

Presented pursuant to Health and Social Care (Community Health and Standards) Act 2003, Schedule 6.
Section 10(4)

Commission for Healthcare Audit and Inspection Account 2004-2005

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 18 JULY 2005

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Foreword

Background Information

The Commission for Healthcare Audit and Inspection (the Healthcare Commission) was established by Order on 8 January 2004 under the Health and Social Care (Community Health and Standards) Act 2003 (the 2003 Act). The Commission's functions were commenced by Order from 1 April 2004. The Commission is a Non-Departmental Public Body, sponsored by the Department of Health.

The Commission's main statutory functions include

- carrying out reviews and investigations of the provision of healthcare and the arrangements to promote and protect public health, including studies aimed at improving economy, efficiency and effectiveness in the NHS;
- promoting the coordination of reviews and assessments undertaken by other bodies;
- publishing information about the state of healthcare across the NHS and the independent sector, including the results of national clinical audits; and
- reviewing the quality of data relating to health and healthcare;

and, in England only

- reviewing the performance of each local NHS organisation and awarding an annual rating of that organisation's performance;
- regulating the independent healthcare sector through annual registration and inspection;
- considering complaints about NHS bodies that have not been able to be resolved through their own complaints processes; and
- publishing surveys of the views of patients and staff.

In exercising its functions, the Commission has a duty to work in partnership with the Audit Commission and the Commission for Social Care Inspection. The Healthcare Commission's role is complemented by arrangements for the inspection of healthcare in Wales that also began on 1 April 2004.

In the year to 31 March 2005, the Commission

- published NHS performance ratings for 2003-2004;
- completed the registration and inspection of appropriate independent sector healthcare providers;
- published a State of Healthcare Report for 2004;
- commenced considering complaints about NHS bodies from 1 July 2004;
- worked with other inspection bodies and published a concordat concerning the coordination of inspection and regulatory activities;
- completed the programme of clinical governance reviews and inspections inherited from the Commission for Health Improvement;
- published its strategy and corporate plan for 2004-2008; and
- completed the setting-up of the Commission's infrastructure, including establishing a regional structure, agreeing the staffing establishment through transfers and recruitment and developing the necessary support infrastructure.

Form of accounts

These accounts have been prepared in the form directed by the Secretary of State, in accordance with paragraph 10 of Schedule 6 of the Health and Social Care (Community Health and Standards) Act 2003.

Financial results

The financial accounts cover the year to 31 March 2005 and are the Commission's first full set of annual accounts.

The Commission's financial performance for the year is identified within the Income and Expenditure Account. The Commission's total income for the year was £62.7m. Expenditure totalled £62.9m on operational activities and £1.6m on acquiring fixed assets. Income equivalent to the fixed asset expenditure has been transferred to Government Grant Reserve for release, as the assets are written-off, to the Income and Expenditure account. The deficit for the year was £0.2m (0.3%), which has been taken from reserves.

At 1 April 2004, assets and liabilities were transferred to the Commission from the Department of Health and Commission for Health Improvement. These transfers are summarised in Note 16. The comparative 2004 figures within these accounts have been restated to include the relevant figures for the activities transferred from the Commission for Health Improvement, Audit Commission and National Care Standards Commission.

Fixed assets

The Commission's fixed assets at 1 April 2004 comprised

- assets purchased by the Commission prior to 1 April;
- assets purchased by the Department of Health and transferred to the Commission at 1 April 2004 by way of notional grant; and
- assets previously owned by the Commission for Health Improvement which were transferred to the Healthcare Commission on 1 April under the 2003 Act.

During the year to 31 March 2005, the Commission acquired assets with a value of £1.6m. These assets include refurbishment costs at Finsbury Tower and the Commission's regional offices, purchase of office equipment and information technology infrastructure and software.

Research and development

There was no expenditure on Research and Development during the period.

Charitable payments

No charitable donations were made during the year.

Implementation of the Euro

The Commission has identified the potential impact of the United Kingdom changing currency to the Euro. The relevant key systems have been identified and an action plan drawn up.

Equal opportunities

The Commission is an equal opportunities employer with a policy of providing equality of opportunity for all staff members and job applicants. The Commission does not discriminate against any individual on the grounds of race, colour, ethnic or national origin, gender, marital status, responsibility for children or other dependants, disability, sexual orientation, religious or political beliefs.

Payment of creditors

The Commission's policy is to pay creditors in accordance with contractual conditions or, where no contractual conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later. This complies with the Better Payment Practice Code.

No interest was paid during the year under the Late Payment of Commercial Debts (Interest) Act 1998.

In 2004-2005 the Commission paid 91% of invoices, based on volume, and 87% of invoices, based on value, within 30 days.

Commission members

Note	Name	Period of appointment
1	Khurshid Alam	1 February 2004 – 31 January 2007
2	Dr Sarah Blackburn	1 February 2004 – 31 January 2008
3	Jennifer Dixon	26 February 2004 – 31 January 2008
1	Michael Hake	1 February 2004 – 31 January 2006
	Sharon Hopkins	1 February 2004 – 31 January 2008
	Professor Sir Ian Kennedy (Chair)	1 February 2004 – 31 January 2008
	Professor Bruce Keogh KBE	1 February 2004 – 31 January 2007
2	Nick Partridge OBE	1 February 2004 – 31 January 2006
	Professor Kamlesh Patel OBE	1 February 2004 – 31 January 2006
	Professor Shirley Pearce (Joint Deputy Chair)	1 February 2004 – 31 January 2008
1, 2	John Scampion CBE	1 February 2004 – 31 January 2007
2	Professor Iqbal Singh	1 February 2004 – 31 January 2008
1	Paul Streets OBE (Joint Deputy Chair)	1 February 2004 – 31 January 2008
1, 2	Stephen Thornton CBE	1 February 2004 – 31 January 2007
<i>In addition the following Commissioner resigned during the year</i>		
	Melinda Letts OBE	1 February 2004 – 15 September 2004

Note

- 1 Member of Remuneration Committee at 31 March 2005
- 2 Member of Audit Committee at 31 March 2005
- 3 Appointment extended to 31 January 2008 during the year

Chair and Commissioner responsibilities

The Chair and Commissioners are appointed under the 2003 Act and have the overall function of establishing and maintaining the strategic direction of the Commission.

