

AUDIT COMMISSION ANNUAL REPORT AND ACCOUNTS

Report and Accounts of the Audit Commission, showing the Income and Expenditure for the year ended 31 March 2007 and Balance Sheet as at 31 March 2007, together with the Report of the Comptroller and Auditor General thereon.

Presented pursuant to Act 1998, Sch 1, clause 14 (2)

Audit Commission annual report and accounts

April 2006 to March 2007

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 12 JULY 2007

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Audit Commission annual report and accounts Year ending 31 March 2007

This Statement of Account has been prepared in a form directed by the Secretary of State, with the approval of the Treasury, in accordance with paragraphs 11(1) and 11(2) of Schedule 1 to the Audit Commission Act 1998.

Brief 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 corporate body and began operations on 1 April 1983. On 1 October 1990 it 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.

The Commission's responsibilities were then amended by the Local Government Act 1999, the Local Government Act 2003, the Health and Social Care (Community Health and Standards) Act 2003, the Fire and Rescue Services Act 2004 and the Children Act 2004.

Under the 1999 Act, auditors appointed by the Commission audit local authorities' best value performance plans (BVPPs) and the Commission is responsible for inspecting authorities' compliance with the requirements of Part 1 of the Act. The Local Government Act 2003 introduced a duty for the Commission to report on its findings in relation to the performance of English local authorities and a power to inspect registered social landlords. The Fire and Rescue Services Act 2004 extended the Commission's remit to inspect and report on the performance of fire and rescue authorities as from 1 October 2004.

The Health and Social Care (Community Health and Standards) Act 2003 transferred responsibility for carrying out national value for money studies in relation to the National Health Service, save for those concerning financial management, to the Commission for Healthcare Audit and Inspection (Healthcare Commission) from 1 April 2004. The Audit Commission may assist the Healthcare Commission, or have functions delegated to it, however the two Commissions must cooperate in relation to matters for which they both have responsibility. Similarly, the Commission must cooperate with the Commission for Social Care Inspection in relation to studies of social care.

On 1 March 2005 the Children Act 2004 imposed an obligation on a range of inspectorates, including the Commission, to conduct joint reviews of children's services at the request of the Secretary of State.

Under the Public Audit (Wales) Act 2004 the Audit Commission's audit and inspection functions in Wales were transferred to the Auditor General for Wales. The transfer to the new body, the Wales Audit Office (WAO), was implemented on 1 April 2005.

The Commission is classed by the Office for National Statistics as a Public Corporation, and its sponsoring department is the Department for Communities and Local Government.

Commissioners during the period of review

All comments relating to the Commissioners reflect their activities during the year ended 31 March 2007.

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 a member of its International Board.

He was previously a partner at Price Waterhouse, worked at the Organisation for Economic Co-operation and Development in Paris and held academic posts at the University of Bath, the London School of Economics, Harvard University and the Australian National University. He is also currently the Chair of Centrepoint, having been on the Board of Trustees since 2002, became a Trustee of the National Centre for Social Research early in 2007, and a member of the Cabinet Secretary's Capability Review Moderation Panel in May 2007.

Professor Sir Michael Lyons, Acting Chairman from 24 January 2006

Sir Michael is Chairman of the English Cities Fund and a Non Executive Director of Mouchel-Parkman plc. He acts as a strategic consultant to a range of public and private organisations. Earlier independent reviews covered the Management of Public Assets and Relocation. He was formerly Chief Executive of Birmingham City Council. He was previously Honorary Professor of Public Policy at the University of Birmingham.

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. He is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA). Steve has also previously worked for Lewisham and Hackney councils and London University's Birkbeck College. From 1999-2005 he was a Board member of the Higher Education Funding Council for England and Chair of its Audit Committee. Since 2006 he has been chair of the Higher Education Regulation Review Group. He is also Deputy Pro Chancellor of City University.

As Chief Executive, Steve is also part of the Management Team.

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 Board Member of Shelter and Chair of Homeless Network and has served on a number of Office of the Deputy Prime Minister (ODPM) project boards.

Dr Jennifer Dixon

Jennifer is presently Director of Health Policy at the Kings Fund. She 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.

Sheila Drew Smith OBE

Sheila is an economist and independent management consultant on business planning and related governance issues. She is currently a Board Member of the Housing Corporation where she chairs the Registration Committee, and is a non-executive member of the South East Regional Housing Board. She was the part-time executive Chair of Tower Hamlets Housing Association Trust until its statutory end date of 2004/05 and now chairs its successor charity, Action for Bow. Previously she was a management consultancy partner in Coopers & Lybrand and Deloitte Haskins & Sells. Prior to that, she was a member of the Government Economic Service which included a number of years in HM Treasury. She has chaired the board of High Secure Hospitals and also served on the board of Ordnance Survey, for which she received an OBE.

Councillor Stephen Houghton CBE

Stephen has been Leader of Barnsley Metropolitan Borough Council for nine years and a member for 18 years. He is Chair of the Barnsley Local Strategic Partnership; Chair of the Special Interest Group of Municipal Authorities (SIGOMA); Chair of the Local Government Association (LGA) Urban Commission; Chair of Barnsley Miller Partnership Ltd; and a Member of the South Yorkshire Objective 1 Programme Monitoring Committee. Councillor Houghton was awarded the CBE for services to Local Government in 2004.

Councillor 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.

Dr Pauleen Lane

Pauleen is Mayor of Trafford Metropolitan Borough Council and lecturer in Geotechnical Engineering and Computation at the University of Manchester. She is the Vice Chair of English Partnerships and a Board Member of the North West Development Agency.

Sir Thomas Legg KCB QC

Sir Tom began as a barrister and then served in the Lord Chancellor's Department (now the Ministry of Justice) in various posts and as its Permanent Secretary from 1989 to 1998. Since then, he has held a variety of part-time posts, including being Chairman of the Hammersmith Hospitals NHS Trust and an external member of the House of Commons Audit Committee. He is also a consultant to Clifford Chance, and Chairman of the London Library.

David Moss

David was Chief Executive of Southampton University Hospitals NHS Trust from 1993 to 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.

Tim Parker

Tim is Chief Executive of the AA, and was previously Chief Executive of Kwik-Fit. He was formerly Chief Executive of Clarks and prior to this, he was Chief Executive of Kenwood Appliances, a leading brand in the appliance industry. Tim is a non-executive director of Boots plc and was until recently a non-executive director of Legal & General Group plc.

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 and of the Payments Council. He is a member (and former Chair) of the National Lottery Commission. He was formerly Chair of Centrepont and Homeless Link, and an independent member of the Council of Lloyd's.

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, and has published widely on economic aspects of public services.

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 to 2003, resuming the leadership in 2005. He was Deputy Leader of the Council and has also been a member of the Hertfordshire Police Authority. Since 1998 Chris has been Leader of the Liberal Democrats of the East of England Regional Assembly. He has previously chaired the LGA Regeneration Board and currently chairs the LGA Culture, Tourism and Sport Board.

