitoring energy use. Business Information Services has made progress against the 18 targets in the Greening Government ICT strategy, reducing air conditioning in equipment rooms, cutting the number of printers, and recycling machines.

Responsible procurement

We view purchases of goods and services through the lens of sustainable development. Major tenders – for example, a recent contract for furniture removal – ask where materials come from and about recycling. We ask would-be suppliers about their employees' rights and working conditions. We are more open to contracts with small and medium-sized and black and ethnic minority-owned firms and with social enterprises.

Outside endorsement

The Sustainable Development Commission is reporting on the sustainable development credentials of the Commission and other regulators. So far the Sustainable Development Commission has been complimentary, noting our efforts to embed sustainable development in CAA.



We view purchases of goods and services through the lens of sustainable development

Shaping a leaner, more streamlined organisation

Cutting audit and inspection costs

Savings on support services

Asset savings of £800,000 each year since 2005

Followed Office of Government Commerce guidelines on property management

20 per cent reduction in estate size since 2005

30 per cent space saving at our Millbank office this year

SMARTpensions saving £600,000 a year

In brief

We seek to keep costs to a minimum and fees down. The fees and grants paid to us are set to fall and our Corporate Savings Programme Board has been recommending savings that will allow us to balance the budget for 2009/10.

2008/09 was the fourth year of a five-year asset management strategy producing efficiency savings of £1 million a year. We will have cut estate costs by one-third by 2010 on the back of annual savings of £800,000 since 2005. We are in good shape to comply with the Office for Government Commerce's guide to better property asset management, *High Performing Property*.

Lightening the load

Under CAA inspection will be lighter and cost less. We are only raising fees for audited bodies at or below the Bank of England's consumer price index target.

We are planning to balance our budget over the next three years – by raising field staff productivity by at least 3 per cent, reducing direct costs in line with workload assumptions and re-letting contracts with audit firms.

Savings on support services

We've found innovative ways to cut support service costs. In Business Information Services, for example, integrating our voice and data network cut the annual telecoms bill by £300,000. Better buying of IT is saving us £227,000 (and helping meet sustainable development targets). We've streamlined information collection and storage, with savings in data management and IT worth £350,000 a year.

Our Procurement team made savings of £2.3 million in the year and is aiming for £2 million in 2009/10 through renewal of our contracts for insurance, printed publications, computer training and courier services.



We shrank our Millbank offices, cutting 14,000 sq ft

Savings on assets

We made a big cut in the size of our estate. Between April 2005 and March 2009, we reduced the office space we occupy by more than 20 per cent to just 183,100 sq ft, with the potential to shed another 47,100 sq ft by 2012.

We shrank our Millbank offices, cutting 30 per cent (14,000 sq ft) thanks to new flexible ways of working, earmarking space for teams not individuals. This year we also managed reductions at Eastleigh (7,000 sq ft), Ipswich (2,000 sq ft) and in Millbank's storage area (2,400 sq ft).



This location provides the best and most responsible use of our resources. It will save an estimated £12 million in our running costs over a nine-year period

Andrew Hind
Chief Executive,
Charity Commission

Charity Commission Saving space, saving money

The efficiency exercise that has freed up space for the Charity Commission to occupy at our Millbank premises is set to save our organisations a massive £20.1 million over nine years.

Called New Ways of Working, the programme involves re-designing office layouts, reducing or removing senior management offices and creating flexible team space. It has successfully reduced the space requirement at our London HQ by one-third.

It is also helping maximise the benefits of ICT investment in wireless network connection within Audit Commission offices and broadband connectivity for remote sites and home workers.

‘New Ways of Working is about providing flexible and mobile team space in a variety of settings, rather than just allocating every person a desk,’ said Chris Sterry, Head of Estates. ‘It is continuing the direction of travel in which mobile staff in the field, for example, have been going for a while. But now it’s not just those with peripatetic roles but the majority of staff who can choose whether to work at the office, at home or in other ways.’

For the Charity Commission the deal represents a significant saving. ‘This location provides the best and most responsible use of our resources,’ says Andrew Hind, Chief Executive of the Charity Commission. ‘It will save an estimated £12 million in our running costs over a nine-year period.’

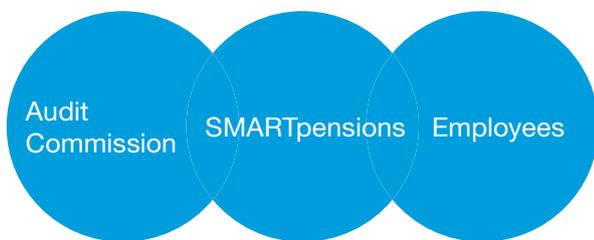
‘It’s the collaborative element of what we’re doing that makes this deal so beneficial,’ added Chris. ‘By working with other organisations, particularly in the public sector, we can really turn space efficiencies into cashable savings for the public purse.’

Providing evidence



We reduced the size of our estate by **20%**

This has achieved savings of **£800,000** since 2005



A new approach to pensions will save an estimated **£600,000** per annum

£120,000 collective savings in employee contributions

Reducing the size of the estate puts us on course to meet the energy and waste targets in Sustainable Operations on the Government Estate.

Lower pension costs

We launched a new approach to pension contributions that will save an estimated £600,000 a year, with employees collectively saving a total of £120,000 in pension contributions.

SMARTpensions involve reducing employees' salaries by the amount of their pension contributions – known as salary sacrifice – with the Commission paying those contributions directly instead. The lower pay brings lower National Insurance contributions, both for the Commission and for staff.

Protecting information

In response to the Cabinet Secretary's Data Handling Review of June 2008, we have improved information risk management. Measures include the full encryption of laptop and desktop computers and personal digital assistants, and information assurance training.

We have a mobile workforce. Among our full and part-time staff and contractors, there are some 2,000 laptop users who travel and visit the premises of the organisations we audit and inspect. Inevitably we suffer thefts and losses: this year 10 laptops, 16 memory sticks and 5 personal digital assistants were stolen or lost – all were fully encrypted and password protected. In addition, 17 mobile phones went missing. None of the lost items contained unprotected personal or sensitive information and no incident was deemed serious enough to be reported to the Information Commissioner.

Our sectors –
embedding value for
money into everything
we do

3

Consistently

improving

Delivering better outcomes for everyone Underlining our vital role

62 ★★★★★

62 councils achieved the top 4-star
CPA rating, **more than any other year**

Local government

62 councils get top 4-star CPA rating

91 per cent of councils performed consistently or well above minimum requirements for use of resources

35 councils rated as improving strongly

First year of benefits inspection delivers major savings

In brief

This was the last year of CPA and more councils achieved the top 4-star rating than in any other year. We looked back, evaluating progress over the entire CPA era from 2002 to 2008. But much effort went into preparing CAA, the innovative joint inspection that recognises public services are increasingly delivered in partnership.

CPA – 2008

On 5 March 2009 we published the final round of CPA scores for England's single-tier and county councils. In its last year, a record 62 councils achieved the top CPA rating, compared with 22 when it began six years previously.

Published alongside the 2008 report was a special publication, *Final Score*, giving an in-depth retrospective look at local government performance and the impact of CPA over its seven years.

Final Score: CPA 2002-08

- Number of top performing councils has tripled.
- 27 councils have maintained their 4-star rating for four years running.
- No council has been at the lowest zero rating for three years.

- Of the 128 councils that could have improved from 2002, 92 received a relatively higher CPA score in 2008.
- In 2008, 42 per cent of councils were in the highest CPA category compared to 15 per cent in 2002.
- 13 councils have been rated excellent or 4 star every year since 2002.
- Four councils improved from poor to 4 star.



We will give more emphasis to what local people actually get out of public services

Use of resources – 2008

The use of resources assessment looked at strategic financial management in councils, governance, financial reporting and value for money. A version of use of resources will continue under CAA, extended to cover use of natural resources and workforce. We will give more emphasis to what local people actually get out of public services, which will make the assessment tougher.

31 councils
+ ★ ★

31 out of 149 leapt two or more star categories



These days we feel we know ourselves better – we know what work we've still got to do

Jos Parry
Assistant Chief Executive

Coventry City Council **From zero to hero**

When Coventry City Council was rated 'poor' in 2002 the authority was shocked. But three years later, it was awarded a score of 3 stars and its 2008 4-star rating made it one of the fastest-improving councils.

Current Assistant Chief Executive Jos Parry was in the Council's Education Department in 2002. 'It was painful to be treated at conferences as if our council was a basket case,' she says. 'But the great thing about CPA was that it didn't just point out where the problems were – it set us on the road to fixing them.'

Following its assessment, Coventry launched several improvement initiatives, including a modernisation and improvement plan focusing on poorly-scoring services. It also took part in an engagement

process led by the (then) Office of the Deputy Prime Minister. Meanwhile, its newly-appointed chief executive provided strong leadership and introduced a management development programme.

'CPA helped us achieve a single, council-wide improvement plan, rather than just a set of plans in silos,' says Jos. 'That meant we could prioritise services needing improvement while keeping other services running smoothly. And because the assessment looked at wider issues, such as leadership, it gave rise to the review of our culture that proved so fundamental to our improvement.'

Gary Stevens, CAA Lead for Coventry, is looking forward to the more proportionate approach and rounded judgement that CAA will offer. 'But CPA provided an effective and public means of getting authorities to accept they had problems,' he says. 'Some councils have succeeded in using their CPA assessment as a yardstick for improvement. Coventry is one of them.'

'Perhaps the most significant thing about CPA is the self-awareness it has given us,' adds Jos. 'These days we feel we know ourselves better – we know what work we've still got to do.'

Providing evidence

91% 

91 per cent of councils performed consistently or well above minimum requirements for use of resources

Councils have shown steady improvement in their use of resources score since 2005 (marked on a scale of 1 to 4). Some 91 per cent of councils, excluding districts, performed consistently or well above minimum requirements overall (scoring 3 or 4) in 2008, representing an increase of six percentage points from 2007. Some 68 per cent of districts performed consistently or well above minimum requirements, compared to 60 per cent in 2007.

The number of top-performing single-tier and county councils scoring 4 overall increased from 27 in 2007 to 33 in 2008, representing 22 per cent of all councils. However, the number of top-performing districts did not change from 13 in 2007, representing 5 per cent of all district councils.

All single-tier and county councils met minimum requirements for use of resources (scoring 2 or above). The number of district councils not meeting minimum requirements for use of resources fell slightly from nine councils in 2007 to eight in 2008.

Except for financial reporting, council scores went up for all themes – financial management, financial standing, internal control and value for money. In financial reporting fewer councils performed in the top two categories.

Benefits inspection

The Audit Commission took over housing and council tax benefit inspections from the Benefit Fraud Inspectorate on 1 April 2008. Though harder than before, our approach has been well received. We published ten reports. For the first judgement – how good is the service – eight councils scored poor and two scored fair. We rated prospects for improvement poor in one, uncertain in five, and promising in four.

We found weaknesses in benefit take-up; speed and accuracy in paying benefits; managing overpayment; access, including telephone and reception waiting times; customer engagement and satisfaction; and value for money.

Benefits are a complex service, which are increasingly important during an economic downturn. The lower scores reflect sites chosen for inspection according to their risk profile. We will inspect where it will do most to push improvements in services for vulnerable people.



We will inspect where it will do most to push improvements in services for vulnerable people

Sustainable development

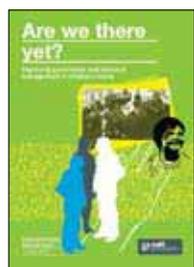
In autumn 2008 we published *Well Disposed*, which found that councils face fines in the millions unless they build waste treatment plants and keep up the pressure to reduce, reuse and recycle. More about corporate and social responsibility initiatives on Pages 13-14.

Our studies

Many reports aim at improving local government. Details of six of them are on Page 30. Relevant is:

Are we there yet?

Improving Governance and Resource Management in Children's Trusts



The children's trusts created by the government after the death of Victoria Climbié have been confused and confusing. Five years after the green paper *Every Child Matters*, and eight years after Victoria's death, the

report found 'there is little evidence of better outcomes for children and young people'. But trusts have succeeded in bringing professionals together. We argued voluntary local agreements work better than top-down direction.

Health

50 per cent of trusts and primary care trusts performing well or strongly in their use of resources

58 per cent improved on their score from the previous year

First comprehensive picture of quality of data

Trust Practice continues as leading external auditor of foundation trusts

In brief

We have continued to assess and support financial management in the NHS. Better data and use of information have also been themes; the NHS will only improve and address the tough challenges presented by the recession if it has strong financial management and good quality data.

CAA has propelled our public health work, often done jointly with the Healthcare Commission, now the Care Quality Commission. Public health is important for local strategic partnerships and has featured prominently in local area agreements.

Supporting improvement in NHS financial management

We continued to focus on NHS financial management. Rating trusts on a scale from 1 to 4, on how well they use NHS resources, we found that for 2007/08, 50 per cent were performing well or strongly. Only 7 per cent failed to meet minimum requirements and 58 per cent improved over the previous year. For the first time one trust scored top in all five areas. Such improvement reflected the NHS's financial health. It reported a year-end surplus of £1.67 billion (excluding

foundation trusts) and only 11 NHS bodies failed to achieve financial balance compared with 82 the previous year.

We are pushing recommendations from *A Prescription for Partnership: Engaging Clinicians in Financial Management* to involve clinicians more in financial management. These recommendations won the backing of the Academy of Medical Royal Colleges, Department of Health, the Healthcare Financial Management Association, NHS Institute for Innovation and Improvement and the Royal College of Nursing.

Is the Treatment Working?

Progress with the NHS System Reform Agenda



Produced with the Healthcare Commission, this examined the government's ambitious market-style reforms, set out in the NHS plan of 2000, with the aim of improving efficiency and effectiveness. Reforms included:

patient choice, Payment by Results, practice-based commissioning, foundation trusts and greater NHS use of private companies through independent sector treatment centres. The report also looked at how changes in staff contracts affected hospital efficiency and how patient care is commissioned.

Reforms could lead to improvements, but they need time to bed in. So far they concentrate on the supply side (for example, foundation trusts). Demand now deserves attention, and how patients and commissioning might drive improvement.



For the first time one trust scored top in all five areas

Are We Choosing Health?



This report, co-produced with the Healthcare Commission, asked how well the NHS and local government are tackling health improvement and inequalities. It looked at smoking, obesity, alcohol

misuse, sexual and mental health, and the well-being of young children and older people. The government's public health programme has helped to raise life expectancy. Trusts and councils have tackled smoking and by reducing teenage pregnancy have improved sexual health. However, we need more targeted work on alcohol misuse and obesity.



We are still the leading provider of external audit to foundation trusts

Payment by Results assurance

We undertook the first comprehensive England-wide survey of the data used in Payment by Results – underpinning a host of not just financial but clinical and commissioning decisions. We audited the coding of more than 50,000 episodes at acute trusts in 2007/08, equating to £73 million of spending. We found coding errors were affecting assignment of cases by healthcare resource group, and accuracy of subsequent payments. Healthcare resource group errors average 9.4 per cent, with a range across trusts from 0.3 per cent to 52 per cent. These added up to a gross financial error of £3.5 million, or 5 per cent of the price of the sample reviewed. Usually the net financial impact is close to zero, and we detected no national trend in undercharging, overcharging or gaming. Locally, however, the net financial impact of errors can be large.



So the Commission having access to so many good sources was fantastic. It was something we just couldn't have got anywhere else

**Annette Holbrook
Assistant Director**

South West Yorkshire Partnership NHS Foundation Trust

New powers, new solutions

In July 2008 the Trust asked us how we could help it benchmark their performance against those of other mental health trusts.

'Straight away they saw we offered something no one else did,' says Mark Fletcher, Regional Director, Audit Commission and national lead on advice and assistance. 'This was well-defined, robust criteria designed specifically for the sector.'

'Seeking comparative information about mental health trusts is like looking for hens' teeth,' says Annette Holbrook, the Trust's Assistant Director for Information Management and Technology. 'So the Commission

having access to so many good sources was fantastic. It was something we just couldn't have got anywhere else.'

The team examined a wide range of criteria, from operating costs, starting levels and workload to numbers of staff per head of population, the grade mix and spend on clinical supplies. 'But it was our team's sector knowledge that allowed them to interpret the data rather than just present it,' says Mark.

Annette agrees. 'We needed a team which understood that as a mental health trust we were not simply "cost per case". The Audit Commission knew not to just lump us in with acute healthcare trusts, and they knew the right questions to ask. We needed that sector awareness. It made all the difference.'

And the impact of the project on services? 'It helped us to focus on bringing about change in those clinical areas where it was needed, such as our older people's services,' Annette says. 'It also improved our ability to provide value for money.'