The Commission's Management Statement and Standing Orders require the Commission to agree those matters which it does not delegate. The matters reserved for determination by the Commission (the Board of the Healthcare Commission) are

- the Commission may decide on any matter it wishes in full session within its legal powers;
- establishing and maintaining the strategic direction of the Commission and approval of the corporate plan of the Commission;
- approval annually of plans/budgets and any significant variances thereto in respect of the application of available financial resources, capital and revenue and the annual report of the Commission to be laid before Parliament;
- receipt of a regular update on policies in place to ensure the effective management of the Commission's employees;
- approval of and amendments to Standing Orders, which include the Standing Financial Instructions;
- approval of the risk management strategy for the Commission; and
- receiving a report on declarations of interest made by Commissioners.

Register of interests

The Commission maintains a Register of Interests for Commission Members and Executive Team members. Where any decisions are taken which could give rise to a conflict of interest, the chair of the meeting ensures at the outset that disclosure is made and the Committee Member withdraws for the duration of any discussion of the relevant item. The register is available to members of the public for inspection at Finsbury Tower and may be accessed through the Commission's website.

Staff consultation

Staff were consulted regularly throughout the year. This was achieved through

- regular meetings between staff and Executive Team members which are open to all staff;
- the involvement of staff in developing the policies and objectives set out in the corporate plan;
- a staff forum on which Finsbury Tower and regionally-based staff are represented by elected delegates;
- regular all-staff communications; and
- periodic confidential surveys into staff attitudes, the results of which are disseminated.

Auditor appointment

The Comptroller and Auditor General is the appointed auditor of the Commission under the provision of the 2003 Act, Schedule 6, paragraph 10 (4).

The audit fee for the year was £79,200 (£75,000: 2003-2004). The Comptroller and Auditor General did not undertake any non-audit work during the year.

Commission launch on 1 April 2004

The Healthcare Commission commenced activity on 1 April 2004, when the assets and liabilities of the former Commission for Health Improvement, the private and voluntary healthcare parts of the former National Care Standards Commission, and national health value for money work carried out by the Audit Commission were merged. Fixed assets were acquired for the Commission by the Department of Health and transferred to the Commission on 1 April 2004.

Details of the assets and liabilities transferred to the Commission are reported in Note 16 of these accounts.

Post balance sheet events

There have been no significant events since 31 March 2005 that would have a material effect on these financial statements.

Future developments

In his budget statement on 16 March 2005, the Chancellor of the Exchequer announced that proposals would be brought forward to merge the Healthcare Commission and the Commission for Social Care Inspection into a single body by 2008. No further details are currently available as to the nature or timing of such a merger.

Anna Walker
Chief Executive

12 July 2005

Statement of the Commission's and Chief Executive's responsibilities

Under paragraph 10 schedule 6 of the Health and Social Care (Community Health and Standards) Act 2003, the Commission is required to prepare a statement of accounts in respect of each financial year in such form as the Secretary of State may determine. The accounts are to be prepared on an accruals basis, and must show a true and fair view of the Commission's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing these accounts, the Commission is required to

- observe the accounts direction issued by the Secretary 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
- prepare the financial statements on a going concern basis.

The Accounting Officer for the Department of Health has designated the Chief Executive as the Accounting Officer for the Commission. Her responsibilities as Accounting Officer, including responsibility for the propriety and regularity of public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies Accounting Officer's Memorandum issued by HM Treasury and published in Government Accounting.

Statement on Internal Control

Scope of responsibility

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, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Commission subscribes to the seven principles of conduct underpinning public life as sent out by Lord Nolan.

The Commission recognises its responsibilities to ensure there are robust arrangements for managing risk and a formal scheme for identifying, managing and reporting on risk is in place.

There is a Management Agreement in operation between the Commission and the Department of Health. The Commission consults extensively when planning its activities, including consultation with Ministers; consultation includes the risks associated with different courses of action. The Commission also monitors progress against both the activities and risks.

During 2004-2005 I have reviewed documents I considered relevant, including internal audit reports and papers presented to the Audit Committee and management information produced during that period and I have discussed the state of internal controls with the external and internal auditors, members of the Commission and independent consultants.

The purpose of the system of internal control

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 Commission's system of internal control is being developed 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 their impact should they be realised) and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Healthcare Commission for the year to 31 March 2005 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

The Commission's processes are being designed and developed to

- establish a policy framework approved by Commissioners and the Executive Team, within which strategic risks are identified, managed and kept under review;
- embed risk management and compliance by making it part of the day-to-day management processes. Although the Executive Team collectively;
- own the risks, each strategic risk is also allocated to an appropriate Executive Team member to ensure that risk management is an integral part of overall management arrangements;
- ensure that named managers manage each risk and actively review and report on that risk;
- adopt a consistent approach throughout the organisation;
- encourage staff to identify and manage risk positively in support of delivering the Commission's objectives; and
- keep the system of risk management under regular review to ensure it is best matched to the new organisation and effectively embedded.

The risk and control framework

As a new organisation, the Commission has taken immediate steps to put in place an initial risk and control framework. This is being developed so that risks are identified at an operational level and consolidated to identify themes arising across the organisation. The Executive Team, the Audit Committee and the Commission review the risk register for completeness. All risks identified are recorded in a risk register that is analysed to Group level.