Members' appointment dates

	Appointment start date	Appointment end date
Michael O'Higgins Chairman from 1/10/06	1/10/06	30/09/09
Professor Sir Michael Lyons Acting Chairman from 24/1/06 – 30/09/06	1/11/03	30/09/06
Steve Bundred	1/11/03	See note 1
Jim Coulter	1/04/05	31/03/08
Dr Jennifer Dixon	1/11/03	30/04/09
Sheila Drew Smith OBE	1/05/04	30/04/10
Councillor Steve Houghton CBE	2/05/06	30/04/09
Councillor Peter Jones	1/11/03	30/04/09
Dr Pauleen Lane	1/12/00	30/04/06
Sir Thomas Legg KCB QC	1/04/05	31/03/08
David Moss	1/04/01	30/04/07
Tim Parker	3/01/06	31/03/08 (stepped down 19/10/06)
Brian Pomeroy CBE	1/05/03	30/04/09
Professor Peter Smith	1/11/03	30/04/09
Councillor Chris White	1/06/05	31/05/08

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

Board member interests

The following disclosure relates to Commissioners at March 2007 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, 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 continued

Michael O'Higgins Chairman
from 1/10/06

- Shareholder in PA Consulting.
- Chair of Centrepont Registered Social Landord.
- Fees received from the Department for Communities and Local Government (CLG) and Department for Environment, Food and Rural Affairs for strategic consulting and coaching.
- Member of the Cabinet Secretary's Capability Review Moderation Panel

Professor Sir Michael Lyons
Acting Chairman 24/1/06 –
30/9/06.

- Contract with the CLG/ HM Treasury via Sir Michael Lyons Consulting partnership.
- Contract with KPMG for advisory services.
- Non-executive director Mouchel Parkman Plc.
- Non-executive chairman English Cities Fund.
- Non-executive director Central Television.

Steve Bundred

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

Jim Coulter
Dr Jennifer Dixon
Sheila Drew Smith OBE

- Chair of Bridging Newcastle Gateshead.
- Board member of the Healthcare Commission.
- 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 Borough Council and South Yorkshire Learning and Skills Council.

Audit Commission accounts

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

Board member interests continued

- Dr Pauleen Lane
- Elected Member at Trafford Metropolitan Borough Council Governing Body of ELEVATE – East Lancashire Housing Market Renewal Pathfinder.
 - Member of the North West Regional Housing Board.
 - Fees received from the North West Development Agency and also from the CLG for work undertaken at English Partnerships.
- Sir Thomas Legg KCB QC
David Moss
- Chairman, Hammersmith Hospitals NHS Trust.
 - Employed by Southampton University Hospitals NHS Trust.
 - Seconded from Southampton University Hospitals NHS Trust as Deputy Director of Workforce at the Department of Health, and also seconded to the Healthcare Commission as a Reviewer.
- Tim Parker
Brian Pomeroy CBE
Professor Peter Smith
- None.
 - None.
 - Consultancy contracts with Department of Health, Healthcare Commission, Office for National Statistics.
- Councillor Chris White
- Member of Hertfordshire County Council.
 - Board Chair and Executive Member, 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 2007 was:

Jeremy Boss

Interim Managing Director, Corporate Services

Jeremy has fulfilled the Managing Director role on an interim basis for the last year. His substantive post is as the Commission's Chief Information Officer responsible for information and technology (IT) 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 from October 2006

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.

Frances Done CBE to October 2006

Managing Director, Local Government, Housing and Community Safety

Frances was Chief Executive of Manchester 2002 Ltd, the organising committee of the Commonwealth Games. She trained as an accountant with KPMG and has worked for the Housing Corporation. She was Treasurer and later both Chief Executive and Treasurer of Rochdale MBC.

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 Grey 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, Director of Communications at Imperial Cancer Research Fund 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.

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 the local government, health and police 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.

The management commentary

Nature of the business

The Audit Commission for Local Authorities and the National Health Service in England and Wales (the Commission) is a public corporation sponsored jointly by CLG and the Department of Health. We are an independent public body responsible for ensuring that public money is spent economically, efficiently, and effectively in the areas of local government, housing, health, community safety and fire and rescue services. Our remit covers 11,000 bodies in England, which between them spend more than £180 billion of public money each year.

The main functions of the Commission are to:

- appoint auditors to local authorities, most local NHS bodies and police and probation authorities (and audit NHS foundation trusts where appointed);
- inspect local authority, other best value authority and housing association services;
- undertake performance assessments of local authorities and fire and rescue authorities; and
- undertake national studies of economy, efficiency and effectiveness in local public services and housing associations. In the NHS studies will focus on financial management.

Our mission is to be a driving force in the improvement of public services. We promote good practice and help those responsible for public services to achieve better outcomes for citizens, with a focus on those people who need public services most.

A key feature of the Commission is its independence in conducting its primary functions of audit, inspection and study both from the bodies which it audits, inspects and studies, and from the government of the day. This is recognised in the Commission's status as a separate corporate body, its financial independence from government, and its powers to report on the impact of government measures on local authority services and on financial management.

Integral to the principle of independence is the distinction between the Commission and its appointed auditors. The role of the Commission is to appoint auditors and to regulate the overall audit regime, which involves, among other things, preparing and maintaining a Code of Audit Practice which auditors must follow. Once appointed, however, auditors operate under their own statutory rules and their judgements are entirely independent of the Commission.

The Commission is part of the wider system of audit, assessment and inspection of public services. It works with other audit agencies, inspectorates and regulators, including the Housing Corporation, Benefit Fraud Inspectorate, Commission for Social Care Inspection, Healthcare Commission, Office for Standards in Education, Her Majesty's Inspectorate of Constabulary and Her Majesty's Inspectorate of Probation. The Commission also works with the Local Services Inspectorate Forum in England to develop a strategic and coordinated approach to the inspection of local authorities.

Strategic Plan

Our Strategic Plan 2006 sets out five strategic objectives:

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

We direct all our activities towards achieving these objectives, seeking synergy from the combined impact of audit, inspection, assessment, research and information.

Our five strategic objectives are closely interconnected. In a period of sustained investment in public services, the powerful budgetary pressures that foster value for money and efficiency can slacken. With the likelihood of a slowdown in the rate of that investment, that driver is likely to come to the fore once again and we will re-emphasise the importance of both value for money and good financial management.

Our objectives also enable us to capitalise on our experience as a force for improvement in local public services. Sound financial management, good governance and accountability are essential building blocks without which public bodies cannot improve and deliver better value for money. There is great potential for public bodies to take better decisions, and for users to make more informed choices, if they have relevant, timely and accurate information on which to base them.

A new performance framework

The recent Local Government White Paper and subsequent Local Government and Public Involvement in Health Bill 2006 set out a new performance framework for local services. The White Paper signalled a fresh phase in reforming local services with a new performance framework including Comprehensive Area Assessment (CAA) at its heart. CAA will focus on place rather than the individual bodies responsible for local services. It will also look across local government, housing, health, education and community safety.

CAA also aims to be more relevant to local people by addressing issues that are important to the local community including crime, community cohesion, public health and the environment. A focus on local strategic partnerships will also acknowledge that public bodies commission services from a variety of public, private and not-for-profit suppliers, as well as providing services themselves. The Commission is leading on the development of CAA which will be developed in partnership with other regulators in close consultation with local public service providers and central government.

In the meantime, it is important that there is a sustained focus on continuing to improve services. Consequently, the Commission's current performance assessment framework, Comprehensive Performance Assessment (CPA) will continue through to 2008/09 with minimal changes. It is essential that the transition from CPA to CAA is carefully managed over the next few years to keep up the momentum of improvement in public services. We will continue to provide assurance about how well public services are run and how effectively they use taxpayers' money.

In the housing sector, we are awaiting ministerial decisions after the consultation following the Cave Review that will determine the Commission's future role in the social housing sector.

In the health sector, we will be implementing a data assurance framework for Payment by Results. Experience shows that monitoring payments and behaviour will be crucial to ensure that Payment by Results operates effectively. The quality of the data that underpins payments and the accuracy of those payments are particularly important. Following a pilot of key components of the proposed assurance framework the Department of Health accepted our recommendations and this work will be carried out for the first time in 2007/08.

Also in health, our Trust Practice for foundation trusts continues to grow. There are now 65 foundation trusts of which the Commission audits 32.

