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

Annual report and accounts 2011/12

audit commission

The Audit Commission for Local Authorities and the National Health Service in England Annual report and accounts 2011/12

Presented to Parliament pursuant to Paragraph 14 (2) of Schedule 1 of the Audit Commission Act 1998.

Ordered by the House of Commons to be printed on 5 July 2012.

HC 249 London: The Stationery Office £21.25

Any enquiries regarding this document should be sent to us at:

Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

This publication is also available for download at www.official-documents.gov.uk and from our website at www.audit-commission.gov.uk

ISBN: 9780102978537

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office.

ID 2493689 07/12

Printed on paper containing 75% recycled fibre content minimum.

Contents

Foreword

As the government's plans for the future of local audit continued to unfold in 2011/12, the Commission focused its efforts on managing the present, and preparing for the future. We did not let challenging circumstances affect our resolve to deliver high-quality, cost-effective audit and support the public bodies we serve with insightful analysis.

Our achievements were made possible by the professionalism, quality and commitment of our staff, at a time when they have been concerned for their own futures

Our achievements were made possible by the professionalism, quality and commitment of our staff, at a time when they have been concerned for their own futures. We want to thank everyone at the Commission for their commitment and hard work in delivering our programme.

Our most significant project in 2011/12 was outsourcing the work of our in-house Audit Practice. Because of the Audit Commission's unique purchasing power, the new contracts will save the public purse over £30 million a year over five years.

The outsourcing of the Audit Practice's work brings to an end the title of District Auditor, an office first established in 1844 to scrutinise Poor Law Boards. But the legacy of over a century and a half remains. The majority of the Audit Practice's staff will transfer to accountancy firms where they will continue to use their skills and experience to ensure that local public bodies use taxpayers' money responsibly.

Our achievements, including the complex procurement, have been recognised by our sponsor department:

"I would like to pass on my thanks to the Commission and all of its staff for their professionalism during a year of considerable transition. The positive outcome of the outsourcing procurement process and ongoing work on 2011-12 audits and wider transitional arrangements are testament to the hard work and dedication of the team, for which I am very grateful."

Sir Bob Kerslake, Permanent Secretary at the Department for Communities and Local Government

We want to thank everyone at the Commission for their commitment and hard work in delivering our programme

Our efforts to deliver value for money were not only linked to the procurement exercise. The Commission's own internal efficiencies will generate savings of £19 million a year which, when added to the procurement savings, will give most larger local public bodies a 40 per cent reduction in their audit fees. These savings are locked in for at least five years.

We ended 2011/12 as a smaller organisation, but one that continues to have an impact. Our reports on national issues, such as councils' financial resilience, public sector fraud, potential savings in the NHS, and the adult social care challenge, were well received. They addressed some of the key issues facing local public services, objectively and authoritatively. Over the next year, around 900 people will leave the Commission. For most of those who are not joining private accountancy firms, the search will begin for work elsewhere. We will support staff as they prepare for their future.

There is still much to do, however, before colleagues move on. Auditors are working to complete the 2011/12 accounts before they leave the Commission. This is a significant challenge, as it involves issuing audit opinions to tight deadlines, while continuing to achieve high-quality standards.

We will continue to regulate public audit and will continue to produce high-quality analyses of issues that matter to local public services. Finally, we will continue to work with the government, and other organisations, to help design and implement a new regime of local public audit and to transfer the responsibilities, such as those related to counter-fraud, to other organisations. We would like to help ensure that the high standards we have achieved continue long into the future.

We would like to help ensure that the high standards we have achieved continue long into the future

Michael O'Higgins Chairman

Eugene Sullivan Chief Executive

Annual report

Outline of the year

In 2011/12, our work centred around five corporate objectives. In the following outline of the year, we consider the organisation's achievements, and progress towards each of these objectives.

1 Supporting the transition to a new audit regime

The Commission will keep using its influence to ensure local bodies continue to account for their use of public money properly during the transition and after our abolition.

We began the financial year liaising closely with the Department for Communities and Local Government (DCLG) on options to externalise the work of our in-house Audit Practice. In June 2011, we started preparations to outsource the Audit Practice's audits from 2012/13. We designed a procurement process that allowed a range of firms to bid. This included the possibility of an employee-led bid which, it was hoped, could form the basis of a new and distinctive provider in the market, possibly a mutual.

It is our belief that the independent appointment of auditors is one of the main safeguards on auditors' independence

At the end of June 2011, we published our response to DCLG's consultation on the future of public audit. In it we again emphasised our belief that the independent appointment of auditors is 'one of the main safeguards on auditors' independence' and that the loss of this may 'undermine public confidence in the stewardship of local public finances'.

A few days later, in early July, we welcomed the CLG Select Committee's report on its inquiry into the audit and inspection of local authorities. We shared its concern that there should be strong safeguards to ensure the independence of auditors. We noted its view that local authority audit committees should have an independent chair and a majority of independent members to help ensure this.

At the end of July 2011, DCLG asked us to consider outsourcing the 70 per cent of audit work currently carried out by the in-house Audit Practice from 2012/13. The Board discussed, and agreed to, this request. The preparatory work already undertaken meant that a fair competition could be quickly put in place. We launched two procurement processes at the start of September – one covering nearly 800 principal local public bodies, and another covering the 9,800 smaller bodies, (mostly parish and town councils), which fall under the limited assurance regime.

At the start of January 2012, we welcomed the publication by DCLG of the government's response to the consultation on the future of local audit – a paper that marked the next stage in the development of a new framework for local public audit. We felt there was still work to do in a number of areas and reaffirmed our commitment to help DCLG put in place strong and sustainable arrangements for local public audit.

At the beginning of March 2012, after lengthy and rigorous assessments of each bidder against cost and quality criteria, we announced the award of five-year audit contracts to four private firms from 2012/13. This was followed, at the end of March, with the announcement of the allocation of the audits of the smaller local public bodies.

The procurement process was a complex project, delivered to a very challenging timetable. The final decisions marked a significant change to the way public sector audit is managed. Previously the Audit Commission carried out 70 per cent of the audits for England's local public services itself, and outsourced the remaining 30 per cent. On 31 October 2012 we will see the end of the Commission's own Audit Practice, formerly known as the District Audit Service.

However, the process has ensured that the specialised skills and experience of over 700 public sector auditors will be retained in an outsourced market, with nearly all of our audit staff transferring to the private sector under the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations. The results of the procurement, and our own internally generated savings, will also mean significant audit fee savings for councils, NHS trusts, and other local bodies. As well as delivering a 40 per cent audit fee reduction for most larger local public bodies, the savings mean that half of the country's smaller local public bodies will not have to pay any audit fees at all.

These successful outsourcing projects, and especially the savings achieved, could only have been delivered by an organisation that has the statutory responsibility for both the bulk commissioning of local public audit services and the independent appointment of auditors.

2 Managing the delivery of our work programme

We still have a full work programme to complete, and work on the 2011/12 in-house audits will take place right until the Audit Practice closes on 31 October 2012.

The Commission's report, *Auditing the Accounts 2010/11*, published in December 2011, commented favourably on the quality and timeliness of financial reporting by councils, police authorities and fire and rescue authorities. By the end of September 2011, auditors had signed off 422 of 457 opinions for principal local government bodies. This was an excellent achievement, both for the audited bodies, and the auditors carrying out the work. This performance compared well with the previous year, despite the additional challenges of using International Financial Reporting Standards (IFRS).

The performance in the NHS was even better, as auditors at 272 out of 276 local NHS bodies were able to issue their opinions by the Department of Health's target date in early June.

We also successfully outsourced to Capita Business Services the management and delivery of the 2012/13 Payment by Results Assurance Framework. This has ensured that the programme will be delivered, and that the skills, knowledge and information provided by the framework will continue to be available to the NHS. The first staff transferred on 1 April 2012 and the remainder will do so on 1 August 2012.

It is also a testament to the professionalism of our Audit Practice staff that the 2010/11 audits saw an improvement in the quality of their work, as measured by an internal monitoring programme, and our best ever results from inspection by the independent Audit Inspection Unit. This demonstrates that we are securing a return on the investment we have made in recent years in the Audit Practice's systems and processes to promote audit quality.

3 Helping our sectors

Our stakeholders face significant financial challenges. We will continue to support them by providing authoritative, unbiased, evidence-based analysis.

We also continued to help local authorities combat fraud through our National Fraud Initiative and the *Protecting the Public Purse* annual fraud survey. In 2010/11, *Protecting the Public Purse* found that councils had detected £185 million of fraud in the last year, and identified new areas of emerging fraud, such as fraudulent claims for student council tax discounts.

The Audit Commission has continued to analyse, and publish reports on issues that matter to the local government and health sectors. In 2011/12, we published major reports on the state of the country's roads and how councils are faring in the face of funding cuts. We worked with the Local Government Association to produce a report looking at how councils are reducing their workforce costs.

We also produced briefings about ineffective and inefficient treatments in the NHS, and the quality of data in the health service. We worked in partnership with other organisations, including the Association of Chartered Certified Accountants and Monitor, to make recommendations for a more efficient NHS.

Our online tools have continued to prove useful to councils and health bodies. In September 2011 we launched a new self-assessment tool for domestic abuse services, and our value for money profile tools were updated to make them more accessible and easier to use.

4 Being financially responsible

It is important we manage the transition to a smaller organisation responsibly, ensuring we keep our costs, including any liabilities that may remain after our abolition, to a minimum.

In 2009 the Board agreed an efficiency savings plan. Its aim was to deliver 25 per cent savings over three years, passing the benefit back to local public bodies through reduced audit and grant certification fees.

We are on track to outperform our three-year efficiency saving target. We have also closed and reduced work programmes swiftly, in line with government policy. As a result we reduced day-to-day expenditure (excluding net transitional liabilities and contribution to reserves) by £26.6 million (12 per cent) in 2010/11 and by another £46.9 million (24 per cent) in 2011/12. We plan reductions of another £35.8 million (24 per cent) in 2012/13.

By April 2013 we will have delivered recurrent savings of £109.3 million a year (49 per cent). And we will continue to drive down costs. Our financial strategy assumes the Commission will close in 2015. It shows we will be saving £140 million a year by 2014/15, which is expected to be our last full financial year before abolition. By then we will have reduced the cost of running the Commission to fulfil its statutory duties to less than £9 million a year.

We set our Audit Practice a stretching target to deliver a margin of £45.6 million in 2011/12. It improved quality, productivity and financial performance delivering a margin £1.7 million above budget at £47.3 million (2010/11: £41.1 million).

The Commission is committed to the principles of the Treasury's Better Payment Practice Code and pays undisputed invoices from its suppliers within 30 days. During the 2011/12 financial year, we paid 99 per cent of undisputed invoices within 30 days (2010/11: 96 per cent).

We are keen to continue to increase our transparency, and are committed to publishing information about how we spend money. We have made available details of the expenses claims made by our senior staff since April 2010 and details of senior staff salaries since June 2010. We have published all spending with our suppliers of over £500 made since April 2010, and this data is updated monthly.

Not only have we been responsible in our approach to finances, but we have also continued to limit the impact of all our activities on the environment. For the first time, this report contains a sustainability report (Appendix 2). The report shows that we have exceeded government targets and have achieved an overall reduction of 1,828 tonnes in CO_2e emissions, equating to a reduction of 43 per cent since 2008. We have also, in four years, reduced business travel miles by 52 per cent and travel costs by 60 per cent.

5 Leading our people

The Commission must continue to be a good employer, ensuring staff stay engaged with their work while they remain with us, and providing support to help improve career prospects for when they leave the organisation.

Throughout a difficult year, the Commission has dedicated time and resources to supporting its staff, providing them with new opportunities wherever possible and, in particular, offering advice and support to those losing their jobs.

Our equality objective for 2012 relates to being a fair employer. We aim to ensure there is no difference in employment outcomes for our staff or potential recruits because of their age, gender, disability, gender reassignment, pregnancy and maternity, ethnicity, sexual orientation, or religion and belief. Our approach to equalities, our equality objective for 2012, our Equality Action Plan 2012/13, and our equality information are all published on our website.

The Commission continues to maintain a consistent approach to providing support for employees with disabilities, in respect of their employment, training and career development. We continue to provide reasonable adjustments for disabled staff and ensure they are effective, to enable the employees to carry out their duties. We will also continue to provide advice and support to managers on disability issues until the Commission formally closes. Where applicable, we are working with disabled employees and their new employers to ensure sensitive and effective transfer arrangements are in place. In addition, the Disability Awareness Raising Team (DART) – the Commission's established staff network for colleagues affected by, or interested in, disability and carers' issues – supports disabled staff, and their managers and colleagues, and raises awareness of disability issues.

Our Audit Practice trainees achieved an excellent set of results in the CIPFA exams earlier this year, with the 89 per cent pass rate even further above the national average than usual. Twenty trainees completed their final stage exams and became eligible to apply for principal auditor roles.

In 2011, we recruited 27 graduates as audit interns, mainly in London and the South East. The interns joined us in October 2011 and will leave in August 2012. They received introductory audit training and are paid a modest salary. In return they have offered our auditors excellent support in a challenging year.

We are now in the final stages of planning a programme of support for all staff who will be made redundant from the Commission this year and in 2013. Our aim is to put people in the best position to find alternative employment.

The future

Looking ahead, the next financial year will be one of major transition. Our in-house Audit Practice has a full programme of audit work to deliver by the end of October. We will then transfer the Audit Practice to private audit firms and decommission the Audit Practice and the support services that are no longer required. By the end of the year, a smaller, streamlined Commission will be in place, running through to abolition, which is expected in 2015.

Financial review

The Audit Commission continued to deliver strong financial performance. We have planned for financial resilience and stability through to 2015, when we expect to close.

Supporting corporate objectives

We started this year with stretching financial targets, recommended by the senior management team and approved by the Board. Our aims were to deliver business as usual while managing the transition plans, reducing fees and remaining financially resilient. In line with ministers' wishes, we continued reducing some of our work programmes.

Our strong financial position at the end of the year has enabled us to plan our finances through to closure with confidence. We increased our financial reserves (referred to in the annual accounts as retained earnings) by being more productive and controlling costs tightly. All this was achieved while still maintaining the high quality of our work.