The Commission does not seek to eliminate risk, but rather to control and mitigate it. The high level controls enable the Commission to encourage innovative solutions that, whilst sometimes involving risk, can be implemented with an awareness and active management of the risks that they carry.

To maintain a proper profile within the organisation, the Audit Committee receives regular presentations on emerging or changing risks. These presentations detail the risk, how the risk is changing, and the steps being taken to limit or eliminate risk and allow the Committee to challenge managers on their approach to and management of the key risks affecting their programmes.

The Commission has continued to review and strengthen its control framework during the year. The principal features and key controls now include

- a formal system of governance detailing the values, aims and principles by which the Commission conducts its business. This includes a schedule of delegation showing which functions are retained for determination by the Commissioners and which are delegated to the Chief Executive;
- an organisational structure that supports clear lines of communication and accountability;
- business strategies that are approved by the Commission and are subject to consultation with Commission stakeholders;
- clear processes, so that risks identified fit into an overall risk management structure; and
- the introduction of management and reporting of key performance indicators against a balanced scorecard.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. The Audit Committee advise me on the implications of the result of my review of the effectiveness of the system of internal control and comment on the plans to address weaknesses and ensure continuous improvement of the systems. My review of the effectiveness of the system of internal control is informed by the work of the Executive Team members within the Commission who have responsibility for the development and maintenance of the internal control framework, the internal auditors, comments made by the external auditors in their management letter and other reports and work commissioned from other external review agencies

The process that the Commission has maintained to ensure internal control during the year includes both risk management and other sources of assurance, including internal audit. The Commission's internal audit function has regular access to myself, the Executive Team and the Chair of the Audit Committee and is invited to every Audit Committee meeting.

The respective responsibilities are

Audit Committee

The Audit Committee meet at least five times a year. Its terms of reference are

- to oversee production of the Commission's annual accounts and to recommend them to the Commission for approval;
- to scrutinise and review
 - the Commission's financial and accounting policies, practices and processes, including information and communication technology;
 - the internal control systems including internal audit, in particular to appoint the internal auditors, approve their work plan and review their reports and the responses of management. The Committee receives the annual report from the internal auditor summarising the work done in the period, including a review of ongoing work implementing audit recommendations;

- the Commission's assessment and management of risk. It considers risk issues at every meeting, but formally reviews the significant risks that have been identified twice a year;
- the results of the external audit by NAO including their management letter and the response by management; and
- on behalf of the Commission, to scrutinise any aspect of the work of the organisation and to report as appropriate.

The membership of the Audit Committee at 31 March 2005 was

Dr Sarah Blackburn (Chair)
 Nick Partridge
 John Scampion
 Professor Iqbal Singh
 Stephen Thornton

The Executive Team

This Team has responsibility for overseeing risk management within the Commission. The culture of risk management within the Commission is determined at a strategic level. The Executive Team reviews all significant risks that have been identified and ensures that they have been fairly stated. It also satisfies itself that the less significant risks are being actively managed by relevant managers, with the appropriate controls in place and that these controls are working effectively.

Internal audit reports are addressed to the appropriate Executive Team member and significant issues are brought to the Team's attention.

Internal and External Audit

The Commission has an internal audit service provided by South Coast Audit. The relevant manager 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 external auditor, the Comptroller and Auditor General is appointed under the 2003 Act and the National Audit Office regularly comments on governance.

Both internal and external audit are invited to all Audit Committee meetings.

Internal audit opinion

Our internal auditors expressed an opinion in April 2005 based on work undertaken during the year to 31 March 2005. Their overall opinion was that internal controls reviewed as part of their planned work, subject to the limitations in this statement, are in place and operating satisfactorily. In reaching this opinion, they considered the work undertaken during the year to 31 March 2005 and confirmed that there were no significant breakdowns in internal control. The following factors were taken into particular consideration

- that the essential elements in terms of corporate governance arrangements had been identified and in the main were already in place prior to the Commission becoming fully operational on 1 April 2004;
- during the year, weaknesses both in terms of existence and compliance had been identified relating to a number of key payroll controls. Further audit work in 2004-2005 confirmed that the changes instigated by management had resulted in the recommended improvements in the system of internal control and confirmed that controls were now satisfactory and no losses had been identified;
- the audit work on financial accounting and non-payroll systems found those systems to be robust and generally operating satisfactorily. The audit confirmed that all actions, which had been agreed with management during the development process, had been implemented and the auditors also commented on the progress achieved during the year, including the introduction of a Financial Procedures Manual and User Guides for non-financial users;

- the Commission had continued to build on the good progress made during its start-up phase in embedding risk management procedures within the organisation during 2004-2005. There is an operational Risk Register in place, which is updated quarterly and is supported by an effective management and committee structure. With the particular risks faced by the organisation in its first full year of operation, a number of development teams were set up to concentrate on specific corporate objectives and the risks faced by the Commission in the achievement of those objectives; and
- the risk-based work on the transfer and recording of assets held by the Commission was completed during 2004-2005. This work completed the work inherited from the Commission for Health Improvement in conducting a physical verification of assets and involved a subsequent reconciliation to the asset register. Management action has ensured that accurate records are now in place.

Other review agencies

To support the development and improvement of the Commission's risk management system, Messrs Grant Thornton were retained to review current arrangements and recommend any changes required. This work has recently been completed and arrangements are being made to implement recommendations.

In order to assess the adequacy of the Commission's financial systems, a review was commissioned from Messrs PriceWaterhouseCoopers. This review was completed in April 2005. It concluded that, whilst the current system is adequate to support the Commission's basic accounting needs and information requirements, improvements to the system to allow the provision of additional financial information should be made. The report has been considered by the Audit Committee and the Executive Team and a plan is being developed to achieve initial improvements identified by September 2005.

