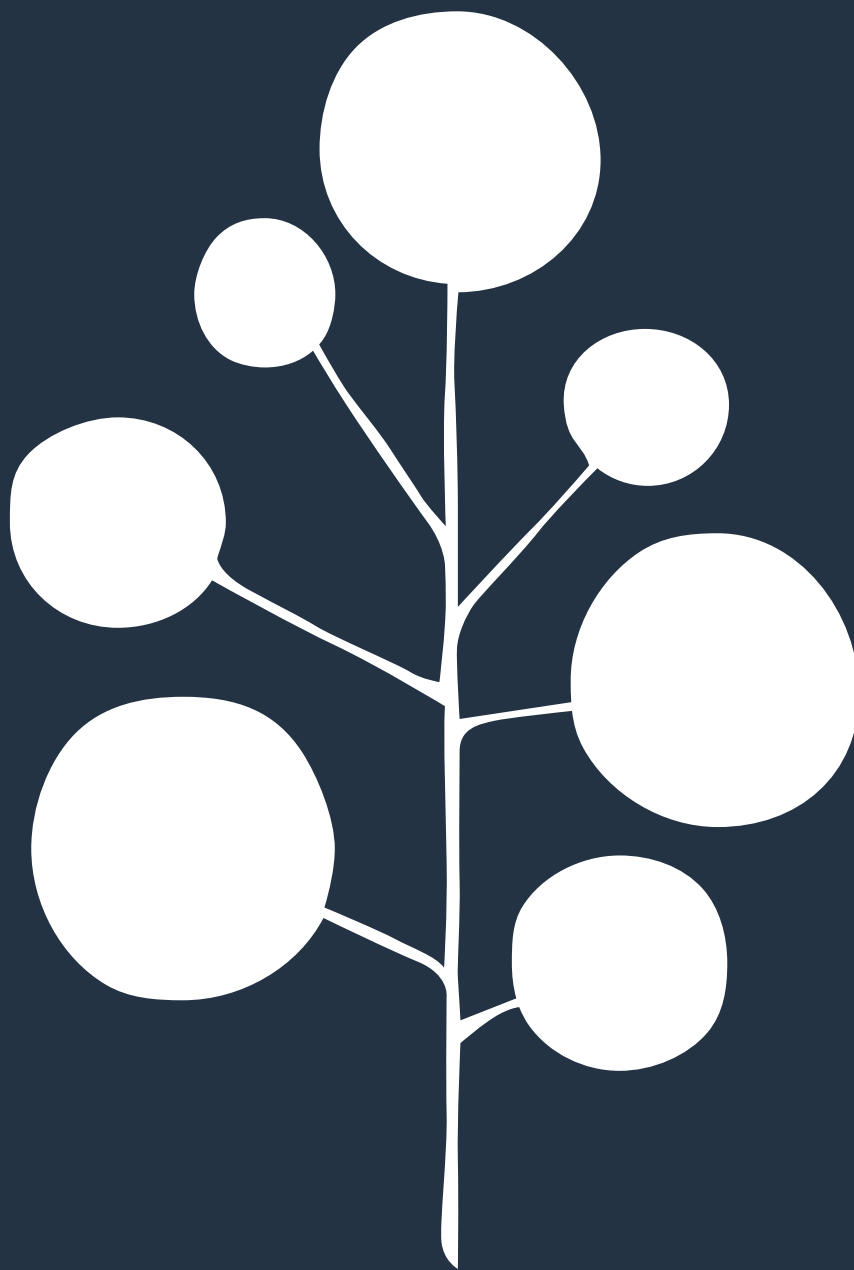


# Better outcomes



Annual report  
and accounts

2007/08

 **audit.**  
commission

## **Audit Commission**

### **Annual report and accounts**

Report and accounts of the Audit Commission, showing the Income and Expenditure for the year ended 31 March 2008 and Balance Sheet as at 31 March 2008, together with the Report of the Comptroller and Auditor General thereon.

Presented to Parliament pursuant to the Audit Commission Act 1998, Schedule 1, clause 14 (2)

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April 2007 to March 2008

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# We are an **independent** watchdog

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

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, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

# We operate in four key areas

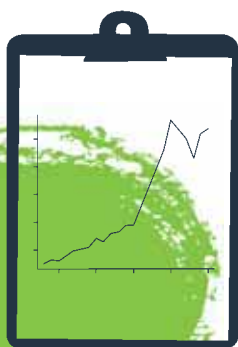
**Audit:** we are the primary auditor of local public services. We appoint auditors to provide assurance and promote value for taxpayers' money across local government, health, community safety, fire and rescue and other public services. Some of these auditors work for private audit firms, but the majority work for our own audit practice.

**Assessment:** we carry out performance assessments in local government and housing associations. Since our system of Comprehensive Performance Assessment was introduced in 2002, councils have improved significantly. We are now leading a team of seven inspectorates to develop a new way of assessing public services that focuses on how they work together to deliver better outcomes for local people.



**Data-matching:** we help public bodies detect fraud and error by comparing sets of data, such as payroll or benefits records. Our National Fraud Initiative has identified around £450 million of fraud and overpayments since it was established.

**Research:** we carry out research and provide independent, authoritative analysis to give insights into complex social problems and best practice in tackling them. We make practical recommendations for policymakers and for people delivering public services.



**Data-matching**



**Research**

# We target public bodies most in need

**Created in 1983, as the world around us evolves, so do we. As most public services continue to improve, we have pioneered ways of targeting our work at public bodies most in need.**

Working with other regulators, we will continue to reduce the burden of regulation on local public services. However, our primary focus will always be safeguarding the interests of taxpayers and promoting better outcomes for everyone using public services.

- We want to see public services representing excellent value for money because we believe that taxpayers' money, which is provided involuntarily, is special.
- We promote high quality public services, with a particular interest in fair access for the vulnerable people who need them most. That's why we place a strong emphasis on understanding the diverse needs of communities and work hard to increase the diversity of our own workforce.
- On behalf of future generations who cannot speak for themselves, we have a special interest in promoting sustainability, both in public services generally and in our own work.
- As a watchdog, we believe that we are most influential when we speak without fear or favour. We guard our independence, acting with integrity and objectivity and basing our judgements on evidence alone.
- We aim to be a constructive and effective partner with other regulators and a fair but critical friend to public bodies that we audit and inspect.
- We strive to be an exemplary employer, accountable and transparent in the way we operate and a learning organisation, practising what we preach to others.

# **We focus our work through five strategic objectives**

- 1** To raise standards of financial management and financial reporting
- 2** To challenge public bodies to deliver better value for money
- 3** To encourage continual improvement in public services so they meet the changing needs of diverse communities and provide fair access for all
- 4** To promote high standards of governance and accountability
- 5** To stimulate significant improvement in the quality of data and the use of information by decision makers



# We bring **maximum** **benefit** to service **users and taxpayers**

**This year we celebrate our 25th anniversary. Since 1983, when Michael Heseltine, then the Secretary of State for the Environment, established the Audit Commission, its role has evolved.**

The Audit Commission has always adapted to meet the demands brought about by changing circumstances, but our core role and values have changed very little. We continue to focus on driving economy, efficiency and effectiveness in local public services. Promoting value for money for taxpayers and better outcomes for people who use services, particularly the most vulnerable, remains at the heart of our work.

This past year has seen a particular focus on how our role should evolve to address the challenges that now face local public services, including issues like sustainability. In response to improvements across local public services, we are working with our partner inspectorates to develop Comprehensive Area Assessment (CAA), a new joined-up and lighter touch framework for assessing performance in promoting better outcomes for local people. We have consulted on our initial proposals and worked with citizens to ensure that our new approach is in line with their concerns and priorities.

We have also taken on a range of new responsibilities. The Benefit Fraud Inspectorate has now been integrated into the Commission; and we now have wider powers to provide advice and assistance to public bodies. Following the enactment of the Serious Crime Bill, our National Fraud

Initiative, which has already identified £450 million of potential fraud, will be extended to central government and the private sector. We have also contributed to a number of debates this year about the future of regulation in local public services, including the debates on social housing and health and social care.

Alongside these changes, we have continued to develop our organisation so we are in good shape to meet our new challenges. Maximising the use of knowledge and information, both within our organisation and beyond, has assumed an even greater importance as we prepare for CAA.

Diversity and sustainability are priorities. Tangible achievements include a 5 per cent reduction in the number of business miles in less than a year. We are working hard to embed these values into our working practices, both in our work with audited and inspected bodies and within the Commission itself. Our commitment to cementing our position as a world-class public auditor remains and we continue to focus on improving our own efficiency so that we can continue to provide value for money in all our work.

It is our commitment to remain at the forefront of the drive to deliver value for money for taxpayers and improve the quality of life for people that both attracts and retains our high calibre and dedicated members of staff. They work hard to keep us on the same principled tracks that were laid 25 years ago. Our thanks to them all.

**Michael O'Higgins** Chairman

**Steve Bundred** Chief Executive



# **We are actively** **developing our** **core functions:**



# 1 CAA – Pioneering a new way

At a glance

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**Work with partner inspectors to develop the framework progressing**

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**First consultations launched; more than 300 organisations responded**

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**Action Learning used in four areas to develop more detailed proposals**

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**Local people involved**

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**New streamlined use of resources assessment introduced to improve efficiencies and effectiveness**

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**- 30%**

The cost of inspecting local public services will reduce

**One of the year's greatest challenges has been developing Comprehensive Area Assessment (CAA), the new approach that will focus on a local area's prospects and quality of life. Building on recent improvements in councils and other local public services, CAA will not only reduce the number of inspections of local public services but will also reduce the cost of inspections by 30 per cent compared with 2003/04.**

Work on the CAA framework with our partners – the Commission for Social Care Inspection, Healthcare Commission, HM Inspectorate of Constabulary, HM Inspectorate of Prisons, HM Inspectorate of Probation and Ofsted – is gathering pace towards a fully joined-up approach. We're also working to align with the Local Government Association's and Improvement and Development Agency's model for local self-assessment.

## Seeking views

In April 2007 we launched the first CAA consultation stage, *The Transition from CPA to CAA*. Providing an initial vision for CAA, this was the first of many consultations and discussions to feed into the design of the new approach.

The consultation ran between November 2007 and February 2008 and set out the main elements of the new assessment framework, seeking views on issues such as scoring and reporting, and how inspectorates could work together to reduce administration. More than 300 organisations responded.

### **Learning by doing**

We used a technique known as Action Learning to help develop draft methodologies for all elements of CAA. This 'learning by doing' approach helped us identify the types of information we need, and how we and our partner organisations could best use them.

As a result of our work in Thurrock, Hampshire, Tees Valley (an area covered by five unitary councils working in partnership towards a multi-area agreement) and Barking and Dagenham we've been able to develop our detailed approach for consultation in summer 2008.

### **Engaging citizens**

We've involved local people in designing CAA, engaging ten panels of citizens and service users. These panels helped us explore how to make CAA relevant to local people, and will also help us find ways of reporting our findings as accessibly as possible.

### **Renewing audit approach**

Use of resources was also under discussion, with our annual assessment focusing on organisational resource management. The new, streamlined assessment will give greater emphasis to organisational effectiveness, efficiency and strategic commissioning and procurement. We'll also be strengthening our focus on value for money and sustainability.

The judgements and scores will be based on three themes: managing finances, governing the business and managing resources.