Conservation of resources – Greening the Commission

The Audit Commission is committed to improving its environmental performance and reducing the environmental impact of its work. As a regulator we want to be an exemplar of best practice and to reduce substantially our carbon emissions in line with government targets. We will have in place management practices to deliver such improvement, measure progress and report both internally and externally.

Reductions in carbon use by the Commission will be achieved by reducing travel, increasing the energy efficiency of our buildings, reducing waste and increasing sustainable procurement. Our focus will be on direct reductions in carbon emissions, as soon as possible, rather than a reliance on indirect carbon offsetting to achieve carbon neutrality.

We have developed a 2010 Environmental Charter which provides a set of ten principles that embed consideration of our impact on the environment in all areas of our business activity. Together with an environmental scorecard and detailed implementation plans these provide a framework to deliver a substantial reduction in our carbon footprint over the next three years.

The second annual environmental stock-take was undertaken during the year. This included a first estimate of the Commission's own carbon footprint, assessed at approximately 12,000 tonnes per annum based on the model developed by the Carbon Trust.

We have undertaken a range of specific measures which include:

- an environmental performance assessment using the BREEAM Index for all new office buildings and, where possible, adopting naturally ventilated building solutions;
- utilising office furniture produced from sustainable sources supplied by manufacturers with Forest Stewardship Council or comparable European accreditation;
- undertaking environmental assessments of suppliers as part of our procurement procedures;
- printing all national reports on 100 per cent recycled and chlorine-free paper (75 per cent post-consumer waste and 25 per cent from mill broke and virgin fibres) and increasingly using stationery from fully recycled sources;
- agreeing home working contracts for some staff to minimise home to workplace travel;
- a reduction in the number of local printers (with reductions in maintenance journeys and toner cartridges) and reductions in paper usage by changing our printing strategy to default to double-sided printing;
- encouraging the use of video conferencing to limit business travel where this is possible;
- improved waste recycling:
 - there is a new contract to collect and recycle CDs; and
 - a new contract to collect and recycle cardboard from our Bristol office.
- encouraging staff to use public transport where appropriate:
 - all London staff are offered an annual travel card; and
 - consideration is given to how accessible public transport is for all new property locations.
- providing alternatives to the use of a car, for example we support the Bike to Work Scheme by providing staff with cycle loans; and
- completing a review of our car scheme with advice from the Energy Savings Trust. We already provide incentives to encourage the selection of leased cars with a low environmental impact, currently taken up by 12 per cent of eligible staff. In addition we have further limited choice to cars with an engine size of two litres or less producing less than 180gms/km of carbon dioxide.

Our staff are enthusiastic to contribute to our improvement efforts and we work to engage and encourage the changes we all need to make to deliver our agenda for carbon reduction. We have a communications campaign on Greening the Commission and encourage regional activities with a network of staff-led environmental champions to lead on local activities.

Development and performance of the business

Our focus is to ensure that 11,000 public bodies in England, that between them spend £180 billion of public money each year, provide well-run, value for money services.

Alongside this we provide information on the quality of local services, work with public bodies to improve services and produce reports with practical recommendations for improvement.

We have embarked on the delivery of a comprehensive organisational improvement Management Plan that places the Commission on a sound internal foundation for delivering our five strategic objectives.

The Commission's core statutory function remains that of an audit regulator. In carrying out this function we aim to secure high quality, consistent and value for money audits, whether these are delivered by our own audit practice or our partner audit firms.

During the year we successfully completed the two largest procurement exercises we have ever conducted, in which we invited tenders from audit firms for some 30 per cent of the audits in the regime. As a result we have reduced our costs by over £30 million over the next five years. These savings will help to offset the significant regulatory cost pressures that the Commission faces, which would otherwise impact directly on fees.

Following the first phase of this procurement exercise we embarked on a major re-drawing of the map of audit appointments. We believe that rotation of audit suppliers, as well as engagement leads, is an essential safeguard of audit independence.

We monitor the quality of work carried out by auditors through our annual quality review programme (QRP), so we can provide independent assurance to audited bodies and other stakeholders that auditors are complying with professional standards and our own regulatory requirements. This year our QRP focused on the work of our partner firms. Following changes in our internal structures we have concluded that we can no longer give independent assurance ourselves about the work of the Commission's audit practice. Instead we decided to strengthen our procedures and come under the regulatory umbrella of the independent Audit Inspection Unit, which regulates the audits of public interest audits in the private sector. We will be publishing the results of their inspections.

As we prepare for the introduction of CAA in 2009, we have engaged in a programme to ensure that we have the right structures and culture in place and to provide further staff development opportunities. This programme builds on our Management Plan, which addresses improvement priorities identified by our staff. These include developing our leaders and managers, maximising our use of knowledge and improving our IT and communications.

Equality and diversity have been particular priorities this year. We recognise that to meet the needs of diverse communities, organisations must reflect diversity within their own workforce. We have set challenging targets for ourselves so that 8 per cent of the workforce at all levels will be disabled people; 50 per cent of the senior positions will be held by women and 10 per cent of people in senior positions will be from a black and minority ethnic background. To enable us to deliver our strategy, staff attend diversity and

disability training and each manager is assessed on progress in meeting their own diversity objectives through our performance management system.

Internal communications within the organisation has been another priority. The results of our most recent staff survey show that we continue to improve. In particular, more than 80 per cent of staff were satisfied with internal communications.

The Audit Commission is a world leader in counter-fraud work. Our National Fraud Initiative (NFI), the country's largest public sector fraud detection exercise, sharply increased its success by detecting frauds and overpayments of £111 million. This brings the total amount of fraud detected to over £300 million since the scheme began eight years ago.

NFI 2004/05, which we published a report about last year, has helped public service bodies identify 2,497 overpayments to deceased pensioners and more than 3,000 fraudulent claims for housing benefit. It has also played a key role in tackling social housing tenancy fraud, right-to-buy abuse and employment fraud by failed asylum seekers and UK visa overstayers.

The biennial report looked at fraud and overpayments in housing benefit, occupational pensions, payroll, parking concessions, social housing and residential care.

NFI enables more than 1,000 public service bodies to track down suspicious payments by comparing records of who is claiming pensions, housing benefits and other entitlements. This process of data matching is comparatively low cost, but requires a high level of partnership working across the public sector. The value of fraud found has grown significantly as the exercise has been extended, but the growing success of the scheme provides a powerful deterrent to those considering fraud against the public purse.

Our work this year on financial management has had a particular impact in the NHS. In response to our review of the financial management and accounting regime in the NHS commissioned by the Secretary of State for Health, the Department of Health decided that NHS trusts should no longer be subject to Resource Accounting and Budgeting and that their financial arrangements should be brought more closely into line with those of foundation trusts. This will make their financial position fairer and more transparent while at the same time imposing greater discipline.

For the first time this year we published judgements showing how well or poorly individual NHS trusts and primary care trusts are managing and using their financial resources. The Auditors' Local Evaluation gives a rating on use of resources at 538 NHS organisations and found that, while 61 per cent of NHS bodies demonstrated adequate or more than adequate use of resources, only two trusts demonstrated strong performance.

Resources and relationships

People

As at 31 March 2007 we directly employed 2,005 staff (full-time equivalents) which, at £114 million, represented our single biggest cost.

The quality, diversity and engagement of our staff and suppliers are fundamental to our success. Changes in the regulatory workload and increased efficiency require us to develop our staff so that they have the range and level of skills necessary.

We are committed to:

- developing staff to give them the skills to deliver our changing business;
- ensuring that staff numbers match structural and workload changes as we re-focus our activities; and
- increasing the diversity of our staff, particularly at senior levels, and increasing their capacity to address equality, diversity and user focus across our work programmes.