Future developments

The Commission commenced its functions on 1 April 2004. As a new organisation, the Commission has taken steps to ensure that the essential elements of effective control and risk management are put in place. The systems have been developed and reviewed during the course of the year. Whilst the controls and risk management in place have, in my view, been adequate for the Commission's first year, I recognise that further improvements are required to support the Commission as it delivers the full range of its functions. In particular, we will be working to improve the quality and coverage of our management information, both financial and non-financial, to further embed risk management at all levels, to link our corporate and individual objectives more closely and to address the particular issues arising from the move to a local presence.

Significant internal control problems

No significant internal control problems, as defined by DAO (GEN) 09/03, have been identified in the accounting year.

Anna Walker
Chief Executive

12 July 2005

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 13 to 29 under the Health and Social Care (Community Health and Standards) Act 2003. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 16 to 18.

Respective responsibilities of the Commission, the Chief Executive and Auditor

As described on page 6 the Commission and Chief Executive are responsible for the preparation of the financial statements in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State with the consent of Treasury, and for ensuring the regularity of financial transactions. The Commission and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State with the consent of Treasury, and 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Commission has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 to 10 reflects the Commission's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commission and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Commission for Healthcare Audit and Inspection at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and directions made thereunder by the Secretary of State with the consent of Treasury; and
- 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

13 July 2005

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Income and Expenditure Account

	Notes	Year to 31 March 2005		Year to 31 March 2004 restated	
		£000	£000	£000	£000
Gross income					
Grant in Aid	2		56,443		42,401
Fee income	3		4,676		4,996
Sundry income	3		396		1,488
Transfers from government grant reserve	12		1,168		761
			62,683		49,646
Expenditure					
Staff costs	4	31,308		28,810	
Other operating costs	5	30,652		19,811	
Depreciation	7	903		712	
Notional capital charges		48		126	
			62,911		49,459
Operating (deficit)/surplus for the year	6		(228)		187
Write back of capital charges			48		126
Retained (deficit)/surplus for the financial year			(180)		313
Retained surplus brought forward			1,064		751
Retained surplus carried forward for the financial year			884		1,064
All operations are continuing					

Statement of Total Recognised Gains and Losses

	Note	Year to 31 March 2005	Year to 31 March 2004 restated
		£000	£000
Retained (deficit)/surplus for the financial year		(180)	313
Unrealised gains on fixed asset indexation	7	101	0
Total recognised gains and losses for the financial year		(79)	313

The notes on pages 16 to 29 form part of these accounts.

Balance Sheet

	Notes	Year to 31 March 2005		Year to 31 March 2004 restated	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	7		4,752		4,259
Intangible assets	7		483		452
			5,235		4,711
Current assets					
Debtors: amounts falling due within one year	8	2,425		1,089	
Cash at Bank and in hand	9	4,837		4,309	
		7,262		5,398	
Current Liabilities					
Creditors: amounts falling due within one year	10	(5,678)		(3,546)	
Net current assets			1,584		1,852
Total assets less current liabilities			6,819		6,563
Creditors: amounts falling due after more than one year	10		0		(88)
Provision	10		(700)		(700)
Total net assets			6,119		5,775
Financed by					
Income and Expenditure Account			884		1,064
Government grant reserve	12		5,235		4,711
Capital and reserves			6,119		5,775

The notes on pages 16 to 29 form part of these accounts.

Anna Walker
Accounting Officer

12 July 2005

Cashflow Statement

	Notes	Year to 31 March 2005 £000	Year to 31 March 2004 restated £000
Operating activities			
Net cash inflow from operating activities	15	528	3,684
Capital expenditure and financial investments			
Payments to acquire fixed assets	7	(1,591)	(1,227)
Net cash outflow before financing		(1,063)	2,457
Financing			
Grant in aid received for capital expenditure	2	1,591	1,227
Increase in cash	9	528	3,684

The notes on pages 16 to 29 form part of these accounts.

Notes to the Financial Statements

1 Accounting policies

a Accounting convention

The Financial Accounts cover the year ending 31 March 2005 and are the Commission's first full set of annual accounts.

The financial statements have been prepared in accordance with applicable accounting standards and under the modified historic cost convention. The 2004 comparative figures within these accounts have been restated to include the relevant figures for the activities transferred from the Commission for Health Improvement, the Audit Commission and the National Care Standards Commission.

b Fixed assets

Fixed assets are shown in the Balance Sheet at cost less accumulated depreciation. Assets are revalued annually using the Office of National Statistics (ONS) current price index.

Fixed assets, other than computer software, are capitalised as a tangible asset as follows

- equipment with an individual value of £5,000 or more;
- grouped assets which are interdependent with a total value of £5,000 or more, and a minimum expected life as set out in paragraph c(i) below; and
- building and refurbishment costs valued at £5,000 or more.

Purchased computer software is capitalised as an intangible asset where expenditure of £5,000 or more is incurred. Project management costs have not been capitalised.

c

i Depreciation

Depreciation is provided on fixed assets held at the year-end on a straight-line basis, at rates calculated to write off the cost, less any residual value, over their estimated useful lives as follows

Office refurbishment	15 years
Office furniture	10 years
Office equipment	five years
Computer equipment	three to four years
Computer software	three to four years

Depreciation is charged on a monthly basis commencing from the month following the date on which an asset is acquired.

ii Indexation

RPI Indexation has been applied to building assets and for all other assets from the ONS publication 'Price index numbers for current cost accounting' (MM17).

d Pension costs

The Commission provides two pension schemes for staff

i NHS Pension Scheme

The NHS Pension Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. As a consequence it is not possible for the Commission to identify its share of the underlying scheme liabilities. Therefore the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contribution payable in 2004-2005 was 14%. Employees pay contributions of 7% of their pensionable pay. For 2004-2005, employers' contributions of £1.9m were payable to the scheme.