# 2

## Developing our audit practice

At a glance

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**Gross fee income of £133 million, as auditor to around 3,450 bodies**

---

**First annual quality report published**

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**Audit Inspection Unit invited to scrutinise our audit work**

---

**Close working with partners through the Public Audit Forum**

---

**Voluntary standards on providers' service quality published**

---

**£133m**  
Gross audit fee income

**Appointing and regulating auditors is our core statutory function. Through our audit practice of 1,400 staff, we were the appointed auditor to around 750 principal bodies and 2,700 small bodies (parish and town councils and internal drainage boards). Our gross fee income from these audits was £133 million and we are the sixth largest audit practice in the UK.**

During the year we completed a major series of rotations of auditors following the award of new contracts to five firms (Deloitte, Grant Thornton, KPMG, PKF and PricewaterhouseCoopers) in July 2006 and March 2007.

### **Promoting quality**

This year we published our first annual quality report, which includes the results of our internal quality monitoring programme, together with quality reviews of our work by external inspectors.

The report outlines the key features of our Promoting Audit Quality change programme, which seeks to embed strong leadership throughout the audit practice, strengthen our systems and processes, and improve the support we give auditors.

The 2006/07 quality monitoring review programme included reviews of 25 audits. It found that the quality of our audit work meets professional standards, but there is significant scope for improvement. Audited bodies' satisfaction with our work is good and consistent with last year, but some have expressed concerns and made suggestions for improvement. Finally, the quality of reports has improved from last year, but, again, there remains scope for further improvement.

### **Inspecting the auditors**

As part of this programme and to assure stakeholders that our audit work is of a high quality, we invited the independent Audit Inspection Unit (AIU) to subject us to the same external scrutiny that they apply



to the major firms in the private sector. The AIU reviewed our systems and processes for ensuring audit quality and reviewed in detail a sample of audit files. We will publish the results in our annual quality report in autumn 2008.

### **Working with partners**

We work closely with the National Audit Office and our partner agencies (Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office) through the Public Audit Forum. During the year we've been working on a revised statement of the principles of public audit. The Public Audit Forum also published a joint report which includes five sets of indicators enabling organisations to assess the value for money performance of their finance, human resources, information and communication technology, estates management and procurement.

### **Raising data quality**

Service providers need reliable, accurate, timely and clear information to make judgements about the efficiency, effectiveness and responsiveness of their services. In November we published a set of voluntary standards that define the arrangements public bodies can put in place to improve the quality of data they use to manage and report their activities.

The standards incorporate recognised good practice, with information gained from wide consultation within the public sector, and have been endorsed by Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office and the Chartered Institute of Public Finance and Accountancy.

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## **3 Promoting good practice through research**

At a glance

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**Reports designed to help organisations deliver better outcomes**

---

**Subjects range from performance improvement through innovation to using competition to generate cost savings**

---

**+ £50bn**

Over £50 billion, half of all council expenditure, is potentially subject to competitive pressure

**With increasing pressures on local public bodies, we've strengthened our capability to help local public bodies meet the challenge of delivering better outcomes more efficiently.**

Many of our major 2007/08 reports focus on helping organisations to achieve better value for money and improve their commissioning and procurement.

## **Seeing the Light**

This report encourages local authorities to consider innovation as one way of achieving sustained performance improvement. By providing practical advice and support, based on authorities' own experiences of innovation, *Seeing the Light* helps authorities to create the conditions for innovation. It will be of particular interest to those managing strategic business processes or involved in overview and scrutiny.

## **Healthy Competition**

Over £50 billion, half of all council expenditure, is potentially subject to competitive pressure. *Healthy Competition* considers the potential for councils to use competition and contestability to generate cost savings and service improvements. It gives practical examples of achieving these goals and explores the conditions needed to make effective use of these mechanisms.

## **Hearts and Minds**

Managers in local councils who commission services, as well as voluntary organisations and national policymakers, will benefit from *Hearts and Minds: Commissioning from the Voluntary Sector*. It sets out our findings on the voluntary sector's delivery of public services; the locally perceived impact of government efforts to build capacity; the current state of commissioning; and procurement practice.

## **Better Buys**

Applying procurement methods to housing associations is the focus of *Better Buys: Improving Housing Association Procurement Practice*. This report aims to support associations and other social landlords, concentrating on non-development activity.

## **For Better, for Worse**

*For Better, for Worse* looks at long-term partnerships of 10 to 15 years that were designed to deliver services such as council tax collection, IT and property management. It examines why many strategic service-delivery partnerships (SSPs) have not yet gained the expected benefits of joining forces with the private sector, concluding that councils should only deliver services through SSPs if they are prepared to manage them effectively.



## Positively Charged

Councils raised £10.8 billion from charges for services in 2006/07. As well as raising revenue, councils can use charging to encourage positive behaviour and improve the quality of life in their areas by, for example, reducing charges at sports centres for disadvantaged groups or introducing road charging. *Positively Charged* presents research findings, and calls for councils to review their approach to charging and to introduce a more transparent debate both internally and with local people.

## Staying Afloat

The floods of summer 2007 cost the affected local authorities almost a quarter of a billion pounds. *Staying Afloat: Financing Emergencies* was a timely and topical report based on interviews with, and data from, local authorities affected by flooding in the summer of 2007. The report builds a picture of the net costs to local public bodies in areas affected by flooding. It identifies the impact of these costs and raises important questions about financing emergencies and risk management. It also draws attention to the different ways in which local authorities deal with such emergencies and, importantly, insure their assets.

## Follow the Money

To celebrate our 25th anniversary, we commissioned writer and journalist Duncan Campbell-Smith to write our history. *Follow the Money* outlines the contribution of the Commission to probity and improvement in local public services, and records the lessons learned in areas that still have relevance to current policy debates.

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# 4

## Preventing fraud and overpayment

At a glance

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**Extension of the National Fraud Initiative to central government and the private sector**

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**Record levels of fraud detected in 2006/07**

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**Data security and software enhanced**

---

**New Code of Data Matching Practice laid before Parliament**

---

**£450m**

Fraud and overpayment detected since 1996

**This year we gained new data-matching powers that enable us to extend to central government and the private sector our National Fraud Initiative (NFI) – the country's largest public sector fraud detection programme.**

## Increasing fraud detection

The NFI detected a record £140 million of potential fraud against the public sector in 2006/07 – a 26 per cent increase on 2004/05. This rise does not necessarily indicate increasing fraud levels, but may also be a result of greater success in detection. A total of around £450 million of fraud has been detected since 1996.

The NFI is a data-matching technique that identifies potential fraud and overpayments in the public sector. It matches information such as benefit claims and social housing records from local councils, police authorities, local probation boards and fire and rescue authorities across England.

The process enables public bodies to share and compare information through a secure, encrypted website, and identify those taking services or money they aren't entitled to. Examples include council tenants with a council property in two different authorities, fraudulent claims for housing benefit and pensions being claimed for deceased people.

### Successes include:

- sixty-nine council properties recovered by detecting tenancy fraud;
- overpayments revealed in 46 per cent of student loans and 31 per cent of occupational pensions, by passing matches directly to Jobcentre Plus and The Pension Service;
- a new data match to detect council tax single person discount fraud, that could increase the tax base of local authorities by as much as £200 million; and
- detection of payments of more than £650,000 for the care of deceased residents, following matches of care home payments to the records of the Department of Work and Pensions.

We've strengthened data security and made a series of software enhancements. A new web-based application allows data matches to be hosted on a secure website, offering full fraud case management facilities for investigators.

The Serious Crime Act 2007 amends the Audit Commission Act 1998 to include new powers enabling the NFI formula to be extended to central government bodies and the private sector. A new Code of Data Matching Practice, drawn up by the Commission and laid before both Houses of Parliament and closely scrutinised by the Office of the Information Commissioner, will ensure that data protection will be given top priority alongside protecting the public purse.

# We focus on four key sectors:



# 1 Local government

At a glance

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**Continued focus on promoting better financial management, value for money and services**

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**Improvement in overall CPA scores and use of resources**

---

**Schools increasingly happy with support from councils**

---

**Expanding role in promoting sustainability**

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**New approach to benefits inspection**

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83%

Number of councils achieving a three or four star performance

**As development of CAA gathers pace, through Comprehensive Performance Assessment (CPA), we're continuing to focus on promoting better financial management, value for money and services.**

## Improving councils

2007 was the third year of the 'harder test' version of Comprehensive Performance Assessment and results show that most councils are delivering high levels of service, with 83 per cent achieving a 3 or 4 star performance, compared to 80 per cent in 2006. For the second consecutive year, none were in the bottom CPA category.

Twenty-nine councils improved their overall CPA category, while 14 were reported as having a lower star category in 2007 than 2006, compared to only 8 councils between 2005 and 2006. However, 79 per cent of councils were improving strongly or improving well in 2007 with better performing councils continuing to improve to a greater degree than those in the lower categories (13 of the 22 councils that were improving strongly were 4 star councils while 7 were 3 star).

## Use of resources

Councils are continuing to demonstrate improvement in financial management and value for money. The 2007 use of resources scores for single tier and county and district councils report that 70 per cent are now performing consistently above, or well above, minimum requirements – an increase of 5 percentage points from 2006. Within this overall picture, 85 per cent of single tier and county councils and 61 per cent of district councils are now performing consistently above, or well above, minimum requirements.

The number of top-performing councils (scoring 4 overall) continues to increase. Forty councils now perform at the highest level, up from 22 in 2006 and 8 in 2005. Two councils, Stockton-on-Tees and Wandsworth, scored 4 for all five themes.

Value for money has been addressed by councils, especially district councils, as 41 have a better score compared to 2006 and only 5 councils now perform below minimum requirements (scoring 1). This is particularly encouraging given the financial pressures councils are under.

Councils continue to show their strongest overall performance in their financial standing, which assesses how well a council manages its spending within available resources. This theme has the highest number of top performers with 11 per cent (44 councils) scoring 4 for financial standing.

### **Satisfied schools**

Our annual school survey captures the way in which nearly 6,000 schools in England perceive council services for children and young people. Our findings indicated that schools are increasingly happy with the support and services they receive from their council and are more positive about efforts to reduce crime against children and young people, and to encourage healthy eating. Disappointingly, as in 2006, the most negatively rated area concerned the ability of local services to meet the mental health needs of vulnerable children and young people.

### **Focus on sustainability**

We embed environmental issues into everything we do and publish key lines of enquiry and use of resources data relating to sustainable development in the police, fire and health services. We also encourage and expect local government to demonstrate leadership in sustainability. This approach is rapidly gaining momentum and will be a cornerstone of CAA.

Last year we joined forces with the National Audit Office and the Department for the Environment, Food and Rural Affairs to organise a conference 'Diverting municipal waste from landfill: speeding up to meet the challenge'. The conference responded to a pressing need to reduce the amount of waste sent to landfill and to meet the EU Landfill Directive and the Landfill Allowance Trading Scheme.

Our role in sustainability is expanding as we challenge all the bodies we assess to look at their use of natural resources such as gas, water and electricity, to ensure they're procured and used sustainably.

### **Taking on benefits inspection**

We prepared this year to take on responsibility for benefits inspection and assurance from the former Benefit Fraud Inspectorate from April 2008. In addition to providing assurance that approximately £15 billion of public money is spent as intended, our approach will also be informed by the vital contribution benefits services make to the social and economic well-being of an area. We are developing a risk-based and proportionate approach to provide better assurance for taxpayers and people who use services at a lower cost.

# 2

## Health

At a glance

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**Overall financial position of the NHS in 2006/07 healthier**

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**But performance still variable, with regional variations**

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**Progress on practice based commissioning limited**

---

**Report on working relationships between clinicians and finance managers**

---

**Health and well-being paper described issues and progress**

---

**We recommend how to develop Payment by Results**

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**The Audit Commission's Trust Practice continues to expand**

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40%

of all foundation trusts have chosen us as their auditor

**We've used our unique position as the primary auditor of NHS Trusts, primary care trusts (PCTs) and strategic health authorities, as well as over 40 per cent of all foundation trusts, to review NHS financial management and the impact of key NHS reforms. Comprehensive Area Assessment will bring a greater focus on the NHS in working in partnership locally to improve health and well-being.**

### Reviewing finances

The overall financial position of the NHS in 2006/07 changed by over £1 billion, shifting from a deficit of £547 million in 2005/06 to a year-end surplus of £515 million in 2006/07, excluding NHS foundation trusts. However, while NHS finances have improved, nearly a third of NHS bodies were still in poor financial health at the end of 2006/07 and regional variations remain.