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. Additionally we are carrying out considerable work to increase recruitment via our website as recommended in the Code.

Diversity

The focus of our work last year was on integrating equality and diversity into our business and the development of our new diversity scheme, *Making Equality and Diversity a Reality*.

Our new diversity scheme was developed to reflect the legislative changes that affect equality and diversity in the work we do. The scheme gives more detail about the arrangements and processes we have in place which help us to meet our general and specific duties under the Disability Discrimination Act 2005, the Race Relations Amendment Act 2000, and the Equalities Act 2006. It sets out a clear plan for what we will do over the next three years to eliminate discrimination and harassment and promote equality of opportunity.

We integrated equality and diversity into our business planning process for 2007/08. Each directorate and region was asked to make an explicit statement in their business plans about their equality and diversity objectives for the year. They also developed individual equality and diversity action plans aligned to the priorities set out in our new diversity scheme. All managers also have a personal objective which describes how they will value diversity and promote equality in their work.

We improved the information we collect about our employees to help us better understand where our policy and practices are discriminating against specific equality groups. We now collect information about age, gender, disability, ethnicity, sexual orientation and religion or belief.

We strengthened our focus on outcomes and support to local public services through the launch of our *Knowing Your Communities* toolkit. This enables councils to self-assess their knowledge of the communities they serve. There are specific toolkits to assist local councils to examine and understand how effective they are in meeting all their duties on age, disability, gender, race, religion or belief, and sexuality. The toolkit is available to councils and the general public on the Commission's external website.

Finally, we continued to support and encourage our staff networks through the launch of Flexinet, the network for people who work flexibly, and identified a senior manager champion for the network. We improved our ranking on the Stonewall Workplace index from 91 to 42 as 1 of the 100 top gay friendly employers and are still the only public sector inspectorate in the index.

Financial review

The Commission has a duty to manage its affairs so that its income will, taking one year with another, be not less than its expenditure.

The Commission's income totalled £223.6 million of which £194.4 million related to fees and £25.9 million related to grants received from government departments, together with sundry income of £3.3 million. The Commission showed a surplus of £3.5 million in the period but the application of Financial Reporting Standard (FRS) 17 *Retirement benefits* reduced our net pension costs by £3 million which increased our final surplus to £6.5m. The full effects of FRS 17 are shown at note 21 in these accounts.

The summary financial position is as follows:

	<i>Total £000</i>
Reserves brought forward	(15,746)
Results for the year	6,482
Adjustment shown in the Statement of Recognised Gains and Losses	20,677
Reserves carried forward	11,413

The application of FRS 17 *Retirement benefits* has also resulted in a pension liability of £14.7 million on the Balance Sheet, reduced from last year's liability of £38.4 million. Once the Revenue Reserves have been applied, the Commission had net reserves of £11.4 million, or 5 per cent of turnover.

Analysis by sector

Local government audit and inspection activity generated £154.6 million, an increase of 9.3 per cent in the year. This income generated a surplus of £5.4 million. Of the income £118.3 million or 76 per cent came from audit and inspection fees levied on authorities, and £25.9 million as grants from central government departments, (principally CLG) to defray some costs incurred in the Commission's inspection activity. Grants are taken to the Income and Expenditure Account based on an estimate of work done. These estimates are reviewed annually resulting this year in a one-off draw down of £3.8 million included in these accounts.

NHS audit activity generated £80.2 million, an increase of £19.9 million in the year. This was caused by a one-off reorganisation in the health sector requiring additional audit work to be done in the demising authorities. This income generated a surplus of £1.1 million.

Analysis by provider

The Commission awards contracts to private sector accounting firms to undertake audits on behalf of the Commission. This year £65.5 million or 36 per cent of the Commission's turnover on audit activities was undertaken by these firms.

As previously noted a comprehensive tender exercise undertaken last year, will result in lower costs for the Commission which will start to impact on these accounts in 2007/08.

Analysis by cost

Directly employed and agency staff represent over 56 per cent of our operating costs, totalling £120.9 million for staff and £8.9 million for agency staff over the year. The average number of staff directly employed has again reduced in the year by 47 (last year the Commission reduced staff by 204). The Commission employed 2,016 on average through the year.

The Commission continues to drive down costs. Like many public sector bodies, the Commission reports procurement value for money gains and cash savings to the Office of Government Commerce each financial year. In addition to the audit framework contracts, in the year the Commission reported gains and savings totalling £1.7 million compared to £1.5 million for the previous year.

These savings have been achieved through:

- a rationalisation of the Commission's property portfolio (£0.7 million);
- savings through collaborative contracts (£0.3 million); and
- savings through contract renewals and management (£0.7 million).

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, 92 per cent of undisputed invoices were paid within 30 days (2005/06: 91 per cent).

The 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.

Currently there is no process for reviewing the base remuneration of members of the Management Team and it is planned that one will be introduced during the 2007/08 financial year.

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 and assessed by the Chief Executive. In the case of the Chief Executive, the assessment is undertaken by the Chairman and confirmed by the Audit Commission Board. 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
Steve Bundred, Chief Executive	01/09/03	01/09/03	
Jeremy Boss, Interim Managing Director, Corporate Services ¹	26/04/04	01/04/06	
Gareth Davies, Managing Director, Local Government, Housing and Community Safety ²	01/09/87	19/10/06	
Tracey Dennison, Managing Director, Human Resources	17/11/03	17/11/03	
Frances Done, Managing Director, Local Government, Housing and Community Safety	24/11/03	24/11/03	19/10/06
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	
Peter Wilkinson, Managing Director, Policy Research and Studies ¹	21/05/90	01/11/06	

Note 1: An internal reorganisation deleted the post of Managing Director, Strategy and Resources and created the new roles of Managing Director, Policy Research and Studies; and Managing Director, Corporate Services with effect from 01/04/06. Initially Peter Wilkinson undertook the role on an interim basis before being formally appointed at the beginning of November 2006. The post of Managing Director, Corporate Services was filled on an interim basis by Jeremy Boss for the year ending 31/03/07. Following a

competitive external recruitment exercise David Stewart has been appointed Managing Director, Corporate Services to commence from June 2007.

Note 2: Gareth Davies undertook the role of Managing Director, Local Government Housing and Community Safety on an interim basis following Frances Done's departure, and after a competitive external recruitment exercise was formally appointed to the role on 15/03/07.

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)

	<i>Year to 31 March 2007</i>		<i>Total</i>	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2006</i>
	<i>Salary</i>	<i>PRP</i>	<i>Other benefits</i>	<i>(excluding pension contribution)</i>	<i>(excluding pension contribution)</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Steve Bundred	193	15	0	208	206
Jeremy Boss	107	7	4	118	-
Gareth Davies ¹	56	4	1	61	-
Tracey Dennison	107	9	6	122	120
Frances Done CBE ₂	82	7	2	91	160
Martin Evans	124	11	6	141	-
Jenny Grey ³	78	6	4	87	-
Andy McKeon	149	12	6	167	163
Peter Wilkinson	148	10	6	164	161

Note 1: The figures relate to the period from 19/10/06

Note 2: The figures relate to the period 01/04/06 to 19/10/06

Note 3: The figures relate to the period from 17/07/06

Chief Executive and Management Team pension entitlement details (Audited)

	<i>Real increase in pension at 60</i>	<i>Total accrued pension at 31 March 2007¹</i>	<i>Total accrued pension at 31 March 2006</i>	<i>Increase in transfer value</i>	<i>Transfer value at 31 March 2007</i>	<i>Transfer value at 31 March 2006</i>
	£000	£000	£000	£000	£000	£000
Steve Bundred	3	49	44	90	831	741
Jeremy Boss	1	4	3	21	56	35
Gareth Davies	2	33	30	46	391	345
Tracey Dennison	1	40	38	46	565	519
Frances Done CBE ²	1	4	3	22	78	56
Martin Evans	2	33	30	59	525	466
Jenny Grey	1	1	0	10	10	0
Andy McKeon	2	60	56	71	966	895
Peter Wilkinson	2	24	21	56	402	346

Note 1: The total accrued pension is that which would be paid annually on retirement at age 60, based on the person's service to March 2007.