In accordance with the requirements to produce a full actuarial valuation every four years, the Government Actuary Department (GAD) has been commissioned to produce a valuation as at 31 March 2003, however the results of this valuation are not yet available. The notional surplus of the scheme at 31 March 1999 was £1.1 billion, as per the last scheme valuation by GAD when the conclusion of the valuation was that the scheme continued to operate on a sound financial basis. It was recommended that employers' contributions be increased to 14% of pensionable pay with effect from 1 April 2003. Subsequent to the 1999 valuation, GAD compared the scheme's contribution income and actuarially assessed growth in scheme liabilities and interest charges. This assessment has declared a net deficiency of £6.2m at 31 March 2004 as detailed in the scheme accounts which can be viewed on the NHS Pensions Agency website at www.nhspa.gov.uk. Copies can also be obtained from the Stationery Office.

The Commission is directed by the Secretary of State to charge employers' pension costs contributions to operating expenses as and when they become due. On advice from the Actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation contribution rates were set at 14% of pensionable pay (2003-2004: 7% from Healthcare Commission, 7% paid directly to the pension scheme by the Department of Health).

ii Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. Consequently, the Commission is unable to identify its share of the underlying assets and liabilities. A review of the accruing superannuation liability charges at 31 March 2003 can be found on the PCSPS website (www.civilservice-pensions.gov.uk).

Although the scheme is unfunded, employer contributions are set at the level of contributions that would be paid by private sector employers to pension schemes for their employees. For 2004-2005, employers' contributions of £0.3m were payable to the PCSPS at four rates in the range 12 -18.5% of pensionable pay, based on salary bands. Rates will increase for 2005-2006 within a range 16.2 – 24.6% and for 2006 - 2007 within a range 17.1–25.5%.

e Notional costs

A notional cost of capital has been calculated in accordance with HM Treasury requirements at a rate of 3.5% on the average value of capital employed. The cost in 2004-2005 was £48,000.

f Value Added Tax

The Commission is not registered for Value Added Tax. All expenditure reported in these statements therefore includes VAT where this was charged. VAT is not charged on any of the Commission's fees and charges.

g Income

The gross income is made up of Grant-in-Aid received from the Department of Health to fund both the operating costs and capital costs of the Commission and statutory fees from the registration of private and voluntary healthcare providers.

The Commission took over a Service Level Agreement (SLA) with the NHS Information Authority from the Commission for Healthcare Improvement (CHI). Under the SLA, the Department of Health pay the NHS Information Authority directly, but since the expenditure relates to the Commission, the expenditure is shown in these accounts with an equivalent amount of notional grant-in-aid recognised.

Grant-in-Aid relating to the purchase of capital assets is shown in the Balance Sheet as the Government Grant Reserve. A proportion will be transferred annually in future years to the Income and Expenditure statement to offset depreciation charged on those assets.

Registration and inspection fees are payable on application and then annually in accordance with fee rates prescribed by the Secretary of State for Health. Application fees are recognised on completion of initial checks and acceptance of the application. Annual fees are invoiced on the registration renewal date and recognised in full on invoice. Annual fees are non-refundable on de-registration during a year.

h Leases

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis.

2 Government grant

	31 March 2005	31 March 2004 restated
	£000	£000
Department of Health Resource Account	55,300	39,981
Department of Health - assets transferred	34	0
Welsh Assembly	0	1,770
Grant transferred to the NHSIA*	2,700	1,877
Total Grant-in-aid	58,034	43,628
Capital Grant-in-Aid (transfer to Government Grant reserve)	1,591	1227
Gross income reported in Income and Expenditure Account	56,443	42,401

* Funding for the Service Level Agreement with the NHS Information Authority (NHSIA) which was paid directly by the Department of Health to the NHSIA.

3 Other income

	31 March 2005	31 March 2004 restated
	£000	£000
a Fee income		
Registration and Inspection fees and charges to the independent sector	4,676	3,452
Fees relating to functions transferred from the Audit Commission	0	1,544
Total	4,676	4,996

Fees and charges made to the independent sector are in line with fee scales prescribed by the Secretary of State for Health under the Care Standards Act 2000. The fee levels were increased by 25% from 1 April 2004 and have been increased by a further 50% from 1 April 2005.

	31 March 2005 £000	31 March 2004 restated £000
b Sundry income		
Department of Health*	0	367
Recharge of staff and other costs	362	978
Other income - speakers fees etc	34	143
Total	396	1,488

* Payments received by the Commission for Health Improvement for the administration of Clinical Audits, NHS Patient & Staff Survey contracts and the development of NHS Performance indicators and ratings.

4 Employee information

a The Chief Executive's remuneration

The Chief Executive, Anna Walker, was appointed on 1 February 2004.

	Remuneration for year to 31 March 2005 £	Remuneration for the period to 31 March 2004 £
Chief Executive	170,513	26,667

The Chief Executive's Pension entitlements

The Chief Executive is a member of the Principal Civil Service Pension Scheme.

Increase in year		Accrued benefits*		Cash Equivalent Transfer values		
Lump sum	Pension	Benefits at 31 March 2005 Lump sum	Pension	CETV at 31 March 2005	CETV at 31 March 2004	Real Increase in CETV
£000	£000	£000	£000	£000	£000	£000
45-47.5	15-17.5	165-170	55-60	975	667	265

* Accrued benefits are presented in bands.

Pension benefits at 31 March 2005 may include amounts transferred from previous employments.

b Chairman's remuneration

Professor Sir Ian Kennedy was chair designate on the vesting date of 8 January 2004 and was appointed Chair of the Commission from 1 February 2004 for a period of 4 years to 31 January 2008.