'Promoting best practice and value for money has always been a vital role for us,' says Mark. 'Organisations can only really improve when they have comparative data, and our new advice and assistance powers are allowing us to provide that.'

Providing evidence



50% of trusts were performing well or strongly in how well they were using NHS resources.



Only **7%** failed to meet minimum requirements and,



58% improved over the previous year.

The Audit Commission seeks to assure. Audits of outpatient data began in the latter half of 2008/09 and we did pilot work with private providers. Following the Payment by Results work, in March we published *Figures You Can Trust*, a briefing on data quality in the NHS, at the end of the year.

Trust Practice

The Trust Practice went on winning and keeping external audit of NHS foundation trusts. Market share remains high and we are still the leading provider of external audit to foundation trusts, covering 50 of the 115 foundation trusts authorised by March 2009.

This was also the first full year of the Audit Commission's new powers of advice and assistance. Our benchmarking of ward staffing and mental health was a noted success.

We trained NHS staff and ran events for trust executive and non-executive directors, audit committee chairs and governors. We created an electronic library for non-executive directors and we put together a similar library for primary care trust directors.

Housing

Recession and market conditions hit audited and inspected bodies

114 full service inspection reports published

New act reaffirms us as the statutory inspector of housing standards, working with the Tenant Services Authority

Short-notice inspection starts

Sixth year assessing ten market renewal pathfinders; best practice compendium

Final year of CPA shows major improvements in performance

In brief

Housing market fortunes reversed during the past 12 months. Following years of house price inflation fuelled by easy credit, the collapse of the mortgage market hit housing hard.

By the end of the financial year in March, the increase in repossessions had not led to more homelessness. Anecdotal evidence suggested many who have lost their homes are now reluctantly renting from owners who cannot sell their own property.

Changing market conditions

Local authorities are handling more benefit claims and housing waiting lists are swelling. At the same time, fewer planning applications and a drop in search fees hit council revenues. Regeneration schemes and new housing were mothballed as property values dropped.

Housing associations also had to face the crunch. Their borrowing costs, historically low, started to rise rapidly when they had to renew

loans. The lending malaise touched shared or full ownership housing schemes and associations are switching to short-term renting.

Changing regulation

The government, through the Housing and Regeneration Act, established the Homes and Communities Agency and the Tenant Services Authority as the new regulators for housing. The Homes and Communities Agency oversees investment in market renewal, which we scrutinise. It also assists councils with arm's length management organisations given a 2-star performance rating by our inspectors.

The new act reaffirms us as the statutory inspector of housing standards, working alongside the Tenant Services Authority, which selects housing associations for inspection using either our full service or short-notice approach. The government wants to extend these arrangements to the whole of social housing in 2010.

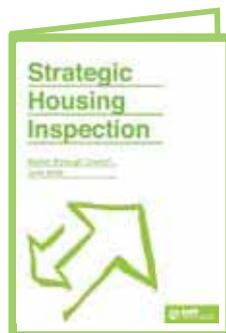


The new act makes us statutory inspector of housing standards, working alongside the Tenant Services Authority

Housing inspections

We published 114 full service inspection reports. They covered: council housing services; arm's length management organisations (in relation to investment); housing association services; and the final year of the Supporting People programme that started in 2003.

We also began short-notice inspection of housing associations – giving them five days' notice. At associations selected by the Tenant Services Authority, we covered those services



x 114

We published **114 full service inspection reports**

These reports inform the public about the performance of the services, and contribute directly to local, regional and national policy debates

considered important by tenants. We also looked at access, diversity and value for money. We are thinking about extending short-notice inspection to councils and arm's length management organisations.

Market renewal

We completed a sixth year of assessing performance and resources in the ten market renewal pathfinders in the North and the Midlands. We put a best practice compendium online in May 2008, and published a broader review of the pathfinders a year later.

CPA and housing

We assessed housing in London boroughs, metropolitan and unitary councils under CPA for the last time. No council fell into the lowest performing category and the proportion of authorities in the top category went up from 25 per cent to 44 per cent.

Community safety and Fire and rescue

Preventing violent extremism

Better at preventing fires and protecting vulnerable people

Fire and rescue services could save £200 million a year

Data tool for comparison of performance

In brief

This year we paid special attention to preventing violent extremism and stimulating fire and rescue services to become more efficient and render better value for money.

Preventing violent extremism

In November 2008, together with Her Majesty's Inspectorate of Constabulary, we published a report on preventing violent extremism (referred to as Prevent). Its basis was a learning and development exercise about how police, councils and other bodies are preventing residents from involvement in or support for violent extremism.

Our study found a wealth of experience and knowledge concentrated in a few councils and police services with direct experience of terrorism.

Three themes emerged from the Prevent exercise:

- Local organisations need to understand who may be tempted by violent extremism. Community groups and local leaders as well as public bodies need a clear narrative.
- National, regional and local bodies should share more information.
- Strong formal and informal relationships between people in local organisations depend on a coherent Prevent approach.



£200m

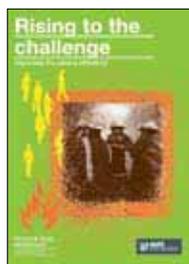
We reported that **£200 million a year could be saved** without jeopardising safety

Councils, police and local bodies told us the study allowed them to take stock and learn from the other areas receiving Preventing Violent Extremism pathfinder funding.



Councils, police and local bodies told us the study allowed them to take stock and learn from other areas

Fire and rescue national report – *Rising to the Challenge*



Rising to the Challenge, published last December, said fire and rescue services in England could save £200 million a year without jeopardising the safety of firefighters or the public. The best services proved

efficiency need not compromise standards of cover. They changed shift patterns in line with demand and cut duty rosters when fires are least likely.

The report made recommendations to fire and rescue authorities, chief fire officers and central government. The Commission intends to keep up the pressure on value for money, through use of resources assessments under CAA.

We also produced a tool so that fire and rescue services can see their position on performance tables, and ask questions about their comparative performance.



Efficiency need not compromise standards of cover

Chief Executive's office

The Chief Executive's office liaises with government departments – mainly with Communities and Local Government – over parliamentary questions. Most responses are letters from the Chief Executive to the relevant MP, which are then reported in Hansard. In 2008/09, the Commission dealt with 61 parliamentary questions, on subjects including the National Fraud Initiative; the cost to local authorities of CPA; local authority salaries; and CAA.

Select Committee inquiries

Because of its wide remit and extensive evidence-base, the Commission responds to requests for written evidence from various Select Committees, and also attends inquiries to give oral evidence, when invited. We gave evidence to six inquiries in the year including: on good government to the Public Administration Select Committee and on local authority investments to the Communities and Local Government Select Committee.

Complaints

The Commission has a formal three-stage complaints process, which includes an independent third stage, dealt with by the Independent Complaints Reviewer. The Independent Complaints Reviewer publishes an annual report on the Commission's complaints process, which is also available on our website. In the past year, we dealt with 26 complaints ranging from late responses to enquiries, to poorly-written letters. Although the majority of these complaints were not upheld, the Commission nevertheless takes complaints very seriously, and all complaints investigations are monitored, to see what we can learn from them.

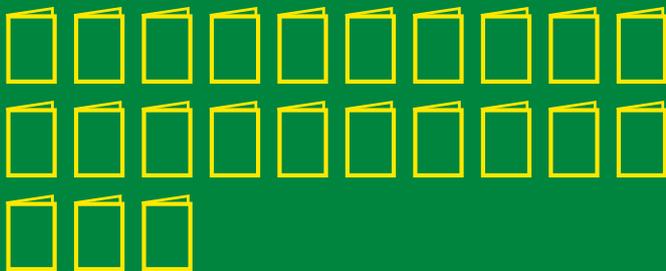
Our research –
greater efficiency
depends on more
knowledge

4

Sharing our

knowledge

Basing our judgements on evidence alone Underlining our vital role



We have produced **23** national reports
and studies



Research makes for better service outcomes

Subjects include better council management, ageing, helping vulnerable young people and meeting environmental challenges

In brief

During 2008/09 we published 23 national reports. Some promoted economy, efficiency and effectiveness in local public services. Others looked at how local organisations can join forces to improve quality of life for specific groups of people.

Tougher at the Top?

The job of a council chief executive has been changing. It's now subject to public and professional debate and contention, and feels more demanding. *Tougher at the Top?* set out the facts behind the headlines about town and county hall chiefs. We analysed more than 190 appointments from 1998 to 2007 and studied

salary trends; how has the market for chief executives changed; who councils appoint, at what salary and with what discernible connection to their performance?

Well Disposed

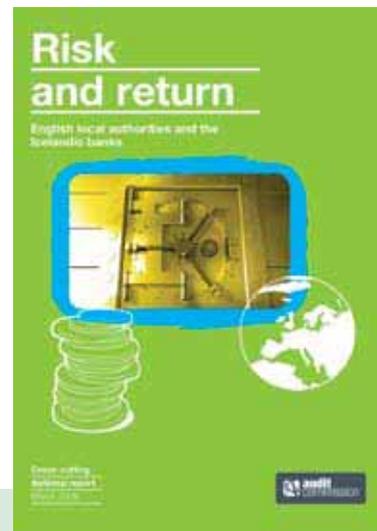
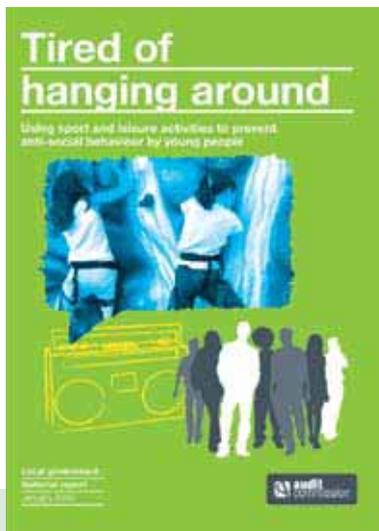
Responding to the Waste Challenge

Reducing waste sent to landfill is an urgent priority. *Well Disposed* reported the UK can meet European Union Landfill Directive targets but only if there is investment in disposal plants. The report asked how English councils are responding. It reviewed progress and set out the costs to councils if they miss targets. It also asked how good was the planning and decision-making.

Don't Stop Me Now

Preparing for an Ageing Population

England's population is ageing. Councils must make independent living an option for as many people as possible, for as long as possible. *Don't Stop Me Now* focused on the majority of over-50s who live independently and do not need social care. The study aimed to help public services adapt, setting out how they should plan for the years ahead.



Tired of Hanging Around

Using Sport and Leisure to Prevent Anti-social Behaviour by Young People

Councils and other bodies can use sport and leisure to prevent anti-social behaviour by 8 to 19 year olds. Our report looked at grants and sought the views of young people themselves. *Tired of Hanging Around* said most councils and agencies were providing the age group with things to do, but there was little evidence of comprehensive area-based approaches. Grants were inefficient; young people were rarely consulted when activities were planned; joint working is best.

Back to Front

Efficiency of Back-office Functions in Local Government

Over the past four years, councils improved their internal efficiency. Between 2005 and 2008, councils diverted £4.3 billion in efficiency gains to improve services. Many came from better management of back offices. *Back to Front* looked at these gains and how councils could save more.

Risk and Return

English Local Authorities and the Icelandic Banks

The collapse of the Icelandic banks in October 2008 highlighted the large sums on deposit outside as well as inside the UK. *Risk and Return* told the story of English council deposits in Icelandic banks and their UK subsidiaries, revealing the strengths and weaknesses of their treasury management.

Most councils acted properly and were alert to the risk – councils halved their Icelandic lending between January and October 2008. But one in four councils had money at risk in Icelandic banks when they went into administration, to a total of £954 million. It found some councils had invested after the press had widely reported that the banks were on the verge of collapse.

.....

The Commission continues to acknowledge mistakes were made in the management of its own deposits with Icelandic banks. We asked KMPG to carry out a thorough review of our own treasury management and have been in detailed discussions with our own auditors, the National Audit Office, over how to put the lessons from Iceland into effect.

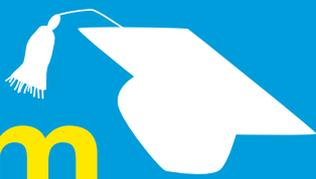
Our people –
recruiting and retaining
the best

5

Being

innovative

We are a forward thinking employer Underlining our vital role

£2.7m 

We have invested £2.7m into our
graduate recruitment

As a result we are **doubling** the annual
intake of graduate trainees to **90**

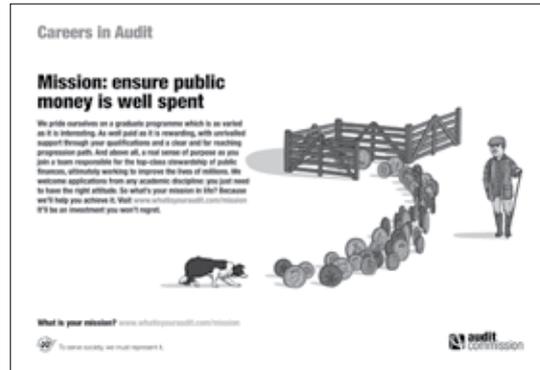
Our diversity strategy praised
Graduate recruitment overhauled
Renewed focus on training

In brief

The Human Resources department worked hard to keep the Commission a great place to work, and the year saw moves forward on diversity, training, pensions and recruitment.

A diverse workforce

People throughout our organisation are increasingly recognising the value of diversity. This year our diversity strategy received outside recognition. Stonewall’s Workplace Equality Index ranked the Audit Commission 63rd in its list of the top 100 employers, despite stiffer criteria that removed a quarter of last year’s list. Stonewall praised the Commission for linking equality to its wider aims through the diversity strategy.



We also scored full marks for our written policies, Diversity team and network group and functions.

A new approach to recruitment

We need a supply of high-quality applicants, particularly in audit, and so we devised a new programme, Engagement and Attraction 2.0. Both online and traditional advertising describe types of work rather than specific positions. We ask potential job seekers to register an area of interest and we send an email alert when a vacancy matches their criteria.

The programme makes full use of social and professional networking sites such as LinkedIn, Facebook and Twitter to target likely groups and individuals. This not only reduces reliance on print advertising and consultancies, but also raises the Commission’s profile and helps position us as an innovative and forward-thinking employer.

Leaders of the future

We overhauled graduate recruitment and are investing £2.7 million to double the annual intake of graduate trainees to 90. The long-term aim is to deepen the internal pool of talent from which we fill senior posts. We are also improving productivity by organising trainees' college attendance and training in the quieter six months of the year, freeing them to work in the regions when demand is highest.

We've broadened the experience of graduate recruits through placements outside audit, for example in Policy and Research.

Focusing on training

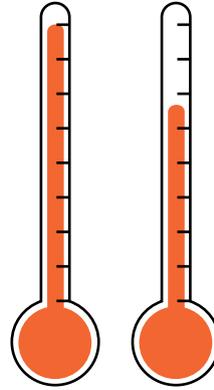
Nearly 15,000 days of training during the past year shows our commitment. The focus is on technical skills and knowledge, with a renewed emphasis on audit. We are training CAA leads intensively and have organised mentors for them.

Satisfaction with training – including its quality as well as venues and related services – now stands at over 80 per cent.

Some workforce facts

- We employ 2,086 people (equivalent to around 1,971 full-time)
- About half our staff are auditors at various levels, including 136 graduate trainees
- Voluntary turnover dropped this year by 1.5 per cent, to 6.4 per cent
- Sickness levels, at 6.7 days per employee per annum, are level with the Confederation of British Industry's national survey average and well below the public sector average of 9 days.

The next few pages have more details about our Commissioners and Senior Management Team.



Our sickness levels per employee per annum is **6.7 days**

.....
This is well below the Uk public sector average of **9.0 days**

Commissioners during the period of review

All comments relating to the commissioners reflect their activities during the year ended 31 March 2009.

Michael O'Higgins became Chairman of the Audit Commission in October 2006. For the previous ten years, Michael was a Managing Partner with PA Consulting, leading its Government and IT Consulting groups, latterly as an international board director. He is also a non-executive director of HM Treasury and Chair of the Treasury Group Audit Committee.

He was previously a partner at Price Waterhouse, worked at the Organisation for Economic Co-operation and Development in Paris and held academic posts at the University of Bath, the London School of Economics, Harvard University and the Australian National University.

He is also currently the Chair of Centrepoint, having been on the Board of Trustees since 2002, became a trustee of the National Centre for Social Research early in 2007, and a member of the Cabinet Secretary's Capability Review Moderation Panel in May 2007.