Rating the trusts and PCTs on a scale from one to four on how well they use NHS resources, we found that 27 per cent were performing well or strongly. However, 31 per cent failed to meet minimum requirements and 8 per cent scored one for overall use of resources and failed across the three key areas of financial management, financial standing and value for money. The scale of NHS reorganisation in 2006/07 was reflected in the use of resources scores and NHS bodies that did not merge tended to perform better.



## **Practice based commissioning**

Practice based commissioning, introduced in 2005/06, aims to give GP practices and primary care professionals the resources and freedom to develop new local services and more choice for patients.

Having conducted extensive research consulting with PCTs, GP practices and our local audit work, we found that practice based commissioning is making limited progress. We believe it's unlikely to take off until the following are in place: financial and governance infrastructure; clear and sustained leadership; information that enables GPs to monitor progress; and greater shared ownership of the objectives between PCTs and practices.

## **A prescription for partnership**

The Commission's *A Prescription for Partnership: Engaging Clinicians in Financial Management* addresses the importance of improving communication and working relationships between clinicians and finance staff. The report reveals some strongly held negative stereotypes between the two professional groups, and shows how clinical and financial staff can come together to improve the quality and efficiency of services. It also identifies a number of practical measures to promote better joint working.

## **Health and well-being**

As the only cross-cutting regulator working across health, local government and community safety, we play a key role in the focus on improving public health. In June 2007 we produced a short briefing paper called *Improving Health and Well-being* which reviews the extensive work on health and well-being undertaken by the Commission over the last two years, and shows how issues are being tackled and how further progress could be made.

## **Payment by results**

Payment by Results (PbR) aims to support NHS modernisation by paying hospitals for the work they do, rewarding efficiency and quality. The quality of the data underpinning payments, and the accuracy of those payments, are crucial. Following a pilot of key components of the proposed framework, the Department of Health asked us to implement a data assurance framework for PbR. This consists of an independent, targeted external clinical audit programme, benchmarking indicators and national briefings. At its centre is the first comprehensive programme of national benchmarking using data from the Secondary Uses Services.

*The Right Result? Payment by Results 2003-2007* examines the NHS's experience with PbR. It builds on our previous two publications by drawing on recent experience, looking at how PbR has affected the NHS and how the NHS has responded. In addition, we consider the future direction of PbR and the challenges to the NHS over the period to 2010/11.

## Growing Trust Practice

A continued focus on quality and client satisfaction in our Trust Practice has brought increasing success at winning new contracts. At the end of 2007/08, we had successfully maintained our market share despite stiff competition. We were appointed by 39 of the 89 foundation trusts.

We've begun to offer our expertise to all trusts and can now increase our impact by assisting with, for example, efficiency initiatives, strategic planning, governance reviews and effective risk and service line management systems.

We've established networking and training events for governors, non-executives and audit committee chairs. We also co-authored with the Healthcare Financial Management Association accounts guides to assist those responsible for interpreting and challenging a trust's financial statements.

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# 3 Housing

At a glance

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**Extensive programme of social housing inspection carried out**

---

**Short notice inspections piloted**

---

**Inspection of Supporting People arrangements concluded**

---

**Proposals on social housing regulation reflected in new Bill**

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16

Scrutiny reports on market renewal pathfinders

**As the inspectorate of social housing, we made a major contribution to the debate on the future of social housing regulation this year. Meanwhile, we continued to help local authorities, arm's length management organisations (ALMOs) and housing associations to improve their services for tenants through our audit, inspection and research functions. We also helped the Housing Corporation improve housing associations' performance, and scrutinised the nine market renewal pathfinders.**

### Inspecting social housing

We carried out 124 inspections across ALMOs, housing associations, local housing authorities and 34 Supporting People administering authorities (the authorities to coordinate housing-related support services for vulnerable people). We also published 16 scrutiny reports on the market renewal pathfinders (the sub-regional partnerships set up to tackle weak housing market areas).



# 150

Supporting People inspections

We published 55 reports from 2006/07 inspections and explored the contribution that the housing market renewal programme in the pathfinder areas of the North and Midlands makes to tackling the Respect agenda on crime and anti-social behaviour.

This was the last year of inspections of Supporting People arrangements, which started in 2003/04. We've reviewed the performance of all 150 authorities administering the programme, which seeks to provide a better quality of life for vulnerable people and help them to live more independently. Supporting People will be part of our overall risk-based approach to assessing local performance in the future.

Of the inspections completed within the year, four organisations scored excellent with excellent prospects: Royal Borough of Kensington and Chelsea Supporting People, Tameside Supporting People, Wakefield and District Housing Association and Westminster City Council Supporting People.

### **Reviewing regulation**

In response to the government's Cave Review and its subsequent consultation paper *Delivering Housing and Regeneration: Communities England and the Future of Social Housing Regulation*, we set out our ideas for social housing regulation. Our proposals – on financial regulation, supervision, inspection, and, where necessary, intervention – put tenants' interests first, and included creating a new Office for Housing Standards.

Many aspects of our submissions were taken on board by the Cave Review and by government. We have worked closely with the Department for Communities and Local Government (CLG), the Housing Corporation and others as the new regulatory arrangements for social housing take shape. The Tenant Services Authority will start regulating housing associations from April 2009 and we have been represented on the transitional board that has been charged with creating the new authority.

We have also been represented on government-led groups that are responsible for bringing local authorities and ALMOs under the new regulator, reviewing the local authority housing revenue accounts system and creating a new body called National Tenant Voice.

### **Short notice inspections**

Between October 2007 and March 2008 we ran a pilot of short notice inspections in 12 volunteering housing associations.

Currently, we give all housing providers several months' notice of an inspection. The Elton Report, *Review of Regulatory and Compliance Requirements for RSLs* (registered social landlords), recommended introducing short notice inspections that focus on poorly-performing organisations. The aim is to strengthen a risk-based inspection programme, make better use of resources and reduce time spent on inspections. In response to the report we piloted a programme of inspections similar to the approach used by Ofsted for schools.

# 12

Short notice inspections

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# 4 Community safety

At a glance

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**Commission took on inspections of fire and rescue services**

---

**We continued work with police and criminal justice services**

---

**Emergency response and prevention of fires, deaths and injuries strong, but progress patchy**

---

**Strong scores for police data quality, but weaker on recording of anti-social behaviour incidents**

---

**This year, we became the inspectorate of fire and rescue services. We also worked with the police and criminal justice services to improve data quality, support improvement and promote value for money.**

## Fire and rescue

Most fire and rescue authorities (FRAs) in England are performing well or strongly, with more than a quarter gaining top marks for their response to emergencies and prevention of fires, deaths and injuries. Today there are fewer fires, deaths and injuries than there have been for nearly 50 years.

But the new scores also show that, while some FRAs are placing greater emphasis on fire prevention and community safety, progress is patchy. Some FRAs score highly for the way they plan and manage the service, but their improvements haven't yet resulted in better performance. In addition, few of the country's 47 FRAs can boast workforces as diverse as their local communities.

During the year we made one major change to the framework for CPA scores for FRAs. This allows for a reinspection or, if appropriate, change to a CPA score if a FRA believes it has made significant and sustainable improvements.

## Police data quality

Nine out of ten police authorities and forces in England and Wales are continuing to perform well on their recording of crime data. For 2006/07, 88 per cent were rated good or excellent, compared to 81 per cent during the previous year and 28 per cent in 2003/04.

*Police Data Quality 2006/07* examines how well the police record information reported to them by victims and witnesses. Our findings show that the police are putting crime recording at the heart of their efforts to target their resources, where they will have the greatest impact. However, despite the generally positive picture, 26 per cent of police bodies have not sustained previous levels of performance.

This year, for the first time, the report also includes an analysis of how well the police record anti-social behaviour incidents that are not classified as crimes. Only 28 per cent of police authorities and forces are good or excellent in this category.

60%

Improvement in police data quality since 2003/04

# We are developing our organisation:



At a glance

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**Diversity, skills and staff numbers  
continuing priorities**

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**Investors in People accreditation retained,  
with significant improvement**

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**Regional field force restructure helping improve  
audit practice and deliver CAA**

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**Annual Diversity Report and Disability Equality  
Scheme published**

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**Better Managed Information project underway**

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**Extensive review of information security  
carried out**

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**Positive first report by the independent  
complaints reviewer**

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**Staff travel a focus of sustainability measures**

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**Staff efficiencies and workload  
management improved**

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**With CAA on the horizon and the need to continually improve the quality of our core audit function, we're developing our organisation to meet the challenges ahead. Our priorities for improvement are set out in our Management Plan and include developing our leaders and managers; improving development opportunities for staff; making the most of our knowledge; improving our communications and engendering a culture which embraces and promotes diversity and equality.**

### **Supporting our people**

The quality, diversity and engagement of our staff and suppliers are fundamental to our success. We're committed to giving staff the skills to deliver our changing business, and to ensuring that staff numbers match structural and workload changes as we refocus our activities.

On 31 March 2008 we directly employed nearly 2,000 staff. This costs £109 million and represents our single largest investment.

The Audit Commission is in the upper quartile of organisations investing in training and development. Our recruitment practices are based on Chartered Institute of Personnel and Development and industry best practice; in doing so we comply with part III of the Civil Service Commissioner's Recruitment Code.

**£25m**

Target to cut expenditure  
by 2010/11

- 5%

Target for business  
mileage reduction

Following an assessment in November, we have retained our Investors in People accreditation. Our performance improved significantly in a number of areas, and we demonstrated strong management across the organisation, improved consultation arrangements, greater staff empowerment and better knowledge management.

### **Shaping our future**

We carried out a major restructure of our regional field force this year, to help meet the twin challenges of improving our audit practice and delivering Comprehensive Area Assessment. As part of this we created 45 CAA Lead positions, appointing 36 internal candidates to the posts.

### **Championing diversity**

As we develop CAA, with its emphasis on improving the quality of life for everyone, more organisations and individuals will look to us to see how we champion diversity in our work, as well as within our own organisation.

This year, we published our second Annual Diversity Report, setting out how we continue to work towards achieving our objectives in the Making Equality and Diversity a Reality scheme. We also produced a Disability Equality Scheme, setting out how we plan to promote equal opportunities and tackle disadvantage for disabled people.

Achievements include:

- an involvement and participation strategy to ensure we consult with diverse groups, including disabled people, in our strategic work;
- a bronze award from the Employers' Forum on Disability in the Disability Standard 2007 benchmarking exercise;
- accreditation for our intranet from the Shaw Trust, a national charity that provides training and work opportunities for people who are disadvantaged due to disability, ill-health or other social circumstances;
- targeted recruitment campaigns to ensure that, by 2012, 8 per cent of our workforce at all levels will be people with disabilities; 50 per cent of senior positions will be filled by women; and 10 per cent of people in senior positions will be from a black and minority ethnic background; and
- for the third year running, listing in the Stonewall charity's Workplace Equality Index as one of the 100 most gay-friendly employers in the country.

### **Managing our knowledge**

CAA presents particular challenges for knowledge management, as knowledge needs to be gathered, aggregated, analysed and disseminated across the seven partner inspectorates. Knowledge will come from many sources and we will need to support CAA Leads to collect and use it effectively.