	Remuneration for year to 31 March 2005 £	Remuneration for the period to 31 March 2004 £
Chairman	150,842	32,000

In addition, the chairman was re-imbursed with the cost of travelling to Commission meetings. These re-imbursments totalled £4,200 during 2004-2005 (Nil 2003-2004). The Healthcare Commission meets the resulting tax liability under a PAYE settlement agreement.

The Chairman is not eligible to join the Commission Pension Scheme.

c Commissioners' remuneration

Ref		Year to 31 March 2005	Remuneration for the period to 31 March 2004
		£	£
2	Khurshid Alam	5,696	904
3	Dr Sarah Blackburn	5,696	904
4	Jennifer Dixon	5,684	457
2, 5	Michael Hake	5,696	904
3	Sharon Hopkins	5,696	904
2	Professor Bruce Keogh KBE	5,696	904
1	Melinda Letts OBE (Resigned 15 September 2004)	2,487	904
1	Nick Partridge OBE	5,696	904
1	Professor Kamlesh Patel OBE	5,696	904
3	Professor Shirley Pearce (Joint Deputy Chair)	5,696	904
2	John Scampion CBE	5,696	904
3	Professor Iqbal Singh	5,696	904
3	Paul Streets OBE (Joint Deputy Chair)	5,696	904
2	Stephen Thornton CBE	5,696	904

1 Appointed for the period 1 February 2004 - 31 January 2006

2 Appointed for the period 1 February 2004 - 31 January 2007

3 Appointed for the period 1 February 2004 - 31 January 2008

4 Appointed for the period 26 February 2004 - 31 January 2008

5 Remuneration for Michael Hake was paid directly to Solihull Metropolitan Borough Council (his employer).

Commissioners are not eligible to join the Commission Pension Scheme.

In addition, Commissioners are re-imbursed with the cost of travelling to Commission meetings. These reimbursements totalled £7,890 during 2004-2005 (Nil 2003-2004). The Healthcare Commission meets the resulting tax liability under a PAYE settlement agreement.

d Executive Managers

Treasury guidance (DAO3/00) requires the Commission to provide information on the salary and pension rights of named individuals who are 'the most senior managers' of the Commission. The term 'senior manager' has been taken to mean members of the Executive Team.

Executive Team Remuneration

Ref		Remuneration year to 31 March 2005	Remuneration for the period to 31 March 2004
		£	£
	Stacey Adams	91,722	7,500
	Lorraine Foley	122,000	25,350
1	Marcia Fry	130,000	n/a
2	Simon Gillespie	51,805	n/a
	Mick Linsell	104,000	23,242

1 Appointed 1 April 2004

2 Appointed 4 October 2004

In addition, Jamie Rentoul provided services as an Executive Team member from 4 October 2004 whilst employed by the Department of Health. Salary costs of £71,218 (including pension and employers costs) were recharged to the Commission by the Department of Health.

Executive Team Pension entitlements

The Executive Team members are eligible to become ordinary members of the NHS or PCSPS pension schemes.

	Increase in year		Accrued benefits*		Cash Equivalent Transfer values		
	Lump sum £000	Pension £000	Benefits at 31 March 2005 Lump sum £000	Pension £000	CETV at 31 March 2005 £000	CETV at 31 March 2004 £000	Real Increase in CETV £000
Stacey Adams	7.5-10	2.5-5	15-17.5	5-7.5	75	35	40
Lorraine Foley	2.5-5	0-2.5	2.5-5	0-2.5	20	4	16
Marcia Fry	2.5-5	0-2.5	140-142.5	45-47.5	773	712	16
Simon Gillespie	0	2.5-5	0	7.5-10	78	49	22
Mick Linsell	2.5-5	0-2.5	2.5-5	0-2.5	28	6	22

* Accrued benefits are presented in bands.

Pension benefits at 31 March 2005 may include amounts transferred from previous employments.

e Pension benefits

The principal pension scheme for staff who transferred from the Commission for Health Improvement and the National Care Standards Commission and for staff recruited directly by the Commission is the NHS pension scheme. Staff who transferred to the Commission from the Department of Health and the Audit Commission at 1 April 2004 are eligible to join the Principal Civil Service Pension Scheme. New staff are also eligible to remain within the PCSPS if they are already members.

i NHS Pension Scheme

The Scheme is a 'final salary' scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum, normally equivalent to three years' pension, is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year's pensionable pay for death in service, and up to five times their annual pension for death after retirement is payable.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension liabilities arising from early retirements are not funded by the scheme, except where the retirement is due to ill health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the Income and Expenditure Account at the time the Commission commits itself to the retirement, regardless of the method of payment.

Contributing membership during 2004-2005 was 507 (4). Total employer contributions payable in 2004-2005 were £1,880,000 (2004 £5,000).

ii Principal Civil Service Pension Scheme

From 1 October 2002, civil servants and others approved by the Cabinet Office, including certain designated staff of the Healthcare Commission, may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic Plus). The Schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Entrants after 1 October 2002 may choose to join a 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account). Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with changes in the Retail Prices Index. Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus.

Contributing membership during 2004-2005 was 45 (4). Total employer contributions payable in 2004-2005 were £274,000 (2004 £5,000).

Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service Pension arrangements can be found at the website www.civilservice-pensions.gov.uk

f Staff costs

	31 March 2005	31 March 2004 restated
	£000	£000
Wages and salaries (incl. Commissioners)	26,984	23,834
Social security costs*	1,808	1,618
Other pension costs*	2,154	991
Staff costs recharged	362	857
Other**	0	1,510
Total	31,308	28,810

* Social Security and pension costs relate to directly employed staff only and any lay reviewers included on the Commission's payroll. Figures are not available for seconded staff paid through their 'parent' employer's payroll.