Michael O'Higgins
Chairman



Bharat Shah
Deputy Chairman

Bharat Shah, Deputy Chairman, is Chief Executive of BCS Business Consultant Limited, providing business consultancy and executive mentoring. He has been a non-executive director for the West Bromwich Building Society since July 2004. He trained as a certified accountant and worked for Eastman Kodak for 27 years where he became Vice President of Eastman Kodak and Chief Executive of EAMER, Kodak Consumer Imaging. He has previously been the Non-executive Chairman of Picdar Group, a 3i backed Digital Asset Management business and a non-executive director of Places for People Group.



Steve Bundred
Chief Executive

Steve Bundred has been Chief Executive of the Audit Commission since 1 September 2003. Prior to joining the Audit Commission, Steve was Executive Director of the Improvement and Development Agency for local government and before that worked for the London Borough of Camden, joining as Director of Finance in 1992 and becoming Chief Executive in 1995.

Steve has also previously worked for Lewisham and Hackney councils and London University's Birkbeck College. He also has extensive experience of higher education, having been Deputy Pro Chancellor of City University, a board member of the Higher

Education Funding Council and Chair of a Higher Education Regulation Review Group.

As Chief Executive, Steve is also part of the management team.

Victor Adebowale is Chief Executive of Turning Point, the UK's leading social care organisation working with people facing a range of complex needs including substance misuse, mental health problems and learning disabilities.

Victor began his career in local authority estate management before joining the housing association movement. He worked with Patchwork Community Housing Association and the Ujima Housing Association. He was Director of the Alcohol Recovery Project and Chief Executive of youth homelessness charity Centrepoint.

In 2000, Victor was awarded a CBE for service to the New Deal, for unemployed and homeless young people and in 2001 became a cross bench member of the House of Lords.

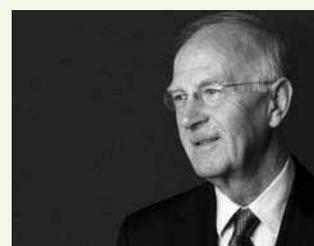
Jim Coulter was Chief Executive of the National Housing Federation for 17 years until retiring in June 2005 and before that he had a similar role at Leeds Federated Housing Association. He is Chair of Bridging Newcastle Gateshead, the housing market renewal pathfinder, and a member of the North East Regional Housing Board. He is also a board member of the Tenant Services Authority. He has been a past board member of Shelter and Chair of Homeless Network and has served on a number of Communities and Local Government project boards.

Jennifer Dixon is presently Director of the Nuffield Trust. She was previously Director of Health Policy at the King's Fund and has held numerous posts in health, including Policy Adviser to the Chief Executive of the NHS. She has a background in clinical medicine and holds a PhD in health services research.

Sheila Drew Smith is currently an independent management consultant to clients in the UK on business development and related management or governance issues. She was a board member of the Housing Corporation until November 2008, and joined the board of the new housing regulator, the Tenant Services Authority in December 2008. She is also a board member of the London Thames Gateway Development Corporation. She was the Executive Chair of Tower Hamlets Housing Action Trust until its statutory end date of 2004/05.



Lord Adebowale, CBE



Jim Coulter



Dr Jennifer Dixon



Sheila Drew Smith, OBE

Stephen Houghton has been Leader of Barnsley Metropolitan Borough Council for 11 years, and a member for 20 years. He is also Chair of the Barnsley Local Strategic Partnership; Chair of the Special Interest Group of Municipal Authorities; Chair of Barnsley Miller Partnership Ltd; and was a member of the South Yorkshire Objective 1 Programme Monitoring Committee. Councillor Houghton was awarded the CBE for services to local government in 2004.



Councillor Stephen Houghton, CBE

Peter Jones is a retired investment banker. He has been Conservative Leader of East Sussex County Council since 2001. Among other roles, he is a member of Sussex Police Authority, and Deputy Chairman of the South East England Development Agency.



Councillor Peter Jones

Tom Legg was Permanent Secretary of the Lord Chancellor's Department (now the Ministry of Justice) from 1989 to 1998. In addition to the Audit Commission, he is a non-executive director of the Imperial College Healthcare NHS Trust, an external member of the House of Commons Audit Committee, and a consultant to the law firm of Clifford Chance.



Sir Thomas Legg, KCB QC

Dame Denise Platt was previously Chair of the Commission for Social Care Inspection, and has had a lengthy career in social care in both national and local government. She holds a number of voluntary positions and is the Chair of the National AIDS Trust; a trustee of the National Society for the Prevention of Cruelty to Children; a member of the National Executive Council of the Family Planning Association; a governor of the University of Bedfordshire; and a member of the Independent Review Board of the Cheshire Fire and Rescue Services. She is also a member of the Committee on Standards in Public Life.



Dame Denise Platt

Brian Pomeroy was a senior partner of Deloitte Consulting until 1999 when he took up a number of public, voluntary and private sector appointments. He is currently Chairman of the Treasury's Financial Inclusion Taskforce, the Payments Council and the Gambling Commission. He is a member of the Financial Reporting Review Panel; Director and Deputy Chairman of QBE Insurance Europe Ltd; a trustee of the Money Advice Trust; a board member of The Social Market Foundation; and Chair of The Photographers' Gallery. He was formerly Chair of the National Lottery Commission, Centrepoint and Homeless Link, and an independent member of the Council of Lloyd's.



Brian Pomeroy, CBE

Raj Rajagopal was Chief Executive of BOC Edwards and Executive Director of the BOC Group plc between 2000 and 2006. Between 1981 and 2000 he held various positions in the BOC Group plc including Managing Director of Edwards High Vacuum. He is currently a non-executive director for Dyson plc, Bodycote plc, WS Atkins plc and Spirax Sarco Engineering plc, a member of the Prime Minister's Council of Science and Technology and a fellow of the Royal Academy of Engineering.

Peter Smith is Director of the Centre for Health Economics at the University of York, having previously worked at Cambridge University and in local government. He has held numerous posts as adviser to governments and international agencies. He has published widely on economic aspects of public services.

Jenny Watson is Chair of the Electoral Commission and a board member of WRAP (an organisation helping to reduce waste, increase recycling, and helping to tackle climate change) and a member of the Advertising Advisory Committee for the Broadcast Code of Advertising Practice. She was previously the Chair of the Equal Opportunities Commission, and was a funding partner of Global Partners and Associates.

Chris White was elected to Hertfordshire County Council to represent Central St Albans in 1993. He was Leader of the Liberal Democrat Group from 1994 to 2003, resuming the leadership in 2005. He was Deputy Leader of the Council and has also been a member of the Hertfordshire Police Authority. Chris was Leader of the Liberal Democrats on the East of England Regional Assembly from 1998 to 2008. He also chairs the Local Government Association Culture, Tourism and Sport Board. He was elected to St Albans District Council in 2008.



Raj Rajagopal



Professor Peter C Smith



Jenny Watson



Councillor Chris White

Members' appointment dates

	Appointment start date	Appointment end date
Michael O'Higgins, Chairman	01/10/06	30/09/09
Bharat Shah, Deputy Chairman	01/09/07	31/08/10
Lord Adebawale, CBE	01/09/07	31/08/10
Steve Bundred	01/11/03	See Note 1
Jim Coulter	01/04/05	31/03/11
Dr Jennifer Dixon	01/11/03	30/10/10
Sheila Drew Smith, OBE	01/05/04	30/04/10
Councillor Steve Houghton, CBE	02/05/06	30/04/12
Councillor Peter Jones	01/11/03	30/04/09
Sir Thomas Legg, KCB QC	01/04/05	31/03/11
Dame Denise Platt	01/09/07	31/08/10
Brian Pomeroy, CBE	01/05/03	30/04/09
Raj Rajagopal	01/09/07	31/08/10
Professor Peter C Smith	01/11/03	30/04/09
Jenny Watson	01/09/07	31/08/10
Councillor Chris White	01/06/05	31/05/11

Note 1: This ex-officio appointment will be coterminous with his appointment as Chief Executive.

Board member interests

The following disclosure relates to commissioners who were in post at March 2009 and relates to the year ending March 2009. The disclosures arise where a commissioner has been in a position of influence resulting from being elected to, receiving remuneration from, or being appointed to any organisation:

- where the Commission appoints the auditor or inspects the body;
- where there are specific statutory responsibilities to cooperate, for example, with the Healthcare Commission;
- that is a central government body; or
- that is a provider or receiver of significant services to or from the Commission.

Michael O'Higgins

Chairman

- Trustee NatCen
- Chair of Centrepont (Registered Social Landlord)
- Fees received from HM Treasury for acting as Non-Executive Director and Chair of Treasury Group Audit Committee

Bharat Shah

Chairman of the Audit Committee
(from 1 May 2009)

- Non-executive Director of West Bromwich Building Society

Steve Bundred

Chief Executive

- During the year his wife worked on contracts with local authorities as Interim Manager of children's social services
- Chair of Higher Education Registration Review Group until August 2008

Lord Adebowale, CBE

- Chief Executive and Company Secretary of Turning Point Registered Social Landlord
- Co-chair, Mental Health Delivery Race Equality Strategy
- Commissioner of UK Employment and Training Commission
- National School of Government – Fellow of the Sunningdale Institute
- Director of Leadership in Mind
- Non-Executive Director of St Vincents IT Health Consulting
- Honorary President of Community Practitioners' and Health Visitors Association

Jim Coulter

- Chair of Bridging Newcastle Gateshead
- Board member of the Tenant Services Authority

Dr Jennifer Dixon

- Editorial board member of Office for Health Economics
- Director of Nuffield Trust

Sheila Drew Smith, OBE

- Non-executive board member of Tenant Services Authority
- Chair of Action for Bow charity
- Non-executive board member of London Thames Gateway Development Corporation
- Remuneration received from Central Government Departments for Office of the Commissioner for Public Appointments duties

Councillor Steve Houghton, CBE

- Member of Barnsley/Miller Partnership
- Member of the Local Government Association Finance and Policy Committee
- Member of Barnsley Metropolitan Council
- Remuneration received from Improvement and Development Agency for peer member duties

Councillor Peter Jones

- Leader of East Sussex County Council
- Member of Sussex Police Authority
- Member of South East England Development Agency
- Wife is a member of parliament
- Member of ARRCC Ltd (disabled charity) and Seaspac Ltd (regeneration partnership for Hastings and Bexhill)

Sir Thomas Legg, KCB QC

- Non-executive Director of Imperial College Healthcare NHS Trust
- Receiving remuneration from the Ministry of Justice for consultant duties
- Consultant to the law firm Clifford Chance
- Member of the House of Commons' audit committee

Dame Denise Platt

- Independent Review board member Cheshire Fire and Rescue Service
- Member of Committee on Standards in Public Life
- Advisory Board of the new School for Social Care Research in the NHS Institute for Health Research
- Trustee of the National Society for the Prevention of Cruelty to Children
- Governor of University of Bedfordshire
- Trustee of Family Planning Association
- Chair of National AIDS Trust
- Trustee of Adventure Capital Fund Trust
- Chair of the Commission for Social Care Inspection

Brian Pomeroy, CBE

Chairman of the Audit Committee
(to 30 April 2009)

- Chairman of the Gambling Commission
- Chairman of Payments Council

- Chairman of HM Treasury's Financial Inclusion Task Force
- Former partner in Deloitte Consulting which is associated with Deloitte & Touche

Raj Rajagopal

Chairman of the Audit Committee
(from 1 May 2009)

- None

Professor Peter C Smith

- Employee of the University of York
- Consultancy contracts with Department of Health, Organisation for Economic Cooperation and Development, World Health Organisation, and International Monetary Fund
- Member of NHS Cooperation and Competition Panel

Jenny Watson

- Member of WRAP
- Member of Electoral Commission

Councillor Chris White

- Member of Hertfordshire County Council and St Albans City and District Council
- Family member is an employee of Ernst and Young
- Board Chair and an executive member of the Local Government Association

Senior managers during the period of review

Steve Bundred Chief Executive

Steve is the Commission's Chief Officer and holds the statutory title of Controller of Audit. The Board has delegated authority for the day-to-day management of the Commission to the Chief Executive. He therefore has responsibility for the overall organisation, management and staffing and for its procedures in financial and other matters including conduct and discipline. He discharges this responsibility through his management team who meet on a regular basis throughout the year.



Steve Bundred

The Audit Commission's management team during the year to 31 March 2009 was as follows:

Gareth Davies Managing Director, Local Government, Housing and Community Safety

Gareth was previously the Commission's Regional Director for the North of England. His professional background is in public audit, including appointments as district auditor to major local authorities and NHS bodies. Gareth is also a trustee and Honorary Treasurer of Oxfam GB.



Gareth Davies

Tracey Dennison Managing Director, Human Resources

Tracey was previously Assistant Chief Executive (Personnel) at Camden Council. She has a diploma in Public Administration from Warwick University and is a fellow of the Chartered Institute of Personnel and Development. Tracey is a trustee of the Employers Forum on Age and the Employers Forum on Belief.



Tracey Dennison

Martin Evans Managing Director, Audit

Martin trained as an accountant in local government, before holding a series of technical roles in the accountancy profession. He was Policy and Technical Director at CIPFA, from where he joined the Commission in 1998.



Martin Evans

Jenny Grey Managing Director, Communications and Public Reporting: to June 2008

Jenny was appointed as Managing Director of Communications and Public Reporting at the Audit Commission in July 2006. She was previously Director of Strategy and Communications at the National Patient Safety Agency, Director of Corporate Affairs at Cancer Research UK, and Director of Communications at Guy's and St Thomas' Hospital NHS Trust. Jenny left the Audit Commission in June 2008 to become Director of Communications in the Cabinet Office.



Jenny Grey

Andy McKeon Managing Director, Health

Andy was the Director of Policy and Planning at the Department of Health. During his time at the Department he was also Head of Primary Care, and played a central role in the development of a number of white papers.



Andy McKeon

Eugene Sullivan Managing Director, Finance and Corporate Services: from June 2008

Eugene rejoined the Commission in June 2008. Before joining the Commission, Eugene was a Partner in RSM Robson Rhodes LLP (now merged with Grant Thornton LLP) in charge of public sector services. He previously worked for the Commission for five years in the 1980s.



Eugene Sullivan

David Walker Managing Director, Communications and Public Reporting: from October 2008

David was appointed Managing Director of Communications and Public Reporting at the Audit Commission in October 2008. He was previously editor of the *Guardian's Public* magazine, chief leader writer for *The Independent* and a regular presenter of BBC Radio Four's Analysis programme. David is a council member at the Economic and Social Research Council and a trustee of the Franco-British Council.



David Walker

Jo Whitehead Interim Managing Director, Corporate Services: to June 2008

Jo joined the Commission in October 2005 as Regional Director leading on the Commission's work programme in Southern Region. She was interim Managing Director for Corporate Services from February 2008 to June 2008. She has worked in a variety of roles within the NHS including being a primary care trust Chief Executive in the South West and working at a senior level in the Department of Health.



Jo Whitehead

Peter Wilkinson Managing Director, Policy Research and Studies

Peter has been at the Audit Commission since 1990, and a Director since 1995. He has held a variety of appointments covering the Commission's corporate management, as well as responsibility for work in local government, health and policy sectors.



Peter Wilkinson

Auditor details

This financial statement is audited by the Comptroller and Auditor General and he has not provided any other service to the Commission during the period. The audit fee is disclosed in Note 7.

The Accounting Officer confirms that:

- there is no relevant audit information of which the auditors are unaware;
- he has taken all the steps he ought to ensure that he is aware of all relevant audit information; and
- he has taken all the steps he ought to establish that the auditors are aware of the information.

Our accounts – a successful financial year

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vital statistics

Being accountable and transparent [Underlining our vital role](#)

Financial review

Summary

The Commission had a successful financial year achieving an operating surplus of £5.3 million or 2.4 per cent of turnover (the income and expenditure account on Page 64 refers). We are the primary auditor of local public services and charge our clients a fee to cover the cost of the audit and inspection work we do for them. Strong financial performance this year was supported by our efficiency plans and leaves us better placed to keep future increases in fees to a minimum.

The Commission's total operating income in 2008/09 was £215.6 million of which £187.9 million related to fees for audit and assessment work and £25.7 million related to grants received from government departments, principally from Communities and Local Government. There is also a small amount of sundry income.

Before the application of FRS17, a total of £131.5 million was spent on doing work for clients last year. Three-quarters of this work was carried out by our own staff with the remainder being subcontracted to the private accounting firms.