Managing with less income

Our total operating income fell by £15.8 million (8.6 per cent) to £167.7 million (2010/11: £183.5 million). Our income was less because we:

- passed on efficiencies and cost savings to the bodies we audit (£12.9 million);
- received less in fees and grant income after we stopped our CAA and inspection programmes in line with ministers' wishes (£14.2 million);
- saw a reduction in income from rents, secondments and sundry items (£0.6 million); offset by
- a one-off grant from DCLG to pay for redundancies resulting from the government's plans to abolish us (£11.9 million).

The Statement of Income (page 48) and the notes to the accounts (pages 57-68) provide more detail on our operating income for the year.

Controlling costs

We reduced our total operating costs for the year (including transitional liabilities) by £53.9 million (25.7 per cent) to £155.6 million (2010/11: £209.5 million). We achieved this by spending less than last year on:

- staffing (£48.5 million);
- redundancies (£5.8 million);
- work contracted out to audit suppliers (£4.4 million);
- support contractors (£1.8 million);

- supplies and services (£2.5 million); and
- training and other costs (£3.1 million).

We spent more in some areas than last year as we prepared for closure:

- replacing permanent audit staff who resigned with short-term contractors (£2.0 million);
- impairing assets no longer fully utilised (£0.8 million);
- paying VAT and other tax liabilities (£1.0 million); and
- making onerous lease provisions for buildings we no longer use (£8.4 million).

The Statement of Income (page 48) and the notes to the accounts (pages 63-68) provide more detail on our operating costs for the year.

Operating results

Our operating surplus for the year was £12.0 million (2010/11: deficit of £26.1 million). Adding our income from non-operating activities produced a total surplus for the year of £19.7 million (2010/11: deficit of £22.0 million). We have transferred £5.6 million of the total surplus for the year (2010/11: £26.7 million of deficit) produced by the Commission's financial performance to retained earnings. Our retained earnings at 31 March 2012 increased to £8.0 million (31 March 2011: £2.4 million). We have transferred the remaining £14.1 million of the total surplus for the year produced by the IAS19 (Employee Benefit) adjustments (2010/11: £4.7 million) to the pension reserve. These adjustments comprise £7.1 million net return on pension scheme assets (2010/11: £3.4 million) and £7.0 million of credit adjustments to staff costs (2010/11: £1.3 million). The deficit on the pension reserve at 31 March 2012 increased to £108.8 million.

The Statement of Income (page 48) and the notes to the accounts (pages 57 - 67) provide more detail on our operating results for the year.

Financial position

Our financial assets increased over the year by £16.9 million to £79.9 million at 31 March 2012. The increase of £28.6 million in cash, cash equivalents and short-term investments was in line with our planning expectations. The increase reflects audit fees received in advance of work done. It also reflects our drive to reduce costs as quickly as possible.

We expect cash to reduce significantly during the first few months of 2012/13 as our invoicing arrangements for the new audit contracts change and we make redundancy payments as we continue to reduce in size. Offsetting decreases in non-current assets of £4.5 million and other current assets of £7.3 million reflect our preparations for an orderly closure in 2015.

Our total current liabilities increased by £1.9 million to £60.2 million at 31 March 2012 (31 March 2011: £58.3 million). We increased current provisions by £7.4 million as we provided for transitional liabilities we expect to pay for 2012/13, including redundancies and onerous property leases. Trade and other payables decreased by £4.7 million, reflecting a reduction in payroll costs and payments to suppliers as we downsized in preparation for abolition.

Our total non-current liabilities have increased by £51.9 million to £120.5 million at 31 March 2012 (31 March 2011: £68.6 million). The difference is mainly due to a £42.5 million increase in the net pension liability because of a reduction in corporate bond yields. Our non-current liabilities increased by £9.3 million as we provided for transitional liabilities in 2013/14 and following years.

We ended the year with £8.0 million of retained earnings due to strong financial performance in difficult circumstances. This was more than offset by the net pension liability of £108.8 million, represented by the deficit on the pension reserve. The result was, as in previous years, negative taxpayers' equity of £100.8 million at 31 March 2012 (31 March 2011: £63.9 million).

We have completed our accounts as a going concern, despite reporting a negative equity position for taxpayers, because we now have a Crown guarantee for the pension scheme liabilities. Our accounting conventions and policies for the Audit Commission Pension Scheme (Notes 1.3, 1.21 and 1.22 to the financial statements) explain the reasons for this in more detail.

The Statement of Financial Position (page 50) and the notes to the accounts (pages 69 - 87) provide more detail on our financial position at the end of the year.

The future

The Commission's Board agreed a financial strategy in March 2012 for 2012/13 through to 2015, when we expect to close. The strategy reflects transfer of the Audit Practice to the private sector on 31 October 2012 and the continued downsizing of our operation.

Over three years we expect to halve our annual spending, saving £107 million a year by the end of 2012/13. We will have delivered this through internal efficiencies, stopping and reducing work programmes where our statutory powers are discretionary, and through procurement savings achieved by privatising our audit work.

By the start of the 2013/14 financial year, we expect to employ fewer than 70 staff, with running costs of no more than £9 million a year. Some of these costs are likely to continue for successor bodies when the government introduces its new decentralised audit regime.

Our strategy sets the framework for future performance and financial management. Our main priorities are to:

- pass on the full benefit of both our efficiency gains and procurement savings to the local public bodies we audit through reduced audit and grant certification fees;
- fix audit fees to provide certainty for audited bodies;
- use retained earnings to reduce fees as much as possible; and
- ensure audit fee levels are sustainable for at least five years.

We will continue to be an important part of the government's current assurance arrangements for the taxpayers' money managed by local public bodies. We will work closely with DCLG to ensure informed decisions are taken on the detail of the future local audit regime so the proposed change leads to improvement as well as cost reduction. We will also work with DCLG to ensure the legislation creating the new audit regime transfers our assets and liabilities on closure to a successor body and deals with any contingent liabilities at that date.

Our remit

The Audit Commission is a public corporation set up in 1983 by the Local Government Finance Act 1982 to protect the public purse. The relevant provisions of that Act were subsequently replaced by the Audit Commission Act 1998, a consolidating Act. The Audit Commission appoints auditors to councils, NHS bodies, police bodies and other local public services in England, and oversees their work. It also helps public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

The Audit Commission has the following statutory powers and responsibilities:

- overseeing the external **audit** of local authorities and the National Health Service (NHS) in England (Audit Commission Act 1998 and National Health Service Act 2006) – this involves making auditor appointments, setting fees, updating the Codes of Audit Practice and arranging to certify grant claims and returns;
- carrying out **inspection** of best value authorities (Local Government Act 1999), fire and rescue authorities (Fire and Rescue Services Act 2004) and registered providers of social housing (Housing and Regeneration Act 2008);
- carrying out **assessment** of local authorities (Local Government Act 2003);
- carrying out **value for money studies** (Audit Commission Act 1998; and
- carrying out **data matching exercises** (Part IIA of the Audit Commission Act 1998).

The government stopped the Commission's Comprehensive Area Assessment and associated inspection work programmes in May 2010, and in August 2010 announced its plan to abolish the Audit Commission.

The Queen's Speech in May 2012 confirmed that the government will publish a draft Bill setting out measures to close the Audit Commission and establish new arrangements for the audit of local public bodies.

The Audit Commission expects to close in 2015.

Our Commissioners

Commissioners during the year of review

All comments relating to the Commissioners reflect their activities during the year ended 31 March 2012.

Michael O'Higgins Chairman

Michael has been Chairman of the Audit Commission since October 2006, and became Chairman of The Pensions Regulator in January 2011. He is also a Non-Executive Director of HM Treasury and Chair of the Treasury Group Audit Committee. Michael is Chairman of Investec Structured Products Calculus VCT plc and a Non-Executive Director of Oxford Medical Diagnostics plc. Michael was the Chair of the charity Centrepoint until December 2011, and is a Visiting Professor of Economics at the University of Bath.

Previously, Michael was a Managing Partner with PA Consulting, leading its government and IT consulting groups, latterly as a director on its International Board. He was a Partner at Price Waterhouse and worked at the Organisation for Economic Cooperation and Development in Paris. He held academic posts at the University of Bath, the London School of Economics, Harvard University and the Australian National University.

Bharat Shah Deputy Chairman

Bharat has been Deputy Chairman of the Audit Commission since September 2007. He has been providing business consultancy and executive mentoring since 2002. He is the Chair of Nijjar Holdings Limited, the Chair of the West Bromwich Building Society Staff Retirement Scheme, a Non-Executive Director of the Places for People Group and a Trustee of the Paul Strickland Scanner Centre. He has been the Chairman of two private equity-backed businesses: the Sure Group (a long-term property maintenance business) and the Picdar Group (a digital asset management business). He has also been a Non-Executive Director of the West Bromwich Building Society.

He trained as a certified accountant and worked for Eastman Kodak for 27 years where he rose from 'shop floor' to become the Chief Executive of EAMER, Kodak Consumer Imaging and Vice-President, Eastman Kodak. He was also a Vice-President of Singer, responsible for Europe, Africa, the Middle East and Asia.

Lord Adebowale, CBE

Victor is Chief Executive of Turning Point, one of the UK's leading health and social care organisations working with people with complex needs, including those affected by drug and alcohol misuse, mental health problems and people with a learning disability. He began his career in local authority estate management before joining the housing association movement. He worked with Patchwork Community Housing Association and the Ujima Housing Association. He was Director of the Alcohol Recovery Project and Chief Executive of youth homelessness charity Centrepoint. In 2000, Victor received a CBE for services to the unemployed and homeless young people and in 2001 became a cross-bench member of the House of Lords.

Janet Baker

Janet worked as a management consultant at Coopers & Lybrand, Ernst & Young and then as a Senior Partner at PA Consulting Group. She is an expert in all forms of organisational and commercial structuring and restructuring, including outsourcing and sale processes. In February 2012, Janet was appointed Crown Commercial Lead in the Cabinet Office, working on the development and delivery of new commercial models across government. She is also a Non-Executive Director on the Board of the Defence Support Group (MOD), Chair of its Remuneration Committee, and member of its Audit Committee; a Non-Executive Director on the Audit Committee of HM Treasury; a Non-Executive Director of the Board of the Rural Payments Agency and a member of its Audit Committee.

Councillor Sir Merrick Cockell

Sir Merrick was Chairman of London Councils from 2006 to 2010 and has been Leader of the Royal Borough of Kensington and Chelsea since 2000 and a councillor since 1986. In October 2010 he joined the Board of the London Pension Fund Authority. He is also Chairman of the think tank Localis. He was Chairman of the Conservative Councillors' Association and on the Conservative Party Board from February 2008 until February 2011. Other appointments include Chairman of the Kensington and Chelsea Partnership, Board member of the Central London Partnership, Fellow of the British American Project and President of the Chelsea Theatre. He ran an international trading company for 23 years and now devotes his time to public service. He was awarded a knighthood in 2010 for services to local government. On being elected Chairman of the Local Government Association in July 2011, Sir Merrick resigned as a Commissioner.

Dr Jennifer Dixon

Jennifer is Director of the Nuffield Trust and a member of the National Centre for Social Research. She was Director of Health Policy at the King's Fund and among previous posts she was Policy Adviser to the Chief Executive of the NHS. She has a background in clinical medicine and holds a PhD in health services research.

Tony Harris

Tony has extensive business experience and has held several senior roles including Chief Executive of ADT Fire & Security plc, Managing Director of NTL Business Inc and President, Business Services at BT plc. Before joining BT, Tony was an Executive Board member for 11 years at DHL Worldwide Express. He has served as a Non-Executive Director of Telspec plc and is currently a Senior Adviser to a private investment company and a Non-Executive Director of DEX Corporation, the Norbain Group, Worcester Rugby Football Club and the Royal Surrey County Hospital NHS Foundation Trust.

Councillor Stephen Houghton, CBE

Stephen has been Leader of Barnsley Metropolitan Borough Council for 15 years and a member for 22. He is also Chair of the Barnsley Local Strategic Partnership, Chair of the Special Interest Group of Municipal Authorities (SIGOMA), Chair of Barnsley Miller Partnership Ltd and a Non-Executive Director of Barnsley Hospital Foundation Trust. He was awarded the CBE for services to local government in 2004.

Brian Landers

Brian previously worked as Finance and Operations Director at Penguin Group UK, Finance and Support Services Director at Habitat, and Finance Director of the retail division at WH Smith. He is currently a member of the Competition Appeal Tribunal, Treasurer for Amnesty UK and a member of the Audit Committee of the Parliamentary and Health Services Ombudsman. His public appointments have included Finance Director of HM Prison Service and Deputy Chairman of the Financial Ombudsman Service.

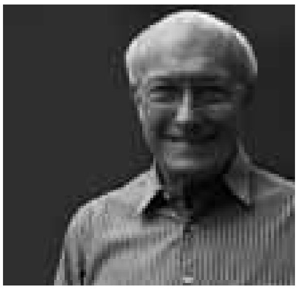
Councillor Robert Light

Robert has been a Kirklees Councillor since 1987 and Conservative Group Leader since 2000. He was the Leader of Kirklees Council from 2006 to 2009 and was the first Chair of the Leeds City Region. He has also been Chair of the West Yorkshire Fire and Rescue Service. A leading member of the Local Government Association, Robert is Deputy Chair and a member of the Leadership Board, Executive Board and Children and Young People Board. He is also a member of the Board of the Environment Agency.

Councillor Chris White

Chris was elected to Hertfordshire County Council representing 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. From 1998 to 2008 Chris was Leader of the Liberal Democrats on the East of England Regional Assembly. He also chairs the Local Government Association Culture, Tourism and Sport Board. He was elected to St Albans City and District Council in 2008. Councillor White's second term ended on 31 May 2011.

Councillor Sir David Williams



Sir David was previously an Audit Commissioner from 1997 to 2003. He was Leader of Richmond Council from 1983 until 2001 and Executive Member for E-Government and External Partnerships following the reorganisation of the Council from May 2001 to May 2002. Other appointments include Liberal Democrat Group Leader (and Deputy Chair) of the Local Government Association from its start in 1996 to 2001 and IDeA Board member from 2001 to 2005. Sir David was awarded a CBE in 1990 and a knighthood (for services to local government and the Local Government Association) in 1999.