Our Investors in People review recognised the central knowledge team and knowledge networks as an area of strength and good practice in 2007/08. We have a comprehensive knowledge programme to meet the challenges of CAA, particularly to make it easier to collect, store, find, share and use knowledge, both internally and externally.

We have established a Better Managed Information project to improve corporate memory, compliance with information legislation, corporate governance and information sharing. The project aims to implement a systematic approach to managing documents and records, together with a way of linking records management to business processing.

### **Protecting information**

We've completed an extensive review of our information security in the light of the new government guidance. We believe that we measure up well against best practice, but there are areas where we can further enhance both technical security and our information management culture. We've instigated a programme of activities, led by a senior information risk owner, to enhance our information security and to meet the new government guidelines. The project will be completed in the summer of 2008 but further improvement work will continue thereafter.

We have a highly 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 bodies we audit and inspect. Inevitably there have been some thefts and losses of equipment. This year, 13 partially encrypted and password protected laptops, 6 password protected personal digital assistants and 25 mobile phones were lost. None of the lost equipment contained significant unprotected personal information and no information incidents were sufficiently significant for the Information Commissioner to be informed.

### **Listening to stakeholders**

We use stakeholder surveys and audit quality surveys to gather the views of our customers. For example, we reduced the number of key lines of enquiry in our proposed new use of resources assessment in response to stakeholder concerns.

Complaints are another important source of feedback. During 2007/08 we received 61 complaints, most of which were related to communications, such as not responding to a letter. The Commission has a formal complaints process managed by the Chief Executive's office, with a conciliation and mediation stage, as well as an independent reassessment provided by the independent complaints reviewer. The reviewer reports annually to our Board, and reviews not only the complaints but also the complaints process. While the reviewer's first annual report was largely positive, it did highlight a number of areas for improvement. We're currently looking at how we can improve the process for dealing with complaints and managing complainants' expectations by providing clearer information on the role of the Audit Commission and its appointed auditors.

**+ 95%**  
Increase in video conferencing

## **Conserving natural resources**

As well as promoting sustainability through our regulation of local public services, we also want to practice what we preach within our own business.

The challenge is to make an ongoing effort to change the way we work and our impact on the environment. We've made a number of simple changes such as banning the use of bottled water, switching to low-energy light bulbs and buying more energy-efficient laptops.

A particular focus has been to reduce the environmental impact of staff travel. We have achieved a 95 per cent increase in video conferencing usage, contributing to 400,000 fewer business miles claimed: a 5 per cent reduction. We are seeking to reduce journeys further by promoting flexible working. This is being supported by new technology such as broadband, emailed voice messages, softphones and online collaboration tools.

The emissions of Commission cars ordered since we introduced the revised CO<sub>2</sub> limits have averaged 152g/km, down from 163g/km. We've introduced a new green car scheme and have set a business mileage reduction target of 5 per cent next year.

## **Promoting further efficiency**

The next three years will see our income decrease as we reduce the level of audit and assessment as part of CAA, and as the number of bodies that we audit and inspect diminishes. By 2010/11 we aim to have cut our expenditure by some £25 million, about 4 per cent per year. We intend to hold the general inflationary uplift in audit and inspection fees to 1.25 per cent to 2010/11. While we will also have to pass on the additional audit costs associated with the transition to International Financial Reporting Standards (IFRS), we have made a commitment to absorb the additional costs arising from the introduction of new international auditing standards through increased efficiency.

A number of measures have been put in place to improve staff efficiencies and manage workloads better. These include better communication of deadlines, ensuring the feasibility of projects' scope and deadlines, and using contractors to help smooth workload peaks.

## Commissioners during the period of review

**All comments relating to the Commissioners reflect their activities during the year ended 31 March 2008.**

### **Michael O'Higgins**

Chairman

Michael 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 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 Centrepoin, 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.

### **Steve Bundred**

Chief Executive

Steve 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 is chair of the Higher Education Regulation Review Group and Deputy Pro Chancellor of City University. From 1999-2005 he was a Board member of the Higher Education Funding Council for England and Chair of its Audit Committee.

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

### **Lord Adebowale**

Victor 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 Centrepoin.

In 2000, Victor was awarded a CBE for service to the New Deal, for unemployed and homeless young people and in 2001 became a People's Peer.



### **Jim Coulter**

Jim 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 now Chair of Bridging Newcastle Gateshead, the housing market renewal pathfinder, and a member of the North East Regional Housing Board. He has been a past board member of Shelter and Chair of Homeless Network and has served on a number of CLG project boards.

### **Dr Jennifer Dixon**

Jennifer 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. She is also a board member of the Healthcare Commission.

### **Councillor Stephen Houghton, CBE**

Stephen 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 (SIGOMA); Chair of Barnsley Miller Partnership Ltd; and was a member of the South Yorkshire Objective 1 Programme Monitoring Committee. Cllr Houghton was awarded the CBE for services to local government in 2004.

### **Councillor Peter Jones**

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

### **Sir Thomas Legg, KCB QC**

Tom was Permanent Secretary of the Lord Chancellor's Department (now the Ministry of Justice) from 1989-1998. He now holds a range of part-time posts, including being Chairman of the Hammersmith Hospitals NHS Trust 2000-2007 (he is now a non-executive director on the merged Imperial College Healthcare NHS Trust), and an external member of the House of Commons Audit Committee. He is also a consultant to the law firm Clifford Chance, as well as being Chairman of the London Library.

### **David Moss**

David was Chief Executive of Southampton University Hospitals NHS Trust from 1993-2004. A qualified accountant, he has held several senior finance and general management positions within the NHS. He was seconded to the Department of Health as Programme Director for NHS Pay Reform and is currently Deputy Director of Workforce for the NHS. He is also a reviewer for the Healthcare Commission and the Healthcare Accreditation and Quality Unit.

### **Dame Denise Platt**

Dame Denise Platt, currently Chair of the Commission for Social Care Inspection, 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 (NSPCC); 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.

### **Brian Pomeroy, CBE**

Brian was the 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.

### **Raj Rajagopal**

Raj was Chief Executive of BOC Edwards and Executive Director of the BOC Group plc between 1998 and 2006. Between 1981 and 1996 he held various positions including Managing Director of Edwards High Vacuum. He is currently a non-executive director for Dyson plc, and Foseco plc, a member of the Council of Science and Technology and is Chairman of the Manufacturing Sector Panel, and Vice President of the Institute of Engineering and Technology.

### **Bharat Shah**

Bharat is currently CEO 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 CEO 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.

### **Sheila Drew Smith, OBE**

Sheila is currently an independent management consultant to clients in the UK on business development and related management/governance issues. She was the part-time Executive Chair of Tower Hamlets Housing Association Trust until its statutory end date of 2004/05. She is also a board member of the Housing Corporation and the South East Regional Housing Board.

### **Professor Peter C Smith**

Peter 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**

Jenny Watson works with Global Partners and Associates. She is 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 prior to the creation of the Commission for Equality and Human Rights.

### **Councillor Chris White**

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

## Members' appointment dates

	Appointment start date	Appointment end date
Michael O'Higgins, Chairman	01/10/06	30/09/09
Lord Adebawale	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	30/04/09
Sheila Drew Smith, OBE	01/05/04	30/04/10
Councillor Steve Houghton, CBE	02/05/06	30/04/09
Councillor Peter Jones	01/11/03	30/04/09
Sir Thomas Legg, KCB QC	01/04/05	31/03/11
David Moss	01/04/01	30/04/07
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
Bharat Shah	01/09/07	31/08/10
Professor Peter 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 2008 and relates to the year ending March 2008. 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 department; and
- that is a provider or receiver of significant services to or from the Commission.

## Board member interests

### **Michael O'Higgins**

Chairman

- Shareholding in PA Consulting.
- Chair of Centrepoint Registered Social Landlord.
- Fees received from CLG for strategic consulting and coaching.

### **Lord Adebowale**

- Chief Executive and Company Secretary of Turning Point Registered Social Landlord.
- Board member Places for People Registered Social Landlord.

### **Steve Bundred**

- Fees received from Department for Innovation, Universities and Skills as Chair of the Higher Education Regulatory Review Group.
- During the year his wife worked on contract for the London Borough of Croydon.

### **Jim Coulter**

- Chair of Bridging Newcastle Gateshead.
- Board member North East Housing Board.

### **Dr Jennifer Dixon**

- Board member of the Healthcare Commission.
- Recipient of research grants from the Department of Health (under competitive tender).

### **Sheila Drew Smith, OBE**

- Non-executive board member of the Housing Corporation.
- Board member South East Regional Housing Board.
- Chair Action for Bow charity.
- Member of the Central List of Independent Assessors for the Office of the Commissioner for Public Appointments.

### **Councillor Steve Houghton, CBE**

- Improvement and Development Agency peer member.
- Member of the LGA finance and policy committee.
- Member of Barnsley Metropolitan Council and South Yorkshire Learning and Skills Council.

**Councillor Peter Jones**

- Leader of East Sussex County Council.
- Chairman of Sussex Police Authority.
- Member of South East England Development Agency.
- Director of East Sussex Economic Partnership Ltd.
- Member of Rye Partnership Ltd, ARRCC Ltd and HBRL Ltd.

**Sir Thomas Legg, kcb qc**

- Non-executive director of Imperial College Healthcare NHS Trust.

**Dame Denise Platt**

- Independent Review board member Cheshire Fire and Rescue Service.
- Member of Committee for Standards in Public Life.
- Remuneration received from Commission for Social Care Inspection.

**Brian Pomeroy, CBE**

- Chairman of the Gambling Commission.
- Advisor to CLG on affordable housing.

**Raj Rajagopal**

- None.

**Bharat Shah**

- Fees received from Ofsted for consultancy.
- Business mentoring of Group, Chief Executive of Places for People Group Registered Social Landlord.

**Professor Peter Smith**

- Consultancy contracts with Department of Health, Home Office and Department for Education and Science.

**Jenny Watson**

- Jenny Watson is a board member of WRAP.

**Councillor Chris White**

- Member of Hertfordshire County Council.
- Board Chair and Executive Member of LGA.
- His wife was a member of St Albans City and District Council.

## 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.

### **The Audit Commission's management team during the year to 31 March 2008 was:**

#### **Jeremy Boss**

Interim Managing Director, Corporate Services to June 2007

Jeremy fulfilled the Managing Director role on an interim basis for the 15 months to June 2007. He has now returned to his substantive post as the Commission's Chief Information Officer responsible for information and technology across the organisation. He trained as an accountant with the predecessor firm to PricewaterhouseCoopers and was involved in a range of auditing and consulting roles before specialising in IT management in the private sector and then at the Commission.

#### **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.

#### **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.

#### **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.

**Jenny Grey**

Managing Director, Communications and Public Reporting

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.

**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.

**Dave Stewart**

Managing Director, Corporate Services June 2007 to February 2008

Dave joined the Audit Commission in June 2007 having served in a variety of leadership roles in the British Army. These included command of an infantry battalion and the management of a large development and support portfolio of IT projects.

**Jo Whitehead**

Interim Managing Director, Corporate Services February 2008 to March 2008

Jo joined the Commission in October 2005 as Regional Director leading on the Commission's work programme in Southern Region. In February 2008 she took up the additional responsibilities of interim Managing Director for Corporate Services. She has worked in a variety of roles within the NHS including being a PCT Chief Executive in the South West and working at a senior level in the Department of Health.