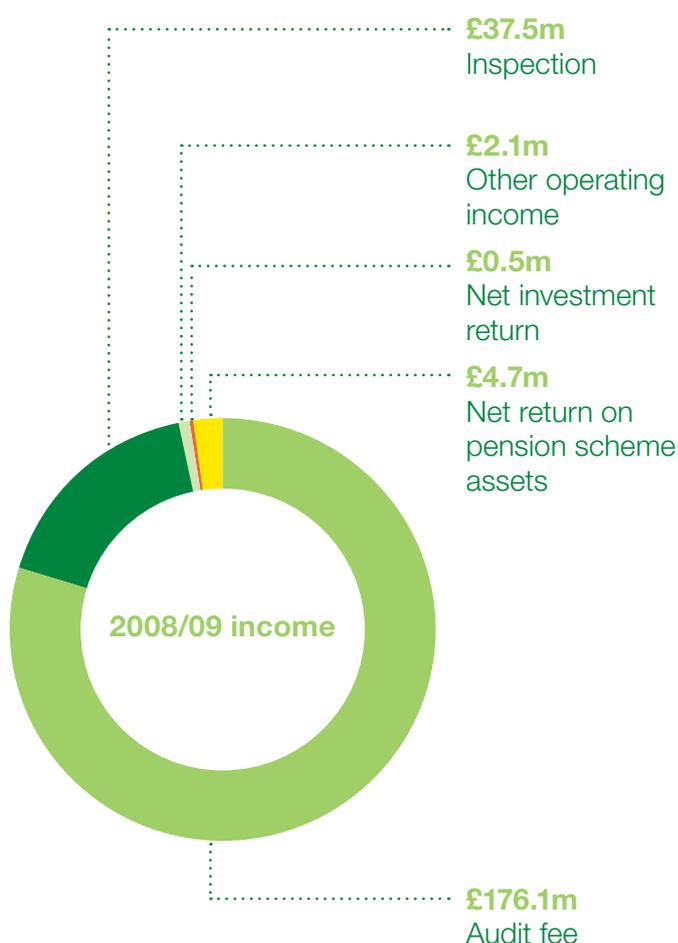
The cost of providing audit and assessment services was £63.5 million less than the total income we received for the year and paid for the net cost of central and corporate support directorates (£52.1 million).

The Commission's income

The Commission's audit and inspection income for 2008/09 dropped by 1.6 per cent, to £213.6 million in the year reflecting a slightly reduced workload.

The private accounting firms were subcontracted to deliver approximately one-quarter of the Commission's work for the year. The cost of this work was £8.3 million lower than the fees charged. This contribution was used to help pay for the central and corporate directorate services needed to support the delivery arm of the business.

The Commission placed two £5 million deposits with Icelandic banks: with Heritable Bank and Landsbanki Islands hf. Both these banks are now subject to administration and the deposit and accrued interest have been impaired. As a result, the Commission has incurred a reduction of its investment income of £2.6 million in 2008/09 although the final reduction will not be known for several years.



The Commission's costs

The single largest cost is salaries and these fell by £2.2 million to £86.1 million compared to the previous year. The general increase in salary rates of 2.5 per cent over the period 2008/09 was offset by a reduction in staff numbers and a change in the Commission's pension scheme arrangements. Average staff numbers have fallen from 2,043 in 2007/08 to 1,954 in 2008/09.

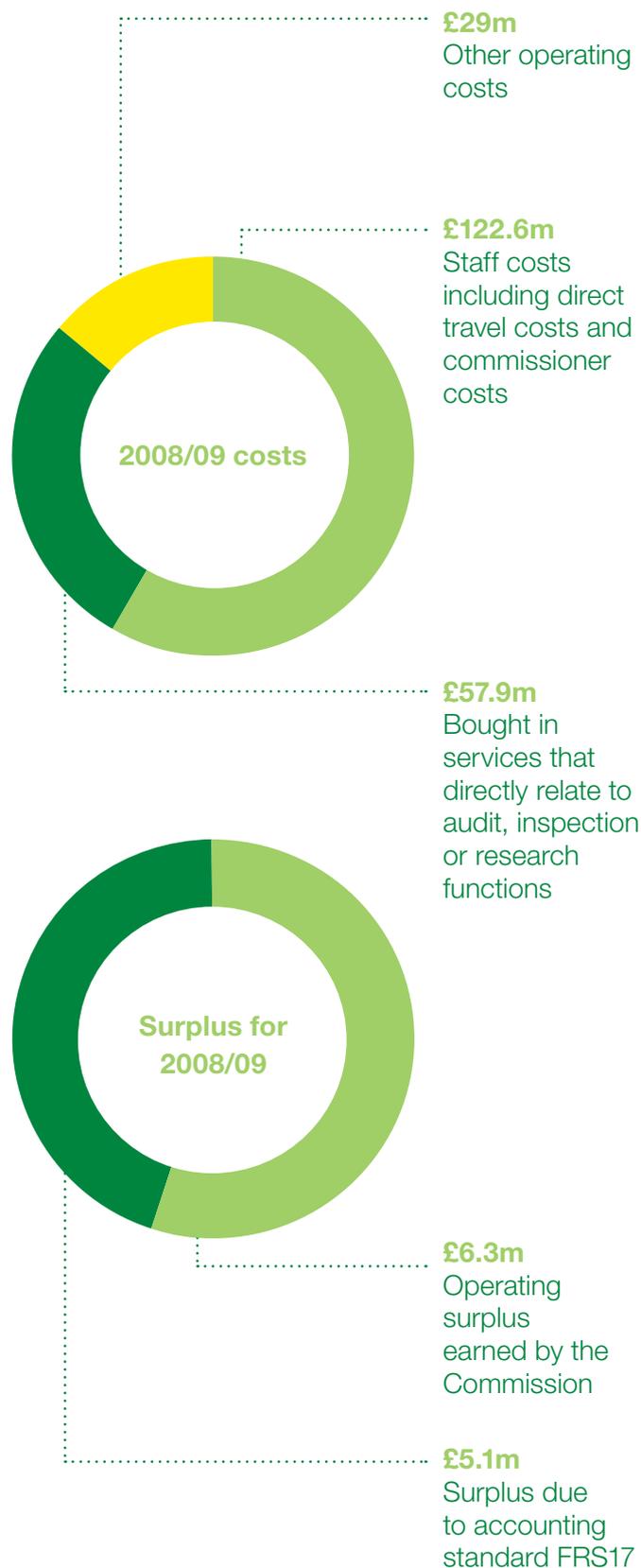
The Commission's surplus and reserves

The surplus for the year of £11.4 million includes a surplus of £5.1 million resulting from the FRS17 pension accounting standard. This adjustment is in two parts: a £0.4 million reduction in salary costs shown above the operating surplus line in the income and expenditure account, and £4.7 million net return on pension scheme assets shown below the line.

The FRS17 adjustment to the surplus for the year flows through to the pension reserve whilst the remainder, £6.3 million, flows through to the general reserves.

This year the Commission has amalgamated its revenue reserves and capital reserves and renamed them general reserves. The general reserves grew by £6.3 million in the year, as noted above, to £38.1million. Just under half of the general reserves have been set aside to provide refunds to clients for IFRS work and to support the Commission's efficiency plans.

The deficit on the pension reserve reduced from £16.7 million at March 2008 to a deficit of £3.5 million by March 2009, an improvement of £13.2 million. The movement was due to the £5.1 million FRS17 adjustment to the income and expenditure account noted above, and an £8.1 million FRS17 gain in the value of the pension fund assets and liabilities during the year.



During the year, and with the consent of the Commission, the trustees of the pension scheme introduced a liability driven asset structure within the pension scheme that has minimised the adverse impact of falling equity levels. For further details see Note 24 (v) of the accounts.

Further information on the impact of the FRS17 adjustments is provided in Note 24 to the accounts.

The Commission had net reserves of £34.7 million at the end of the year or 16.1 per cent of turnover.

Payment performance

The Commission aims to observe the principles of the Treasury's Better Payment Practice Code and pay undisputed invoices from its suppliers within 30 days. In the 12 month period, 91 per cent of undisputed invoices were paid within 30 days (2007/08, 96 per cent). This fall in payment performance was due to staffing issues within the section and the Commission has already put in place measures to increase this performance back to previous levels. The performance for the month of April 2009 was 94 per cent.

Remuneration report

Remuneration policy

In determining the appropriate level of remuneration for members of the Audit Commission Management Team, the Commission has regard to:

- the need to attract and retain suitably qualified and experienced individuals to enable the Commission to fulfil its remit and responsibilities;
- market intelligence and specialist advice on national and regional labour markets; and
- official guidance, including the government's inflation target.

In March 2008, the Commission established a Remuneration Committee as a standing committee of the Board. Its Terms of Reference are to:

- determine the remuneration and other terms and conditions of service of the Chief Executive;
- receive, from the Chairman of the Commission, reports on his annual appraisals of the Chief Executive following consultation with commissioners, and to determine performance-related pay on receipt of recommendations from the Chairman;
- determine the remuneration of members of the Management Team, including performance-related pay, on receipt of recommendations from the Chief Executive;
- determine or make recommendations on any issue referred to it by the Board; and
- determine or, where matters are reserved to the Board, make recommendations on such other issues as may be proposed by the Chairman or Chief Executive, for example the strategy on staff pay awards.

The base remuneration of the Chief Executive and members of Management Team is reviewed by the Remuneration Committee, every three years. The Committee has access to benchmarking data and independent advice as appropriate.

All roles are subject to a competitive external recruitment process.

Chief Executive's and Managing Directors' remuneration

The remuneration and contract terms of the Chief Executive and Managing Directors are determined by the Audit Commission Board in accordance with Schedule 1 of the Audit Commission Act 1998.

Composition of remuneration

The main components of the Management Team members' remuneration are:

- **Salary** The basic salary for each Management Team member is determined by taking account of each person's responsibilities, record of achievement and experience, together with market analysis.
- **Other benefits** All Management Team members (with the exception of the Chief Executive) are eligible for a lease car. Individuals can opt for an alternative transport allowance. A travel card for travel within London is also available.
- **Performance-related pay** During 2008/09 all managing directors were eligible to receive performance-related pay up to a maximum of 10 per cent of salary. The award to an individual was determined by reference to a set of agreed targets, assessed by the Chief Executive and approved by the Remuneration Committee. In the case of the Chief Executive, the assessment is undertaken by the Chairman and determined by the Remuneration Committee on receipt of his recommendation. Performance-related pay is pensionable and is reviewed annually.

On 2 June 2009, the Commission Board agreed to stop paying performance-related bonuses to the Chief Executive and managing directors. From 1 April 2009 this will be compensated for by a one-off 6 per cent consolidation into basic salary.

Chief Executive and Management Team appointments

	Date of joining	Date of appointment to post	Date of leaving post
Steve Bundred, Chief Executive	01/09/03	01/09/03	
Gareth Davies, Managing Director, Local Government, Housing and Community Safety	01/09/87	19/10/06	
Tracey Dennison, Managing Director, Human Resources	17/11/03	17/11/03	
Martin Evans, Managing Director, Audit	05/10/98	01/04/06	
Jenny Grey, Managing Director, Communications and Public Reporting	17/07/06	17/07/06	27/06/08
Andy McKeon, Managing Director, Health	08/09/03	08/09/03	
Eugene Sullivan, Managing Director, Finance and Corporate Services	02/06/08	02/06/08	
David Walker, Managing Director, Communications and Public Reporting	06/10/08	06/10/08	
Jo Whitehead, Interim Managing Director, Corporate Services	03/10/05	22/02/08	30/05/08
Peter Wilkinson, Managing Director, Policy Research and Studies	21/05/90	01/11/06	

In addition Marina Pirotta was appointed through an agency as an interim Managing Director of Communications and Public Reporting for the period 07/07/08 to 06/10/08.

Pension arrangements

The Chief Executive and managing directors are all eligible to be members of the Audit Commission Pension Scheme. This is a stand-alone defined benefit scheme with one level of benefit for all members.

Other terms of employment

Notice periods and provisions for compensation for early retirement are based on those for staff. The Commission will appoint on a fixed term or permanent contractual basis as appropriate, although all contracts currently in place are on a permanent basis.

Chief Executive and Management Team remuneration details

	Year to 31 March 2009 Salary £000	Performance -related pay £000	Other benefits £000	Total (excluding pension contribution) £000	Year to 31 March 2009 pension contribution £000	Year to 31 March 2008 (excluding pension contribution) £000
Steve Bundred	196	12	0	208	46	212
Gareth Davies	147	13	5	165	37	159
Tracey Dennison	108	7	6	121	25	123
Martin Evans	132	9	6	147	43	159
Jenny Grey ¹	32	0	3	35	5	125
Andy McKeon	150	10	6	166	36	170
Eugene Sullivan ²	126	9	14	149	31	n/a
David Walker ³	54	3	2	59	14	n/a
Jo Whitehead ⁴	24	1	0	25	5	14
Peter Wilkinson	139	8	6	153	45	168

Note 1: The figures relate to the period 01/04/08 to 27/06/08.

Note 2: The figures relate to the period 02/06/08 to 31/03/09.

Note 3: The figures relate to the period 06/10/08 to 31/03/09.

Note 4: The figures relate to the period 01/04/08 to 30/05/08. The figure for the year to 31 March 2008 relates to the period 22/2/08 to 31/03/08.

During 2008/09, the Audit Commission, along with many other employers, introduced a salary sacrifice arrangement called SMARTpensions to make contributions into the Audit Commission Pension Scheme. This takes advantage of National Insurance rules which allow employees to give up pay in return for benefits and make a saving in National Insurance contributions.

In addition to that noted above, the agency fees to provide Marina Pirotta as an interim Managing Director of Communications and Public Reporting for the period 07/07/2008 to 06/10/2008 amounted to £38,000. No other benefits were paid.

Chief Executive and Management Team pension entitlement details

	Real increase in pension at 30 £000	Total accrued pension at 31 March 2009 £000	Total accrued pension at 31 March 2008 £000	Increase in transfer value £000	Transfer value at 31 March 2009 £000	Transfer value at 31 March 2008 £000
Steve Bundred	2	57	53	371	1,288	917
Gareth Davies	4	46	40	209	697	487
Tracey Dennison	1	46	43	222	837	614
Martin Evans	2	48	43	281	990	710
Jenny Grey ¹	5	11	5	77	133	56
Andy McKeon	1	68	63	368	1,405	1,037
Eugene Sullivan ²	2	2	0	44	44	0
David Walker ³	1	1	0	14	14	0
Jo Whitehead ⁴	0	0	0	4	6	2
Peter Wilkinson	3	35	31	240	769	529

Note 1: Figures relate to period 01/04/2008 to 27/06/2008. Includes transfer in of previous employer's pension benefits received on 26 June 2008.

Note 2: The figures relate to the period 06/10/08 to 31/03/09.

Note 3: The figures relate to the period 02/06/08 to 31/03/09.

Note 4: The figures relate to the period 01/04/08 to 30/05/08. The figure for the year to 31 March 2008 relates to the period 22/2/08 to 31/03/08.

The transfer values above are calculated using a set of assumptions prescribed by the Cabinet Office and known as the Public Sector Transfer Club basis. These assumptions were changed with effect from 1 October 2008. The changes reflect a number of factors which have been increasing the cost of pensions gradually over a period of time – namely increases in life expectancy and reductions in expected long-term investment returns. The transfer value assumptions have not been updated to reflect changes in these areas since 1995. The increase in transfer values over the year therefore reflects the cumulative effect of these factors (which gives an increase of between 15 per cent and 35 per cent) rather than just the increase in benefit itself over the year. The transfer values as at March 2008 may be different from the closing figure in last year's accounts. This is due to the cash equivalent transfer value factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Commissioner remuneration policy

The remuneration paid to non-executive commissioners is determined by the Secretary of State for Communities and Local Government and is based on the anticipated number of days worked. This is currently three days per month, with the exception of the Deputy Chairman, and Chairman of the Audit Committee, each of whom receives payment based on four days per month.

The Secretary of State also determines the Chairman's remuneration, which is based on an average weekly time commitment of two days per week.

The cost of living award paid to commissioners each year is also determined by the Secretary of State and is usually linked to the award granted to senior civil servants.

With the exception of the Chief Executive, no commissioner receives remuneration benefits from the Audit Commission, nor are they members of the Audit Commission Pension Scheme.

Commissioner remuneration details

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Commissioners in place at 31 March 2009		
Michael O'Higgins, (Chairman)	89	87
Bharat Shah ¹ (Deputy Chairman)	19	11
Steve Bundred (See above for remuneration details)		
Lord Adebawale, OBE ¹	14	8
Jim Coulter	14	14
Dr Jennifer Dixon	14	14
Sheila Drew Smith, OBE	14	14
Councillor Steve Houghton, CBE	14	14
Councillor Peter Jones	14	14
Sir Thomas Legg, KCB QC	14	14
Dame Denise Platt ¹	14	8
Brian Pomeroy, CBE (Audit Committee Chairman)	19	18
Raj Rajagopal ¹	14	8
Professor Peter C Smith	14	14
Jenny Watson ¹	14	8
Councillor Chris White	14	14

Note1: Figures for year ending 31 March 2008 refer to period from 1 September 2007.