Note 2: The *real increase in pension* figure relates to the period from 1 April 2006 to the date of leaving.

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 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.

Commissioner remuneration details (Audited)

	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2006</i>
	<i>£000</i>	<i>£000</i>
Commissioners in place at 31 March 2007		
Michael O'Higgins (Chairman) ¹	43	-
Jim Coulter	14	14
Dr Jennifer Dixon	14	14
Sheila Drew Smith OBE	14	14
Councillor Stephen Houghton CBE ²	13	-
Councillor Peter Jones	14	14
Sir Thomas Legg KCB QC	14	14
David Moss	14	14
Brian Pomeroy CBE (Audit Committee Chairman)	18	18
Professor Peter C Smith	14	14
Councillor Chris White	14	11
Steve Bundred (See above for remuneration details)		
Commissioners who left prior to 31 March 2007		
Professor Sir Michael Lyons	29	26
Dr Pauleen Lane	1	14
Tim Parker	7	3

Note 1: Michael O'Higgins was appointed Chairman on 01/10/06 and these figures relate to the period from that date to 31/03/07

Note 2: Stephen Houghton was appointed as a Commissioner on 02/05/06 and these figures relate to the period from that date to 31/03/07



Steve Bundred

28 June 2007

Accounting Officer

Date

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.
- Corporate governance – to encourage high standards of propriety and promote the efficient and effective use of staff and other resources throughout the Commission. The Chairman presides at board meetings and ensures that these are held at regular intervals throughout the year and are accurately minuted.

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

Other important responsibilities of Commissioners include:

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

Statement of Accounting Officer's responsibilities

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

In preparing the accounts the Commission is required to:

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

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

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 *Government Accounting*.

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 2007 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 financial, human resources and legal 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. Each quarter 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 issues in internal audit reports are discussed by the Management Team and the resulting actions agreed.

c) ***Managerial Groups***

The Commission has set up two managerial groups. Both bring together the Management Team, the regional directors, and a small number of key directors from the Central Directorates. The Commissioning Group is the group charged with pursuing the objectives set out in the Commission's Strategic Plan. The Programme Management Group is a body that aims to ensure that the Commission builds an organisation capable of delivering the aims of the Strategic Plan by concentrating on its change priorities.

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;

Audit Commission accounts

- 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.

During the year the Audit Committee commissioned an independent review of its own effectiveness. This review is now being finalised and will be presented to the Board for consideration.

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	From December 2006
Professor Peter C Smith	To December 2006
Councillor Chris White	Whole year

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

e) ***Internal audit***

An external firm of Chartered Accountants, Bentley Jennison, has been appointed as the Commission’s internal auditors, with the relevant partner as Head of Internal Audit. He reports to the Audit Committee and Accounting Officer regularly to standards defined in the Government 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.

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 Bill. 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 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 the 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, 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 processes.
- 4.8. 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. The corporate level risks arising from this process are reviewed for completeness by the Management Team, the Audit Committee and the Commission Board. This formal process takes place twice a year. The Management Team considers the principal risks on a quarterly basis.
- 4.9. 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. The Committee also reviews the financial policies and the reserves policy.
- 4.10. At the financial period end the Commission had identified four generic risk areas which are increasing in both probability and impact and 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.
- 4.11. The Commission has a well-developed, rigorous approach to reviewing the quality of the work of its 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 of Audit, who reports his findings to the Commission's Audit Committee.

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. A plan to address weaknesses and ensure continuous improvement of the system is 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

28 June 2007

Accounting Officer

Date

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

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 2007 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's 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's directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the 'brief history and statutory background', 'commissioners during the period of review', 'members appointment dates and interests', 'senior managers during the period under review', 'auditor details', 'management commentary' and the unaudited parts of the 'Remuneration 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. 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 judgments 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's directions made thereunder, of the state of the Audit Commission for Local Authorities and the National Health Service in England and Wales' affairs as at 31 March 2007 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's directions made thereunder; and
- information given within the Annual Report, which comprises a 'brief history and statutory background', 'commissioners during the period of review', 'members' appointment dates and interests', 'senior managers during the period under review', 'auditor details', 'management commentary' 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.

*John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP*

3 July 2007

AUDIT COMMISSION FOR LOCAL AUTHORITIES AND THE NATIONAL HEALTH SERVICE IN ENGLAND AND WALES

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED MARCH 2007

	<i>Note</i>	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Operating income			
Audit fee income		183,091	154,994
Inspection income	3	37,205	34,739
Other operating income	4	3,287	6,023
		<hr/> 223,583	<hr/> 195,756
Operating costs			
Staff and members' costs	5	129,848	122,834
Bought-in services	6	65,305	43,698
Other operating costs	7	33,113	33,210
Notional credits	1(x)	(79)	(1,423)
		<hr/> 228,187	<hr/> 198,319
Operating (deficit) including notional credits		(4,604)	(2,563)
<i>Financing income</i>			
Add back notional credits	1(x)	(79)	(1,423)
Net interest receivable	8	2,504	2,713
Net return on pension scheme assets	21(x)	8,661	3,205
Surplus for period		<hr/> 6,482	<hr/> 1,932

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 2007

	<i>Note</i>	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2006</i>
		<i>£000</i>	<i>£000</i>
<i>Surplus for period</i>		6,482	1,932
<i>Pension scheme</i>			
Actual return less expected return on assets	21	8,741	82,663
Experience gains and losses arising on liabilities	21	(111)	(1,977)
Changes in assumptions underlying the liabilities	21	12,046	(32,785)
<i>Total recognised gains in the period</i>		<u>27,158</u>	<u>49,833</u>

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 2007.

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 from 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 2007

	<i>Note</i>	<i>31 March 2007 £000</i>	<i>31 March 2006 £000</i>
<i>Fixed assets</i>	<i>10</i>	<u>7,729</u>	<u>8,804</u>
<i>Current assets</i>			
Fee debtors and work in progress	<i>11</i>	23,968	12,643
Other debtors	<i>12</i>	6,922	12,237
Short-term investments	<i>20</i>	49,000	55,000
Cash at bank and in hand	<i>20</i>	525	3,104
		<u>80,415</u>	<u>82,984</u>
<i>Creditors: amounts falling due within one year</i>			
Creditors and accrued charges	<i>14</i>	11,195	15,060
Deferred income	<i>15</i>	49,463	52,713
		<u>60,658</u>	<u>67,773</u>
Net current assets		19,757	15,211
Provisions for liabilities and charges	<i>16</i>	1,377	1,354
Net assets employed excluding pension liability		<u>26,109</u>	<u>22,661</u>
Less pension liability	<i>21(vi)</i>	14,696	38,407
<i>Total net liabilities</i>		<u>11,413</u>	<u>(15,746)</u>
<i>Financed by</i>			
Capital reserves		3,734	3,734
Revenue reserves		22,375	18,927
Pension reserve		(14,696)	(38,407)
Total financing	<i>17</i>	<u>11,413</u>	<u>(15,746)</u>

The notes that follow form part of these financial statements.