**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.



## 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.

# **Financial review**

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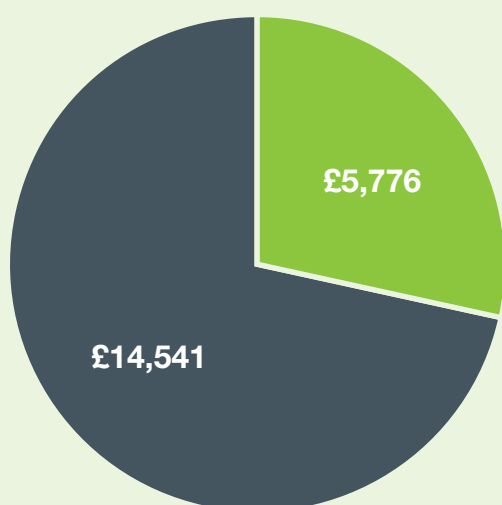
## Financial review

The Commission's operating income totalled £219.7 million of which £193.2 million related to fees and £23.9 million related to grants received from government departments, together with sundry income of £2.6 million. After expenditure the Commission realised an operating surplus of £3.9 million (1.8 per cent) following a deficit of £4.6 million (2.1 per cent) the previous year. This surplus was realised by reducing costs by £12.4 million (5.4 per cent) against a background of lower income of £3.9 million (1.8 per cent). The operating surplus is then adjusted for net interest receivable and the costs of retirement benefits (Financial Reporting Standard 17) as follows.

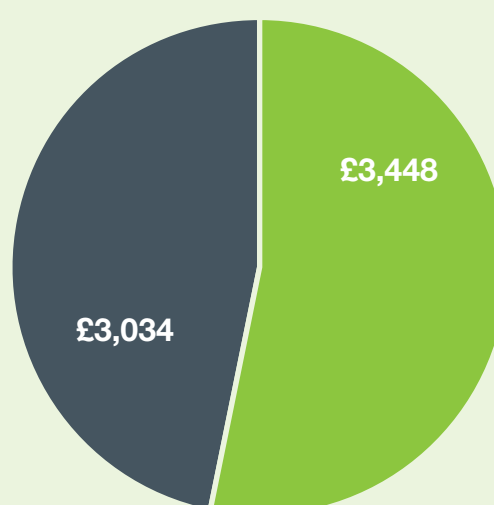
	<b>2008</b> <b>£000</b>	2007 £000
Operating surplus/(deficit) from Income and expenditure account (includes reduced pension cost as a result of FRS 17)	<b>3,870</b>	(4,604)
(Less)/add pension costs in the 'staff costs' line	<b>(2,101)</b>	5,627
Add net interest receivable	<b>3,542</b>	2,504
Add/(less) notional charges included in the annual accounts	<b>465</b>	(79)
Surplus excluding FRS 17 adjustment	<b>5,776</b>	3,448
Return on pension scheme assets	<b>12,440</b>	8,661
Add/(less) pension costs in the 'staff costs' line	<b>2,101</b>	(5,627)
Surplus including FRS 17 adjustment	<b>20,317</b>	6,482

### The surplus showing the effect of FRS 17

**2007/08**  
**Total £20,317**



**2006/07**  
**Total £6,482**



■ FRS 17 adjustment  
■ Surplus prior to FRS 17

The application of FRS 17 retirement benefits has also resulted in a pension liability of £16.7 million on the balance sheet, increased from last year's liability of £14.7 million. Further information on FRS 17 is provided in Note 21 to the accounts.

At the end of the period, the Commission had net reserves of £15.2 million, or 7 per cent of turnover.

We continue with our preparations for the implementation of International Financial Reporting Standards (IFRS), with full conversion anticipated well before the mandatory requirement.

### **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, 96 per cent of undisputed invoices were paid within 30 days (2006/07: 92 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.

In future, the base remuneration of the Chief Executive and members of Management Team will be reviewed by the Remuneration Committee, who will have access to benchmarking data and independent advice as appropriate.

All roles are subject to a competitive external recruitment process.

## Chief Executive's 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**

All Managing Directors are eligible to receive performance-related pay (PRP) up to a maximum of 10 per cent of salary. The award to an individual is 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.

### **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	
Jeremy Boss, Interim Managing Director, Corporate Services	26/04/04	01/04/06	18/06/07
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	
Andy McKeon, Managing Director, Health	08/09/03	08/09/03	
Dave Stewart, Managing Director, Corporate Services	18/06/07	18/06/07	22/02/08
Jo Whitehead, Interim Managing Director, Corporate Services	03/10/05	22/02/08	02/06/08
Peter Wilkinson, Managing Director, Policy Research and Studies	21/05/90	01/11/06	

### **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 (Audited)

	Year to 31 March 2008 Salary £000	PRP £000	Other benefits £000	Total (excluding pension contribution) £000	Year to 31 March 2008 Pension contribution £000	Year to 31 March 2007 (excluding pension contribution) £000
Steve Bundred	198	14	0	212	36	208
Jeremy Boss <sup>1</sup>	23	2	1	26	4	118
Gareth Davies	143	11	5	159	26	61
Tracey Dennison	109	8	6	123	20	122
Martin Evans	143	11	5	159	26	141
Jenny Grey	112	8	5	125	20	87
Andy McKeon	153	11	6	170	28	167
Dave Stewart <sup>2</sup>	86	0	3	89	13	0
Jo Whitehead <sup>3</sup>	13	1	0	14	2	0
Peter Wilkinson	151	11	6	168	27	164

Note 1: The figures relate to the period 01/04/07 to 18/06/07.

Note 2: The figures relate to the period 18/06/07 to 22/02/08.

Note 3: The figures relate to the period 22/02/08 to 31/03/08.



## Chief Executive and Management Team pension entitlement details (Audited)

	Real increase in pension at 60 £000	<b>Total accrued pension at 31 March 2008 £000</b>	Total accrued pension at 31 March 2007 £000	Increase in transfer value £000	<b>Transfer value at 31 March 2008 £000</b>	Transfer value at 31 March 2007 £000
Steve Bundred	2	<b>53</b>	49	86	<b>916</b>	831
Jeremy Boss	0	<b>4</b>	4	7	<b>62</b>	56
Gareth Davies	5	<b>39</b>	33	84	<b>475</b>	391
Tracey Dennison	1	<b>43</b>	40	49	<b>614</b>	565
Martin Evans	3	<b>37</b>	33	84	<b>609</b>	525
Jenny Grey	4	<b>5</b>	1	46	<b>56</b>	10
Andy McKeon	0	<b>63</b>	60	71	<b>1,037</b>	966
Dave Stewart	1	<b>1</b>	0	16	<b>16</b>	0
Jo Whitehead	0	<b>0</b>	0	2	<b>2</b>	0
Peter Wilkinson	2	<b>27</b>	24	58	<b>459</b>	402

### 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 who receives payment based on four days per month.

The Chairman's remuneration is determined separately and is based upon 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 other Commissioner receives remuneration benefits from the Audit Commission, nor are they members of the Audit Commission Pension Scheme.

# Remuneration report

## Commissioner remuneration details (Audited)

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
Commissioners in place at 31 March 2008		
Michael O'Higgins <sup>1</sup> , (Chairman)	87	43
Lord Adebawale <sup>2</sup>	8	0
Jim Coulter	14	14
Dr Jennifer Dixon	14	14
Sheila Drew Smith, OBE	14	14
Councillor Steve Houghton <sup>3</sup> , CBE	14	13
Councillor Peter Jones	14	14
Sir Thomas Legg, KCB QC	14	14
Dame Denise Platt <sup>2</sup>	8	0
Brian Pomeroy, CBE (Audit Committee Chairman)	18	18
Raj Rajagopal <sup>2</sup>	8	0
Bharat Shah <sup>2</sup> (Deputy Chairman)	11	0
Professor Peter Smith	14	14
Jenny Watson <sup>2</sup>	8	0
Councillor Chris White	14	14
Steve Bundred (See above for remuneration details)		
Commissioners who left prior to 31 March 2008		
David Moss	1	14

Note 1 Appointed 01/10/06.

Note 2 Appointed 01/09/07.

Note 3 Appointed 02/05/06.

### Steve Bundred

Accounting Officer

30 June 2008

# 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.

# Statement of responsibilities

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 departmental 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 2008 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 three years. 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 areas of the Commission's areas of responsibility and reviews the major risks twice a year.

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.

#### 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 five 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 and accounting policies, practices and processes, including IT;
  - the internal control systems including 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;
  - the results of the external audit by the National Audit Office, including their management letter and the response by management; and
  - the implementation of recommendations from audit reports.
- 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 Committee reviewed its effectiveness in February and June 2007 following an external review conducted by Ernst & Young.

## Statement of responsibilities

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

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

e) **Internal audit**

An external firm, Bentley Jennison, has been appointed as the Commission's internal auditors, with the relevant partner acting as Head of Internal Audit. He reports 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 Internal Auditors attend all Audit Committee meetings and the Head of Internal Audit has direct access to me.

To improve the quality and impact of the internal audit approach moving forward, the Commission has recruited a Head of Assurance to lead and manage the Internal Audit service and to lead on risk management throughout the Commission.

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 is currently in the process of being drawn up between the Commission and its principal sponsoring department, CLG, to reflect the proposed additional responsibilities being given to the Commission under the Local Government and Public Involvement in Health Act. 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 reflects 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 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:
- a) an organisational structure that supports clear lines of communication and accountability;
  - b) business strategies that are approved by the Commission Board and are subject to consultation with Commission stakeholders;
  - c) key performance indicators that are regularly measured against the strategy and business plan;
  - d) detailed business plans produced at regional and Directorate level that include risk assessments of all their business activities; and
  - e) a risk escalation process allowing risks identified within business plans to be brought to the attention of senior directors.
- 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:
- a) establish a policy framework approved by the Commission Board and the Management Team, within which strategic risks are identified, managed and kept under review;
  - b) 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;
  - c) 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 a member of staff centrally, (this responsibility will be transferred to the Head of Assurance on appointment) 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
  - d) 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.



## Statement of responsibilities

- 4.8. The Commission's risk processes include consideration of information risks and the controls in place to protect the Commission's information assets. This includes recognition that personal and other sensitive information requires additional safeguards. This whole area has been subject to a rigorous review in the current year in light of the learning from security breaches elsewhere in the public services and new government guidance. New arrangements are being introduced as necessary.
- 4.9. 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.
- 4.10. 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. During the last two years these presentations have covered all major areas of activity within the Commission.
- 4.11. At the financial period end the Commission had identified four generic risk areas which it is actively managing:
- a) strategic risks;
  - b) risks to the Commission's reputation and credibility;
  - c) operational risks; and
  - d) risks associated with financial and regime stability.
- 4.12. 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.

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.

## 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. Plans to address weaknesses and ensure continuous improvement of the system are in place.
- 5.2. 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 internal audit function has regular access to myself and to the chairman of the Audit Committee, and attends every Audit Committee meeting.
- 5.3. 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 2008

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

I certify that I have audited the financial statements of the Audit Commission for Local Authorities and the National Health Service in England and Wales (the Audit Commission) for the year ended 31 March 2008 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and 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, 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 'our history and statutory background', 'chairman and chief executive's foreword', 'developing our core functions', 'our work in each sector', 'developing our organisation', 'commissioners during the period of review', 'members appointment dates', 'Board member interests', 'senior managers during the period of review', 'auditor details', 'financial review', and the unaudited parts of the 'Remuneration Report', 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 'our history and statutory background', 'chairman and chief executive's foreword', 'developing our core functions', 'our work in each sector', 'developing our organisation', 'commissioners during the period of review', 'members appointment dates', 'Board member interests', 'senior managers during the period of review', 'auditor details', 'financial review', 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 Secretary of State directions made thereunder, of the state of the Audit Commission's affairs as at 31 March 2008 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 given within the Annual Report, which comprises 'our history and statutory background', 'chairman and chief executive's foreword', 'developing our core functions', 'our work in each sector', 'developing our organisation', 'commissioners during the period of review', 'members appointment dates', 'Board member interests', 'senior managers during the period of review', 'auditor details', 'financial review', and the unaudited parts of the 'Remuneration Report', is consistent with the financial statements.