Commissioners' appointment dates

	Appointment start date	Appointment end date
Michael O'Higgins, Chairman	01/10/06	30/09/12
Bharat Shah, Deputy Chairman	01/09/07	31/12/12
Lord Adebowale, CBE	01/09/07	31/12/12
Janet Baker	01/11/10	31/12/12
Councillor Sir Merrick Cockell	13/07/09	28/07/11
Dr Jennifer Dixon	01/11/03	31/12/12
Tony Harris	01/11/10	31/12/12
Councillor Stephen Houghton, CBE	02/05/06	30/04/12
Brian Landers	01/11/10	31/12/12
Councillor Robert Light	15/09/11	31/12/12
Councillor Chris White	01/06/05	31/05/11
Councillor Sir David Williams	06/07/11	31/12/12

Commissioners' interests

The following disclosures relate to Commissioners who were in post during the year and their activities during the year or to the date at which their appointment ceased. The disclosures arise where a Commissioner has been in a position of influence resulting from election to, receiving remuneration from, or appointment 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 Care Quality Commission;
- that is a central government body; and
- that is a provider or receiver of significant services to or from the Commission.

Michael O'Higgins Chairman

- Chair, Centrepoint (Registered Social Landlord) until December 2011
- Non-Executive Director, HM Treasury and Chair, Treasury Group Audit Committee
- Chair, The Pensions Regulator

Bharat Shah Deputy Chairman

- Non-Executive Director, Places for People Group (Registered Social Landlord)
- Trustee of Paul Strickland Scanner Centre (a company with limited liability and a registered charity)

Lord Adebowale, CBE

- Chief Executive, Turning Point (Registered Social Landlord)

Janet Baker

- Non-Executive Director, HM Treasury Audit Committee
- Non-Executive Director, Defence Support Group (MOD)
- Non-Executive Director, Rural Payments Agency (DEFRA) and Member of the Audit Committee
- Crown Commercial Lead, Cabinet Office

Councillor Sir Merrick Cockell

- Member, Royal Borough of Kensington and Chelsea

Dr Jennifer Dixon

- Director of the Nuffield Trust
- Board Member, the National Centre for Social Research

Tony Harris

- Non-Executive Director, Royal Surrey County Hospital NHS Foundation Trust

Councillor Stephen Houghton, CBE

- Member, Barnsley Metropolitan Borough Council
- Chair of Barnsley Miller Partnership Ltd
- Fees from Improvement and Development Agency for peer member duties
- Member of Local Government Group Executive
- Non Executive Director, Barnsley Hospital Foundation Trust
- Chair of the Special Interest Group of Municipal Authorities (SIGOMA)

Brian Landers

- None

Councillor Robert Light

- Member Kirklees Council
- Member Local Government Association
- Member Local Government Improvement and Development
- Member Environment Agency
- Member Firebuy Ltd (until 31/10/11)
- Family member an employee of Bradford MDC

Councillor Chris White

- Member Hertfordshire County Council
- Member St Albans City and District Council
- Family member an employee of Ernst & Young
- Board Chair and Executive Member, Local Government Association

Councillor Sir David Williams

- Member Richmond upon Thames Council

Our auditor's details

The financial statements are audited by the Comptroller and Auditor General. He has not provided any other service to the Commission during the year. The audit fee is disclosed in Note 3.3.

The Accounting Officer (Eugene Sullivan) confirms that:

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

Interim Chief Executive and managing director appointments

We employed a full-time interim Chief Executive and 5.0 full-time equivalent (FTE) managing directors on 31 March 2011. At 31 March 2012, we employed a full-time interim Chief Executive and 2.6 FTE managing directors.

Interim Chief Executive and managing director appointments

	Date of joining the Commission	Date appointed to post	Date of leaving post
Eugene Sullivan, interim Chief Executive [1]	02/06/08	01/04/10	-
Gareth Davies, Managing Director, Audit Practice [2]	01/09/87	01/09/10	05/03/12
Tracey Dennison, Managing Director, Human Resources	17/11/03	17/11/03	-
Martin Evans, Managing Director, Audit Policy	05/10/98	01/04/06	-
Andy McKeon, Managing Director, Health and (with effect from 06/10/10) Communications and (with effect from 01/09/11) Policy, Analysis and Research	08/09/03	08/09/03	-
Peter Wilkinson, Managing Director, Policy Research and Studies, Local Government, Housing and Community Safety	21/05/90	01/11/06	31/08/11
Managing Director, Finance and Corporate Services	Vacant from 1 April 2010		

[1] The interim Chief Executive's substantive post is Managing Director, Finance and Corporate Services. We kept this post vacant following his appointment to interim Chief Executive. Responsibility for the duties of the vacant post has been assumed by Sonia Rees (Finance Director), Jeremy Boss (Chief Information Officer and Director of Business Information Services and Estates) and Roger Hamilton (Commission Solicitor) alongside their existing responsibilities.
[2] Gareth Davies took sabbatical leave between 1 September 2011 and 16 December 2011. He spent part of this time working with Mazars the strategic partner which helped the entity DA Partnership prepare a bid for the work the Audit Commission was outsourcing. Mazars paid the Commission for Gareth's time. Karen McConnell, Senior Director of Audit, assumed his responsibilities while he was on leave and following his departure.

Remuneration policy for the interim Chief Executive and managing directors

The Audit Commission's Board agrees the remuneration and contract terms of the interim Chief Executive and managing directors under schedule 1 of the Audit Commission Act 1998. It considers the following when deciding the interim Chief Executive's and managing directors' remuneration package:

- attracting and keeping employees with the right qualifications and experience so the Commission can fulfil its remit;
- market intelligence and specialist advice on national and regional labour markets; and
- official guidance, including the government's pay policy for the public sector.

We follow the government's controls on recruitment and best practice. We made no changes to the interim Chief Executive's or managing directors' remuneration between 31 March 2011 and 31 March 2012.

Interim Chief Executive's and managing directors' remuneration package (audited)

The main components of the interim Chief Executive's and managing directors' remuneration package are as follows.

- **Salary:** the basic salary originally set for these employees took account of each person's responsibilities, qualifications and experience, and a market analysis of the salary for similar roles. The interim Chief Executive and managing directors have not received a pay increase since 1 April 2009.
- **Other benefits:** these employees are eligible for a lease car or transport allowance. A travel card for travel within London is also available for managing directors based at Millbank.
- **Pension arrangements:** the interim Chief Executive and managing directors are eligible to be members of the Audit Commission Pension Scheme. This is a standalone defined benefit scheme with the same level of benefits for all members. Contribution rates vary according to salary. As the interim Chief Executive and managing directors joined the Commission before August 2008, the scheme's normal retirement age (the earliest age a member could draw their pension without reduction for early payment) was 60. The normal retirement age for pension built up after 30 June 2010 is 65.
- **Other terms of employment:** the interim Chief Executive and managing directors all have permanent employment contracts. The Commission does not have a performance-related bonus scheme. Other than notice periods, all other terms and conditions are the same as for other staff. The interim Chief Executive and most managing directors are required to give three months' notice if they resign. The only exception is the Managing Director, Health, Communications and Policy, Analysis and Research, who has to give 12 weeks' notice when he resigns, and who is contracted to receive 12 months' notice from the Commission.

Remuneration details for the interim Chief Executive, managing directors and other key employees (audited)

	Between 1 April 2011 and 31 March 2012						
	Basic Salary	Smart Pension salary sacrifice	Basic salary less Smart Pension salary sacrifice	Special responsibility allowances	Other taxable benefits	Basic salary and other benefits excluding Smart Pension salary sacrifice	Basic salary and other benefits excluding Smart Pension salary sacrifice 2010/11 (restated)
	£000	£000	£000	£000	£000	£000	£000
Interim Chief Executive							
Eugene Sullivan [1]	178	(14)	164	18	53	**235**	246
Managing directors							
Gareth Davies [2]	163	(15)	148	0	179	**327**	163
Tracey Dennison	127	(10)	117	0	6	**123**	124
Martin Evans [3]	136	(23)	113	0	1	**114**	145
Andy McKeon [4]	169	(13)	156	0	5	**161**	169
Peter Wilkinson [5]	73	(12)	61	0	289	**350**	152
Other key employees							
Jeremy Boss	139	(11)	128	0	3	**131**	132
Roger Hamilton	139	(23)	116	0	1	**117**	117
Sonia Rees	139	(11)	128	6	4	**138**	139
Total	**1,263**	**(132)**	**1,131**	**24**	**541**	**1,696**	**1,387**

[1] The interim Chief Executive's other taxable benefits include £4,070 paid to him as travel allowance (2010/11: £4,070) We also pay the interim Chief Executive's travel and subsistence when he is in London in line with his contract of employment. These payments amounted to £15,445 for travel and £33,477 for subsistence to 31 March 2012 including the income tax and national insurance due to HM Revenue and Customs (HMRC). (2010/11: £48,674 restated to reflect the actual payments made to HMRC).

[2] Gareth Davies left the Commission by mutual consent on 5 March 2012. He received payment in lieu of his contractual notice of £87,662 and a termination payment of £87,662. The Commission paid his fees for independent legal advice of £750 plus VAT (£900 in total) in line with employment law.

[3] Martin Evans reduced his working pattern to four days a week (0.8 FTE) on 1 May 2011.

[4] Andy McKeon reduced his working pattern to four days a week (0.8 FTE) on 3 January 2012.

[5] We made Peter Wilkinson's role redundant. He left the Commission on 31 August 2011. He received a contractual redundancy payment of £287,021 in line with his contract of employment. We made provision for this payment in the 2010/11 accounts and reported the exit package in our *Annual Report and Accounts 2010/11*. His redundancy therefore has no impact on our 2011/12 accounts. His other taxable benefits also include £1,696 paid to him as travel allowance (2010/11: £4,070).

Hutton Fair Pay Review Disclosure (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director and the median remuneration of the organisation's workforce.

Total remuneration includes salary, allowances, benefits in kind and other contractual benefits. The Commission does not have performance-related pay. The figures do not include employer pension contributions and the cash equivalent transfer value of pensions. It also does not include severance payments which have been made following the announcement of the Audit Commission's abolition.

The highest paid director in the Audit Commission was the interim Chief Executive. In the financial year 2011/12 his banded remuneration was £245,000 – £250,000 (2010/11: £255,000 – £260,000). This was 5.6 times (2010/11: 5.7) the median remuneration of the workforce, which was £44,079 (2010/11: £45,428).

In 2011/12, no employees received remuneration in excess of the interim Chief Executive. Remuneration of the organisation excluding the interim Chief Executive ranged from £11,377 – £182,825 (2010/11: £11,127 – £182,774).

This is summarised in the following tables.

	2011/12			
	Salary	Allowances	Benefits in kind	Other contractual benefits
	£000	£000	£000	£000
Chief Executive	178	22	0	49
Band of highest paid director's total remuneration	245-250			
Median total remuneration	44			
Ratio	5.6			

	2010/11			
	Salary	Allowances	Benefits in kind	Other contractual benefits
	£000	£000	£000	£000
Chief Executive	178	22	0	59
Band of highest paid director's total remuneration	255-260			
Median total remuneration	45			
Ratio	5.7			

Pension contributions for the interim Chief Executive, managing directors and other key employees (audited)

	Between 1 April 2011 and 31 March 2012			
	Smart Pension salary sacrifice	Commission pension contributions	Total pension contributions	Total pension contributions 2010/11
	£000	£000	£000	£000
Interim Chief Executive				
Eugene Sullivan	14	30	**44**	44
Managing directors				
Gareth Davies [1] [2]	15	28	**43**	45
Tracey Dennison	10	22	**32**	31
Martin Evans [1]	23	23	**46**	56
Andy McKeon	13	29	**42**	43
Peter Wilkinson [1] [3]	12	13	**25**	59
Other key employees				
Jeremy Boss	11	24	**35**	34
Roger Hamilton [1] [4]	23	24	**47**	47
Sonia Rees	11	24	**35**	34
Total	**132**	**217**	**349**	**393**

[1] These employees chose to pay Smart Pension contributions above the minimum level. This does not have an adverse financial implication for the Commission.

[2] Gareth Davies left the Commission on 5 March 2012.

[3] Peter Wilkinson left the Commission on 31 August 2011.

[4] Roger Hamilton stopped contributing to the Pension Scheme on 25 March 2012.

Pension entitlement details for the interim Chief Executive, managing directors and other key employees (audited)

	Total accrued pension at 31 March 2012	Increase in accrued pension	Total accrued pension at 31 March 2011	Transfer value at 31 March 2012	Change in transfer value	Transfer value at 31 March 2011
	£000	£000	£000	£000	£000	£000
Interim Chief Executive						
Eugene Sullivan	9	2	7	201	55	146
Managing directors						
Gareth Davies [1]	61	1	60	983	189	794
Tracey Dennison	57	2	55	1,066	143	923
Martin Evans	63	2	61	1,301	159	1,142
Andy McKeon	84	1	83	1,784	171	1,613
Peter Wilkinson [2]	48	2	46	1,049	94	955
Other key employees						
Jeremy Boss	15	2	13	259	56	203
Roger Hamilton	18	2	16	415	65	350
Sonia Rees	65	2	63	818	200	618

[1] Gareth Davies left the Commission on 5 March 2012.

[2] Peter Wilkinson left the Commission on 31 August 2011.

The transfer values are calculated using Public Sector Transfer Club values in line with changes prescribed by the Cabinet Office on 1 January 2012, and do not affect employees' entitlements.

Remuneration policy for the Commissioners

DCLG sets the remuneration levels for Commissioners. Pay was originally based on the expectation Commissioners would work three days per month, although this was reduced to two days from 1 February 2012 for four Commissioners and to one day for two Commissioners. The Deputy Chairman's remuneration reflects the expectation he works five days a month. The Chairman's remuneration is based on an average weekly time commitment of two days. No Commissioner received an increase in remuneration in 2011/12.

None of the Commissioners serving between 1 April 2011 and 31 March 2012 received other benefits from the Audit Commission, nor are they members of the Audit Commission Pension Scheme.

The Commission has unfunded liabilities for the provision of a pension of £103,000 (2010/11: £91,000) for a former Chairman. The Commission is discussing this liability with DCLG's Audit Commission Closedown Board.