** The amounts for capitalised pensions on early retirement, redundancy pay and payments in lieu of notice that were incurred as a consequence of the transfer of functions of the Commission for Healthcare Improvement to the Healthcare Commission on 1 April 2004.

g Average number of employees during Year

The average number of whole time equivalent employees, including secondees and agency staff, for the year ended 31 March 2005, by category of employment was

	31 March 2005	31 March 2004 restated
	WTE	WTE
Managerial	7	12
Support staff	602	519
Total	609	531

5 Other operating costs

	31 March 2005	31 March 2004 restated
	£000	£000
Other operating costs include		
Operating leases*	2,249	1,469
Premises and facilities costs	1,981	1,393
Consultancy, professional fees etc	15,307	9,241
Recruitment and training	2,979	663
Travel and subsistence	2,612	2,189
External audit fees**	79	75
Losses and special payments***	27	9
Other costs	5,153	4,023
Non-cash items		
Impairment of fixed assets	186	42
Loss on disposal of fixed assets	79	7
Provision for pension scheme deficit	0	700
Total	30,652	19,811

* Amounts payable under an operating lease for land and buildings.

** The Audit Fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. This amount does not include fees in respect of non-audit work and no such work was undertaken.

*** Losses and special payments

Losses in the year ending 31 March 2005 amounted to £27,000 (2003-04 £9,000), comprised of

Cash losses due to fraud	4	0
Bad debts written off	8	0
Special payment on termination of employment	15	0
Fruitless payments	0	9

6 Operating result by group for the year to 31 March 2005

	Staffing WTE	Gross Income £000	Expenditure £000	Net Income £000
Operations	264	(4,704)	16,242	11,538
Operations development	72	0	5,856	5,856
Information and analysis	95	0	12,452	12,452
Strategy	48	0	5,914	5,914
Communications	28	0	3,603	3,603
Private Office	10	0	768	768
Corporate services	92	(1,536)	18,076	16,540
Grant in Aid	0	(56,443)	0	(56,443)
Operating deficit	609	(62,683)	62,911	228

7 Fixed assets

	Office refurbishment £000	Office furniture £000	Office equipment £000	Computer Hardware £000	Total tangible assets £000	Intangible assets £000	Total Fixed assets £000
Cost or valuation							
Balance 1 April 2004	187	87	23	537	834	302	1,136
Transfers in	3,353	728	305	1,595	5,981	463	6,444
Restated balance 1 April 2004	3,540	815	328	2,132	6,815	765	7,580
Additions in year	521	36	224	504	1,285	306	1,591
Disposals in year	-	(22)	(14)	(202)	(238)	(60)	(298)
Indexation	87	40	20	(192)	(45)	(110)	(155)
Balance at 31 March 2005	4,148	869	558	2,242	7,817	901	8,718
Depreciation							
Balance 1 April 2004	0	0	0	4	4	0	4
Transfers in	834	310	251	1,157	2,552	313	2,865
Restated balance 1 April 2004	834	310	251	1,161	2,556	313	2,869
Depreciation in year	231	93	85	307	716	187	903
Disposals in year	0	(8)	(10)	(155)	(173)	(46)	(219)
Indexation	22	16	8	(80)	(34)	(36)	(70)
Balance at 31 March 2005	1,087	411	334	1,233	3,065	418	3,483
Net book value							
At 31 March 2005	3,061	458	224	1,009	4,752	483	5,235
At 31 March 2004	2,706	505	77	971	4,259	452	4,711

8 Debtors

	31 March 2005	31 March 2004 restated
	£000	£000
Amounts falling due within one year		
Trade debtors	751	248
Advances - Staff loans	86	74
Other debtors	84	655
Prepayments	1,504	112
Total	2,425	1,089

Staff Loans are for season tickets, bicycle purchase and gym membership. No member of staff received loans in excess of £5,000.

Intra-government balances

Balances with central government bodies	40	0
Balances with NHS Trusts	95	32
Balances with public corporations	53	77
Balances with bodies external to government	2,237	980
Total	2,425	1,089

9 Analysis of cash and bank balances and changes during the year

	1 April 2004 £000	Cashflow £000	31 March 2005 £000
Paymaster General	4,300	528	4,828
Other banks	5	0	5
Cash balances	4	0	4
Total	4,309	528	4,837

10 Creditors and provision

	31 March 2005	31 March 2004 restated
	£000	£000
a Amounts falling due within one year		
Trade creditors	1,086	1,255
Taxation and Social Security	645	13
Other creditors	328	0
Accruals and deferred income	3,619	2,278
Total	5,678	3,546
Intra-government balances		
Balances with central government bodies	1,481	0
Balances with NHS Trusts	457	32
Balances with public corporations	555	77
Balances with bodies external to government	3,185	3,437
Total	5,678	3,546

	31 March 2005	31 March 2004 restated
	£000	£000
b Amounts falling due after more than one year		
Operating lease	0	88
c Provision		
Pension Fund deficit	700	700

An Actuarial shortfall on pension entitlements arose from the transfer of staff from National Care Standards Council at 1 April 2004. The pension shortfall is considered to be part of the set-up costs of the Commission and has been provided in these accounts at the estimated actuarial liability of £700,000. The actual liability will not be known until conclusion of the actuarial review at which point the timing of payments to meet the shortfall will be determined.