The Commission has unfunded liabilities for the provision of a pension of £66,000 (2007/08, £65,000) in respect of one former commissioner.

Steve Bundred

Accounting Officer

30 June 2009

Statement of responsibilities

Board members' responsibilities

The Chairman is the leader of the Board. There are three main components to the Chairman's role:

- strategic leadership – to lead the development and implementation of the Commission's strategy;
- external communications – to lead on the Commission's key relationships with government ministers, other senior politicians and advisers, chairs of public bodies and other organisations and the media; and
- corporate governance – to encourage high standards of propriety and promote the efficient and effective use of staff and other resources throughout the Commission. The Chairman presides at Board meetings and ensures that these are held at regular intervals throughout the year and are accurately minuted.

Commissioners act collectively: they do not have individual executive authority. As individuals they are responsible for upholding the values and principles of the Commission and for contributing their personal skills, knowledge and experience to the Commission's work.

Other important responsibilities of commissioners include:

- ensuring that high standards of corporate governance are observed at all times;
- ensuring that the Commission identifies and manages its risks effectively;
- subject to the requirement that the Commission maintains at all times its independence, ensuring that, in reaching decisions, the Board has taken into account directions issued by the Secretary of State and any relevant guidance issued by the sponsoring departments and had regard to any applicable government policy; and
- establishing and maintaining effective arrangements for the discharge of the Commission's functions, including delegating to staff within a clear framework of strategic control, consulting interested bodies on major developments and responding to their views, where appropriate establishing advisory and consultative bodies to inform the Commission's work, and facilitating good communication with external organisations and the public.

Statement of Accounting Officer's responsibilities

In accordance with Paragraph 11(1) of Schedule 1 to the 1998 Act, the then Secretaries of State for Transport, Local Government and the Regions, Health and for Wales directed the Commission to prepare a Statement of Account. The accounts are prepared on an accruals basis and must show a true and fair view of the Commission's state of affairs at the period end and of its income and expenditure and cash flows for the accounting period.

In preparing the accounts the Commission is required to:

- observe the Accounts Direction issued by the Secretaries of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- unless inappropriate, prepare the financial statements on the going concern basis.

The Chief Executive has been appointed Accounting Officer for the Commission. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out by HM Treasury and published in *Managing Public Money*.

Statement on internal control

1. Scope of responsibility

1.1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Commission's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me in *Managing Public Money*.

2. The purpose of the system of internal control

2.1. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Commission policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Commission for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

3.1. The Commission's structure has been designed to ensure it has the capacity to handle risks.

a) The Board

Commissioners are independent appointees of the Secretary of State for Communities and Local Government in consultation with the Secretary of State for Health, appointed usually for a three-year term which may be extended for a further period. The Board has the ultimate responsibility for ensuring that the Commission identifies and manages its risk effectively. Under a clear governance framework, it takes decisions in the most significant of the Commission's areas of responsibility. The Audit Committee reviews the major risks quarterly.

Because the Commission Board recognises its responsibilities to ensure there are robust arrangements for managing risk, reports to the Board address the wider implications of issues, together with the explicit risks arising from the issue under consideration.

The Commission's Corporate Governance Framework states that the Board will review its performance every two years. To meet this requirement, the Board engaged Deloitte to conduct an independent review of the Board's performance in March 2009. The scope of the review covered the effectiveness of the Board, the contribution of individual commissioners, and the operation of committees and advisory groups. Deloitte reported the results of their review to the Board on 22 April 2009. Deloitte concluded that the Commission has a high performing Board which demonstrates among other things robust and constructive challenge often made from a wide range of perspectives, and good governance underpinned by a Corporate Governance Framework reflecting best practice.

b) The Management Team

This Team has the responsibility for overseeing risk management within the Commission.

The culture of risk management within the Commission is determined at a strategic level. The Management Team formally reviews all significant risks that have been identified and ensures that they have been fairly stated. It also considers risk as part of its decision-making processes and satisfies itself that the less significant risks are being actively managed by relevant departmental managers, with the appropriate controls in place, and that these controls are working effectively.

The Management Team considers all significant papers for both the Board and the Audit Committee, to ensure all relevant factors are taken into account.

All significant issues in internal audit reports are discussed by the Management Team and the resulting actions agreed.

c) Performance Management Group

This Group brings together the Management Team, the regional directors, and a small number of key directors from the Central Directorates and is responsible for reviewing the implementation of policy as agreed by the Management Team and the Board. It also aims to ensure that the Commission builds an organisation capable of delivering the aims of the Strategic and Management Plans, and ensuring their objectives are met.

d) The Audit Committee

The Audit Committee comprises no fewer than four commissioners. It meets at least three times per annum and in the year under review, met four times. Its Terms of Reference are:

- To oversee the production of the Commission's annual accounts and to recommend them to the Board for approval.
- To scrutinise and review:
 - the Commission's financial, accounting and tax policies, practices and processes, including IT;
 - the Commission's internal control systems including policies for addressing fraud and arrangements for internal audit; in particular to appoint the internal auditors, approve their work plan and review their reports and the responses of management;
 - the Commission's assessment and management of risk, including risk associated with implementation of significant new systems and failure to comply with laws and regulation;
 - the results of the external audit by National Audit Office, including their management letter and the response by management; and
 - the implementation of recommendations from audit reports, holding the executive to account where they have not acted on, or have disagreed with, significant agreed recommendations.
- On behalf of the Board, to scrutinise any aspect of the work of the organisation against the criteria of best practice and to report to the Board as appropriate.
- To oversee the Quality Review Process for assessing the performance of auditors and inspectors appointed by the Commission, whether from its own staff or from external suppliers.
- To report annually to the Board on its views of the governance of the Commission and the Audit Committee's own effectiveness.

The members of the Audit Committee for the period under review were:

Brian Pomeroy, CBE (Chairman)	Whole year
Sheila Drew Smith, OBE	Whole year
Sir Thomas Legg, KCB QC	Whole year
Councillor Chris White	Whole year
Bharat Shah	Appointed 23 July 2008

As Accounting Officer, I normally attend meetings of the Audit Committee.

e) Internal audit

Between April and June 2008, an external firm acted as the Commission's internal auditors, with the relevant partner acting as Head of Internal Audit.

To improve the quality and impact of internal audit, the Commission recruited a Head of Assurance to lead and manage the Internal Audit service and to lead on risk management throughout the Commission. The Head of Assurance took up her post in July 2008. The Audit Committee approved formal terms of reference and a resource plan for the Head of Assurance at its meeting on 11 September 2008.

The external firm's Head of Internal Audit and the Commission's Head of Assurance report to the Audit Committee and Accounting Officer regularly to standards defined in the government's Internal Audit Standards. Those reports include the internal auditor's independent opinion on the adequacy and effectiveness of the Commission's system of internal control together with the recommendations for improvement. The Commission also encourages and endorses liaison between internal and external audit to achieve a more effective audit, based on a clear understanding of respective roles and requirements.

The Head of Assurance attends all Audit Committee meetings and has direct access to me and to the chair of the Audit Committee.

f) External audit

The external auditor, the Comptroller and Auditor General, is appointed by statute, and the National Audit Office regularly comments on governance.

The external auditor is invited to attend all Audit Committee meetings and has direct access to me.

4. The risk and control framework

4.1. The Commission subscribes to the seven principles of conduct underpinning public life as set out by Lord Nolan (selflessness, integrity, objectivity, accountability, openness, honesty, and leadership).

4.2. A new framework agreement between the Commission and its principal sponsoring department, Communities and Local Government has been drafted, to bring the previous agreement into line with current practice and changes in our statutory role. The draft framework agreement was agreed

by the Commission Board on 23 April 2009 and will now go to Communities and Local Government and the Department of Health for discussion. The Commission consults ministers and others extensively when planning its activities, including on the risks associated with different courses of action. It also monitors progress against both the activities and the risks. The Commission Solicitor routinely attends Board meetings to advise on governance and legal risks.

- 4.3. Internally the Commission has produced, after both internal and external consultation, a comprehensive Corporate Governance Framework. This clearly determines how the Board manages its affairs and which matters are delegated to the Chief Executive. It is reviewed annually.
- 4.4. Additionally the Commission has drawn up a Scheme of Delegation which addresses delegations by the Chief Executive, as required by the Corporate Governance Framework. This Scheme, which is also reviewed annually, covers all Directorates and enshrines a systematic and common approach to delegation within the organisation. This is backed by a comprehensive set of financial, IT and human resources policies. The prime financial policies are approved annually by the Audit Committee and Board, and these are backed by more detailed policies approved by me as the Accounting Officer.
- 4.5. The principal features and key high-level controls that have operated throughout the year are:
 - an organisational structure that supports clear lines of communication and accountability;
 - business strategies that are approved by the Commission Board and are subject to consultation with Commission stakeholders;
 - key performance indicators that are regularly measured against the strategic plan;
 - detailed business plans produced at regional and Directorate level that include risk assessments of all their business activities; and
 - a risk escalation process allowing risks identified within business plans to be brought to the attention of senior directors and the Audit Committee.
- 4.6. The high-level controls enable the Commission to encourage innovative solutions that, while sometimes involving risk, can be implemented with an awareness and active management of the risks that they carry.
- 4.7. The Commission's risk processes have been designed to:
 - establish a policy framework approved by the Commission Board and the Management Team, within which strategic risks are identified, managed and kept under review. The Head of Assurance has reviewed and refreshed the Commission's risk management policy to ensure that the policy reflects best practice and clarifies the Commission's risk appetite. The refreshed policy was approved by the Audit Committee at its meeting on 11 December 2008;
 - embed risk management and compliance by making it part of day-to-day management processes. Although the Management Team collectively owns the risks, each strategic risk is also allocated to an appropriate Management Team member. This ensures that risk management is an essential part of all directorate management arrangements. In addition, each risk is managed by a named manager, who actively reviews and reports on that risk;
 - adopt a consistent approach throughout the organisation. We have done this by appointing risk managers who take responsibility for risk identification in their directorates and by appointing the

Head of Assurance, part of whose function is to ensure that all risk managers adopt a consistent approach This appointment is included as a requirement within the Scheme of Delegation; and

- encourage staff to identify and manage risk. We aim to provide all staff with appropriate tools and training. We have produced a handbook that is available to all staff that sets out the Commission's processes. We have also established an internal Risk Review Panel during the year to support risk managers and ensure that our risk processes are efficient, logical, user friendly and consistently applied.

- 4.8. The Commission's risk processes properly consider information risks and the controls in place to protect the Commission's information assets. These processes include recognition that personal and other sensitive information requires additional safeguards. Auditors and inspectors will have access to personal data routinely as part of their work. Security and confidentiality are key requirements in holding this data and all staff are required to complete the National School of Government training module on data security. We endeavour to avoid collecting and holding large volumes of personal data and have put in place appropriate measures to ensure that we manage information risks. These measures include the secure encryption of all laptops to the FIPS 140 standard, and controls to prevent unauthorised access to our network systems.
- 4.9. The National Fraud Initiative collects large volumes of personal data but has comprehensive security and risk management procedures in place. The Commission engaged the National Computing Centre to undertake independent penetration testing of the National Fraud Initiative website. The National Computing Centre concluded that the site was 'well implemented and robust from a security perspective'.
- 4.10. Significant evidence for the information risk controls in place during 2008/09 includes:
- the processes and systems in place that ensure compliance with Data Protection Act and Freedom of Information Act requirements, and that information held by the Commission is held securely and accurately processed;
 - an Information Assurance project undertaken by the Commission in the current year to ensure that it complies with new government guidance on the treatment of sensitive information; and
 - an independent internal audit of the work of the Information Assurance project which was reported to the Management Team and Audit Committee in March 2009. The internal audit noted that the Information Assurance project had made significant progress and acknowledged that the project is still in progress, and made recommendations to further enhance project controls and the design of information assurance processes.
- 4.11. It is a requirement to report protected personal data related incidents to the Information Commissioner's Office. The Commission had no protected personal data security breaches during the year to 31 March 2009 that needed reporting to the Information Commissioner or to its sponsoring department, Communities and Local Government. During the year the following small, localised incidents occurred: 10 laptops, 16 memory sticks, 5 personal digital assistants and 17 mobile phones were lost or stolen. With the exception of the phones, all the devices were fully encrypted to the government required standard of FIPS 140, which provides a proper level of security. None of these losses put personal data at significant risk.

- 4.12. Proper consideration of the mitigation of the risk is crucial to the effectiveness of the control. Risks are identified at an operational level and consolidated to identify themes arising across the organisation. All Management Teams have the management of their own risks as a regular agenda item, and local risk registers are maintained. The corporate level risks arising from this process are reviewed for completeness by the Management Team and the Audit Committee.
- 4.13. The Commission has identified themed risk areas which it is actively managing:
- strategic risks;
 - risks to the Commission's reputation and credibility;
 - operational risks;
 - risks associated with financial and regime stability; and
 - information risks.
- 4.14. To maintain a proper profile within the organisation, the Audit Committee receives presentations from the responsible executives on emerging or changing risks each time it meets. These presentations detail the risk, how the risk is changing, and the steps being taken to limit or eliminate it.
- 4.15. The Commission has a well-developed, rigorous approach to reviewing the quality of the work of firms of appointed auditors. Our quality review process is similar to, but goes wider than, the system of external regulation of registered company auditors in the private sector. Quality reviews are carried out by the Commission's head of audit regulation, the Managing Director, Audit, who reports his findings to the Commission's Audit Committee.
- 4.16. The Commission's in-house Audit Practice has put in place a comprehensive quality framework that meets the standards set out in the International Standard on Quality Control (ISQC) (UK and Ireland) 1, issued by the Auditing Practices Board. ISQC (UK and Ireland) 1 sets out standards and provides guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. However, our arrangements go beyond this standard in order to meet certain additional requirements of the Commission's audit regime. The Commission's Audit Practice is subject to independent inspection by the Audit Inspection Unit (part of the Financial Reporting Council), which reports its findings to the Commission Board.
- 4.17. The Commission also applies a rigorous quality assurance framework to its Comprehensive Area Assessment judgements. Trained staff undertake independent quality reviews both before and during on-site work. This review ensures that the assessment process is consistent with guidance, and that the work programme and evidence gathered are sufficient to ensure robust scored judgements.

5. Review of effectiveness

- 5.1. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and comments made

by the external auditors in their management letter and other reports. I have received assurances from the Audit Committee and from the Management Team that feed into my assessment of the effectiveness of the system of internal control.

- 5.2. During 2008/09, two significant internal control issues arose, relating to the Commission's investment in Icelandic Banks and the higher than budgeted outturn for 2008/09.
- 5.3. The Commission has undertaken a fundamental review of the internal controls governing its treasury management function. The Commission has £10 million invested on short-term deposits with the Icelandic banks Landsbanki and Heritable, which collapsed in October 2008.
- 5.4. The Commission has fully investigated the circumstances in which the deposits were made and has published its findings. The Commission engaged a treasury management specialist from KPMG to review the investigation findings and advise on the Commission's proposed improvements to controls over investments. The Audit Committee approved a revised treasury management policy in December 2008 and the improved controls are now in place. The National Audit Office is satisfied with the scope of the Commission's investigation, and with the improved controls that the Commission has put in place.
- 5.5. The National Audit Office drew attention in its 2007/08 annual management letter to the Commission's outturn for 2007/08, which was higher than anticipated. In 2008/09, the Commission's Board received regular outturn forecasts which identified that actual outturn was higher than the original budget. This variance was partly due to in-year changes and partly due to residual budgeting difficulties. The Commission has responded to these difficulties by rationalising and improving its processes for recognising income and valuing work in progress.
- 5.6. The process that the Commission has maintained to ensure internal control during the period includes both risk management and other sources of assurance, including internal audit. The Commission's Head of Assurance has regular access to myself and to the chairman of the Audit Committee, and attends every Audit Committee meeting.
- 5.7. I believe that there are satisfactory processes in place to identify and manage the significant risks faced by the Commission.