Remuneration details for the Commissioners (audited)	Year to 31 March 2012	Year to 31 March 2011
	£000	£000
Michael O'Higgins (Chairman)	**90**	90
Bharat Shah (Deputy Chairman, Audit Committee Chairman, Chair of Procurement Panel, Chair of the Appointments Panel and Audit Commission Pension Scheme Trustee)	**24**	24
Lord Adebowale, CBE [1]	**8**	14
Janet Baker [2]	**14**	6
Councillor Sir Merrick Cockell [3]	**5**	14
Dr Jennifer Dixon [4]	**14**	14
Tony Harris [5]	**14**	6
Councillor Steve Houghton, CBE [6]	**14**	14
Brian Landers [7]	**14**	6
Councillor Robert Light [8]	**7**	-
Councillor Chris White [9]	**2**	14
Councillor Sir David Williams [10]	**9**	-

[1] During the year there were periods when Lord Adebowale was unable to attend Board meetings due to conflicting diary commitments. As a consequence, Lord Adebowale agreed with the Chairman to forego remuneration for a four-month period. On 1 February 2012, the contracted time for Lord Adebowale was reduced from three days per month to one day per month. Lord Adebowale's remuneration for the year was £7,997.
[2] Janet Baker's remuneration for the year was £14,358.
[3] Sir Merrick Cockell resigned on 28 July 2011. His remuneration for the year was £4,786.
[4] Dr Jennifer Dixon's remuneration for the year was £14,358.
[5] On 1 February 2012, the contracted time for Tony Harris was reduced from three days per month to two days per month. His remuneration for the year was £13,562.
[6] On 1 February 2012, the contracted time for Councillor Stephen Houghton was reduced from three days per month to two days per month. His remuneration for the year was £13,562.
[7] On 1 February 2012, the contracted time for Brian Landers was reduced from three days per month to two days per month. His remuneration for the year was £13,562.
[8] Councillor Robert Light's appointment began on 15 September 2011. His remuneration for the year was £7,061.
[9] Councillor Chris White's appointment ended on 31 May 2011. His remuneration for the year was £2,393.
[10] Councillor Sir David Williams' appointment began on 6 July 2011. On 1 February 2012, the contracted time for Councillor Sir David Williams was reduced from three days per month to one day per month. His remuneration for the year was £8,981.

Eugene Sullivan
Accounting Officer
21 June 2012

Statement of responsibilities

Commissioners' responsibilities

The Commission's *Corporate Governance Framework* sets out that the Board:

- is responsible for ensuring that high standards of corporate governance are observed at all times;
- is responsible for ensuring that the Commission identifies and manages its risks effectively;
- subject to the requirement that the Commission maintains at all times its independence, is responsible for 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
- is responsible for establishing and maintaining effective arrangements for the discharge of the Commission's functions. This includes 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 Audit Commission Act 1998, the Secretaries of State for Communities and Local Government, and Health directed the Commission as to the form in which it should prepare its statutory 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 year end, including its income and expenditure, its financial position, changes in taxpayers' equity, and cash flows for the accounting year.

In preparing the accounts the Accounting Officer will:

- observe the accounts direction (Appendix 1) 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 accounts; and
- unless inappropriate, prepare the accounts on a going concern basis.

The Permanent Secretary for DCLG appointed the interim Chief Executive as the Accounting Officer for the Commission. HM Treasury's *Managing Public Money* sets out his Accounting Officer responsibilities and these include ensuring regularity and propriety in the use of public money; proper governance structures; effective decision making; and sound financial management.

Governance statement

1. Scope of responsibility

a. As Accounting Officer, I am responsible for upholding sound internal controls that support the Commission's policies and objectives. The internal controls safeguard the public funds and assets for which I am personally responsible under *Managing Public Money*.

2. Background to events in 2011/12

a. During the year, the Commission has continued to prepare for abolition. In July 2011, the Board approved the outsourcing of the Commission's audit services from the 2012/13 audits, as requested by DCLG. The Commission set up a Procurement Project Board and a Procurement Panel to oversee the exercise. We confirmed the award of five-year contracts for audit work worth £89.4 million to four private sector firms on 6 March 2012. On 30 March 2012, we confirmed the award of audits worth £2.8 million for smaller organisations such as parish councils to four private sector firms.

b. The Commission has set up an Appointments Panel to oversee the formal appointment of the new auditors from 1 September 2012. Staff in the Commission's Audit Practice will transfer to the new firms on 1 November 2012.

c. The Commission's management team has also set up a significant transition programme to ensure the restructured Commission is fit for purpose. This streamlined body will fulfil the Commission's statutory duties and manage the audit contracts until it is closed.

d. Despite managing unprecedented changes in 2011/12, the Commission has successfully delivered its programme of audit work during the year and has continued to make efficiencies.

e. We have achieved these significant changes without reducing our internal controls. We will uphold robust internal controls and risk management over the remaining life of the Commission, to ensure we continue to deliver our services effectively, and eventually to ensure the orderly and efficient wind down of our business.

f. The foreword, outline of the year and financial review sections of this report describe events in 2011/12 in more detail.

g. The timetable for the closure of the Commission will be confirmed after Parliament can pass primary legislation to abolish it. The Queen's speech in May 2012 confirmed that the government will publish a draft bill but we do not expect the Act confirming our abolition to receive Royal Assent within 12 months of the financial statements being laid in parliament. On 22 March 2012, the Commission Board decided it was fitting to prepare our accounts for the year ended 31 March 2012 on a going concern basis.

h. The Secretary of State for Communities and Local Government has signed a Crown guarantee to cover the liabilities of the Audit Commission Pension Scheme. The guarantee provides cover if there are insufficient monies to meet payments to members or scheme expenses but as the Scheme is well funded it is possible the guarantee will never be called upon.

3. Governance framework

3.1 Commission's structure and governance framework

a. 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).

b. The Commission is a public corporation and operates under a framework agreement with its sponsoring department. It consults ministers and others when planning its work.

c. The Commission is managed and overseen by its governing Board. The Commission Solicitor, who attends each Board meeting, produces a comprehensive *Corporate Governance Framework*, which clearly sets out which matters are delegated and which are reserved to the Board. The Board reviews the Framework yearly.

d. The Audit Commission Board comprises ten Commissioners who are appointees of the Secretary of State for Communities and Local Government in consultation with the Secretary of State for Health. The 'Our Commissioners' section in this report gives Commissioners' details and their terms of office.

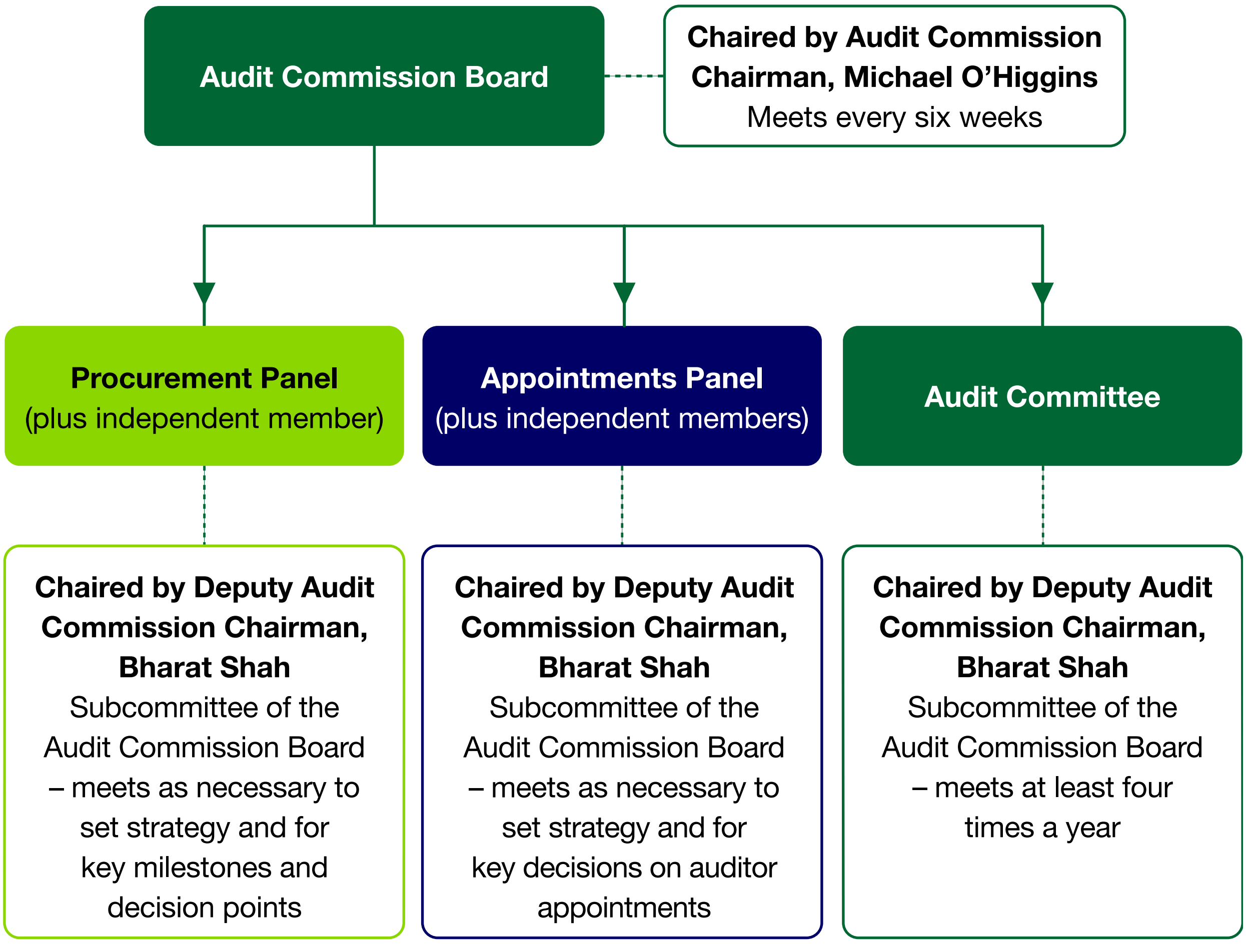
3.2 The Commission Board

a. The Commission's *Corporate Governance Framework* states the Commissioners are responsible for setting the Commission's values, standards, strategy, and objectives, for fixing its budget and for carrying out its work. They oversee the Commission's performance and are responsible for the Commission's work and for ensuring that it acts within its statutory remits.

b. The *Corporate Governance Framework* sets out which roles and powers are reserved to the Board and which are delegated to the Chief Executive. The *Corporate Governance Framework* also sets out the Commission's statutory framework and includes the *Commissioners' Code of Conduct*, the Commission's prime financial policies and a statement of the Accounting Officer's responsibilities. The Commission publishes the *Corporate Governance Framework* on its website www.audit-commission.gov.uk/cgf.

c. The 'Statement of Responsibilities' section in the Annual Report sets out the Commissioners' role and responsibilities in more detail.

d. The Commission Board and its Committees are as follows:



e. During 2011/12 the Board has:

- responded to DCLG's consultation on the future of local audit;
- agreed the strategy and timetable for audit procurement, successfully completed the procurement exercise and awarded the contracts to new audit firms;
- reviewed choices for the size and shape of the Commission after the Audit Practice leaves in autumn 2012, and the structure of the Commission from 1 April 2013;
- considered other matters relating to the Commission's abolition, such as the future of the Commission's Pension Scheme;
- received assurances from the Audit Committee on the Commission's internal controls and risk management;
- reviewed and updated the Commission's *Corporate Governance Framework*;
- agreed significant fee decreases from 2012/13;
- agreed the Commission's budget and medium term financial plans; and
- overseen the Commission's performance against its objectives, and financial performance.

f. The Commission publishes the Board's agendas and minutes on its website: www.audit-commission.gov.uk/boardmeetings

g. The Commissioners have attended the following meetings:

	Meetings attended (of the total meetings held which the Commissioners could have attended)			
Commissioners	**Board**	**Audit Committee**	**Procurement Panel**	**Appointments Panel**
Michael O'Higgins	7/7	n/a	n/a	n/a
Bharat Shah	7/7	6/6	3/3	1/1
Lord Adebowale	5/7	n/a	n/a	n/a
Janet Baker	5/7	5/6	3/3	n/a
Cllr Sir Merrick Cockell (appointment ended on 28 July 2011)	2/2	n/a	n/a	n/a
Dr Jennifer Dixon	6/7	n/a	2/3	1/1
Tony Harris	6/7	6/6	n/a	n/a
Cllr Stephen Houghton	5/7	n/a	2/3	0/1
Brian Landers	7/7	6/6	n/a	n/a
Cllr Robert Light (appointed 15 September 2011)	4/5	2/2	n/a	0/1
Cllr Chris White (appointment ended on 31 May 2011)	1/1	0/1	n/a	n/a
Cllr Sir David Williams (appointed 6 July 2011)	6/6	n/a	n/a	1/1

h. The Commission's *Corporate Governance Framework* states the Board will review its performance every two years. The most recent independent review was undertaken by Deloitte and the outcome reported to the Commission Board on 22 April 2009. The Commission believes a review of the effectiveness of the current Board will not add value. The membership of the Commission Board is expected to change significantly in 2012/13 and a new Chairman will be appointed in October 2012. The Commission will consider arrangements for reviewing Board effectiveness once these changes have taken place.

i. The Commission Board complies in all major respects with the HM Treasury corporate governance code. The only significant exception is that the Commission does not have a separate Nominations and Governance Committee. The Commission Board fulfils those aspects of the role of a Nominations and Governance Committee that are relevant to the Commission.

3.3 The Procurement Panel

a. On 28 July 2011, the Commission Board agreed that the Commission would run a procurement exercise to outsource its audit work.

b. The Board set up a Procurement Panel of Commissioners, and one independent member, to oversee the procurement and advise the Board on key strategic decisions. The membership of the panel was:

- Bharat Shah (Chair);
- Jennifer Dixon;
- Janet Baker;
- Cllr Steve Houghton; and
- Mike More, Chief Executive of Westminster City Council (independent member).

c. The panel was supported by an executive Procurement Project Board (PPB), chaired by the interim Chief Executive, which was accountable to the panel. The PPB included a DCLG representative.

d. The Procurement Panel considered the strategic policy for the procurement for audit and related services for recommendation to the Board. The panel also considered the PPB's recommendations on which contract lots should be awarded to the bidding firms. The Commission Board received these recommendations and decided which firms should be awarded the audit contracts.

e. During the procurement exercise, the Commission took the following steps to avoid internal conflicts of interest and potential external challenges to the contract awards.

- The Commission took independent legal advice on the procurement.
- The Managing Director, Audit Practice and a Director of Audit took sabbatical leave from the Commission for their work on the internal DA Partnership bid. During this time they were excluded from Commission property and systems and their salaries were repaid to the Commission by their strategic partner.
- Access to sensitive and confidential information was restricted on a need-to-know basis and staff had to sign a non-disclosure agreement before receiving access.
- All staff signed up to a protocol agreeing to identify and declare all potential conflicts of interest and preserve confidentiality. The protocol sets out the terms on which an employee-led bid would be permitted.

f. DCLG carried out Gateway reviews on the procurement exercise, which provided assurance that controls over the procurement were robust.