Accounting Officer Steve Bundred

Date 28 June 2007

**CASH FLOW STATEMENT
FOR THE 12-MONTH PERIOD ENDED 31 MARCH 2007**

	<i>Note</i>	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Net cash (outflow)/inflow from operating activities	18	(10,235)	137
Returns on investments and servicing of finance			
Interest received		2,504	2,713
Net cash inflow from returns on investments and servicing of finance		2,504	2,713
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(848)	(608)
Net cash outflow from investing activities		(848)	(608)
Management of liquid resources			
Receipts from short-term investments		55,000	55,000
Payments to acquire short-term investments		(49,000)	(55,000)
Short-term investments		6,000	0
(Decrease)/increase in cash	19	(2,579)	2,242

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 1985, without limiting the information given, and applicable accounting standards so far as those requirements are appropriate.
- (iii) Local Government and NHS expenditure has been directly attributed where possible to the relevant activity; where this has not been possible, common 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. Debtors and Work in Progress are carried at their estimated realisable value.
- (vii) The net costs arising from litigation 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, (2005/06: 3.5 per cent) and charged/credited to Operating Costs. This cost/credit is added back to the Operating Deficit and attributed to Local Government and NHS expenditure on the basis of reserves within each activity.
- (xi) Government grant received in respect of capital expenditure 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 November 2007. 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

		<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Local Government, Community Safety and Housing			
Fee income (see ii)	Fee income	118,347	105,404
	Grant income	25,882	26,840
	Other income	10,345	9,127
		<u>154,574</u>	<u>141,371</u>
Expenditure	Direct and indirect costs	149,200	139,606
Surplus for the period		<u>5,374</u>	<u>1,765</u>
Health			
Income (see ii)	Fee income	76,067	57,490
	Other income	4,107	2,813
		<u>80,174</u>	<u>60,303</u>
Expenditure	Direct and indirect costs	79,066	60,136
Surplus for the period		<u>1,108</u>	<u>167</u>

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

Local Government, Community Safety and Housing

		<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Undertaken by the Commission – fees		82,075	78,732
	– grants	25,882	26,840
Audits undertaken by private accountancy firms		36,272	26,672
Other income		10,345	9,127
		<u>154,574</u>	<u>141,371</u>

Audit Commission accounts

Health

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Audits undertaken by the Commission	46,798	41,062
Audits undertaken by private accountancy firms	29,269	16,428
Other income	4,107	2,813
	80,174	60,303

iii) Analysis of disclosable activity

Section of the 1998 Audit Commission Act		<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Section 28: Certifying claims or returns made by an authority	Income	23,970	23,636
Section 29: Additional audits undertaken with the consent of the Secretary of State	Income	0	0
Section 35: Studies designed to improve economy, efficiency and effectiveness, undertaken at the request of the body concerned	Income	1,060	1,140
Section 36: Studies designed to improve economy, efficiency and effectiveness, undertaken at the request of specified educational bodies.	Income	0	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.

	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2006</i>
	<i>£000</i>	<i>£000</i>
Fee income	11,323	7,899
Grant income		
CLG	20,445	20,907
CLG – Fire	253	1,618
CLG – Housing	5,127	4,213
Other Departments	57	102
	<u>37,205</u>	<u>34,739</u>

NOTE 4: OTHER OPERATING INCOME

	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2006</i>
	<i>£000</i>	<i>£000</i>
Legal costs reimbursed	0	1,127
Publications and conferences	39	16
Secondments	1,353	2,221
Sundry income	1,895	2,659
	<u>3,287</u>	<u>6,023</u>

NOTE 5: STAFF AND COMMISSION MEMBERS' COSTS

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Staff costs		
Staff salaries	86,199	84,101
Member remuneration	222	276
Social Security costs	8,539	8,270
Pension costs	19,603	14,862
	<u>114,563</u>	<u>107,509</u>
Lease cost of cars	5,546	5,725
Subscriptions and other benefits	879	841
	<u>120,988</u>	<u>114,075</u>
Audit and inspection contractors	8,860	8,759
	<u>129,848</u>	<u>122,834</u>
Included in pension costs is the additional cost resulting from the application of FRS 17	5,627	2,011
Included in salaries are costs of staff seconded to other organisations	1,375	2,245
	<u>1,375</u>	<u>2,245</u>
The average number of staff employed during the period	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2006</i>
Staff employed		
Operational – audit and inspection	1,095	1,125
– audit trainees	140	179
– support	162	173
Central Directorates	597	549
Secondees	22	37
	<u>2,016</u>	<u>2,063</u>
In post at period end	<u>2,005</u>	<u>2,023</u>
Contractors (average in period)	<u>167</u>	<u>155</u>
Contractors (in post at period end)	<u>153</u>	<u>200</u>

NOTE 6: BOUGHT-IN SERVICES

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Payments to private accounting firms	62,542	40,409
Research and other consultancy costs	2,763	3,289
	<u>65,305</u>	<u>43,698</u>

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

NOTE 7: OTHER OPERATING COSTS

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Accommodation		
– rent lease costs	3,708	3,814
– other costs	2,997	3,815
Supplies and services	11,389	11,705
Recruitment and transfers	1,534	1,166
Depreciation	1,892	1,839
Audit fee	77	76
Professional fees	843	1,152
Net costs arising from litigation	0	76
Publications	382	389
Support contractor costs	3,059	2,253
Travel and subsistence – staff	4,140	4,033
– members	30	35
Training	3,090	3,009
Debts provided for	(28)	(152)
	<u>33,113</u>	<u>33,210</u>

NOTE 8: NET INTEREST RECEIVABLE

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Interest receivable	2,504	2,713
	<u>2,504</u>	<u>2,713</u>

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

	<i>Furniture and fittings £000</i>	<i>Computer equipment £000</i>	<i>Office equipment £000</i>	<i>Total £000</i>
Cost				
At 31 March 2006	10,910	2,205	541	13,656
Purchases	481	357	10	848
Disposals	(179)	(1,179)	(66)	(1,424)
At 31 March 2007	<u>11,212</u>	<u>1,383</u>	<u>485</u>	<u>13,080</u>
Depreciation				
At 31 March 2006	3,406	1,164	282	4,852
Provided in period	1,116	680	96	1,892
Disposals	(149)	(1,179)	(65)	(1,393)
At 31 March 2007	<u>4,373</u>	<u>665</u>	<u>313</u>	<u>5,351</u>
Net book value				
At 31 March 2007	6,839	718	172	7,729
At 31 March 2006	<u>7,504</u>	<u>1,041</u>	<u>259</u>	<u>8,804</u>

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.

NOTE 11: DEBTORS AND WORK IN PROGRESS

	<i>31 March 2007 £000</i>	<i>31 March 2006 £000</i>
Fee debtors		
- Local Government	8,956	5,748
- Inspection grant due	6,505	0
- National Health Service	4,156	3,260
Work in progress		
- Local Government	3,413	3,185
- National Health Service	938	450
	<u>23,968</u>	<u>12,643</u>

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

	<i>31 March 2007 £000</i>	<i>31 March 2006 £000</i>
Opening provision	133	324
Debts previously provided for and written off in the period	(43)	(39)
Net provision made in the period	(28)	(152)
Closing provision	<u>62</u>	<u>133</u>

NOTE 12: OTHER DEBTORS

	<i>31 March 2007 £000</i>	<i>31 March 2006 £000</i>
Other debtors and prepayments	6,842	5,935
Inspection grant due	0	6,000
Relocation advances	10	226
Employee advances	70	76
	<u>6,922</u>	<u>12,237</u>

Audit Commission accounts

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

	<i>31 March</i> 2007 £000	<i>31 March</i> 2006 £000
Central government bodies	11,036	12,319
Local government bodies	9,443	7,281
NHS trusts	2,150	1,823
Public corporations	56	200
Balances with bodies external to government	8,205	3,257
	30,890	24,880