11 Operating lease commitments

Operating lease payments payable within one year of the Balance Sheet date in respect of leases expiring

	31 March 2005	31 March 2004 restated
	£000	£000
Land and buildings		
Less than one year	429	0
Between one and five years	608	2,362
Over five years	1,744	0
Total	2,781	2,362

12 Government grant reserve

	31 March 2005	31 March 2004 restated
	£000	£000
Balance at start of period	4,711	4,245
Transfer capital grant to government grant reserve	1,591	1,227
Indexation of fixed assets	101	0
Downward valuation of IT equipment, software and refurbishment charged to the Income and Expenditure Account	(186)	(42)
Depreciation charged to the Income and Expenditure Account	(903)	(712)
Loss on disposals charged to Income and Expenditure Account	(79)	(7)
Balance at 31 March 2005	5,235	4,711

13 Capital commitments

The Commission had the following capital commitments at the Balance Sheet date

	31 March 2005	31 March 2004 restated
	£000	£000
Expenditure contracted but not provided	Nil	Nil
Expenditure authorised but not contracted		
Office refurbishment	67	Nil

In addition, a major development by the Commission relates to the creation of an 'Intelligent Information Management System' (IIMS). This development will include a material IT development project which is subject to the Gateway Process and has so far been subject to the Gateway Zero review. The project has been agreed by the Commission and final budgets and processes are being considered. Subject to agreement with the Department of Health, funding will be through Grant in Aid in the year expenditure is incurred, with appropriate capitalisation of elements of the project. Total project costs are estimated at £12m of which £1.7m was expended in 2004-2005.

14 Contingent liabilities

There are no Contingent liabilities at 31 March 2005 (Nil 2004)

15 Reconciliation of operating surplus to net cash inflow from operating activities

	31 March 2005	31 March 2004 restated
	£000	£000
Retained (deficit)/surplus	(228)	187
Depreciation	903	712
Cost of capital	48	126
Downward revaluation of fixed assets	186	42
Loss on disposal of fixed assets	79	7
Transfer from government grant reserve	(1,168)	(761)
(Increase)/decrease in debtors	(1,336)	987
Increase in creditors	2,044	1,684
Increase in provisions	0	700
Net cash inflow from operating activities	528	3,684

16 Transfer of assets and liabilities at 1 April 2004

The Healthcare Commission commenced activities on 1 April 2004, on which date the following activities and related assets and liabilities were transferred to the Commission from predecessor bodies under Transfer Order

a Commission for Health Improvement (CHI)

All staff functions, assets and liabilities.

National Care Standards Commission (NCSC)

Inspection work with respect to private and voluntary healthcare establishments and associated staff.

Audit Commission (AC)

National value for money work in health sector and associated staff.

b Income and Expenditure Account

Comparative income and expenditure figures have been restated for the period to 31 March 2004 on the following basis

Healthcare Commission - income and expenditure for the period 8 January 2004 to 31 March 2004.

CHI, NCSC and AC - income and expenditure of the activities transferred for the year 2003-2004.

c Balance sheet

Figures have been restated to bring assets and liabilities transferred from predecessor organisations into the accounts as at 1 April 2004 as follows

	Healthcare Commission £000	CHI £000	NCSC £000	AC £000	Restated £000
Fixed assets	1,132	3,579			4,711
Debtors & Prep.	39	901	149		1,089
Bank and Cash	2,103	2,209	(3)		4,309
Total assets	3,274	6,689	146	0	10,109
Current liabilities	1,355	2,045	146		3,546
Long-term liabilities	0	88			88
Provision (pension)	0	0	700		700
Total liabilities	1,355	2,133	846	0	4,334
Net assets	1,919	4,556	(700)	0	5,775
Represented by					
Income and Expenditure Account	787	977	(700)		1,064
Deferred government grant	1,132	3,579			4,711
Total reserves	1,919	4,556	(700)	0	5,775

Additionally, the Department of Health transferred computer hardware and software at 1 April 2004. These assets were valued at £34,000 and have been added to the Government grant received in the year (Note 2).

17 Related party transactions

The Healthcare Commission is a Non Departmental Public Body sponsored by the Department of Health. The Department of Health is regarded as a related party. During the year the Commission has made a number of material transactions with the Department and other entities for which the Department is regarded as the parent Department. In addition the Commission has had a small number of transactions with other Government Departments and other central government bodies. Balances at 31 March 2005 are shown in notes 8 and 10.

The material transactions were

i Clinical Audit costs £2.7m

These were incurred under a Service Level Agreement between the Commission and the NHS Information Authority (NHSIA) and paid directly by the Department of Health to the NHSIA.

ii Audit Commission delegated work £417,000

The Commission has delegated certain work relating to economy, efficiency and effectiveness to the Audit Commission under section 57 (6) of the 2003 Act. In respect of this work, the Commission transferred £417,000 of its funding to the Audit Commission in 2004-2005. This amount does not include VAT.

Costs are included within Operating costs (Note 5).

None of the Commission members or Executive Team or other related parties has undertaken any material transactions with the Commission during the year.

18 FRS13 Financial instruments

As permitted by FRS13, this disclosure excludes short-term debtors and creditors.

The Healthcare Commission has no borrowings and relies primarily on departmental grants for its cash requirements and is therefore not exposed to any risk of liquidity. It also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate or currency risk.

19 Post balance sheet events

As a Non-Departmental Public Body, the Healthcare Commission is classed as an arm's length body. In October 2003, the Secretary of State announced his intention to review the Department of Health's 'Arm's Length Bodies'. On 20 May 2004, the Secretary of State for Health outlined the first stage of this review. There are 42 separate arms length bodies that employ 22,000 staff with a combined budget of £2.5bn. The Secretary of State announced that by 2007-2008 there would be a 50% reduction in the number of arm's length bodies reducing total expenditure by £0.5bn and staff posts by 25%.

The Chancellor of the Exchequer announced in March 2005 that the Secretary of State for Health had agreed in principle to come forward with plans to merge the Commission for Social Care Inspection and the Healthcare Commission into a single body by 2008, reflecting the increasing joint working between adult social care and health on the ground and as a part of a wider review of regulation in social care and health. No further information regarding this merger was available at the date of signing these financial statements and no financial implications from the merger have been anticipated in these financial statements.

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DG Ref: C24180 5687WC

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