3.4 The Appointments Panel

a. On 8 December 2011, the Commission Board set up an Appointments Panel of Commissioners and two independent members, to oversee the appointment of auditors once contracts were awarded, and advise the Board on key strategic decisions. The membership of the panel is:

- Bharat Shah (Chair);
- Jennifer Dixon;
- Councillor Steve Houghton;
- Councillor Robert Light;
- Councillor Sir David Williams;
- Mike More, Chief Executive of Westminster City Council (non-voting independent member); and
- Sean Nolan, Chair of the Association of Local Authority Treasurers' Societies (ALATS), (non-voting independent member).

b. The panel is supported by an executive Appointments Project Board, chaired by the interim Chief Executive.

c. The Board Appointments Panel will decide the strategic policy for appointment of auditors from 2012/13. The panel will consider final representations from audited bodies where they object to the auditor proposed by the Commission, following consideration of representations by the Managing Director, Audit Policy. Having considered all representations in those cases, the panel will recommend auditor appointments for approval by the Commission Board.

d. After the Commission Board has approved the auditor appointments at its meeting on 26 July 2012, it will disband the Appointments Panel.

3.5 The Audit Committee

a. On behalf of the Board, the Audit Committee inspects any part of the Commission's business, including internal controls, key risks and risk management, and spending. In 2011/12 the Committee paid particular attention to the controls over outsourcing and transition projects. The Audit Committee signs off the Commission's financial, accounting, risk management, whistle-blowing and counter-fraud policies.

b. The Audit Committee ensures the Commission has effective internal audit and assurance arrangements. It appoints the internal auditors, approves their work plans and receives all internal audit reports, including management responses.

c. The Audit Committee considers the results of the National Audit Office's external audit of the Commission, including the National Audit Office's management letter and management responses. The Committee oversees the production of the Commission's annual report and accounts, and recommends them to the Board for approval.

d. The Audit Committee follows up all internal and external audit recommendations to ensure management has carried out agreed actions.

e. The Audit Committee oversees the Quality Review Process for assessing the performance of auditors appointed by the Commission, whether from its own staff or from external suppliers.

f. During 2011/12 the Audit Committee met six times. Membership of the Audit Committee during the year was as follows:

Audit Committee Member	Year of Office
Bharat Shah (Chair)	Whole year
Janet Baker	Whole year
Tony Harris	Whole year
Brian Landers	Whole year
Cllr Chris White	Until 31 May 2011
Cllr Robert Light	Appointed 15 September 2011

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

h. The Commission Board receives the minutes of all Audit Committee meetings. The Audit Committee also presents an annual report to the Board, setting out its views on the Commission's governance and confirming whether we have strong controls in place.

i. Every year the Audit Committee carries out a review of its effectiveness. The most recent review took place in August 2011, when the Head of Assurance assessed the Committee against the National Audit Office's best practice guidelines for audit committees. The National Audit Office examined the assessment and the Head of Assurance reported to the Audit Committee on 6 September 2011 that the Audit Committee complied in all material respects with the guidelines.

3.6 Transition governance

a. On 28 July 2011, the Commission set up a Transition Board, to consider:

- the size and scope of the residual Commission necessary to meet the Commission's statutory roles, post-outsourcing;
- choices for providing human resources, finance and other corporate services within that overall size and scope;
- how to close down all other work, including clarifying whether any externalised parts of the Audit Practice will continue to require support after externalisation and for how long; and
- the most suitable transition path for delivering the agreed size and shape of the Commission after externalisation of the Audit Practice. This must be consistent with the need to achieve best value for money, fairness to staff, and compliance with all statutory requirements.

b. The Managing Director Health, Communications and Policy, Analysis and Research chaired the Transition Board. The Transition Board comprised all Audit Commission Management Team members except the Commission Solicitor and included a representative from DCLG. The interim Chief Executive received papers and attended as necessary.

c. The Transition Board reported to the Audit Commission Management Team. From March 2012, the Audit Commission Management Team absorbed the business of the Transition Board, to streamline managing the transition programme.

3.7 Scheme of Delegation and the Audit Commission Management Team

a. The Commission has drawn up a Scheme of Delegation, which addresses delegations by the Chief Executive, as required by the Corporate Governance Framework. This scheme, which the Commission reviews yearly, covers all directorates and the Audit Practice and embraces a systematic and common approach to delegation in the organisation.

b. The Scheme of Delegation is backed by a comprehensive set of financial, IT and human resources policies. The Audit Committee and Board approve the prime financial policies yearly. As Accounting Officer, I approve the more detailed policies that support the prime financial policies. The Commission issues new and updated governance policies to all staff, who must confirm they have read and understood them. The Commission has a system in place to record and track these acknowledgements.

c. The Scheme of Delegation sets out the role of the Audit Commission Management Team. The management team has responsibility for overseeing risk management within the Commission.

4. Risks and internal controls

a. Internal controls aim to reduce risk, not remove it. The Commission gains assurance that risks are kept under control by ensuring controls are robust in design and work as intended.

b. The principal features of the system of internal control and key high-level controls in place throughout the year are:

- an organisational structure that supports clear lines of communication, monitoring, reporting and accountability;
- business objectives and priorities approved by the Commission Board;
- key performance indicators that we regularly measure against our objectives;
- business plans produced by directorates that include risk assessments; and
- a risk escalation process, allowing risks identified within business plans to be brought to the attention of senior directors, the Audit Committee and Commission Board if required.

4.1 Risks and risk management

a. The Commission reviews its risk management policy every year to ensure it reflects best practice and clarifies the Commission's appetite for risk. The risk management policy is approved by the Commission Board and the management team.

b. The Audit Commission Management Team and Audit Committee review cross-cutting and significant corporate risks for completeness. The Audit Committee keeps the substance of, and compliance with, risk management under review. The Audit Committee commissions independent examinations of the Commission's risk management as it thinks fit.

c. The Commission has embedded risk management in the day-to-day management of its business. Managing directors manage their own risks as a standard agenda item at their management team meetings and keep local risk registers.

d. In 2011/12, the Commission managed and successfully mitigated the following key risks.

- The Commission might not complete the audit procurement in time to make auditor appointments on 1 September 2012.

- An unsuccessful firm, or audited body, might challenge the outcome of the procurement exercise.
- The transition programme may not result in a fit for purpose and efficient Commission to deliver statutory responsibilities until closure.
- The Commission may not be able to deliver its work programme effectively as staff may leave or morale reduces after the abolition announcement.
- Audit work could be of poor quality, and vulnerable to legal challenge.
- We might not comply with Data Protection and Freedom of Information legislation, or government data security requirements, resulting in loss or inappropriate disclosure of data.
- There might be potential disruption to business continuity because of major incident, systems failure or supplier failure.
- Significant liabilities might arise if the Audit Commission Pension Scheme is wound up when the Commission closes.

4.2 Financial management

a. The Commission has effective controls in place to forecast, manage and report on its income and spending. The Audit Practice has robust arrangements in place for forecasting and reporting financial performance, properly controlling income recognition and write-offs, and achieving its financial targets.

b. The Commission Board and the Audit Commission Management Team consider the Commission's medium-term financial plan and the Commission's financial performance every quarter.

c. The Commission approves all spending before supply. The Commission also publishes details of all spending over £500 on its website.

5. How we evaluate internal controls

5.1 The Audit Committee

a. The role of the Audit Committee is set out in section 3.5 above.

5.2 Internal audit

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

b. The Head of Assurance engages external suppliers to deliver audit work that cannot be dealt with in-house, for example IT audit work that requires specialist knowledge and skill.

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

5.3 External audit

a. The external auditor, the Comptroller and Auditor General, is appointed by statute. The National Audit Office comments in its annual management letter on governance and controls issues arising from the external audit of the Commission's financial statements.

b. A representative of the external auditor is invited to and attends all Audit Committee meetings and has direct access to me, to the Head of Assurance and to the Chair of the Audit Committee.

5.4 Quality review of audit work

a. The Commission has a well-developed, rigorous approach to reviewing the quality of the work of appointed auditors. Our quality review process relies on the published results of the annual quality review of the firms' work by the Audit Inspection Unit (AIU – part of the Financial Reporting Council) and on the AIU's inspection of the Commission's Audit Practice. We also commission the AIU to carry out cyclical reviews of the firms' work for us.

b. The AIU's work for the Commission covers the opinion on the financial statements and those aspects of audit work that are specific to the Commission's audit regime, including: value for money conclusions, Whole of Government Accounts returns and certification instructions. At the firms, the AIU also assesses the extent to which the firm-wide quality processes have been applied to the Commission's audits. Separately we carry out a programme of review and monitoring of audit suppliers' compliance with the Commission's regulatory requirements. All this review activity is overseen by the Commission's Director of Audit Policy and Regulation, who reports the findings to the Commission's Audit Committee. The results of the annual quality review programme are published.

c. The Commission's in-house Audit Practice has put in place a comprehensive quality framework, which meets the standards set out in the International Standard on Quality Controls (ISQC) (UK and Ireland) 1, issued by the Auditing Practices Board. ISQC (UK and Ireland) 1 sets out standards and provides guidance about a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements.

d. Our arrangements go beyond ISQC (UK and Ireland) 1 to meet certain added requirements of the Commission's audit regime. The Commission's Audit Practice is subject to independent inspection by the AIU, which reports its findings to the Commission's Board. The findings of the AIU's inspection are reported, with the results of the annual internal quality monitoring programme, in the Audit Practice's annual quality report.

5.5 Information assurance

a. We aim to avoid collecting and holding large volumes of personal data, unless it is required for a specific purpose, and we have put in place suitable measures to ensure we manage information risks. These measures include the secure encryption of all laptops to the FIPS 140-2 standard, and controls to prevent unauthorised access to our network systems. We require all staff to undertake annual information assurance training.

b. During 2011/12, we had an Information Assurance Framework in place to control and protect information held by the Commission. Under the Framework, Information Asset Owners (IAOs) take responsibility for all data held by the Commission, ensuring their data is held, transferred and disposed of securely. The IAOs carry out an annual information audit and have provided a signed declaration to the Commission's Senior Information Risk Owner to confirm they have identified, evaluated and addressed the risks associated with the information they held during 2011/12.

c. The Commission had controls and systems in place during 2011/12, which ensured compliance with the Data Protection Act and Freedom of Information Act requirements, and that information held by the Commission is held securely and accurately processed.

d. We must report protected personal data-related incidents to the Information Commissioner's Office. The Commission had no protected personal data security breaches during the year to 31 March 2012 that needed reporting to the Information Commissioner or to its sponsoring department, DCLG. During the year, the following small, localised incidents occurred:

Items lost or stolen	Number
Laptops	3
Personal digital assistants and smart phones	1
Mobile phones	3
Memory sticks	8
CDs/ DVDs	0

e. Items containing personal or confidential data were fully encrypted to the government required standard of FIPS 140-2, which provides proper security. None of these losses put personal data at significant risk.

f. The Commission's National Fraud Initiative (NFI) system collects large volumes of personal data, but has comprehensive security and risk management procedures in place. The NFI is accredited through the Risk Management Accreditation Document Set (RMADS), a process backed by CESG (the National Technical Authority for Information Assurance). The accreditation provides assurance the NFI system complies with HMG Information Assurance Standard No.1 and Standard No.2. In addition, the NFI arrangements are subject to a series of independent audits undertaken by the participating audit regimes (for Scotland, Wales and Northern Ireland).

g. We apply the statutory Code of Data Matching Practice to ensure that our data matching exercises comply with the Data Protection Act 1998. We have a Data Matching Strategy Board in place, chaired by a Commissioner and including independent members, to ensure proper governance of data matching.

6. Review of effectiveness

a. As Accounting Officer I have responsibility for reviewing the effectiveness of the Commission's internal controls. My review of the control framework is informed by the work of the internal auditors and the managing directors of 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, which feed into my assessment of the effectiveness of the system of internal control.

b. Despite the significant contraction and restructuring of our business during the year, no significant control issues arose during 2011/12 that need reporting in the Governance Statement. The National Audit Office has not raised any issues of significance in their management letter for 2011/12.

c. The Commission has upheld internal controls during the year through risk management and other sources of assurance, including internal audit. The Commission's Head of Assurance has direct access to me and the Chair of the Audit Committee, and attends every Audit Committee meeting.

d. I believe there are satisfactory controls in place to identify and manage the significant risks faced by the Commission.

Eugene Sullivan
Accounting Officer

21 June 2012

Annual accounts

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 (the Commission) for the year ended 31 March 2012 under the Audit Commission Act 1998. These comprise the Statement of Income, the Statement of Comprehensive Income, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows 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 Commission, Accounting Officer and auditor

As explained more fully in the Statement of the Commission's and Accounting Officer's responsibilities, the Commission and Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Audit Commission Act 1998. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commission; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Commission's affairs as at 31 March 2012 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Audit Commission Act 1998 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Secretary of State directions made under the Audit Commission Act 1998; and
- the information given in the Annual Report for the financial year is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas CE Morse
Comptroller and Auditor General
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

25 June 2012

Statement of Income

for the year to 31 March 2012

	Note	Page	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Continuing operations				
Operating income	2			
Audit fee income	2.1	57	**154,122**	167,002
Grant income	2.2	58	**11,900**	0
Other operating income	2.3	58	**1,607**	2,216
Total operating income	2.4	58	**167,629**	169,218
Operating costs	3			
Staff and Commissioner costs	3.1	63	**83,918**	99,214
Bought-in services	3.2	65	**42,756**	45,121
Other operating costs	3.3	66	**27,612**	25,855
Total operating costs			**154,286**	170,190
Surplus/ (deficit) from continuing operations before tax	4	67	**13,343**	(972)
Corporation tax	10.3	83	**149**	0
Surplus/ (deficit) from continuing operations after tax			**13,194**	(972)
Discontinued operations				
Total CAA and inspection grant and fee income	5	68	**0**	14,244
Total operating costs	5	68	**1,167**	39,329
Deficit from discontinued operations	5	68	**(1,167)**	(25,085)
Total operating surplus/ (deficit)			**12,027**	(26,057)
Financing income				
Net investment return	6	69	**627**	628
Net return on pension scheme assets	7.10	75	**7,081**	3,403
Surplus/ (deficit) for the financial year			**19,735**	(22,026)

The notes on pages 53 to 96 form part of these accounts.