Steve Bundred

Accounting Officer

30 June 2009

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament and the Audit Commission

I certify that I have audited the financial statements of the Audit Commission for Local Authorities and the National Health Service in England (the Audit Commission) for the year ended 31 March 2009 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Audit Commission, Accounting Officer and auditor

The Audit Commission and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report and the financial statements in accordance with the Audit Commission Act 1998 and Secretary of State directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Audit Commission Act 1998 and Secretary of State directions made thereunder. I report to you whether, in my opinion, the information, which comprises the 'Introduction', 'Section two', 'Section five' and the 'Financial review', included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Audit Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Audit Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Audit Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises 'Section one', 'Section three', 'Section four', 'Our history and statutory background' and the unaudited parts of the 'Remuneration Report'. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the

amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Audit Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Audit Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Audit Commission Act 1998 and directions made thereunder by the Secretary of State, of the state of the Audit Commission's affairs as at 31 March 2009 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Audit Commission Act 1998 and Secretary of State directions made thereunder; and
- information which comprises the 'Introduction', 'Section two', 'Section five' and the 'Financial review', included within the Annual Report is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria, London SW1W 9S

3 July 2009

Income and expenditure account for the year ended 31 March 2009

	Note	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Operating income			
Audit fee income		176,125	181,412
Inspection income	3	37,485	35,702
Other operating income	4	2,076	2,561
Total operating income	2	215,686	219,675
Operating costs			
Staff and members' costs	5	117,994	114,825
Bought-in services	6	57,928	66,711
Other operating costs	7	33,559	33,804
Notional capital costs	1(x)	873	465
Total operating costs		210,354	215,805
Operating surplus including notional capital costs	25	5,332	3,870
Financing income			
Add back notional capital costs	1(x)	873	465
Net investment return	8	519	3,542
Net return on pension scheme assets	24(x)	4,704	12,440
Surplus for year		11,428	20,317

The income and expenditure account brings together the income (expressed as the value of work done) and the costs incurred (valued on an accruals basis) in running the business.

Statement of total recognised gains and losses for the year ended 31 March 2009

	Note	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Surplus for year		11,428	20,317
FRS17 gain/(loss) on pension fund assets/liabilities	24(xi)	8,118	(16,550)
Total recognised gains in the period		19,546	3,767

The statement of total recognised gains and losses analyses the change in the Commission's net worth. It shows operational gains (or losses) that feed through to the balance sheet and gains (or losses) resulting from the revaluation of assets and liabilities that have affected the balance sheet position. The total gain (or loss) recognised in the year shown at the bottom of this statement (£19.5 million) equals the difference between the opening and closing balance sheets for the year (£34.7 million – £15.2 million).

Balance sheet

as at 31 March 2009

	Note	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Fixed assets	10	7,429	6,858
Long-term debtors	11	6,870	0
Current assets			
Fee debtors and work in progress	12	30,342	27,025
Other debtors	13	9,605	9,791
Short-term investments	23	57,000	63,000
Total current assets		96,947	99,816
Creditors: amounts falling due within one year			
Creditors and accrued charges	14	13,967	13,203
Deferred income	15	57,037	58,969
Total current liabilities		71,004	72,172
Net current assets		25,943	27,644
Provisions for liabilities and charges	16	2,049	2,616
Less pension liability	24(vi)	3,466	16,705
Total net assets		34,727	15,181
Financed by			
Capital reserves	17	0	3,734
General reserves: Local Government	18	32,377	24,384
Health	19	5,816	3,768
		38,193	28,152
Pension reserve	20	(3,466)	(16,705)
Total financing		34,727	15,181

The balance sheet summarises the Commission's assets and liabilities and how these are held across the general reserves and the pension reserve.

The notes that follow form part of these financial statements.

Steve Bundred
Accounting Officer
30 June 2009

Cash flow statement

for the year ended 31 March 2009

	Note	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Net cash (outflow)/inflow from operating activities	21	(4,412)	10,819
Returns on investments and servicing of finance			
Net cash inflow from returns on investments and servicing of finance	8	519	3,542
Capital expenditure and financial investment			
Net cash outflow from investing activities (purchase of tangible fixed assets)	10	(2,253)	(1,102)
Management of liquid resources			
Net cash inflow/(outflow) on short-term investments	22	6,000	(14,000)
Total net cash outflow on operating, investing and financing activities	22	(146)	(741)
Represented by			
Decrease in cash	23	(146)	(741)

The cash flow statement shows how changes in the income and expenditure account and the balance sheet affect cash and cash equivalents. It analyses the changes by operating, investing, and financing activities.

The notes that follow form part of these financial statements.

Notes to the financial statements

Introduction

The notes that follow form part of the financial statements.

Note 1 describes the accounting conventions and policies used to prepare these financial statements.

Notes 2-24 provide supporting information to the primary financial statements.

Notes 25-30 provide additional information showing the operating results for the previous six accounting periods, future financial commitments and contingent liabilities.

Note 1: Accounting conventions and policies

- (i) The accounts are prepared under the historical cost convention, modified to account for the revaluation of fixed assets to their value to the business by reference to their current costs, in a form directed by the Secretary of State, with the approval of HM Treasury, under paragraph 11 (1) of Schedule 1 to the Act.
- (ii) The accounts meet the requirements of the Companies Acts 2006, without limiting the information given, and applicable accounting standards so far as those requirements are appropriate.
- (iii) Income and expenditure is directly attributed where possible to either Local Government or NHS activities (Note 2 refers). Where this is not possible, income and expenditure has been attributed to each activity on an hours worked or other appropriate basis.
- (iv) Operating lease rentals are charged on a straight-line basis over the lease term.
- (v) Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT.
- (vi) Operating income, whether generated by direct government grant, fees to authorities or otherwise, is credited to the year of account in which the work is done.
- (vii) The net costs arising from litigation, if any, are not treated as part of the Commission's operating result, but shown separately on the income and expenditure account.
- (viii) Depreciation is provided on all fixed assets calculated to write off the cost, less estimated residual value, of each asset in equal annual instalments over its expected useful life as follows:

■ Furniture and fittings	10 years
■ Computer equipment	3 years
■ Office equipment	5 years

Under the Commission's capitalisation policy, individual computer equipment in excess of £5,000; other equipment in excess of £1,000 and office refurbishments, are capitalised.
- (ix) The Commission provides a defined benefit pension scheme for its employees, the costs of which are shown in these accounts in accordance with FRS 17.
- (x) Our accounting direction as issued by HM Treasury requires us to calculate the notional capital cost at 3.5 per cent (2007/08, 3.5 per cent), based on net assets/liabilities. As the Commission is a fee earning body, the Commission is allowed to credit this cost back to the income and expenditure account.

- (xi) Any government grant received in respect of the purchase of specific assets is accounted for through the Government Grant Reserve. It is released to the income and expenditure account to match the charge incurred when the underlying assets are depreciated.
- (xii) The Commission provides for dilapidation costs under its property leases, discounted to current value. The provision for future dilapidations for leased property is discounted to current value. The rate used is 2.2 per cent (2007/08, 2.3 per cent).
- (xiii) The estimated fair values of the financial instruments of the Commission approximate to their book values at 31 March 2008 and 2009. The following criteria have been used to assess the fair values of the group's financial instruments:
- Debtors are based upon discounted cash flows at prevailing interest rates or at their nominal amount less impairment losses if due in less than 12 months.
 - Creditors are based on their nominal amount.
 - Bank and short-term investments approximate to their book values due to their short maturity period.
- (xiv) Debtors and work in progress are valued at estimated realisable value.
- (xv) The Commission actively pursues all debt, and provides only for that element where recovery is in doubt. Any debt written off that is subsequently collected is netted against the additional provision made in the period.

Note 2: Income and expenditure analysis

i) Analysis by sector

The Commission is sponsored by two main government departments – Communities and Local Government and the Department of Health. The Commission is required to keep a separate account of its health and local government activities.

This table summarises the total income and surpluses arising in the year as shown in the income and expenditure account:

	March 2009 £000	March 2008 £000
Operating income	215,686	219,675
Net investment return	519	3,542
Net return on pension scheme assets	4,704	12,440
Total income for the year	220,909	235,657

Note 2: Income and expenditure analysis (continued)

This table analyses the total income for the year between the Local Government and Health sectors.

	March 2009 £000	March 2008 £000
Local Government sector income	154,302	156,971
Health sector income	66,607	78,686
Total income for the year	220,909	235,657

This table analyses the total expenditure for the year shown in the income and expenditure account.

	March 2009 £000	March 2008 £000
Operating costs	210,354	215,805
Add back notional capital costs/credits	873	465
Total expenditure for the year	209,481	215,340

This table analyses the expenditure for the year between the Local Government and Health sectors.

	March 2009 £000	March 2008 £000
Local Government sector expenditure	144,560	142,374
Health sector expenditure	64,921	72,966
Total expenditure for the year	209,481	215,340

Note 2: Income and expenditure analysis (continued)

This table shows the surplus for the Local Government sector. A breakdown of the total income for each sector by type is also included.

		March 2009 £000	March 2008 £000
Local Government, Community Safety and Housing sector			
Income	Fee income	123,520	120,763
	Grant income	25,675	23,938
	Other income	5,107	12,270
	Total income	154,302	156,971
Expenditure	Total expenditure	144,560	142,374
Surplus for the year		9,742	14,597

These tables show the breakdown by sector.

		March 2009 £000	March 2008 £000
Health sector			
Income	Fee income	64,414	72,414
	Other income	2,193	6,272
	Total income	66,607	78,686
Expenditure	Total expenditure	64,921	72,966
Surplus for the year		1,686	5,720

Note 2: Income and expenditure analysis (continued)**ii) Analysis of income between work undertaken by the Commission directly, and work outsourced**

The table below provides an analysis of the income for each sector to show the fees earned in respect of work carried out by the private accountancy firms.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Local Government, Community Safety and Housing		
Audits undertaken by the Commission	115,798	108,435
Audits undertaken by private accountancy firms	33,397	36,266
Other income	5,107	12,270
Total income	154,302	156,971

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Health		
Audits undertaken by the Commission	45,639	48,731
Audits undertaken by private accountancy firms	18,775	23,683
Other income	2,193	6,272
Total income	66,607	78,686

iii) Analysis of disclosable activity

The Commission has the statutory power to carry out certain other types of work provided it recovers the full cost of doing that work. The relevant sections from the Audit Commission Act 1998 are as follows:

Section 28: Certifying claims or returns made by an authority. Income received from this work was £19,463,000 (2007/08, £20,031,000).

Section 29: Additional audits undertaken with the consent of the Secretary of State. There was no work of this type carried out in 2008/09 or 2007/2008.

Section 36: Studies designed to improve economy, efficiency and effectiveness, undertaken at the request of specified educational bodies. There was no work of this type carried out in 2008/09 or 2007/08.

The powers granted under Section 35 of the Audit Commission Act 1998 have been extended by the following section of the Local Government and Public Involvement in Health Act 2007.

Paragraph 9 of Schedule 2A: Income from advice and assistance work. Income received for this work was £1,492,000 (2007/08, £755,000).

Note 3: Inspection income

Under the Local Government Act 1999 the Commission is responsible for the inspection of local authorities' compliance with the requirements of the Act.

Grants are available to the Commission for statutory inspection work, and in the period a number of grants were received principally from Communities and Local Government.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Fee income	11,810	11,763
Grant income		
Communities and Local Government	19,212	17,523
Communities and Local Government – Fire	2,094	1,382
Communities and Local Government – Housing	3,617	4,975
Other departments	752	59
	37,485	35,702

Note 4: Other operating income

This note provides a detailed analysis of the other operating income line in the income and expenditure account.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Staff seconded out to other organisations	737	860
Rebates due under contractual agreements	300	293
Accommodation rental received	413	400
Costs recharged to the Commission pension scheme	228	222
Sundry income	398	786
	2,076	2,561

Note 5: Staff and commission members' costs

This note provides a detailed analysis of the staff and commission members' costs line in the income and expenditure account.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Staff salaries ¹	86,080	88,260
Commissioners remuneration	297	261
Social Security costs	8,113	8,493
Pension costs ²	17,421	11,723
Cost of lease cars	5,222	5,281
Subscriptions and other benefits	861	807
Total staff and Commission members' costs	117,994	114,825

Note 1: This figure Includes the costs of staff seconded to other organisations of £751,000 (2007/08, £917,000).

Note 2: This figure includes a credit of £417,000 resulting from the application of FRS17 (2007/08, £2,101,000). This reduces the overall cost of staff salaries in both years.

The average number of full-time equivalent staff employed during the year, compared to last year, is set out in the table below.

Staff employed		Year to 31 March 2009 £000	Year to 31 March 2008 £000
Operational	audit and inspection	1,009	1,096
	audit trainees	131	134
	support	150	171
Central Directorates		653	628
Secondees		11	14
Average number of staff employed in the year		1,954	2,043
In post at year end		1,971	1,964

Note 6: Bought-in services

This note analyses the bought-in services line in the income and expenditure account. These are services procured by the Commission to support the delivery of its audit, inspection and research functions. The expenditure in the year is summarised in the following table.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Cost of bought-in services		
Payments to private accounting firms	43,914	54,465
Research and other consultancy costs	4,312	3,885
Audit and inspection contractors	9,702	8,361
	57,928	66,711

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Contractors employed		
Contractors – average number in the year	190	142
Contractors – number in post at year end	192	124

Note 7: Other operating costs

This note provides further analysis of the other operating costs line in the income and expenditure account, as set out in the table below.

		Year to 31 March 2009 £000	Year to 31 March 2008 £000
Other operating costs			
Accommodation	rent lease costs	3,839	4,097
	other costs	2,984	3,061
Supplies and services		10,629	11,874
Depreciation		1,618	1,634
Travel and subsistence	staff	4,595	4,481
	members	28	26
Recruitment and relocations		1,096	1,367
Training		3,627	3,377
Support contractor costs		3,698	2,396
Audit fee		78	80
Professional fees		990	1,054
Publications		368	346
Debts provided for		9	11
Total operating costs		33,559	33,804

Note 8: Net investment return

This note provides information on the interest received and the interest paid in the year.

		Year to 31 March 2009 £000	Year to 31 March 2008 £000
Net investment return			
Interest receivable ¹		3,125	3,543
Interest payable		0	(1)
Impairment of cash deposits ²		(2,606)	0
Net investment return		519	3,542

Note 1: The Commission has maintained a comparable level of interest income during 2008/09 despite a significant reduction in interest rates due to the investment dates of the deposits held.

Note 2: The Commission has reflected the cost of impairment of cash deposits in Icelandic banks. See Note 9.

Note 9: Financial instruments

Financial instruments held by the Commission comprise borrowings, cash and liquid resources, debtors and creditors, all of which arise directly from its operations. Reserves and pension liabilities are also treated as financial instruments.

The main risks arising from these financial instruments are liquidity, interest rate and credit risks. The Board reviews and agrees policies for managing these risks and they are summarised below:

- Interest Rate Risk: to maintain a mixture of fixed and variable rate deposits. Fixed rate deposits are maintained to maximise interest receivable; variable rate deposits for working capital requirements.
- Liquidity Risk: to ensure that current working capital requirements are immediately available, and to limit fixed rate deposits to mature in no more than 12 months from the date of deposit. At the period end, the longest dated deposit matures in August 2009. Short-term flexibility is achieved by overnight deposits and overdraft facilities.
- Credit Risk: cash investments are permitted with the HM Treasury's Debt Management Office or if unavailable, with named counterparties that have a short-term credit rating equal to P-1 (Moody) and A-1+ (Standard & Poor).

The Commission's policy and management of credit risk has been strengthened during 2008/09 in response to the unstable financial environment.

The Commission placed two £5 million deposits for 12 months in Landsbanki Islands hf (Landsbanki) and Heritable Bank (Heritable) in April and July 2008 respectively. Both banks entered administration in October 2008. The Commission has impaired the deposit and accrued interest to the date of administration based on the most recent information available. The Commission has impaired the Heritable deposit and accrued interest by 20 per cent and the Landsbanki Islands deposit and accrued interest by 10 per cent.

Should the Commission's deposit in Landsbanki not be deemed to have priority in the administration, then the loss to the Commission could be greater than 10 per cent.

At the end of March 2009, the Commission held four deposits in addition to those held with Landsbanki and Heritable. Since the Commission made the investments, the credit rating of one of these investments, West Bromwich Building Society for £5 million, has been downgraded so that it no longer complies with the Commission's approved criteria for investing. The investment is due to mature at the end of August 2009.

The Commission's policy is that no trading in financial instruments will be undertaken and that all deposits will be made in sterling.

Note 10: Fixed assets

This note provides an analysis of the movements in the Commission's fixed assets as shown in the balance sheet.