### **Audit 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.

### **T J Burr**

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

4 July 2008

# Audit Commission for Local Authorities and the National Health Service in England and Wales

## Income and expenditure account for the year ended 31 March 2008

	Note	Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Operating income</b>			
Audit fee income		<b>181,412</b>	183,091
Inspection income	3	<b>35,702</b>	37,205
Other operating income	4	<b>2,561</b>	3,287
		<b>219,675</b>	223,583
<b>Operating costs</b>			
Staff and members' costs	5	<b>123,186</b>	129,848
Bought-in services	6	<b>58,350</b>	65,305
Other operating costs	7	<b>33,804</b>	33,113
Notional costs/(credits)	1(x)	<b>465</b>	(79)
		<b>215,805</b>	228,187
Operating surplus/(deficit) including notional costs/(credits)		<b>3,870</b>	(4,604)
<b>Financing income</b>			
Add back notional costs/(credits)	1(x)	<b>465</b>	(79)
Net interest receivable	8	<b>3,542</b>	2,504
Net return on pension scheme assets	21(x)	<b>12,440</b>	8,661
<b>Surplus for period</b>		<b>20,317</b>	6,482

The notes that follow form part of these financial statements.

The movement on reserves is set out at Note 17.

# Statement of total recognised gains and losses

## for the year ended 31 March 2008

	Note	Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Surplus for period</b>		<b>20,317</b>	6,482
<b>Pension scheme</b>			
Actual return less expected return on assets	21(xi)	<b>(68,684)</b>	8,741
Experience gains and losses arising on liabilities	21(xi)	<b>(6,496)</b>	(111)
Changes in assumptions underlying the liabilities	21(xi)	<b>58,630</b>	12,046
<b>Total recognised gains in the period</b>		<b>3,767</b>	27,158

The entries relating to FRS 17 are explained in Note 21. This statement analyses the difference between the long-term assumptions made by the actuary (showing the Scheme to be adequately funded) and the calculations required to be made under FRS 17 as at 31 March 2008.

There are three main elements reflected above.

### Actual return less expected return on assets

In the element charged to financing costs in the Income and expenditure account, an assumption is made at the beginning of the period about the expected investment returns to be achieved on the Scheme's assets in the accounting period. In practice, the actual investment returns will differ from those assumed. The difference between the expected returns and those actually achieved are reflected in this accounting statement.

### Experience gains and losses arising on liabilities

This item arises because the actual movement in the liabilities may not be in line with the assumptions made. For example, there may have been a different number of deaths or leavers, or salaries may not have grown as expected, which leads to a different period end assessment of liability to that expected. These differences are reflected above.

### Changes in financial assumptions underlying the Scheme's liabilities

These actuarial assumptions are partly financial and partly demographic. Changes in any of these assumptions over the period will result in a different period end liability value being placed on members' entitlements under the scheme. Again the resulting differences are reflected in this accounting statement.

## Balance sheet

### at 31 March 2008

	Note	Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Fixed assets</b>	10	<b>6,858</b>	7,729
<b>Current assets</b>			
Fee debtors and work in progress	11	<b>27,025</b>	23,968
Other debtors	12	<b>9,791</b>	6,922
Short-term investments	20	<b>63,000</b>	49,000
Cash at bank and in hand	14	<b>0</b>	525
		<b>99,816</b>	80,415
<b>Creditors: amounts falling due within one year</b>			
Creditors and accrued charges	14	<b>13,203</b>	11,195
Deferred income	15	<b>58,969</b>	49,463
		<b>72,172</b>	60,658
<b>Net current assets</b>		<b>27,644</b>	19,757
Provisions for liabilities and charges	16	<b>2,616</b>	1,377
Net assets employed excluding pension liability		<b>31,886</b>	26,109
Less pension liability	21(vi)	<b>16,705</b>	14,696
<b>Total net assets</b>		<b>15,181</b>	11,413
<b>Financed by</b>			
Capital reserves		<b>3,734</b>	3,734
Revenue reserves		<b>28,152</b>	22,375
Pension reserve		<b>(16,705)</b>	(14,696)
<b>Total financing</b>	17	<b>15,181</b>	11,413

The notes that follow form part of these financial statements.

**Steve Bundred**  
Accounting Officer  
30 June 2008



## Cash flow statement

for the 12 month period ended 31 March 2008

	Note	Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Net cash inflow/(outflow) from operating activities</b>	18	<b>10,819</b>	(10,235)
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>3,542</b>	2,504
Net cash inflow from returns on investments and servicing of finance		<b>3,542</b>	2,504
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		<b>(1,102)</b>	(848)
Net cash outflow from investing activities		<b>(1,102)</b>	(848)
<b>Management of liquid resources</b>			
Receipts from short-term investments		<b>49,000</b>	55,000
Payments to acquire short-term investments		<b>(63,000)</b>	(49,000)
Short-term investments		<b>(14,000)</b>	6,000
<b>(Decrease) in cash</b>	19	<b>(741)</b>	(2,579)

# Notes to the financial statements

## 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) Local Government and NHS income and expenditure, analysed in Note 2, has been directly attributed where possible to the relevant activity; where this has not been 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) The Notional Cost of Capital calculation is based on net assets/liabilities at 3.5 per cent, (2006/07: 3.5 per cent) and charged/credited to Operating Costs. This cost/credit is added back to the Operating Surplus and attributed to Local Government and NHS expenditure on the basis of reserves within each activity.
- (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.
- (xiii) It is, and has been throughout the period under review, the Commission's policy that no trading in financial instruments shall be undertaken, and that all deposits will be made in Sterling.

The main risks arising from the Commission's financial instruments are interest rate and liquidity risks. The Commission reviews and agrees policies for managing each of 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 February 2009. Short-term flexibility is achieved by overdraft facilities.

(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

		Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Local Government, Community Safety and Housing</b>			
Income (see ii)	Fee income	<b>120,763</b>	118,347
	Grant income	<b>23,938</b>	25,882
	Other income	<b>12,270</b>	10,345
		<b>156,971</b>	154,574
Expenditure	Direct and indirect costs	<b>142,374</b>	149,200
<b>Surplus for the period</b>		<b>14,597</b>	5,374
<b>Health</b>			
Income (see ii)	Fee income	<b>72,414</b>	76,067
	Other income	<b>6,272</b>	4,107
		<b>78,686</b>	80,174
Expenditure	Direct and indirect costs	<b>72,966</b>	79,066
<b>Surplus for the period</b>		<b>5,720</b>	1,108

## Notes to the financial statements

### Note 2: Income and expenditure analysis (continued)

#### Reconciliation to Income and expenditure account

This note re-analyses the income and expenditure figures to show it by sector. The income figure as shown on the Income and expenditure account of £219,675,000 together with the deposit interest received of £3,542,000 and the net return on pension scheme assets of £12,440,000 totals £235,657,000. This is analysed between Local Government, Community Safety and Housing of £156,971,000 and Health of £78,686,000.

The expenditure figure as shown on the Income and expenditure account of £215,805,000 less the notional costs of £465,000 gives total expenditure of £215,340,000. This is analysed between Local Government, Community Safety and Housing of £142,374,000, and Health of £72,966,000.

#### ii) Analysis of income: work undertaken by the Commission directly, and work outsourced

##### Local Government, Community Safety and Housing

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Undertaken by the Commission – fees</b>	<b>84,497</b>	82,075
– grants	<b>23,938</b>	25,882
Audits undertaken by private accountancy firms	<b>36,266</b>	36,272
Other income	<b>12,270</b>	10,345
	<b>156,971</b>	154,574

##### Health

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Audits undertaken by the Commission</b>	<b>48,731</b>	46,798
Audits undertaken by private accountancy firms	<b>23,683</b>	29,269
Other income	<b>6,272</b>	4,107
	<b>78,686</b>	80,174

iii) Analysis of disclosable activity

Section of the 1998 Audit Commission Act

		Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Section 28:</b> Certifying claims or returns made by an authority	Income	<b>20,031</b>	23,970
<b>Section 29:</b> Additional audits undertaken with the consent of the Secretary of State	Income	<b>0</b>	0
<b>Section 35:</b> Studies designed to improve economy, efficiency and effectiveness, undertaken at the request of the body concerned	Income	<b>755</b>	1,060
<b>Section 36:</b> Studies designed to improve economy, efficiency and effectiveness, undertaken at the request of specified educational bodies	Income	<b>0</b>	0

These sections reflect the work for which the Commission is required to charge fees that will cover the full cost of providing the service.

**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 inspection work on best value authorities, and in the period a number of grants were received principally from Communities and Local Government (CLG).

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
Fee income	<b>11,763</b>	11,323
Grant income		
CLG	<b>17,523</b>	20,445
CLG – Fire	<b>1,382</b>	253
CLG – Housing	<b>4,975</b>	5,127
Other departments	<b>59</b>	57
	<b>35,702</b>	37,205

## Notes to the financial statements

### Note 4: Other operating income

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
Publications and conferences	11	39
Secondments	860	1,353
Sundry income	1,690	1,895
	<b>2,561</b>	3,287

### Note 5: Staff and commission members' costs

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Staff costs</b>		
Staff salaries	88,260	86,199
Member remuneration	261	222
Social Security costs	8,493	8,539
Pension costs	11,723	19,603
	<b>108,737</b>	114,563
Lease cost of cars	5,281	5,546
Subscriptions and other benefits	807	879
	<b>114,825</b>	120,988
Audit and inspection contractors	8,361	8,860
	<b>123,186</b>	129,848
Included in pension costs is the additional (credit)/cost resulting from the application of FRS 17	<b>(2,101)</b>	5,627
Included in salaries are costs of staff seconded to other organisations	<b>917</b>	1,375

The average number of full-time equivalent staff employed during the period

	<b>Year to 31 March 2008</b>	Year to 31 March 2007
<b>Staff employed</b>		
Operational – audit and inspection	<b>1,096</b>	1,095
– audit trainees	<b>134</b>	140
– support	<b>171</b>	162
Central Directorates	<b>628</b>	597
Secondees	<b>14</b>	22
	<b>2,043</b>	2,016
In post at period end	<b>1,964</b>	2,005
Contractors (average in period)	<b>142</b>	167
Contractors (in post at period end)	<b>124</b>	153

**Note 6: Bought-in services**

	<b>Year to 31 March 2008 £000</b>	Year to 31 March 2007 £000
Payments to private accounting firms	<b>54,465</b>	62,542
Research and other consultancy costs	<b>3,885</b>	2,763
	<b>58,350</b>	65,305

These costs relate to services bought in by the Audit Commission that directly relate to their audit, inspection or research functions.



## Notes to the financial statements

### Note 7: Other operating costs

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
<b>Accommodation</b>		
– rent lease costs	4,097	3,708
– other costs	3,061	2,997
Supplies and services	11,874	11,389
Recruitment and transfers	1,367	1,534
Depreciation	1,634	1,892
Audit fee	80	77
Professional fees	1,054	843
Publications	346	382
Support contractor costs	2,396	3,059
Travel and subsistence – staff	4,481	4,140
– members	26	30
Training	3,377	3,090
Debts provided for	11	(28)
	<b>33,804</b>	33,113

### Note 8: Net interest receivable

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
Interest receivable	3,543	2,504
Interest payable	(1)	0
	<b>3,542</b>	2,504

## Note 9: Taxation

The Commission is exempt from income tax and corporation tax by virtue of Section 519 of the Income and Corporation Taxes Act 1988, and from capital gains tax by virtue of Section 271 of the Taxation of Chargeable Gains Act 1992.