Statement of Comprehensive Income

for the year to 31 March 2012

	Note	Page	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Surplus/ (deficit) for the financial year (from the Statement of Income)		48	**19,735**	(22,026)
Other income				
Actuarial (losses)/ gains relating to the pension scheme	7.11	76	**(56,638)**	35,479
Total other income for the year			**(56,638)**	35,479
Total comprehensive (deficit)/ surplus for the year			**(36,903)**	13,453

The notes on pages 53 to 96 form part of these accounts.

Statement of Financial Position

as at 31 March 2012

	Note	Page	As at 31 March 2012 £000	As at 31 March 2011 (restated) £000
Non-current assets	8			
Intangible assets	8.1	77	**123**	634
Plant and equipment	8.2	78	**1,501**	4,834
Long-term financial assets	8.3	79	**2,577**	3,202
Total non-current assets			**4,201**	8,670
Current assets	9			
Trade receivables	9.1	79	**9,519**	12,528
Accrued trade income	9.2	80	**1,207**	2,581
Other receivables	9.3	80	**4,294**	7,207
Short-term financial assets	9.4	80	**54,900**	26,000
Cash and cash equivalents	9.4	80	**5,809**	6,064
Total current assets			**75,729**	**54,380**
Total assets			**79,930**	**63,050**
Current liabilities	10			
Trade and other payables	10.1	82	**8,349**	13,023
Deferred income	10.2	82	**34,766**	35,712
Corporation tax	10.3	83	**149**	0
Current provisions	11	84	**16,957**	9,556
Total current liabilities			**60,221**	58,291
Total assets less current liabilities			**19,709**	4,759
Non-current liabilities				
Non-current provisions	11	84	**11,671**	2,367
Net pension liability	7.6	73	**108,799**	66,250
Total non-current liabilities			**120,470**	68,617
Assets less liabilities			**(100,761)**	(63,858)
Financed by:				
Local government	12.1	86	**5,717**	2,920
Health	12.2	87	**2,321**	(528)
Retained earnings			**8,038**	2,392
Pension reserve	12.3	87	**(108,799)**	(66,250)
Total taxpayers' equity			**(100,761)**	(63,858)

We have restated our 2010/11 retained earnings because of a review and refinement of the basis of our segmental income calculation.

The notes on pages 53 to 96 form part of these accounts.

Eugene Sullivan, Accounting Officer 21 June 2012

Statement of Cash Flows

for the year to 31 March 2012

	Note	Page	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Operating surplus/ (deficit)			**12,027**	(26,057)
Adjustments for:				
Pensions	3.1	63	**(7,008)**	(1,289)
Depreciation	3.3	66	**1,717**	2,061
Amortisation	3.3	66	**416**	572
Loss on disposal of intangible assets	8.1	77	**95**	0
Loss on disposal of plant and equipment (including impairments)	8.2	78	**1,602**	403
Decrease in receivables and accrued trade income	13	88	**7,921**	11,461
Increase/ (decrease) in payables and provisions	14	88	**11,085**	(2,600)
Increase in corporation tax creditor	10.3	83	**149**	0
Net cash from operating activities			**28,004**	(15,449)
Cash flows from investing activities				
Payments to acquire short-term financial assets	9.4	80	**(54,900)**	(26,000)
Repayments on maturity of short-term financial assets	9.4	80	**26,000**	47,000
Interest received	6	69	**627**	628
Purchase of intangible assets	8.1	77	**0**	(26)
Purchase of plant and equipment	8.2	78	**0**	(395)
Proceeds from sale of non-current assets			**14**	0
Net cash from investing activities			**(28,259)**	21,207
Net (decrease)/ increase in cash and cash equivalents			**(255)**	5,758
Cash and cash equivalents at the beginning of the year			**6,064**	306
Cash and cash equivalents at the year end	9.4	80	**5,809**	6,064

The notes on pages 53 to 96 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year to 31 March 2012

	Pension Reserve	Retained Earnings	Total
	£000	£000	£000
Balance at 31 March 2010	(106,421)	29,110	(77,311)
Total comprehensive income/ (loss)	40,171	(26,718)	13,453
Balance at 31 March 2011	(66,250)	2,392	(63,858)
Total comprehensive income/ (loss)	(42,549)	5,646	(36,903)
Balance at 31 March 2012	**(108,799)**	**8,038**	**(100,761)**

The notes on pages 53 to 96 form part of these accounts.

The notes that follow form part of the financial statements.

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

Notes 2-15 provide supporting information to the primary financial statements.

Notes 16-21 provide information on the operating results for the last four years, commitments under leases, contingent liabilities, related party transactions, losses and special payments and events occurring after the reporting year.

Note 1: Accounting conventions and policies

General accounting conventions and policies

1.1 Basis of accounts preparation
Our accounts are prepared in accordance with requirements of the Companies Acts 2006, without limiting the information given, and the relevant International Financial Reporting Standards (IFRS). We also include additional disclosures in line with our Accounts Direction (Appendix 1).

1.2 Accounting convention
The Commission prepares its accounts using the historical cost convention, adjusted to account for the:

- revaluation of non-current 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 Audit Commission Act 1998;
- valuation of the pension scheme assets at fair value and liabilities at present value in line with IAS19; and
- valuation of financial instruments at fair value (Note 1.16).

1.3 Going concern
The government announced its intention to disband the Commission in August 2010. Parliament will need to pass the legislation necessary to abolish the Commission. The timing remains uncertain.

Our senior management team reviewed the appropriateness of preparing the 2011/12 financial statements on a going concern basis in October 2011. As a result of discussions with DCLG officials, the senior management team concluded that it was unlikely the relevant legislation would be in place and operational in time to affect financial reporting and disclosures for 2011/12. The Commissioners' strong expectation is the Commission will continue for at least one year after the approval of the financial statements. They therefore considered it remained fitting for us to prepare our 2011/12 accounts on a going concern basis. The Audit Committee approved this approach in November 2011. The Commission Board confirmed this in March 2012 and the Audit Committee confirmed this again in June 2012.

The senior management team has also considered our status as a going concern because of the implications of the pension reserve deficit of £108.8 million shown in the Statement of Financial Position at 31 March 2012. The pension reserve is in deficit because the valuation of pension liabilities in the annual actuarial report at 31 March 2012 exceeded the valuation of pension assets at that date. Our retained earnings at 31 March 2012 were not enough to cover the pension reserve deficit had all pension liabilities been payable at that date.

On 31 May 2012 the Secretary of State for Communities and Local Government signed a Crown guarantee for the Audit Commission Pension Scheme. This will prevent any early crystallisation of liabilities and protects the accrued rights of past and present Audit Commission staff. There is therefore no expected risk to the Commission's going concern status.

1.4 Recent changes to Accounting Standards affecting the preparation of accounts

We have considered, under IAS 8, whether there have been any changes to accounting policies arising from IFRS which have an impact on the current or prior year, or may have an effect on future years. We have reviewed any new or amended standards issued by the International Accounting Standards Board but not yet effective, to decide if we should make any disclosures in respect of those new IFRS that are or will be applicable.

The EU approved revisions to IAS 19 standard in June 2012. The updated IAS 19 has several revisions and reduced choices in valuation methods and accounting treatment. We already adopt some of the revisions so the impact to our accounts is limited. The main impact for us is the rate at which we will calculate our return on assets. Presently we use individual rates per investment class as permitted under IAS 19. This recognises the return of each individual class of asset. Going forward under the revised IAS 19 we must use the same rate (the discount rate) as we apply to our liabilities. As this rate is usually lower, the return on assets will decrease. We will adopt the revised standard in the 2012/13 accounts.

There are no other changes that are anticipated to have a significant impact on the financial statements.

1.5 Prior-period adjustments

We have restated our 2010/11 retained earnings because we have reviewed and refined the basis of our segmental analysis of income.

Accounting conventions and policies relating to Statement of Income and Statement of Comprehensive Income

1.6 Segmental reporting

We attribute income and expenditure directly where possible to either local government or health activities (Note 2.3). Where this is not possible, we mainly attribute income and expenditure to each activity on time worked.

1.7 Value added tax

We recognise gross fee income and other operating income on the value of chargeable work exclusive of VAT.

1.8 Income recognition

We credit operating income, whether generated by direct government grant, fees to authorities or otherwise, to the year of account in which the work is done, or costs incurred.

1.9 Income arising from litigation

We do not treat the net costs arising from any litigation as part of our operating result. We show the net cost of any litigation in the Statement of Income.

1.10 Rebates

We treat rebates stemming from a decision of the Board and communicated to audited bodies as a constructive obligation to make payments. We recognise rebates in our accounts as a reduction of income.

1.11 Discontinued operations

We disaggregate income and expenditure between continuing and discontinued operations in line with IFRS 5. The discontinued operations disclosure includes the income and expenditure directly and wholly attributable to work that has stopped.

Accounting conventions and policies relating to the Statement of Financial Position

1.12 Intangible assets

We capitalise new software or software upgrades with improved features bought separately from hardware, including any licences that cover the life of the software, with a value over £5,000.

1.13 Plant and equipment

We capitalise individual computer equipment purchases for over £5,000, other equipment purchases for over £1,000, and all office refurbishments.

1.14 Amortisation and depreciation

We provide for depreciation on all intangible and plant and equipment assets. We calculate depreciation charges to write off the cost less the estimated residual value of each asset in equal annual instalments over its expected useful life. We have set the expected useful life of each category of asset as follows:

- intangible assets (software), three years;
- furniture and fittings, ten years;
- computer equipment, three years; and
- office equipment, five years.

1.15 Accrued income

We value accrued trade income at estimated realisable value.

1.16 Financial Instruments

The fair value of the Commission's financial instruments approximate to their book values at 31 March 2012 and 2011. We use the following criteria to assess the fair value of financial instruments.

- Long-term receivables – discounted cash flows at the investment interest rates.
- Trade and other receivables and deferred income – discounted cash flows at prevailing interest rates or at their nominal amount less impairment losses if due in less than 12 months.
- Trade and other payables – their nominal amount.

- Short-term financial assets, cash and cash equivalents – approximate to their book values because of their short maturity period. We define cash equivalents as investments of up to one month's duration.

1.17 Doubtful and irrecoverable debt

We actively pursue all debt, and provide only for that element where recovery is in doubt (Note 1.20). We net any debt written off that is subsequently collected against the additional provision made in the year.

1.18 Operating leases

We charge operating lease rentals on a straight-line basis over the lease term.

1.19 Dilapidation provisions

We provide for dilapidation costs for our property leases. We discount the provision for future dilapidations for leased property to current value. The real rate used was 2.2 per cent (2010/11: 2.2 per cent). We have reviewed the basis of our provisions in the current year and increased them to reflect the full amount of the surveyor estimates. This reflects the Commission's plans to exit properties before the end of the leases. The impact to this year's accounts is £0.6 million.

1.20 Accounting estimates

We have to make judgements and estimates in applying our accounting policies that may have a significant effect on the amounts we include in our financial statements. The main areas are as follows.

- Provisions (Note 11).
  - We estimate provisions for redundancies in line with our standard terms and conditions of employment. The 2011/12 provision includes estimated end dates for some employees. Any estimated end date is based on management of change documents communicated to employees. Where we know the Commission plans to reduce staff numbers at certain dates, but do not know specifically which staff will be made redundant, we have used average redundancy costs for the groups of staff affected.
  - We base our estimates for onerous lease provisions on assumptions about anticipated void periods and possible incentives needed to sublet or dispose of a property. These assumptions are based on our assessment of current market conditions using surveyors' market reports.
  - We estimate dilapidation provisions based on an assessment of likely dilapidation costs when we plan to vacate a property. We base this assessment on the external surveyor's report specific to an individual property, or on an average cost per square foot based on external surveyors' reports for similar properties.
- Provision for irrecoverable and doubtful debt (Note 9.1).
  - Subject to review of each debt, we provide for debts between six and 12 months old at 50 per cent and debts older than 12 months at 100 per cent.
- Accrued trade income (Note 9.2) and deferred income (Note 10.2).
  - We value accrued and deferred income at estimated realisable value. To establish the stage of completion, we assess service performed against total service to be performed. This proportion of services completed to date is applied to the total audit fee to calculate the estimated realisable value. Using this method we calculate the accrued and deferred income we should recognise at the Statement of Financial Position date. Where the value of services completed is greater than the amount invoiced we disclose accrued income. Where the value of services completed is less than the amount invoiced we disclose deferred income.

- Non-current assets (Note 8).
  - We review non-current assets each year for impairment, in line with accounting standards. During the year we identified furniture and fittings assets whose useful economic lives will be limited as a result of vacating properties at a future date. This date is earlier than was anticipated when the assets were capitalised. These assets will have no value to the Commission after this date. We have estimated the recoverable amount of these assets at 31 March 2012 based on value in use. Our assessment of value in use reflects an estimate of the cost of replacing the service potential provided by these assets while they are still of value to the Commission. We have impaired these assets to reflect the reduced value to the Commission.

Accounting conventions and policies relating to the Audit Commission Pension Scheme

1.21 Pension scheme costs
We provide a defined benefit pension scheme for our employees. We show the costs of the Audit Commission Pension Scheme in our accounts, in line with IAS19 (Employee Benefits).

1.22 Recognition of actuarial gains and losses
We recognise actuarial gains and losses immediately in the Statement of Comprehensive Income.

Note 2: Operating income

2.1 Audit fee income

This note provides analysis of audit fee income for continuing operations shown in the Statement of Income.

	Year to 31 March 2012	Year to 31 March 2011
	£000	£000
Local government		
Audit fee income including rebates	**103,624**	112,559
Less rebates to local government bodies	**(2,862)**	(2,314)
Audit fee income	**100,762**	110,245
Health		
Audit fee income including rebates	**54,382**	57,890
Less rebates to health bodies	**(1,022)**	(1,133)
Audit fee income	**53,360**	56,757
Total audit fee income from continuing operations [1]	**154,122**	167,002

2.2 Grant income

This note provides analysis of grant income received from DCLG as shown in the Statement of Income. This grant covered redundancy payments made in the year and the table below reflects the split of these payments by sector.

	Year to 31 March 2012	Year to 31 March 2011
	£000	**£000**
Local government	**8,514**	0
Health	**3,386**	0
Total grant income	**11,900**	0

2.3 Other operating income

This note provides detailed analysis of the other operating income for continuing operations shown in the Statement of Income.