	Furniture and fittings £000	Computer equipment £000	Office equipment £000	Total £000
Cost				
At 31 March 2008	10,729	1,774	509	13,012
Purchases	2,000	244	9	2,253
Disposals	(145)	(991)	(366)	(1,502)
At 31 March 2009	12,584	1,027	152	13,763
Depreciation				
At 31 March 2008	4,670	1,082	402	6,154
Provided in year	1,167	384	67	1,618
Disposals	(92)	(991)	(355)	(1,438)
At 31 March 2009	5,745	475	114	6,334
Net book value				
At 31 March 2009	6,839	552	38	7,429
At 31 March 2008	6,059	692	107	6,858

The net book value of assets using current value is not materially different from the net book value at historic cost. All assets are owned and none subject to lease agreements.

Note 11: Long-term debtors

	31 March 2009 £000	31 March 2008 £000
Heritable Bank	2,828	0
Landsbanki Islands hf	4,042	0
Long-term debtors	6,870	0

This represents the impaired value of deposit and accrued interest for two deposits made with Icelandic banks that are due for repayment after March 2010. Amounts that are due to be repaid during the year 2009/10 (£554,000k) are shown under other debtors in Note 13. See also Note 9.

Note 12: Debtors and work in progress

This note provides an analysis of the debtors and work in progress line shown in the Commission's balance sheet.

	31 March 2009 £000	31 March 2008 £000
Fee debtors		
Local Government	19,358	16,303
Health	4,813	3,063
Total debtors	24,171	19,366
Work in progress		
Local Government	4,017	5,647
Health	2,154	2,012
Total work in progress	6,171	7,659
Total debtors and work in progress	30,342	27,025

The following table shows the movement in the year on the irrecoverable and doubtful debt provision (netted against appropriate debtor).

	31 March 2009 £000	31 March 2008 £000
Opening provision	0	62
Net provision made in the year	9	(62)
Closing provision	9	0

Note 13: Other debtors

This note provides an analysis of the other debtor's line in the balance sheet.

	31 March 2009 £000	31 March 2008 £000
Accommodation prepayments	3,847	3,090
Leased car prepayments	2,833	2,597
Other debtors and prepayments	2,925	4,104
	9,605	9,791

The long-term debtor balances in Notes 11 and the current debtors and work in progress balances in Notes 12 and 13, have been re-analysed as follows in line with the Whole of Government Accounts regulations.

	31 March 2009 £000	31 March 2008 £000
Whole of Government Accounts debtor category		
Central government bodies	9,900	8,171
Local government bodies	11,907	12,671
NHS trusts	4,495	2,175
Balances with bodies external to government	20,515	13,799
	46,817	36,816

Note 14: Creditors and accrued charges

This note analyses the creditors and accrued charges line in the balance sheet.

	31 March 2009 £000	31 March 2008 £000
Creditors and accrued charges		
Trade creditors	2,516	2,659
Taxation and Social Security	1,202	623
Accrual for holiday entitlement not yet taken	3,892	3,219
Accruals	5,995	6,486
Bank overdraft	362	216
	13,967	13,203

Note 15: Deferred income

Deferred income represents the invoices raised in advance for audit and inspection work.

	31 March 2009 £000	31 March 2008 £000
Deferred income	57,037	58,969

The creditor and deferred income balances in Notes 14 and 15 have been re-analysed as follows in line with the Whole of Government Accounts regulations.

	31 March 2009 £000	31 March 2008 £000
Central government bodies	17,814	9,045
Local government bodies	29,248	40,621
NHS trusts	6,373	9,437
Balances with bodies external to government	17,569	13,069
	71,004	72,172

Note 16: Provisions

This note provides an analysis of the movement in the provisions for liabilities and charges line shown in the balance sheet.

	Note	31 March 2009 £000	31 March 2008 £000
Future dilapidations	16(i)	1,749	1,715
Redundancy	16(ii)	300	901
Total provisions		2,049	2,616

i) Future dilapidations costs which are released at the cessation of the lease.

	31 March 2009 £000	31 March 2008 £000
Opening balance	1,715	1,343
Provision in year	34	372
Closing balance	1,749	1,715

Note 16: Provisions (continued)

ii) Future redundancy costs where individuals were notified before the year end.

	31 March 2009 £000	31 March 2008 £000
Opening balance	901	34
Utilised in the year	(901)	(34)
Provision in the year	300	901
Closing balance	300	901

Note 17: Capital reserves

The Commission reclassified its capital reserves as general reserves during the year.

	31 March 2009 £000	31 March 2008 £000
Local Government	0	1,580
Health	0	2,154
Total capital reserves	0	3,734

Note 18: General reserves: Local Government

General reserves show the net deficit or surplus for the year together with the cumulative amount brought forward from prior accounting periods. The following table shows the movements on the Local Government sector's share of the general reserves during the year.

	Note	31 March 2009 £000	31 March 2008 £000
Brought forward		24,384	19,329
Reclassified from capital	17	1,580	0
Surplus for year	2	9,742	14,597
Net movement to the pension scheme reserve		(3,329)	(9,542)
Local Government reserves		32,377	24,384

Note 19: General reserves: Health

General reserves show the net deficit or surplus for the year together with the cumulative amount brought forward from prior accounting periods. The following table shows the movements on the Health sector's share of the general reserves during the year.

	Note	31 March 2009 £000	31 March 2008 £000
Brought forward		3,768	3,046
Reclassified from capital	17	2,154	0
Surplus for year	2	1,686	5,720
Net movement to the pension scheme reserve		(1,792)	(4,998)
Health reserves		5,816	3,768

Note 20: Pension reserve

The pension reserve shows the additional surplus or deficit experienced during the year resulting from the application of FRS17 together with the balance brought forward from prior accounting periods.

		31 March 2009 £000	31 March 2008 £000
Brought forward		(16,705)	(14,696)
Movement in the year from income and expenditure account		(12,684)	779
Cash payments to the scheme		17,805	13,762
Movement in the year from the statement of recognised gains and losses		8,118	(16,550)
Total pension reserves		(3,466)	(16,705)

The Commission has agreed with the Trustee Board that £10 million of cash is earmarked for the Commission's pension scheme in the event that the requirement for the Commission to top-up its employers' contributions to the fund is triggered.

Note 21: Reconciliation of operating surplus for year

This note reconciles the operating profit for the year shown in the income and expenditure account to the net cash inflow from operating activities shown in the cashflow statement.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Operating profit	5,332	3,870
Notional capital costs	873	465
FRS 17 pension credit	(417)	(2,101)
Net depreciation	1,618	1,634
Loss on disposal of fixed assets	64	339
Increase in debtors and work in progress	(10,001)	(5,926)
(Reduction)/increase in creditors, deferred income and provisions	(1,881)	12,538
Net cash (outflow)/inflow from operating activities	(4,412)	10,819

Note 22: Reconciliation of net cash outflow

Total movement in net funds.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Net funds at 1 April 2008 (see Note 23)	62,784	49,525
Decrease in cash shown in the cashflow statement	(146)	(741)
(Increase)/decrease in short-term investments shown in the balance sheet	(6,000)	14,000
Net funds at 31 March 2009	56,638	62,784

Note 23: Analysis of changes in net funds

	Year to 31 March 2009 £000	Cash flows £000	At 1 April 2008 £000
Short-term investments and bank overdraft	56,638	(6,146)	62,784
Bank overdraft (Note 14)	(362)	(146)	(216)
Short-term investments	57,000	(6,000)	63,000

Note 24: Pension scheme

The Commission's pension scheme is valued by both the trustees of the Scheme and, separately, by the Commission. The last valuation provided by the Scheme's actuary was at 31 March 2006 and showed a surplus of £39.1 million under the Projected Unit Credit basis of valuation.

The last valuation undertaken by the Commission was at 31 March 2009 and showed a £3.5 million deficit (£16.7 million deficit at 31 March 2008). This was undertaken using accounting standard FRS17. The application of this standard on the income and expenditure account increased the Commission's surplus by £5.1 million (surplus increased by £14.5 million for the year to 31 March 2008).

(i) Relationship between the reporting entity and the trustees

The Commission has a self-administered occupational pension scheme (the Audit Commission Pension Scheme) open to all permanent employees and employees who are on a fixed term contract of two years or more. It is a defined benefit scheme partly funded by contributions from members based on 6 per cent of pensionable salaries unless they participate in the salary sacrifice scheme (SMARTpensions). No contributions are paid by those members who do participate in the scheme, but the Commission pays an additional 6 per cent of those members' pensionable salaries into the scheme on their behalf. The Commission contributes the balance of the cost.

The pension assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of trustees to the scheme is determined by the scheme's trust documentation and legislation. Currently the scheme has nine trustee positions: four management nominated, four member nominated and an independent chair.

(ii) Future funding obligations in relation to defined benefit schemes

The most recently completed actuarial valuation of the scheme was performed by an independent actuary for the trustees of the scheme and was carried out as at 31 March 2006. Following the valuation the Commission's contributions remained at 17.0 per cent of pensionable salaries. An actuarial valuation with an effective date of 31 March 2008 was in progress as at the date of these statements.

The Commission contributions paid into the scheme amounted to £17,805,000 in the 12 month period to 31 March 2009 (2008/09, £13,762,000).

The levels of contributions are based on the current service costs and the expected future cash flows of the scheme. The Commission estimates the duration of the scheme's liabilities is approximately 22 years.

(iii) How the liabilities arising from defined schemes are measured

The Commission provides retirement benefits to some of its former and approximately 95 per cent of current employees through a defined benefit scheme. The level of retirement benefit is principally based on salary earned in the last year of employment.

The liabilities of the scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme and are reflected in the deficit in the balance sheet. The method of valuing the scheme liabilities makes allowance for projected earnings.

Note 24: Pension scheme (continued)

An alternative method of valuation is a solvency basis, often called a buy out basis. This estimates the cost of buying out benefits at the balance sheet date with a suitable insurer. It represents the amount that would be required to settle the scheme liabilities at the balance sheet date rather than the Commission continuing to fund the ongoing liabilities of the scheme. The Commission estimates the amount required to settle the scheme's liabilities at the balance sheet date is £426 million (2007/2008, £75 million).

(iv) Disclosure of principal assumptions**a) The Trustees' principal assumptions**

Full actuarial valuations are conducted biennially by the scheme's trustees with the last one being undertaken as at 31 March 2006.

At that time, the market value of the net assets of the scheme was £442 million which on the actuarially assessed value provided cover of 92 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. The principal financial assumptions used by the actuary and quoted in real terms relative to price inflation were as follows.

	2006 % pa	2005 % pa
Rate of interest	2.1	3.5
Rate of salary increase	0.75	1.7

b) The Commission's principal assumptions

Under the accounting standard FRS 17: Retirement Benefits, the principal financial assumptions used by the actuary will be as follows.

	2009 % pa	2008 % pa	2007 % pa	2006 % pa	2005 % pa
Rate of inflation	3.3	3.4	3.1	3.0	2.9
Rate of salary increase ¹	3.95	4.05	3.75	4.5	4.4
Discount rate for liabilities	6.6	6.3	5.3	5.1	5.4
Rate of increase of pensions in payment	3.3	3.4	3.1	3.0	2.9
Rate of increase of deferred pensions	3.3	3.4	3.1	3.0	2.9

Note 1: In addition to the salary increase rate, there is an age related promotional salary scale to reflect the increased cost of promoting younger employees.

Note 24: Pension scheme (continued)

The post-mortality table used in 2008/09 is PA00 Year of Birth with allowance for long cohort improvements (the same as used for 2007/08). The assumed life expectations on retirement at age 60 are as follows.

	2009	2008
Retiring today		
Males	28	28
Females	31	31
Retiring in 20 years		
Males	29	29
Females	32	32

The expected return on the scheme assets is calculated from assumptions of long-term returns by asset class, as follows.

	2009 (%)	2008 (%)
Equities and diversified growth funds	7.15	7.65
Property	5.05	5.55
Corporate bonds	6.6	n/a
Gilts and liability driven investment funds	4.05	n/a
Cash	0.5	5.25
Assets taken at	bid value	bid value

(v) Nature and extent of the risks arising from financial instruments held by the defined benefit scheme

At 31 March 2009, the scheme assets were invested in a portfolio that consisted primarily of equity and property securities. The fair value of the scheme assets as a percentage of total scheme assets is detailed below.

	2009 (%)	2008 (%)
UK equities	2	52
Overseas equities	2	41
Diversified growth funds	67	0
Property	4	6
Corporate Bonds	8	0
Liability driven investment funds	12	0
Cash	5	1

Note 24: Pension scheme (continued)

Following an asset liability review carried out in 2007, the trustees, after consultation with the Commission, made significant changes to the strategy over 2008 and into 2009. The current investment strategy is detailed below.

Portfolios of growth assets and cash assets as follows:

- Growth assets are held in diversified growth funds (investing in UK and overseas equities together with a range of alternative asset classes), a corporate bond fund and pooled property funds. The majority of the growth portfolio is held in diversified growth funds (in order to reduce funding level volatility without compromising on expected returns). An additional investment has been made recently in corporate bonds (owing to the equity like returns believed to be available at the current time). The scheme also holds (for historical reasons) some pooled property funds.
- Cash assets are held within a liability driven investment portfolio backing the hedge of around 50 per cent of the interest rate risk within the scheme's liabilities.

Assuming the scheme is fully funded, the long-term aim is to invest around 7 per cent of assets within the liability driven investment portfolio (to meet collateral requirements) with the remaining 93 per cent invested in growth assets. The actual proportions vary from time to time depending on short-term collateral requirements and the extent to which the scheme's assets may vary in relation to the liabilities. Growth assets are liquidated as necessary to provide a prudent level of liquidity necessary for the liability driven investment manager to maintain the Swap Fund investments.

(vi) Net pension assets

This note provides a high-level summary of the net pension liability for the year.

	Note	31 March 2009 £000	31 March 2008 £000
Fair values of scheme assets	viii	473,872	476,866
Present value of scheme liabilities	vii	(477,338)	(493,571)
Net pension liability		(3,466)	(16,705)

Note 24: Pension scheme (continued)

(vii) Reconciliation of present value of liabilities

This note provides an analysis of the change in the year of the present value of scheme liabilities summarised in the table in Note 24 (vi).

	Note	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Opening present value of defined benefit liability		493,571	531,388
Net operating charge to the Commission	ix	17,388	17,424
Interest cost	x	31,202	27,247
Employee contributions		1,782	5,562
Actuarial losses	xi	(50,841)	(52,134)
Benefits paid		(15,764)	(10,453)
Settlements		0	(25,463)
Closing defined benefit liability	vi	477,338	493,571

(viii) Reconciliation of fair value of scheme assets

This note provides an analysis of the change in the year in the fair value of the schemes assets summarised in Note 24 (vi).

	Note	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Opening fair value of scheme assets		476,866	516,692
Expected return on scheme assets	x	35,906	39,687
Actuarial losses	xi	(42,723)	(68,684)
Contributions by employer		17,805	13,762
Contributions by employees		1,782	5,562
Benefits paid		(15,764)	(10,453)
Settlements		0	(19,700)
Closing fair value of scheme assets	vi	473,872	476,866

Based on the current contribution rate of 23 per cent pensionable salaries for SMARTpension members and 17 per cent of pensionable salaries for non-SMARTpensions members, the Commission expects to contribute £19.3 million in cash contributions to the scheme in 2009/10.

Note 24: Pension scheme (continued)**(ix) Analysis of the operating charge for the year**

This note provides an analysis of the operating charge for the pension scheme for the year as calculated by using FRS17.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Current service costs	17,388	17,424
Gains on settlements	0	(5,763)
Total operating charge	17,388	11,661

The contribution due from the Commission as calculated above is shown in the staff and members' costs line in the income and expenditure account. The Commission received a credit of £417,000 to offset salary costs for the year because the contributions it paid exceeded that required under the FRS17 calculation.

(x) Analysis of amount credited to other finance income

This note analyses the surplus arising from the FRS17 calculation of the value of pension assets. The surplus is taken into the income and expenditure account.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Expected return on pension scheme assets	35,906	39,687
Interest cost	(31,202)	(27,247)
Net return	4,704	12,440

Note 24: Pension scheme (continued)

(xi) Analysis of amount recognised in statement of total recognised gains and losses

This note provides an analysis of the net gain in the pension scheme assets and liabilities due to the FRS17 revaluation that is shown in the statement of recognised gains and losses. The table below includes the total of recognised gains from previous financial years and the gain in the current financial year.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000
Opening amount recognised	10,254	26,804
Gains and losses in the year		
Actual return less expected return on the scheme assets	(42,723)	(68,684)
Experience gains/(losses) arising on the scheme liabilities	14,454	(6,496)
Changes in demographic and financial assumptions underlying scheme liabilities	36,387	58,630
Net gain/(loss) in the year	8,118	(16,550)
Closing amount recognised	18,372	10,254

(xii) Pension scheme performance information

Key financial data for the pension scheme for the year and the previous four financial years is shown below. The deficit in the current year is considerably smaller than in previous years and bucks the current trend. A proactive review of the investment strategy by the trustees mitigated the impact of the economic downturn on pension fund performance.