## Note 10: Fixed assets

	Furniture and fittings £000	Computer equipment £000	Office equipment £000	Total £000
<b>Cost</b>				
At 31 March 2007	11,212	1,383	485	13,080
Purchases	685	391	26	1,102
Disposals	(1,168)	0	(2)	(1,170)
<b>At 31 March 2008</b>	<b>10,729</b>	<b>1,774</b>	<b>509</b>	<b>13,012</b>
<b>Depreciation</b>				
At 31 March 2007	4,373	665	313	5,351
Provided in period	1,126	417	91	1,634
Disposals	(829)	0	(2)	(831)
<b>At 31 March 2008</b>	<b>4,670</b>	<b>1,082</b>	<b>402</b>	<b>6,154</b>
<b>Net book value</b>				
<b>At 31 March 2008</b>	<b>6,059</b>	<b>692</b>	<b>107</b>	<b>6,858</b>
At 31 March 2007	6,839	718	172	7,729

1. The net book value of assets using current value is not materially different from the net book value at historic cost.

2. All assets are owned and none subject to lease agreements.

## Notes to the financial statements

### Note 11: Debtors and work in progress

	<b>31 March 2008 £000</b>	31 March 2007 £000
<b>Fee debtors</b>		
– Local government	<b>16,303</b>	15,461
– National Health Service	<b>3,063</b>	4,156
<b>Work in progress</b>		
– Local government	<b>5,647</b>	3,413
– National Health Service	<b>2,012</b>	938
	<b>27,025</b>	23,968

Irrecoverable and doubtful debt provision (netted against appropriate debtor):

	<b>31 March 2008 £000</b>	31 March 2007 £000
Opening provision	<b>62</b>	133
Debts previously provided for and written off in the period	<b>0</b>	(43)
Net provision made in the period	<b>(62)</b>	(28)
Closing provision	<b>0</b>	62

### Note 12: Other debtors

	<b>31 March 2008 £000</b>	31 March 2007 £000
Other debtors and prepayments	<b>9,720</b>	6,842
Relocation advances	<b>4</b>	10
Employee advances	<b>67</b>	70
	<b>9,791</b>	6,922

In accordance with the Whole of Government Accounts regulations the debtor balances in Notes 11 and 12 can be analysed into the following categories:

	<b>31 March 2008 £000</b>	31 March 2007 £000
Central government bodies	<b>8,171</b>	11,036
Local government bodies	<b>12,671</b>	9,443
NHS trusts	<b>2,175</b>	2,150
Public corporations	<b>0</b>	56
Balances with bodies external to government	<b>13,799</b>	8,205
	<b>36,816</b>	30,890

### **Note 13: Financial instruments**

The Commission's financial instruments comprise borrowing facilities, some cash and liquid resources and various items, such as trade debtors, trade creditors and so on that arise directly from its operations.

### **Note 14: Creditors and accrued charges**

	<b>31 March 2008 £000</b>	31 March 2007 £000
Trade creditors	<b>2,659</b>	2,749
Taxation and Social Security	<b>623</b>	838
Accrual for holiday entitlement not yet taken	<b>3,219</b>	2,719
Accruals	<b>6,486</b>	4,889
Bank	<b>216</b>	0
	<b>13,203</b>	11,195

## Notes to the financial statements

### Note 15: Deferred income

	<b>31 March 2008 £000</b>	31 March 2007 £000
Deferred income	<b>58,969</b>	49,463
	<b>58,969</b>	49,463

The deferred income represents the monies received in advance for audit and inspection work.

In accordance with the Whole of Government Accounts regulations the creditor balances in Notes 14 and 15 can be analysed into the following categories:

	<b>31 March 2008 £000</b>	31 March 2007 £000
Central government bodies	<b>9,045</b>	10,407
Local government bodies	<b>40,621</b>	32,918
NHS trusts	<b>9,437</b>	6,950
Balances with bodies external to government	<b>13,069</b>	10,383
	<b>72,172</b>	60,658

## Note 16: Provisions

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

	<b>31 March 2008 £000</b>	31 March 2007 £000
Opening balance	<b>1,343</b>	1,354
Provision in period	<b>372</b>	(11)
<b>Closing balance</b>	<b>1,715</b>	1,343

In accordance with the accounting policies the provision for future dilapidations is discounted to current value. The rate used is the net of the Bank of England interest rate and the inflation rate. This year the rates used were a bank interest rate of 5.0 per cent, an inflation rate of 2.7 per cent, giving a net rate of 2.3 per cent (2007: 5.2 per cent, 3.1 per cent and 2.1 per cent respectively).

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

	<b>31 March 2008 £000</b>	31 March 2007 £000
Opening balance	<b>34</b>	0
Utilised in the period	<b>(34)</b>	34
Provision in the period	<b>901</b>	0
Closing balance	<b>901</b>	34
<b>Total provisions</b>	<b>2,616</b>	1,377

## Note 17: Capital and revenue reserves

*Capital reserves* reflect funding provided to the Commission to fund working capital. The Local government reserve of £1.6 million was received in year ending March 1984 at the inception of the Commission, and the £2.2 million was received in year ending March 1991 when the Commission's remit was extended to include audit of health authorities.

*Revenue reserves* show the net deficit or surplus for the period together with the cumulative amount brought forward from prior accounting periods.

## Notes to the financial statements

### Note 17: Capital and revenue reserves (continued)

*Pension reserves* show the additional surplus or deficit experienced during the year resulting from the application of Financial Reporting Standard 17 together with the balance brought forward from prior accounting periods.

		<b>31 March 2008 £000</b>	31 March 2007 £000
<b>Capital reserve</b>	Local government	<b>1,580</b>	1,580
	Health	<b>2,154</b>	2,154
	<b>Total capital reserves</b>	<b>3,734</b>	3,734
<b>Revenue reserves</b>	<b>Local government</b>		
	Brought forward	<b>19,329</b>	15,927
	Surplus for period	<b>14,597</b>	5,374
	Net movement to the pension scheme reserve	<b>(9,542)</b>	(1,972)
	<b>Local government reserves</b>	<b>24,384</b>	19,329
	<b>Health</b>		
	Brought forward	<b>3,046</b>	3,000
	Surplus for period	<b>5,720</b>	1,108
	Net movement to the pension scheme reserve	<b>(4,998)</b>	(1,062)
	Health reserves	<b>3,768</b>	3,046
	<b>Total revenue reserves</b>	<b>28,152</b>	22,375
	Of the revenue reserves of £28.1 million, £10.0 million has been earmarked for the Commission's Pension Scheme.		
<b>Pension reserves</b>			
	Brought forward	<b>(14,696)</b>	(38,407)
	Movement in the period from Income and expenditure account	<b>779</b>	(10,942)
	Cash payments to the scheme	<b>13,762</b>	13,977
	Movement in the period from the Statement of recognised gains and losses	<b>(16,550)</b>	20,676
	<b>Total pension reserves</b>	<b>(16,705)</b>	(14,696)
<b>Total reserves</b>		<b>15,181</b>	11,413

## Note 18: Reconciliation of operating surplus for period

To net outflow from operating activities

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
Operating profit/(loss)	3,870	(4,604)
Notional costs/(credits)	465	(79)
Pension (credit)/charge	(2,101)	5,627
Net depreciation	1,634	1,892
Loss on disposal of fixed assets	339	31
(Increase) in debtors and work in progress	(5,926)	(6,010)
Increase/(reduction) in creditors and provisions	12,538	(7,092)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>10,819</b>	<b>(10,235)</b>

## Note 19: Reconciliation of net cash outflow

To movement in net funds

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
(Decrease) in cash	(741)	(2,579)
Cash inflow/(outflow) from short-term investments	14,000	(6,000)
Change in net funds	13,259	(8,579)
Net funds at 1 April 2007	49,525	58,104
<b>Net funds at 31 March 2008</b>	<b>62,784</b>	<b>49,525</b>

## Note 20: Analysis of changes in net funds

	At 31 March 2008 £000	Cash flows £000	At 1 April 2007 £000
Short term investments	63,000	14,000	49,000
Bank	(216)	(741)	525
Short term investments and Bank	62,784	13,259	49,525



### **Note 21: Pension scheme**

The valuation provided by the Scheme's actuary as at 31 March 2006 showed a surplus of £39.1 million under the Projected Unit Credit basis of valuation. This compares with an FRS 17 valuation at 31 March 2008 of £16.7 million deficit (£14.7 million deficit at 31 March 2007).

Under the accounting standard FRS 17, the net effect on the Income and expenditure account increased the Commission's surplus by £14.5 million (surplus increased by £3.0 million for the year to 31 March 2007).

#### **(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. 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. Of the nine positions, seven were filled as at 31 March 2008.

#### **(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.

The Commission contributions amounted to £13,762,158 in the 12 month period to 31 March 2008 (excluding special contributions paid in respect of strains arising from redundancies) (12 month period to 31 March 2007 – £13,977,055).

The levels of contributions are based on the current service costs and the expected future cash flows of the defined benefit 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 using the projected unit method. This amount is reflected in the deficit in the balance sheet. The projected unit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

An alternative method of valuation to the projected unit method is a solvency basis often estimated using the cost of buying out benefits at the balance sheet date with a suitable insurer. This amount represents the amount that would be required to settle the scheme liabilities at the balance sheet date rather than the Commission continuing to fund ongoing liabilities of the scheme. The Commission estimates the amount required to settle the scheme's liabilities at the balance sheet date is £75 million.

#### (iv) Disclosure of principal assumptions

Full actuarial valuations are conducted annually and the last one finalised was carried out using the projected unit method as at 31 March 2006.

The market value of the net assets of the scheme at 31 March 2006 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:

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

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

	2008 % pa	2007 % pa	2006 % pa	2005 % pa	2004 % pa
Rate of inflation	<b>3.4</b>	3.1	3.0	2.9	2.9
Rate of salary increase	<b>4.05</b>	3.75	4.5	4.4	4.4
Discount rate for liabilities	<b>6.3</b>	5.3	5.1	5.4	5.5
Rate of increase of pensions in payment	<b>3.4</b>	3.1	3.0	2.9	2.9
Rate of increase of deferred pensions	<b>3.4</b>	3.1	3.0	2.9	2.9

In addition to the salary increase rate, there is an age related promotional salary scale.

## Note 21: Pension scheme (continued)

### (iv) Disclosure of Principal Assumptions (continued)

The post-mortality table used in 2008 is PA00 Year of Birth with allowance for long cohort improvements (2007: PA00 Year of Birth with allowance for medium cohort improvements). The assumed life expectations on retirement at age 60 are:

	2008	2007
Retiring today		
Males	<b>28</b>	26
Females	<b>31</b>	29
Retiring in 20 years		
Males	<b>29</b>	28
Females	<b>32</b>	30

The expected return on the scheme assets is derived from the assumptions of long-term expected returns on each asset class, namely equities 7.65 per cent (2007: 7.9 per cent), property 5.55 per cent (2007: 7.9 per cent), index linked gilts n/a per cent (2007: 4.6 per cent) and cash 5.25 per cent (2007: 5.25 per cent). Assets are taken at bid value (2007: bid value).

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

At 31 March 2008, 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:

	2008	2007
UK equities	<b>52%</b>	50%
Overseas equities	<b>41%</b>	39%
UK index linked gilts	<b>0%</b>	4%
Property	<b>6%</b>	7%
Cash	<b>1%</b>	0%

The current investment strategy is that the majority of the assets will be held in a mixture of UK and overseas equities, with between 5 per cent and 20 per cent of the assets being held in a property holding. Of the total equity holding, the target is 55 per cent in UK equities and 45 per cent in overseas equities (13.5 per cent US, 13.5 per cent Europe (excluding UK), 6.75 per cent Japan, 6.75 per cent Asia Pacific, 4.5 per cent emerging markets). Up to 2.5 per cent of this allocation may be used to provide some hedge of the currency risk of overseas equity investment.