	Year to 31 March 2012	Year to 31 March 2011
	£000	**£000**
Staff seconded out to other organisations	**259**	508
Rental income received	**897**	1,070
Costs charged to the pension scheme	**260**	280
Sundry income	**191**	358
Total other operating income	**1,607**	2,216

2.4 Segmental analysis

a. Analysis by sector

Two government departments sponsor the Commission, DCLG and the Department of Health. The Commission has to keep a separate account of its local government and health activities. Some of the tables in this section are restated at 31 March 2011 because we have reviewed and refined the basis of our segmental calculation.

Table 1: Summary of the total income for the year included in the Statement of Income		Year to 31 March 2012	Year to 31 March 2011
	Note	**£000**	**£000**
Operating income – continuing	4	**167,629**	169,218
Operating income – discontinued	5	**0**	14,244
Net investment return	6	**627**	628
Net return on pension scheme assets	7.10	**7,081**	3,403
Total income for the year		**175,337**	187,493

Table 2: Analysis of total income (shown in Table 1) between local government and health	Year to 31 March 2012	Year to 31 March 2011 (restated)
	£000	£000
Local government income – continuing	**115,537**	114,656
Local government income – discontinued	**0**	14,244
Total local government income	**115,537**	128,900
Total health income	**59,800**	58,593
Total income for the year (as in Table 1)	**175,337**	187,493

Table 3: Analysis of the total expenditure for the year shown in the Statement of Income		Year to 31 March 2012	Year to 31 March 2011
	Note	£000	£000
Operating costs – continuing	4	**154,286**	170,190
Operating costs – discontinued	5	**1,167**	39,329
Corporation tax	10.3	**149**	0
Total expenditure for the year		**155,602**	209,519

Table 4: Analysis of expenditure (shown in Table 3) between local government and health	**Year to 31 March 2012**	**Year to 31 March 2011 (restated)**
	£000	**£000**
Local government – continuing	**102,025**	110,371
Local government – discontinued	**1,167**	39,329
Total local government expenditure	**103,192**	149,700
Total health expenditure	**52,410**	59,819
Total expenditure for the year (as in Table 3)	**155,602**	209,519

Table 5 brings together the analyses in Tables 2 and 4 to show the surplus/ (deficit) for local government.

Table 5		**Year to 31 March 2012**	**Year to 31 March 2011 (restated)**
		£000	**£000**
Income	Audit fees – net of rebates – continuing	**100,762**	110,245
	Grant – continuing	**8,514**	0
	Inspection fees – discontinued	**0**	1,361
	Inspection grants – discontinued	**0**	12,883
	Other operating and finance income	**6,261**	4,411
	Total income (as in Table 2)	**115,537**	128,900
Expenditure	Continuing	**102,025**	110,371
	Discontinued	**1,167**	39,329
	Total expenditure (as in Table 4)	**103,192**	149,700
Surplus/ (deficit) for the year		**12,345**	(20,800)

Table 6 brings together the analyses in Tables 2 and 4 to show the surplus/ (deficit) for health.

Table 6		**Year to 31 March 2012**	**Year to 31 March 2011 (restated)**
		£000	**£000**
Income	Audit fee net of rebates – continuing	**53,360**	56,757
	Grant – continuing	**3,386**	0
	Other operating and finance income – continuing	**3,054**	1,836
	Total income (as in Table 2)	**59,800**	58,593
Expenditure	**Total expenditure** (as in Table 4)	**52,410**	59,819
Surplus/ (deficit) for the year		**7,390**	(1,226)

b. Analysis of income between work undertaken by the Commission and work undertaken by private sector accountancy firms.

The tables below provide an analysis of the income for local government and health work to show the fees earned from work carried out by the private accountancy firms.

Local government	**Year to 31 March 2012**	**Year to 31 March 2011 (restated)**
	£000	**£000**
Continuing operations		
Audits undertaken by the Commission	**69,969**	75,425
Audits undertaken by private accountancy firms	**30,793**	34,820
Grant income	**8,514**	0
Total continuing operations	**109,276**	110,245
Discontinued operations		
Inspection fees	**0**	1,361
Inspection grant	**0**	12,883
Total discontinued operations	**0**	14,244
Other operating income and IAS 19 adjustments	**6,261**	4,411
Total income (as in Table 5)	**115,537**	128,900

Health	Year to 31 March 2012	Year to 31 March 2011 (restated)
	£000	£000
Audits undertaken by the Commission	**38,152**	39,891
Audits undertaken by private accountancy firms	**15,208**	16,866
Grant income	**3,386**	0
Other operating income and IAS 19 adjustments	**3,054**	1,836
Total income (as in Table 6)	**59,800**	58,593

c. Analysis of disclosable activity

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

- **Section 28:** certifying claims or returns made by an authority. The Commission received income for this work of £16,985,000 (2010/11: £17,745,000).
- **Section 29:** additional audits undertaken with the consent of the Secretary of State. The Commission did no work of this type in 2011/12 or 2010/11.
- **Section 36:** studies designed to improve economy, efficiency and effectiveness, undertaken at the request of specified educational bodies. The Commission did no work of this type in 2011/12 or 2010/11.

The Local Government and Public Involvement in Health Act 2007 (Schedule 2A, paragraph 9) extended powers granted to the Commission under section 35 of the Audit Commission Act 1998. The Commission has the statutory power to carry out advice and assistance work. The Commission received income for this work of £1,065,000 (2010/11: £2,327,000).

d. Analysis of assets and liabilities

Note 9.5 and note 10.4 provide the required analysis of the Commission's current assets and current liabilities split by type of public body and external parties.

Note 3: Operating costs

3.1 Staff and Commissioner costs

This note provides a detailed analysis of the staff and Commissioner costs that relate to continuing operations in the Statement of Income.

Staff and Commissioner costs	**Year to 31 March 2012**	Year to 31 March 2011
	£000	**£000**
Staff salaries [1]	**68,408**	70,597
Commissioners' remuneration	**227**	261
Social Security costs	**5,005**	6,082
Pension costs [1] [2]	**6,327**	17,749
Cost of lease cars	**3,351**	3,746
Subscriptions and other benefits	**600**	779
Total staff and Commissioner costs [3]	**83,918**	99,214

[1] The staff salaries and pension costs figures include redundancy costs for continuing operations of £19,923,000 (2010/11: £10,716,000). The Commission's total redundancy costs for the year were £20,003,000 (2010/11: £25,826,000).

[2] The pension costs figure includes a credit of £7,008,000 resulting from the application of IAS19 (2010/11: £1,289,000 credit). This credit is primarily due to a reduction in the future expected cost of the pension scheme as a result of the significant reduction in the number of members during the year.

[3] We recently announced a payment scheme for transition and closedown activities for Audit Practice employees. We will incur any costs relating to this scheme during the 2012/13 financial year, as work is completed. We expect to incur a maximum cost of £1,200,000 from these payments.

This note sets out the average number of full-time equivalent staff employed during the year.

	Year to 31 March 2012	**Year to 31 March 2011**
Audit Practice [1]	**855**	1,227
Central directorates	**289**	544
Secondees	**2**	9
Average number of staff employed in the year	**1,146**	1,780
In post at year end	**1,017**	1,409

[1] The Audit Practice was established in autumn 2010. 2011 figures include staff in the former regions and CAA and inspection staff.

Summary of compulsory and other redundancies — exit packages

The notes that follow set out the redundancy and other departure costs paid or provided for in line with the Audit Commission's terms and conditions of employment. We are including redundancy costs and provisions for all staff apart from those who transfer to the firms and those who are expected to remain within the residual Commission.

Exit package costs 2011/12

Exit package cost bands	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	83	1	84
£10,001 – £25,000	86	2	88
£25,001 – £50,000	87	9	96
£50,001 – £100,000	50	14	64
£100,001 – £150,000	13	0	13
£150,001 – £200,000	4	1	5
£200,001 +	16	0	16
Total number of exit packages	**339**	**27**	**366**
Total cost £000	**18,178**	**1,622**	**19,800**

Exit package costs 2010/11

Exit package cost bands	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	123	59	182
£10,001 – £25,000	117	1	118
£25,001 – £50,000	201	1	202
£50,001 – £100,000	133	2	135
£100,001 – £150,000	17	0	17
£150,001 – £200,000	6	0	6
£200,001 +	8	0	8
Total number of exit packages	**605**	**63**	**668**
Total cost £000	**25,557**	**269**	**25,826**

3.2 Bought-in services

This note analyses the bought-in services line relating to continuing services in the Statement of Income. These are services procured by the Commission to support the delivery of audit, and in previous years, inspection and research. The expenditure in the year is summarised in the following table.

Cost of bought-in services	Year to 31 March 2012	Year to 31 March 2011
	£000	£000
Payments to private accounting firms	**36,340**	40,678
Research and other consultancy costs	**62**	103
Audit and inspection contractors	**6,354**	4,340
Total	**42,756**	45,121

The note below sets out the average number of contractors employed during the year.

Contractors employed	Year to 31 March 2012	Year to 31 March 2011
Contractors – average number in the year	**122**	158
Contractors – number engaged at year end	**81**	72

3.3 Other operating costs

The note below provides more detail on the other operating costs relating to continuing operations shown in the Statement of Income.

Other operating costs		Year to 31 March 2012	Year to 31 March 2011
		£000	£000
Accommodation	– rent and lease costs [1]	**9,053**	5,064
	– other costs [1]	**6,309**	3,466
Supplies and services [1]		**4,619**	7,209
Depreciation		**1,717**	2,061
Amortisation		**416**	572
Impairment		**785**	0
Loss on disposal of non-current assets		**912**	403
Travel and subsistence	– staff	**1,540**	2,055
	– Commissioners	**4**	7
Recruitment and relocation		**74**	215
Training		**679**	1,461
Support contractor costs		**329**	2,095
Audit fee[2]		**74**	72
Professional fees [1]		**1,066**	1,043
Publications		**44**	124
Debts provided for		**(9)**	8
Total operating costs		**27,612**	25,855

[1] Included within operating costs are onerous lease provisions of £8,393,000 (2010/11: £1,129,000). These are spread across rent and lease costs (£5,337,000), other accommodation costs (£2,532,000), supplies and services (£386,000) and professional fees (£138,000).

[2] Included within the audit fee is an additional cost for the 2010/11 Whole of Government Accounts audit (£1,800).

Note 4: Continuing operations

This note provides more details of the income and expenditure for our continuing audit and other operations shown in the Statement of Income. The expenditure for continuing operations includes the other operating costs that could not be directly and wholly attributed to the CAA and inspection work the Commission stopped doing last year. Corporate and support services continue to reduce in size and we will continue to reduce fixed overheads as quickly as possible, as we prepare for the transfer of the Audit Practice work to the private sector and for abolition.

Continuing operations	Year to 31 March 2012	Year to 31 March 2011
	£000	£000
Operating income		
Audit fee income	**158,006**	170,449
Less rebates	**(3,884)**	(3,447)
Total audit fee income	**154,122**	167,002
Grant	**11,900**	0
Other income	**1,607**	2,216
Total operating income	**167,629**	169,218
Operating costs		
Staff and Commissioners' costs	**72,370**	90,875
Redundancy costs	**19,923**	10,716
Holiday pay accrual movement	**(1,367)**	(1,088)
IAS 19 (Employee Benefits) for pension contributions	**(7,008)**	(1,289)
Total staff and Commissioners' costs	**83,918**	99,214
Bought-in services	**42,756**	45,121
Other operating costs	**27,612**	25,855
Total operating costs	**154,286**	170,190
Operating surplus/ (deficit) for continuing operations	**13,343**	(972)

Note 5: Discontinued operations

This note provides details of the income and expenditure for the Commission's discontinued CAA and inspection operations shown in the Statement of Income. Discontinued operating costs only include other operating costs that are directly and wholly attributable to the CAA and inspection work the Commission stopped doing last year. There are residual costs coming through this year as staff served out their notice.

Discontinued operations	Year to 31 March 2012	Year to 31 March 2011
	£000	£000
Operating income		
Inspection fee income	**0**	1,361
Grant income		
DCLG – local government	**0**	9,740
DCLG – fire	**0**	522
DCLG – housing	**0**	244
Other departments	**0**	2,377
Total inspection income	**0**	14,244
Operating costs		
Staff salaries [1]	**250**	30,535
Social Security costs [1]	**22**	1,812
Pension costs [1]	**53**	5,180
Other benefits	**5**	487
Lease cost of cars	**21**	1,170
Other operating costs	**0**	145
VAT payment [2]	**816**	0
Total operating costs	**1,167**	39,329
Operating deficit	**(1,167)**	(25,085)

[1] Redundancy costs of £80,000 are included within staff salaries and pension costs for discontinued operations this year (2010/11: £15,110,000).
[2] This reflects a VAT payment to HMRC following a ruling during the year relating to the VAT treatment of our inspection work.

Note 6: Net investment return

This note provides information on the net returns on investments in the year.

Net investment return	**Year to 31 March 2012**	Year to 31 March 2011
	£000	**£000**
Interest receivable	**88**	83
Release of impairment of cash deposits	**539**	545
Net investment return	**627**	628

Note 7: Audit Commission Pension Scheme

Outline of the Audit Commission Pension Scheme: We have a self-administered occupational 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 7 per cent on average of pensionable salaries, unless they participate in the salary sacrifice scheme (the Smart Pensions Scheme). No contributions are payable by those members who participate in the Smart Pension arrangement, but we pay an additional 7 per cent (on average) of those members' pensionable salaries into the scheme on their behalf. There is a reduction in contractual salaries of the corresponding amount for staff participating in Smart Pensions, so there is no additional cost to us.

Financial overview of the Audit Commission Pension Scheme: This note shows the net pension liability for the Audit Commission Pension Scheme increasing from £66.3 million to £108.8 million over the year, mainly due to an increase in the value of the scheme's liabilities. This increase in liabilities is a position common across many companies in the UK and comes as a result of decreases in corporate bond yields. Some of the increase is offset by better than expected investment returns over the year.

On 31 May 2012 the Secretary of State for Communities and Local Government signed a Crown guarantee for the Audit Commission Pension Scheme. This will prevent any early crystallisation of liabilities and protects the accrued rights of past and present Audit Commission staff.