	Year to 31 March 2009 £000	Year to 31 March 2008 £000	Year to 31 March 2007 £000	Year to 31 March 2006 £000	Year to 31 March 2005 £000
Scheme liabilities note (vi)	(477,338)	(493,571)	(531,388)	(502,785)	(439,280)
Scheme assets note (vi)	473,872	476,866	516,692	464,378	351,778
Deficit	(3,466)	(16,705)	(14,696)	(38,407)	(87,502)
Actual returns less expected returns on assets	(42,723)	(68,684)	8,741	82,663	14,764
As a percent of scheme assets	(9.0%)	(14.4%)	1.7%	17.8%	4.2%

Note 24: Pension scheme (continued)**(xiii) Sensitivity analysis of the principal assumptions used to measure scheme liabilities**

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Decrease by 0.5%	Increase by 10%
Rate of inflation	Increase by 0.5%	Increase by 9%
Rate of salary growth	Increase by 0.5%	Increase by 2%
Rate of mortality	Mortality table rated down by one year	Increase by 2%

Note 25: Operating results for the last four periods

This note provides a high level overview of the Commission's financial performance. The Commission's operating costs reduced by £5.9 million or 2.74 per cent compared to 2007/08 at a time when operating income reduced by £4.1 million or 1.9 per cent.

	Year to 31 March 2009 £m	Year to 31 March 2008 £m	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Operating income	215.6	219.7	223.6	195.7
Operating costs	(209.4)	(215.3)	(228.3)	(199.7)
Notional capital (costs)/credits	(0.9)	(0.5)	0.1	1.4
Operating Surplus/(deficit)	5.3	3.9	(4.6)	(2.6)
Percentage of operating surplus/(deficit) to operating income	2.4%	1.8%	(2.1%)	(1.3%)

Note 26: Financial commitments

- i) There are annual commitments at 31 March 2009 in respect of non-cancellable car leases which expire as follows:

	31 March 2009 £000	31 March 2008 £000
Within one year	411	408
Within one to five years	2,328	2,372
	2,739	2,780

Note 26: Financial commitments (continued)

ii) There are annual property commitments as at 31 March 2009 to pay rentals under lease agreements which expire as follows:

	31 March 2009 £000	31 March 2009 number of properties	31 March 2008 £000	31 March 2008 number of properties
Within one year	304	7	365	8
From one to five years	853	22	414	11
Over five years	2,901	18	3,211	24
	4,058	47	3,990	43

Note 27: Contingent liabilities

The Commission indemnifies appointed auditors against costs incurred by them in connection with Court proceedings arising through their exercise of special legal functions. In addition, costs may be awarded against auditors in such proceedings which fall to be borne by the Commission under the terms of the indemnity. Amounts incurred in any one year, as a result of this indemnity, depend upon the progress of individual cases and cannot, therefore, be predicted or quantified until they crystallise.

The Commission received an initial ruling from HM Revenue and Customs that its best value inspections are not business activities for VAT purposes. There would be a contingent liability if this position were to change.

The Commission has two £5 million deposits with Icelandic banks. Although both deposits and their accrued interest have been impaired (see Notes 8 and 9) there remains some uncertainty as to the final amount that will be repayable.

Note 28: Related party transactions

During the period, no commissioners, or their related parties have undertaken any material transaction with the Commission.

The Commission is a public corporation sponsored in the year by Communities and Local Government. It has had a number of material transactions with its principal sponsoring department.

The following disclosure relates to staff who are in a position of influence resulting from being elected to, receiving remuneration from, or being appointed to any organisation:

- where the Commission appoints the auditor or inspects the body;
- where there are specific statutory responsibilities to cooperate, for example, the Healthcare Commission;
- that is a central government department; or
- that is a provider or receiver of significant services to or from the Commission.

The disclosure in relation to Commission Members is shown on Pages 40 and 41.

Note 26: Financial commitments (continued)

Caroline Al-Beyerty	Member of CIPFA Council, CIPFA's Public Finance and Management Board and CIPFA's Audit Committee. CIPFA observer on ICAEW Council
Derek Elliot	Trustee and the Treasurer of Public Concern at Work
Trudy Enticott	Husband is a paid employee (Head of Technical Finance) at Derby City Council
Martin Evans	Member of the Audit Committee of Communities and Local Government
Fiona Forth	Husband is Director of Finance of Stevenage Homes Limited
Kit Harbottle	Trustee of Langleigh House Trust, a Registered Social Landlord
Alison Kelly	Partner chairs the committee on Standards in Public Life
Jan Lister	Partner is a partner at Grant Thornton and an appointed auditor
Rachel Mayman	Husband employed by the Homes and Communities Agency. Rachel is on the Audit Committee of Turning Point
Richard McGahon	Brother is a Director of the University Hospitals Morecambe Bay NHS Trust
Cathy O'Carroll	Husband is Director of Resources at Hertfordshire Police Authority
Stuart Reid	Sole Director and Shareholder of Black Mole Productions Limited, a company with which the Commission has a contract
Eugene Sullivan	Non-executive director on CIPFA Commercial Services Board. During the year he has not been instrumental in commissioning any services from CIPFA
Sue Sunderland	Husband is on Board of Aspire Housing Association and Derby City Council Standard's Committee
David Walker	Unpaid Director of the National Centre for Social Research, a charity, with which the Audit Commission has had contractual relations in the past. During the past year no item referring to the Audit Commission has been considered by the non-executive directors of the organisation. Brother is Chief Executive of Broxbourne Borough Council
Pauline Webb	Partner is a member of the Professional Executive Committee at Torbay Care Trust

Note 29: Losses and special payments

There were no cases of losses or special payments made in the year.

Note 30: Post-balance sheet events

At March 2009, the Commission held four deposits in addition to those held with Icelandic Banks. As noted in Note 9, one held with the West Bromwich Building Society no longer complied with the Commission's approved criteria for investing. After the date of the balance sheet a second deposit for £5 million held with the Skipton Building Society also fell below the Commission's approved investment criteria.

The Commission's financial statements are laid before the Houses of Parliament by the Secretary of State for Communities and Local Government. Financial Reporting Standard 21 requires the Commission to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are dispatched by the Commission to the Secretary of State for Communities and Local Government.

The authorised date for issue is 3 July 2009.

Appendix 1

Accounts directions given by the Secretary of State for Communities and Local Government and the Secretary of State for Health with the consent of the Treasury, in accordance with Paragraph 11(1) of Schedule 1 to the Audit Commission Act 1998.

1. The annual accounts of the Audit Commission for Local Authorities and the National Health Service in England (hereafter in this accounts direction referred to as the Commission) shall give a true and fair view of the income and expenditure and cash flows for the financial year and the state of affairs at the year end. Subject to this requirement, the annual accounts shall be prepared in accordance with:
 - (a) the accounting and disclosure requirements of the Companies Act;
 - (b) generally accepted accounting practice in the United Kingdom;
 - (c) any guidance that the Treasury may issue from time to time in respect of the annual accounts of public corporations; and
 - (d) any other specific disclosure requirements of the Secretaries of State;insofar as these requirements are appropriate to the Commission and are in force for the year for which the accounts are prepared, and except where agreed otherwise with the Secretaries of State or the Treasury in which case the exception shall be described in the notes to the accounts.
2. Schedule 1 to this direction gives clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards and also gives any exceptions to standard Treasury requirements. Additional disclosure requirements of the Secretaries of State and further explanations of Treasury requirements are set out in Schedule 2.
3. This direction shall be reproduced as an appendix to the annual accounts.
4. This direction replaces the accounts direction issued on 16 April 2007.

Signed by authority of the Secretary of State

Julie Carney

An officer in the Department For Communities and Local Government
31 March 2009

Signed by authority of the Secretary of State for Health

Stephen Mitchell

An officer in the Department of Health
31 March 2009

Schedule 1

1. The annual accounts shall contain the information required to be disclosed in directors' reports as specified in Schedule 7 to the Companies Act 1985, save that the Commission shall prepare an operating and financial review (in place of a business review) in line with the recommendations of Reporting Statement Operating and Financial Review, to the extent that such requirements are appropriate to the Commission and for which purpose Commission members shall be taken to be directors.
- 2.* The annual accounts shall contain a remuneration report in line with the requirements of Section 234B and Schedule 7A of the Companies Act 1985 and for which purpose the Commission's Chairman, Chief Executive and all members of the management board shall be taken to be directors.
3. The Commission's income and expenditure account shall be in format 1 as set out in Schedule 4 to the Companies Act 1985, adapted where necessary to suit the special nature of the Commission's business. The balance sheet shall be in format 1. In the balance sheet, totals shall be struck at 'Total assets less total liabilities'.
4. Except where the Treasury has agreed otherwise, freehold land and non-leased buildings held as non-current assets shall be stated at existing use value or, for property of a specialised nature, at depreciated replacement cost. Other non-leased non-current assets shall be stated at net current replacement cost. All valuation bases as defined by the Royal Institution of Chartered Surveyors.
5. Inventories shall be included in the balance sheet at the lower of estimated replacement costs and estimated net realisable value.
6. Government grant received for revenue purposes shall be treated as trading income.
7. Expenditure in the income and expenditure accounts shall include a notional capital cost, at 3.5 per cent of the average net assets during the year. This amount shall be reversed after the line showing the surplus or deficit for the year.
8. The foreword and balance sheet shall be signed and dated on behalf of the Commission members and by the accounting officer.

*Note to Paragraph 2 of Schedule 1 and Paragraph (2)g of Schedule 2: under the Data Protection Act 1998 individuals need to give their consent for some of the information in these sub-paragraphs to be disclosed. If consent is withheld, this should be stated next to the name of the individual.

Schedule 2

Additional disclosure requirements

The following information shall be disclosed in the annual accounts, as a minimum, and in addition to the information required to be disclosed by Paragraphs 1 and 2 of this direction.

1. The income and expenditure account or the notes thereto
 - (a) The following income:
 - (i) fees; and
 - (ii) other income.
 - (b) The following expenditure:
 - (i) audit fees to private firms;
 - (ii) contract audit assistance for the Commission's regional operations;
 - (iii) other amounts payable to private accountancy firms; and
 - (iv) debts written off and movements in provisions for bad and doubtful debts.
2. The notes to the annual accounts
 - (a) For each of the following categories of business, an analysis of income between that generated from work carried out by the Commission and that generated from work carried out by private accountancy firms:
 - (i) local government audits;
 - (ii) local government Best Value inspections;
 - (iii) National Health Service audits; and
 - (iv) National Health Service Best Value inspections.
 - (b) For work carried out under each of the following sections in the Audit Commission Act 1998, a statement showing the income and expenditure for the year:

Section 28 (certification of claims, returns, etc);
Section 29 (agreed audit of accounts);
Section 35 (studies at requires of bodies subject to audit); and
Section 36 (studies at request of education bodies).
 - (c) For each of the following categories of business, a statement showing the opening income and expenditure reserve, income and expenditure for the year and the closing income and expenditure reserve:
 - (i) Local Government authorities; and
 - (ii) Health Service authorities.

- (d) Details of employees, other than Commission members, showing:
- (i) the average number of persons employed during the year, including part-time employees and secondees, analysed between appropriate categories;
 - (ii) the total amount of loans to employees; and
 - (iii) employee costs during the year, showing separately:
 - (1) wages and salaries;
 - (2) early retirement costs;
 - (3) social security costs;
 - (4) contributions to pension schemes;
 - (5) payments for unfunded pensions; and
 - (6) other pension costs.
- (e) An analysis of liquid resources, as defined by accounting standard FRS1 (revised).
- (f) In the note on receivables, prepayments and payments on account shall each be identified separately.
- (g)* Particulars, as required by the accounting standard on related party disclosures, of material transactions during the year and outstanding balances at the year end (other than those arising for a contract of service or of employment with the Commission), between the Commission and a party that, at any time during the year, was a related party. For this purpose, notwithstanding anything in the accounting standard, the following assumptions shall be made:
- (i) transactions and balances of £5,000 and below are not material;
 - (ii) parties related to board members and key managers are as notified to the Commission by each individual board member or key manager;
 - (iii) the following are related parties:
 - (1) subsidiary and associate companies of the Commission
 - (2) pensions funds for the benefit of employees of the Commission or its subsidiary companies (although there is no requirement to disclose details of contributions to such funds)
 - (3) board members and key managers of the Commission
 - (4) members of the close family of board members and key managers of the Commission
 - (5) companies in which a board member or a key manager is a director
 - (6) partnerships and joint ventures in which a board member or a key manager is a partner or venturer
 - (7) trusts, friendly societies and industrial and provident societies in which a board member or a key manager is a trustee or committee member
 - (8) companies, and subsidiaries of companies, in which a board member or a key manager has a controlling interest
 - (9) settlements in which a board member or a key manager is a settlor or beneficiary

Schedule 2 (continued)

- (10) companies, and subsidiaries of companies, in which a member of the close family of a board member or of a key manager has a controlling interest
- (11) partnerships and joint ventures in which a member of the close family of a board member or of a key manager is a partner or venturer
- (12) settlements in which a member of the close family of a board member or of a key manager is a settlor or beneficiary
- (13) the Department for Communities and Local Government, as the sponsor department for the Commission.

For the purposes of this sub-paragraph:

- (i) A key manager means a member of the Commission's management board.
 - (ii) The close family of an individual is the individual's spouse, the individual's relatives and their spouses, and relatives of the individual's spouse. For the purposes of this definition, 'spouse' includes personal partners, and 'relatives' means brothers, sisters, ancestors, lineal descendants and adopted children.
 - (iii) A controlling shareholder of a company is an individual (or an individual acting jointly with other persons by agreement) who is entitled to exercise (or control the exercise of) 30 per cent or more of the rights to vote at general meetings of the company, or who is able to control the appointment of directors who are then able to exercise a majority of votes at board meetings of the company.
- (h) A statement of losses and special payments during the year, being transactions of a type which Parliament cannot be supposed to have contemplated. Disclosure shall be made of the total of losses and special payments if this exceeds £250,000, with separate disclosure and particulars of any individual amounts in excess of £250,000. Disclosure shall also be made of any loss or special payment of £250,000 and below if it is considered material in the context of the Commission's operations.

* Note to Paragraph 2 of Schedule 1 and paragraph (2)g of Schedule 2: under the Data Protection Act 1998 individuals need to give their consent for some of the information in these sub-paragraphs to be disclosed. If consent is withheld, this should be stated next to the name of the individual.

Our history and statutory background

The Audit Commission for Local Authorities in England and Wales (the Commission) was established on 21 January 1983 by the Local Government Finance Act 1982. The Commission is a public corporation and began operations on 1 April 1983.

On 1 October 1990, the Commission assumed responsibility for the external audit of the National Health Service and its name was changed to the Audit Commission for Local Authorities and the National Health Service in England and Wales. A consolidating Act, the Audit Commission Act 1998, was given Royal Assent in June 1998 bringing the earlier statutory provisions together into one document.

Since 1998, a number of important amendments to the Commission's functions have been made by various statutes.

The Commission's powers were extended by the Local Government Act 1999 to include inspection of best value authorities, and by the Local Government Act 2003 to include inspection of registered social landlords. The Local Government Act 2003 also conferred on the Commission express powers to undertake comprehensive performance assessment of local authorities. The Health and Social Care (Community Health and Standards) Act 2003 provided that a foundation trust may appoint an officer of the Commission as its auditor with the agreement of the Commission. This provision is now to be found in the National Health Service Act 2006. In 2005 the Commission's remit was extended to the appointment of auditors to English National Health Service charities by a new provision inserted into the Charities Act 1993.

The Commission's inspection functions were extended by the Fire and Rescue Services Act 2004 to cover fire and rescue authorities' compliance with the Fire and Rescue National Framework. The remit of the Commission in respect of Wales was transferred to the Auditor General for Wales by virtue of the Public Audit (Wales) Act 2004. The words 'and Wales' were removed from the Commission's name in 2008.

The Commission was given an express statutory power to conduct data matching exercises by the Serious Crime Act 2007. The Local Government and Public Involvement in Health Act 2007 transferred the Benefit Fraud Inspectorate to the Commission, and gave the Commission a new power to provide advice and assistance to other public bodies. The 2007 Act also conferred on the Commission a power to report on the performance of English local authorities in support of its programme of comprehensive area assessment (which replaces comprehensive performance assessment). The Housing and Regeneration Act 2008 replaced registered social landlords with registered providers of social housing, and conferred on the Commission power to inspect them at the request of the Tenant Services Authority.

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