In conjunction with the trustees, the Commission is conducting an asset liability review of the scheme. This study is used to assist the trustees and the Commission to determine the optimal long-term asset allocation with regard to the structure of liabilities within the scheme. The results of the study are being used to assist the trustees in managing the volatility in the underlying investment performance and risk of a significant increase in the scheme deficit by providing information used to determine the pension scheme's investment strategy.

(vi) Net pension assets

	<b>31 March 2008 £000</b>	31 March 2007 £000
Fair values of scheme assets	<b>476,866</b>	516,692
Present value of scheme liability	<b>(493,571)</b>	(531,388)
<b>Net pension liability</b>	<b>(16,705)</b>	(14,696)

The Commission has unfunded liabilities of £65,000 (2007: £69,000) in respect of one former contributor.

(vii) Reconciliation of present value of liabilities

	<b>31 March 2008 £000</b>	31 March 2007 £000
Opening defined benefit liability	<b>531,388</b>	502,785
Service costs (see Note ix)	<b>17,424</b>	19,488
Employee contributions	<b>5,562</b>	4,936
Interest cost	<b>27,247</b>	26,012
Actuarial losses (gains)	<b>(52,134)</b>	(11,935)
Past service costs	<b>0</b>	115
Benefits paid	<b>(10,453)</b>	(10,013)
Curtailments and settlements	<b>(25,463)</b>	0
<b>Closing defined benefit liability</b>	<b>493,571</b>	531,388

## Notes to the financial statements

### Note 21: Pension scheme (continued)

#### (viii) Reconciliation of fair value of scheme assets

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
Opening fair value of scheme assets	516,692	464,378
Expected return	39,687	34,673
Actuarial (losses)/gains	(68,684)	8,741
Settlements	(19,700)	0
Contributions by employer	13,762	13,977
Contributions by members	5,562	4,936
Benefits paid	(10,453)	(10,013)
<b>Closing fair value of scheme assets</b>	<b>476,866</b>	<b>516,692</b>

Based on the current contribution rate of 17 per cent pensionable salaries, the Commission expects to contribute £14.3 million to the scheme in 2008/09.

#### (ix) Analysis of amount charged to operating profit

	Year to 31 March 2008 £000	Year to 31 March 2007 £000
Current service cost	17,424	19,488
Past service cost	0	115
(Gains) on settlements	(5,763)	0
<b>Total operating charge</b>	<b>11,661</b>	<b>19,603</b>

(x) Analysis of amount credited to other finance income

	<b>Year to 31 March 2008 £000</b>	Year to 31 March 2007 £000
Expected return on pension scheme assets	<b>39,687</b>	34,673
Interest cost	<b>(27,247)</b>	(26,012)
<b>Net return</b>	<b>12,440</b>	8,661

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

	<b>Year to 31 March 2008 £000</b>	Year to 31 March 2007 £000
Opening amount recognised	<b>26,804</b>	6,128
Actual return less expected return on scheme assets	<b>(68,684)</b>	8,741
Experience gains/(losses) arising on the scheme liabilities	<b>(6,496)</b>	(111)
Changes in demographic and financial assumptions underlying scheme liabilities	<b>58,630</b>	12,046
<b>Closing amount recognised</b>	<b>10,254</b>	26,804

## Notes to the financial statements

### Note 21: Pension scheme (continued)

#### (xii) History of experience gains and losses

Amounts for the current and previous four periods are as follows:

	<b>Year to 31 March 2008 £000</b>	Year to 31 March 2007 £000	Year to 31 March 2006 £000	Year to 31 March 2005 £000	Year to 31 March 2004 £000
Defined benefit liability	<b>(493,571)</b>	(531,388)	(502,785)	(439,280)	(393,989)
Scheme assets	<b>476,866</b>	516,692	464,378	351,778	296,545
(Deficit)	<b>(16,705)</b>	(14,696)	(38,407)	(87,502)	(97,444)

	<b>Year to 31 March 2008 £000</b>	Year to 31 March 2007 £000	Year to 31 March 2006 £000	Year to 31 March 2005 £000	Period to 31 March 2004 £000
Experience adjustments on scheme liabilities	<b>(6,496)</b>	(111)	(1,977)	11,152	(24,062)
Experience adjustments on scheme assets	<b>(68,684)</b>	8,741	82,663	14,764	29,124
Actual return less expected return/ Scheme assets	<b>(14.4%)</b>	1.7%	17.8%	4.2%	9.8%

#### (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 11%
Rate of inflation	Increase by 0.5%	Increase by 10%
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 22: Operating results for the last six periods

	Year to 31 March 2008 £000	Year to 31 March 2007 £000	Year to 31 March 2006 £000	Year to 31 March 2005 £000	17 months to 31 March 2004 £000	Year to 31 October 2003 £000
Operating income	<b>219,675</b>	223,583	195,756	233,202	331,291	213,917
Operating costs	<b>(215,340)</b>	(228,266)	(199,742)	(234,085)	(328,246)	(215,275)
Notional credits/(costs)	<b>(465)</b>	79	1,423	2,492	1,896	523
	<b>3,870</b>	(4,604)	(2,563)	1,609	4,941	(835)
	<b>1.8%</b>	(2.1%)	(1.3%)	0.7%	1.5%	(0.4%)
Add back:						
Notional credits/(costs)	<b>465</b>	(79)	(1,423)	(2,492)	(1,896)	(523)
Net interest receivable	<b>3,542</b>	2,504	2,713	2,633	1,735	1,060
Return on pension scheme assets	<b>12,440</b>	8,661	3,205	(716)	2,457	3,758
<b>Surplus</b>	<b>20,317</b>	6,482	1,932	1,034	7,237	3,460

The operating results for prior years have not been adjusted to reflect the transfer of the Audit Commission's responsibilities in Wales to a new body called the Wales Audit Office from 1 April 2005.

## Note 23: Financial commitments

There are revenue commitments at 31 March 2008 in respect of non-cancellable car leases which expire:

	31 March 2008 £000	31 March 2007 £000
Within one year	<b>408</b>	525
Within one to five years	<b>2,372</b>	2,405
	<b>2,780</b>	2,930



## Notes to the financial statements

### Note 23: Financial commitments (continued)

There were annual commitments as at 31 March 2008 to pay rentals under lease agreements which expire:

	2008 £000	2008 Number of Properties	2007 £000	2007 Number of Properties
Within one year	365	8	373	9
From one to five years	414	11	513	14
Over five years	3,211	24	2,911	24
	<b>3,990</b>	<b>43</b>	3,797	47

All building leases are taken out in the name of the Audit Commission. Office accommodation with spare capacity is sublet, with the majority of building leases subject to rent reviews.

### Note 24: 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 (HMRC) that its best value inspections are not business activities for VAT purposes. The Commission is in discussion with HMRC to establish with them the correct treatment for this function and continues to charge and recover VAT on this activity.

### Note 25: Related party transactions

During the period, no Commissioners, members of the key management staff or their related parties have undertaken any material transaction with the Commission.

The Commission is a public corporation sponsored in the year by the CLG. 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; and
- 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 34 and 35.

<b>Staff member</b>	<b>Position held in year ending March 2008</b>
Alison Kelly	Partner chairs the Committee on Standards in Public Life.
Asari St Hill	Non-Executive Director at Waltham Forest PCT.
Barbara Deacon	Member of the Board of Trustees for the Richmond Fellowship, a Registered Social Landlord.
Caroline Al-Beyerty	Member of CIPFA Council, CIPFA's Public Finance and Management Board and CIPFA's Audit Committee.
Cathy O'Carroll	Husband is Director of Resources at Hertfordshire Police Authority.
Fiona Forth	Husband is the Director of Finance for Stevenage Homes Limited.
Kit Harbottle	Trustee of Langley House Trust, a Registered Social Landlord.
Marcial Boo	Trustee of the Young Foundation.
Martin Evans	Member of the Audit Committee of the Department for Communities and Local Government.
Mike Barnes	Member of the Council of CIPFA. Elected Honorary Treasurer of CIPFA and in that capacity also a director of the Institute of Public Finance Limited.
Pauline Web	Partner is a member of the Professional Executive Committee at Torbay Care Trust.
Rachel Mayman	Husband employed by the Housing Corporation. Rachel is on the Audit Committee of Turning Point.
Richard McGahon	Brother is a Director of the University Hospitals Morecambe Bay NHS Trust.
Stuart Reid	Sole Director and Shareholder of Black Mole Productions Limited, a company with which the Commission has a contract.
Sue Sunderland	Husband is a Board Member of Aspire Housing Association; and on the standards committees for Derby City Council and Amber Valley Borough Council.
Tim Campbell	Until November 2007, employed part-time for the Department for Communities and Local Government.

### **Note 26: Losses and special payments**

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

### **Note 27: Post-balance sheet events**

There were no significant post-balance sheet events that need to be separately reported.

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 4 July 2008

## Appendix 1

# The Audit Commission for Local Authorities and the National Health Service in England and Wales

### **Accounts direction given by the Secretary of State, the Secretary of State for Health and the National Assembly for Wales, 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 and Wales (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 1985;
  - (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;
  - (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 all previously issued directions.

Signed by authority of the Secretary of State

#### **Ciara Mulligan**

An officer in the Department for Communities and Local Government

16 April 2007

Signed by authority of the Secretary of State for Health

#### **Stephen Mitchell**

An officer in the Department of Health

16 April 2007

## 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 fixed assets shall be stated at existing use value or, for property of a specialised nature, at depreciated replacement cost. Other non-leased fixed assets shall be stated at net current replacement cost. All valuation bases as defined by the Royal Institution of Chartered Surveyors.
5. Stocks and work in progress shall be included in the balance sheet at the lower of estimated replacement cost and estimated net realisable value.
6. Government grants received for revenue purposes shall be treated as trading income.
7. Expenditure in the Income and expenditure account shall include a notional cost of capital, 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.

## 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
  - (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
  - (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
  - (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 request of bodies subject to audit)
  - Section 36 (studies at request of educational 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
  - (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
  - (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
    - (6) other pension costs.
- (e) An analysis of liquid resources, as defined by accounting standard FRS1 (revised).
- (f) In the note on debtors, 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 from 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
    - (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

- (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.

The Public Audit (Wales) Act 2004 created a single audit office in Wales as from 1 April 2005, by transferring the office of the Audit Commission in Wales to that of the Welsh Auditor General. The words 'and Wales' were removed from the Commission's name in 2008 under the Local Government and Public Involvement in Health Act 2007.

Since 1998, a number of important amendments to the Commission's functions have been made by various statutes. Under the Local Government Act 1999 local authorities were given a new duty to make arrangements 'to secure continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficiency and effectiveness.' The Commission was given a power to carry out an inspection of an authority's performance of its functions, including inspection of its compliance with this duty.

The Local Government Act 2003 gave the Commission power to inspect registered social landlords, as well as placing Comprehensive Performance Assessment on a statutory footing. The Health and Social Care (Community Health and Standards) Act 2003 provided that a Foundation Trust can appoint as its auditor an employee of the Audit Commission, and also transferred certain functions relating to social services to the Commission for Social Care Inspection. The Fire and Rescue Services Act 2004 extended the Commission's inspection function to the inspection of fire and rescue authorities' compliance with the Secretary of State's Fire and Rescue National Framework.

In 2008 the Local Government and Public Involvement in Health Act 2007 altered the Commission's structure, made various changes and extensions to its powers, including a new power to advise and assist public bodies, and a new power to undertake Comprehensive Area Assessment. New powers were also conferred on the Commission by the Serious Crime Act 2007 on 6 April 2008 allowing data matching by the Commission.



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