NOTE 13: SHORT-TERM INVESTMENTS

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

	<i>31 March</i> 2007 £000	<i>31 March</i> 2006 £000
Trade creditors	2,749	2,684
Taxation and Social Security	838	516
Accrual for holiday entitlement not yet taken	2,719	2,361
Accruals	4,889	9,499
	11,195	15,060

NOTE 15: DEFERRED INCOME

	<i>31 March</i> 2007 £000	<i>31 March</i> 2006 £000
Deferred Income	49,463	52,713
	49,463	52,713

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

Audit Commission accounts

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

	<i>31 March</i>	<i>31 March</i>
	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Central government bodies	10,407	9,807
Local government bodies	32,918	34,645
NHS trusts	6,950	7,725
Public corporations	0	0
Balances with bodies external to government	10,383	15,596
	60,658	67,773

NOTE 16: PROVISIONS

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

	<i>31 March</i>	<i>31 March</i>
	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Opening balance	1,354	1,605
Provision in period	(11)	(251)
Closing balance	1,343	1,354

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

	<i>31 March</i>	<i>31 March</i>
	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Provision in period	34	0
Closing balance	34	0
Total Provisions	1,377	1,354

NOTE 17: RESERVES

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.

Audit Commission accounts

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.

		<i>31 March</i> <i>2007</i> <i>£000</i>	<i>31 March</i> <i>2006</i> <i>£000</i>
Capital reserve	Local Government	1,580	1,580
	Health	2,154	2,154
	Total capital reserves	3,734	3,734
Revenue reserves	Local Government		
	Brought forward	15,927	14,998
	Surplus for period	5,374	1,765
	Net movement to the pension scheme reserve	(1,972)	(836)
	Local Government reserves	19,329	15,927
	Health		
	Brought forward	3,000	3,191
	Surplus /(Deficit) for period	1,108	167
	Net movement to the pension scheme reserve	(1,062)	(358)
	Health reserves	3,046	3,000
	Total revenue reserves	22,375	18,927
Pension reserves	Brought forward	(38,407)	(87,502)
	Movement in the period from Income and Expenditure	(10,942)	(11,657)
	Cash payments to the scheme	13,977	12,851
	Movement in the period from the Statement of Recognised Gains and Losses	20,676	47,901
	Total pension reserves	(14,696)	(38,407)
Total reserves		11,413	(15,746)

NOTE 18: RECONCILIATION OF OPERATING SURPLUS FOR PERIOD TO NET OUTFLOW FROM OPERATING ACTIVITIES

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Operating (loss)	(4,604)	(2,563)
Notional credits	(79)	(1,423)
Net pension credit	5,627	2,011
Net depreciation	1,892	1,839
Loss on disposal of fixed assets	31	0
(Increase)/Reduction in debtors and work in progress	(6,010)	7,562
(Reduction) in creditors and provisions	(7,092)	(7,289)
Net cash outflow from operating activities	<u>(10,235)</u>	<u>137</u>

NOTE 19: RECONCILIATION OF NET CASH OUTFLOW TO MOVEMENT IN NET FUNDS

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
(Decrease)/Increase in cash	(2,579)	2,242
Cash outflow from short-term investments	(6,000)	0
Change in net funds	<u>(8,579)</u>	<u>2,242</u>
Net funds at 1 April 2006	<u>58,104</u>	<u>55,862</u>
Net funds at 31 March 2007	<u>49,525</u>	<u>58,104</u>

NOTE 20: ANALYSIS OF CHANGES IN NET FUNDS

	<i>At 31 March 2007 £000</i>	<i>Cash Flows £000</i>	<i>At 1 April 2006 £000</i>
Short-term investments	49,000	(6,000)	55,000
Cash at bank and in hand	525	(2,579)	3,104
Short-term investments and cash at bank and in hand	<u>49,525</u>	<u>(8,579)</u>	<u>58,104</u>

NOTE 21: PENSION SCHEME

The valuation provided by the Scheme's actuary as at 31 March 2005 showed a surplus of £5 million under the Projected Unit Credit basis of valuation. This compares with an FRS 17 valuation at 31 March 2007 of £14.7 million deficit (£38.4 million deficit at 31 March 2006).

Under the accounting standard FRS 17, the net effect on the Income and Expenditure Account increased the Commission's surplus by £3.0 million (surplus increased by £1.2 million for the year to 31 March 2006).

(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 seven trustees: three management nominated, three employee partner nominated and an independent chair. From 1 July 2007 there will be nine trustees: four management nominated, four member nominated trustees and an independent chair.

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

The most recently completed actuarial valuation of the scheme was performed by an independent actuary for the trustees of the scheme and was carried out as at 31 March 2005. Following the valuation the Commission's ordinary contributions increased, with effect from 1 April 2006, from 15.6 per cent of pensionable salaries to 17.0 per cent. The 17.0 per cent comprised a regular contribution rate of 17.6 per cent reduced by 0.6 per cent from the spreading of the surplus disclosed in the valuation. This rate has been agreed for the period to 31 March 2007. The Commission will monitor funding levels on an annual basis. The next valuation is due to be completed with an effective date of 31 March 2006. The Commission is currently in discussions with the trustees about the level of contributions from 1 April 2007.

The Commission contributions amounted to £13,977,055 in the 12 month period (excluding special contributions paid in respect of strains arising from redundancies) (12 month period to 2006: £12,838,000).

The valuation currently in process is the first under the new Scheme Specific Funding rules. The Commission is currently discussing appropriate funding objectives with the trustees.

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 schemes liabilities is approximately 27 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 benefits valuation 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. The amounts represent the amount that would be required to settle the scheme's 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 be paid to an insurer to settle the scheme's liabilities at the balance sheet date is around £710 million.

(iv) Disclosure of Principal Assumptions

Full actuarial valuations are conducted annually and the last one finalised was carried out using projected unit method as at 31 March 2005.

The market value of the net assets of the scheme at 31 March 2005 was £351.8 million which on the actuarially assessed value provided cover of 101 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 were:

	<i>2005</i>	<i>2004</i>
	<i>% pa</i>	<i>% pa</i>
Rate of interest	2.8	2.8
Discount rate for liabilities	6.3	6.1
Rate of salary increase	4.5	4.4

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

Audit Commission accounts

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

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

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

The post-mortality table used in 2007 is PA00 Year of Birth with allowance for medium cohort improvements (2006: PA92 Calendar Year 2010 for pensioners and PA92 Calendar Year 2025 for non pensioners). The expected life expectations on retirement at age 60 are:

	<i>2007</i>	<i>2006</i>
Retiring today		
Males	26	23
Females	29	26
Retiring in 20 years		
Males	28	25
Females	30	28

The expected return on the scheme assets is derived from the assumptions of long-term expected returns on each asset class, namely equities 7.9 per cent (2006: 7.4 per cent), property 7.9 per cent (2006: 7.4 per cent), index linked gilts 4.6 per cent (2006: n/a) and cash 5.25 per cent (2006: 4.5 per cent). Assets are taken at bid value (2006: mid market value).

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

At 31 March 2007, the scheme assets were invested in a portfolio that consisted primarily of equity and property securities. There was a temporary holding in gilts designed to match the amount of bulk transfer payment expected shortly to be paid.

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This holding does not form part of the long-term asset strategy. The fair value of the scheme assets as a percentage of total scheme assets is detailed below:

	2007	2006
UK Equities	50%	53%
Overseas Equities	39%	43%
UK Index Linked Gilts	4%	0%
Property	7%	5%
Cash	0%	0%

The current investment strategy is that the majority of the assets will be held in a mixture of UK and overseas equities. 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 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 investment strategy.

(vi) Net pension assets

	<i>31 March</i> 2007 £000	<i>31 March</i> 2006 £000
Fair values of scheme assets	516,692	464,378
Present value of scheme liability	(531,388)	(502,785)
Net pension liability	(14,696)	(38,407)

The Commission has unfunded liabilities of £69,000 (2006: £63,000) in respect of one former contributor.

(vii) Reconciliation of present value of liabilities

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Opening defined benefit liability	502,785	439,280
Service costs	19,488	15,728
Employee contributions	4,936	4,728
Interest cost	26,012	23,972
Actuarial Losses (gains)	(11,935)	34,762
Past service costs	115	582
Liabilities extinguished on settlements	0	(6,240)
Benefits paid	(10,013)	(10,027)
Closing defined benefit liability	531,388	502,785

(viii) Reconciliation of fair value of scheme assets

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Opening fair value of scheme assets	464,378	351,778
Expected return	34,673	27,177
Actuarial gains (losses)	8,741	82,663
Assets distributed on settlements	0	(4,779)
Contributions by employer	13,977	12,838
Contributions by members	4,936	4,728
Benefits paid	(10,013)	(10,027)
Closing fair value of scheme assets	516,692	464,378

(ix) Analysis of amount charged to operating profit

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Current service cost	19,488	15,741
Past service cost	115	582
Gains on settlements	0	(1,461)
Gains on bulk transfers in	0	0
Total operating charge	<u>19,603</u>	<u>14,862</u>

(x) Analysis of amount credited to other finance income

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Expected return on pension scheme assets	34,673	27,177
Interest cost	(26,012)	(23,972)
Net return	<u>8,661</u>	<u>3,205</u>

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

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>
Opening amount recognised	6,128	(41,773)
Actual return less expected return on scheme assets	8,741	82,663
Experience gains/(losses) arising on the scheme liabilities	(111)	(1,977)
Changes in demographic and financial assumptions underlying scheme liabilities	12,046	(32,785)
Closing amount recognised	<u>26,804</u>	<u>6,128</u>

(xii) History of experience gains and losses

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

	<i>31 March 2007</i>	<i>31 March 2006</i>	<i>31 March 2005</i>	<i>31 March 2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Defined benefit liability	(531,388)	(502,785)	(439,280)	(393,989)
Scheme assets	516,692	464,378	351,778	296,545
(Deficit)	(14,696)	(38,407)	(87,502)	(97,444)
	<i>Year to 31 March 2007</i>	<i>Year to 31 March 2006</i>	<i>Year to 31 March 2005</i>	<i>Period to 31 March 2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Experience adjustments on scheme liabilities	(111)	(1,977)	11,152	(24,062)
Experience adjustments on scheme assets	8,741	82,663	14,764	29,124

(xiii) Analysis of amount charged to operating profit

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

<i>Assumption</i>	<i>Change in assumption</i>	<i>Impact on scheme liabilities</i>
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 11.5%
Rate of inflation ¹	Increase/decrease by 0.5%	Increase/decrease by 11.5%
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by 3%
Rate of mortality	Mortality table rated down/up by one year (eg, 60 year old valued as if age 59/61)	Increase/decrease by 2.5%

¹ Assumptions which are set by reference to price inflation (salary inflation, pension increases in payment, revaluation in deferment) are assumed to vary in line with price inflation.

NOTE 22: OPERATING RESULTS FOR THE LAST SIX PERIODS

	<i>Year to 31 March 2007 £000</i>	<i>Year to 31 March 2006 £000</i>	<i>Year to 31 March 2005 £000</i>	<i>17 months to 31 March 2004 £000</i>	<i>Year to 31 October 2002 £000</i>	<i>Year to 31 October 2001 £000</i>
<i>Operating income</i>	223,583	195,756	233,202	331,291	213,917	178,524
<i>Operating costs</i>	(228,266)	(199,742)	(234,085)	(328,246)	(215,275)	(178,755)
<i>Notional credits/costs</i>	79	1,423	2,492	1,896	523	(820)
	(4,604)	(2,563)	1,609	4,941	(835)	(1,051)
<i>Add back: Notional credits</i>	(79)	(1,423)	(2,492)	(1,896)	(523)	820
<i>Net interest receivable</i>	2,504	2,713	2,633	1,735	1,060	828
<i>Return on Pension Scheme Assets</i>	8,661	3,205	(716)	2,457	3,758	0
<i>Surplus</i>	6,482	1,932	1,034	7,237	3,460	597

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 (WAO) from 1 April 2005.

NOTE 23: FINANCIAL COMMITMENTS

There are revenue commitments at 31 March 2007 in respect of non-cancellable car leases which expire:

	<i>31 March 2007 £000</i>	<i>31 March 2006 £000</i>
Within one year	525	416
Within one to five years	2,405	2,753
	<u>2,930</u>	<u>3,169</u>

There were annual commitments as at 31 March 2007 to pay rentals under lease agreements which expire:

Audit Commission accounts

	2007 £000	2007 Number of Properties	2006 £000	2006 Number of Properties
Within one year	373	9	237	12
From one to five years	513	14	594	13
Over five years	2,911	24	2,979	28
	3,797	47	3,810	53

All building leases are taken out in the name of the Audit Commission. Office accommodation with spare capacity is sub-let, 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 nor quantified until they crystallise.

The Commission received an initial ruling from HM Revenue and Customs that its best value inspections are not business activities for VAT purposes. The Commission is in discussion with HM Revenue and Customs 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.

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The disclosure in relation to Commission Members is shown on pages 8 and 9.

Staff member	Position held in year ending March 2007
John Barber	<ul style="list-style-type: none">• Non Executive Board Member Norfolk and Suffolk Courts Board Committee – Her Majesty's Court Service.• Non Executive Board Member Risk and Audit Committee – Her Majesty's Court Service.• Receives remuneration from the Department of Constitutional Affairs.
Barbara Deacon	<ul style="list-style-type: none">• Company Director and Trustee of Richmond Fellowship Employment Training Charity.• Magistrate for the East Sussex Eastern Bench.• Receives remuneration from the Department of Constitutional Affairs.
Kathleen Turner	<ul style="list-style-type: none">• Bayston Hill Parish Councillor.
Merle Campbell	<ul style="list-style-type: none">• Magistrate for Croydon Bench.
Marcial Boo	<ul style="list-style-type: none">• Trustee of The Young Foundation.
Ruth Cutler	<ul style="list-style-type: none">• Husband is a Burton Joyce Parish Councillor.

NOTE 25: RELATED PARTY TRANSACTIONS continued

Steve Hughes	<ul style="list-style-type: none">• Receives a retainer from CIPFA to give support to the running of the CIPFA Financial Model Web Site.
Tim Campbell	<ul style="list-style-type: none">• Works part time as a Neighbourhood Renewal Advisor for the CLG.
Asari St Hill	<ul style="list-style-type: none">• Non Executive Director of Waltham Forest PCT.
Victoria Slade	<ul style="list-style-type: none">• Family member leader of Malvern Hills District Council and member of Worcestershire County Council.
Vipul Thacker	<ul style="list-style-type: none">• Rental income received from East Thames Housing Association.
Richard Walsh	<ul style="list-style-type: none">• Board member of Bourne Housing Society Ltd.
Leslie Watson	<ul style="list-style-type: none">• Magistrate for South Tyneside bench.

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

12 July 2007

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.

Audit Commission accounts

Signed by authority of the Secretary of State

Ciara Mulligan

An officer in the Department for
Communities and Local Government

Date 16 April 2007

Signed by authority of the Secretary of State for Health

Stephen Mitchell

An officer in the Department of
Health

Date 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 grant 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:

- (a) local government audits
- (b) local government Best Value inspections
- (c) National Health Service audits
- (d) 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)

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(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:

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- (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
- (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.

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