IAS19 (Employee Benefits) requires us to discount future benefits for scheme members, the scheme's liabilities, to current day values. The discount rate used is based on the yield available on high-quality corporate bonds. These yields decreased by around 0.5 per cent over the year reflecting a reduction generally in long-term interest rates, although the reduction was not as marked as the change in UK government-backed bonds (of around 1.0 per cent). This means future benefits are now discounted at a lower rate, resulting in a higher value of the scheme's liabilities. In addition, the Commission is allowing for further improvements in the projected life expectancy of scheme members, leading to a further increase in the value of the scheme's liabilities. These increases were partially offset by market expectations for price inflation falling by around 0.2 per cent, which lowers the expected level of future benefits from the scheme.

At 31 March 2012, the scheme's assets were invested in a portfolio that consisted primarily of diversified growth funds (DGF), along with some liability driven investment (LDI) funds aiming to reflect around 50 per cent of the change in the scheme's liabilities. The assets have improved in value over the year, primarily due to the return on the LDI assets reflecting the marked increase in the liabilities.

Some of the increase in the value of the scheme's liabilities of £105.1 million is offset by an increase in the fair value of the scheme's assets of £62.5 million.

7.1 Relationship between the reporting entity and the trustees

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

7.2 Future funding obligations in relation to defined benefit schemes

The most recent triennial actuarial valuation based on March 2011 figures was signed off by the trustees in June 2012. The previous triennial actuarial valuation of the scheme performed by an independent actuary for the trustees of the scheme and was carried out as at 31 March 2008. Valuation assumptions used by the pension scheme are different to the valuation assumptions used in our accounts because we report under different accounting regulations. As a result these valuations will differ.

Following the 2008 valuation our contributions remained at 17.0 per cent of pensionable salaries (24.0 per cent on average for members participating in the Smart Pensions Scheme) until 31 March 2012 when they were increased to 17.5 per cent of pensionable salaries (24.5 per cent on average for members participating in Smart Pensions). The 0.5 per cent increase is temporary for one year to 31 March 2013.

Our contributions amounted to £13.4 million in the 12-month period to 31 March 2012 (2010/11: £24.1 million).

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

7.3 How the liabilities arising from defined benefit schemes are measured

We provide retirement benefits to some 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 in the scheme using the projected unit method. This amount is reflected in the deficit in the balance sheet. The projected unit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

An alternative to the valuation of the projected unit method is a solvency basis, often estimated using the cost of buying out benefits at the balance sheet date by a suitable insurer. This amount represents the amount that would be required to settle the scheme liabilities at the balance sheet date rather than continuing to fund ongoing liabilities of the scheme. The Commission's actuary estimates the amount required to settle the scheme's liabilities at the balance sheet date is £540 million.

7.4 Principal assumptions

a. We received actuarial advice in setting our principal assumptions for valuing our pension scheme assets and liabilities for accounting purposes as at 31 March 2012. We also comply with IAS 19 (Employee Benefits) in setting these assumptions. Our assumptions are set out in the following table.

Principal assumptions	2012	2011	2010	2009	2008
	% pa	% pa	% pa	% pa	% pa
Rate of inflation	**3.45**	3.65	3.8	3.3	3.4
Rate of salary increase	**4.10** [1]	4.30 [1]	4.45	3.95	4.05
Discount rate for liabilities	**5.00**	5.55	5.6	6.6	6.3
Rate of increase of pensions in payment	**3.45**	3.65	3.8	3.3	3.4
Rate of increase of deferred pensions	**3.45**	3.65	3.8	3.3	3.4

[1] The salary escalation has an age-related promotional salary scale in addition, and reflects the pay freeze until 1 April 2013.

The post-mortality retirement table used in 2012 is PA00 Year of Birth with allowance for long cohort improvements with a 1 per cent per annum improvement underpin from 2000. This is the same as that used for the 2011 IAS19 calculations.

The assumed life expectations on retirement at age 60 are:

Life expectancy on retirement at 60 years	2012	2011
Retiring today		
Males	**29 years**	29 years
Females	**32 years**	31 years
Retiring in 20 years		
Males	**31 years**	31 years
Females	**34 years**	33 years

We calculate the expected return on the scheme assets using assumptions on the long-term expected returns by asset class as follows.

Expected return on the scheme assets	2012	2011
DGFs	**6.20%**	7.45%
LDIs	**3.10%**	4.35%
Cash	**0.50%**	0.50%

b. **Sensitivity analysis of the principal assumptions used to measure scheme liabilities**: the following table shows the impact of a change in each of the principal assumptions used to value scheme liabilities. We change one assumption at a time in calculating the impact on the value of scheme liabilities.

Impact on the value of scheme liabilities

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Decrease by 0.5%	Increase by 11%
Rate of inflation	Increase by 0.5%	Increase by 8%
Rate of salary growth	Increase by 0.5%	Increase by 3%
Rate of mortality	Mortality table rated down by one year	Increase by 2%

7.5 Nature and extent of the risks arising from financial instruments held by the defined benefit scheme

At 31 March 2012, the scheme assets were invested in a portfolio that consisted primarily of DGFs. The fair value of the scheme assets as a percentage of total scheme assets are set out below.

Fair value of the scheme assets

Financial instrument	2012	2011
DGFs	**86%**	88%
LDIs	**14%**	11%
Cash	**0%**	1%

We work with the trustees to keep the investment strategy under review. The current investment strategy is detailed below.

Growth assets are held in DGFs investing in UK and overseas equities together with bonds and a range of alternative asset classes. The entire growth portfolio is held in DGFs, in order to reduce funding level volatility while targeting a similar investment return to equities.

Cash assets are held within an LDI portfolio backing the hedge of around 50 per cent of the interest rate risk and 80 per cent of the inflation risk of the scheme's liabilities. Three interest rate triggers are in place to implement an additional 30 per cent interest rate hedge to increase from 50 to 80 per cent as and when certain market conditions are satisfied.

Assuming the scheme is fully funded, the LDI portfolio is expected to account for around 10 per cent of the scheme's assets to meet collateral requirements. The remaining 90 per cent invested in DGFs. The actual asset proportions vary from time to time depending on short-term collateral requirements and the extent to which the value of the scheme's assets varies in relation to the value of the liabilities. DGFs are liquidated as necessary to provide a prudent level of liquidity necessary to meet the collateral obligations of the LDI portfolio.

7.6 Net pension liability

This note provides a high level summary of the net pension liability at the year end.

Net pension liability		31 March 2012	31 March 2011
	Note	£000	£000
Fair values of scheme assets	7.8	**724,684**	662,179
Present value of scheme liabilities	7.7	**(833,483)**	(728,429)
Net pension liability		**(108,799)**	(66,250)

7.7 Reconciliation of present value of liabilities

This note provides an analysis of the change in the year of the present value of scheme liabilities summarised in the table in Note 7.6 above.

Reconciliation of present value of liabilities		Year to 31 March 2012	Year to 31 March 2011
	Note	£000	£000
Opening present value of defined benefit liability		**728,429**	713,559
Current service cost	7.9	**13,584**	21,170
Interest cost	7.10	**39,570**	40,189
Employee contributions		**71**	125
Actuarial losses/ (gains)	7.11	**82,740**	(29,397)
Benefits paid		**(23,708)**	(18,891)
Past service cost	7.9	**1,404**	5,718
Gains on curtailments and settlements		**(8,607)**	(4,044)
Closing defined benefit liability	7.6	**833,483**	728,429

7.8 Reconciliation of fair value of scheme assets

This note provides an analysis of the change in the year in the fair value of the schemes assets summarised in Note 7.6.

Fair value of scheme assets		Year to 31 March 2012	Year to 31 March 2011
	Note	£000	£000
Opening fair value of scheme assets		**662,179**	607,138
Expected return on scheme assets	7.10	**46,651**	43,592
Actuarial gains	7.11	**26,102**	6,082
Contributions by employer		**13,389**	24,133
Contributions by employees		**71**	125
Benefits paid		**(23,708)**	(18,891)
Closing fair value of scheme assets	7.6	**724,684**	662,179

7.9 Analysis of the operating charge for the year

This note provides an analysis of the operating charge for the pension scheme for the year as calculated by using IAS19.

Operating charge for the pension scheme	Note	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Current service costs	7.7	**13,584**	21,170
Past service costs	7.7	**1,404**	5,718
Gains on settlements and curtailments		**(8,607)**	(4,044)
Total operating charge		**6,381**	22,844

7.10 Analysis of the net return on pension scheme assets recognised in the Statement of Income

This note analyses the surplus arising from the IAS19 calculation of the value of pension assets. The Statement of Income includes this as a source of financing income.

Net return on pension scheme assets recognised in the Statement of Income	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Expected return on pension scheme assets	**46,651**	43,592
Interest cost	**(39,570)**	(40,189)
Net return on pension scheme assets	**7,081**	3,403

7.11 Analysis of the actuarial movements recognised in the Statement of Comprehensive Income

This note provides an analysis of net loss/ gain in the pension scheme assets and liabilities shown in the Statement of Comprehensive Income. The table below includes the total of recognised gains from previous financial years and the loss in the current financial year.

Actuarial movements recognised in the Statement of Comprehensive Income		Year to 31 March 2012	Year to 31 March 2011
	Note	£000	£000
Opening amount recognised		**(49,653)**	(85,132)
Actual return less expected return on scheme assets	7.8	**26,102**	6,082
Experience (losses)/ gains arising on the scheme liabilities	7.7	**(13,783)**	6,671
Changes in demographic and financial assumptions underlying scheme liabilities	7.7	**(68,957)**	22,726
Net (loss)/ gain in the year		**(56,638)**	35,479
Closing amount recognised		**(106,291)**	(49,653)

7.12 Pension scheme performance

Key financial data for the pension scheme for the year and the previous three financial years is shown below. The deficit in the current year has increased since last year as a result of a decrease in corporate bond yields as highlighted at the start of this note.

Pension scheme performance	31 March 2012	31 March 2011	31 March 2010	31 March 2009
	£000	£000	£000	£000
Scheme liabilities (Note 7.6)	**(833,483)**	(728,429)	(713,559)	(477,338)
Scheme assets (Note 7.6)	**724,684**	662,179	607,138	473,872
Deficit	**(108,799)**	(66,250)	(106,421)	(3,466)
Actual returns less expected returns on assets (Note 7.11)	**26,102**	6,082	94,419	(42,723)
Actual returns less expected returns on assets as a percentage of scheme assets	**3.6%**	0.9%	15.6%	(9.0%)

Note 8: Non-current assets

8.1 Intangible assets

This note provides an analysis of the movements in the Commission's intangible assets shown in the Statement of Financial Position.

	£000
Cost	
At 1 April 2011	1,729
Purchases	0
Disposals	(286)
At 31 March 2012	**1,443**
Amortisation	
At 1 April 2011	1,095
Provided in year	416
Disposals	(191)
At 31 March 2012	**1,320**
Net book value	
At 31 March 2012	**123**
At 31 March 2011	634

Cost	
At 1 April 2010	2,209
Purchases	26
Disposals	(506)
At 31 March 2011	**1,729**
Amortisation	
At 1 April 2010	1,029
Provided in year	572
Disposals	(506)
At 31 March 2011	**1,095**
Net book value	
At 31 March 2011	**634**
At 31 March 2010	1,180

[1] The loss on disposal for the year is £95,000 (2010/11: nil), made up of the cost of assets disposed of £286,000 less the depreciation to date on these assets of £191,000.

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

8.2 Plant and equipment

This note provides an analysis of the movements in the Commission's plant and equipment shown in the Statement of Financial Position.

	Furniture and fittings	Computer equipment	Office equipment	Total
	£000	£000	£000	£000
Cost				
At 1 April 2011	10,649	1,596	37	12,282
Purchases	0	0	0	0
Impairment losses	(1,859)	0	(4)	(1,863)
Disposals	(2,858)	(98)	(10)	(2,966)
At 31 March 2012	**5,932**	**1,498**	**23**	**7,453**
Depreciation				
At 1 April 2011	6,375	1,050	23	7,448
Provided in year	1,349	362	6	1,717
Impairment losses	(1,076)	0	(2)	(1,078)
Disposals	(2,029)	(98)	(8)	(2,135)
At 31 March 2012	**4,619**	**1,314**	**19**	**5,952**
Net book value				
At 31 March 2012	**1,313**	**184**	**4**	**1,501**
At 31 March 2011	4,274	546	14	4,834
Cost				
At 1 April 2010	11,552	1,531	53	13,136
Purchases	330	65	0	395
Disposals	(1,233)	0	(16)	(1,249)
At 31 March 2011	**10,649**	**1,596**	**37**	**12,282**
Depreciation				
At 1st April 2010	5,660	547	26	6,233
Provided in year	1,548	503	10	2,061
Disposals	(833)	0	(13)	(846)
At 31 March 2011	**6,375**	**1,050**	**23**	**7,448**
Net book value				
At 31 March 2011	**4,274**	**546**	**14**	**4,834**
At 31 March 2010	5,892	984	27	6,903

[1] The loss on disposal for the year is £831,000 (2010/11: £403,000), made up of the cost of assets disposed of £2,966,000 less the depreciation to date of £2,135,000. The disposals mainly related to the Commission's programme for reducing office accommodation costs. In addition we had impairment losses of £785,000 (2010/11: nil), made up of the cost of the assets impaired of £1,863,000 less depreciation to date of £1,078,000. Together these total £1,616,000. Taking into account proceeds relating to the assets disposed of £14,000, the loss on disposal was £1,602,000.

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

8.3 Long-term financial assets

This note provides an analysis of the impaired value of the deposit and the accrued interest for the two Icelandic banks investments due for repayment after March 2013. Note 9.3 details repayments due within the next 12 months.

	31 March 2012	31 March 2011
	£000	£000
Heritable Bank	**275**	444
Landsbanki Islands hf	**2,302**	2,758
Total long-term financial assets	**2,577**	3,202

Note 9: Current assets

9.1 Trade receivables

This note provides an analysis of the trade receivables line shown in the Commission's Statement of Financial Position.

	31 March 2012	31 March 2011
	£000	£000
Local government	**6,244**	8,587
Health	**3,275**	3,941
Total trade receivables	**9,519**	12,528

Less than 0.1 per cent of the total trade receivables balance shown in the table above is over six months old. The total trade receivables balance shown above includes movements in the provision for irrecoverable and doubtful debts. These are netted against the appropriate debtor. The table below shows the movements in the provision included in total trade receivables.

	Year to 31 March 2012	Year to 31 March 2011
	£000	£000
Opening provision	**22**	15
Net provision released in the year	**(22)**	(15)
Provision made in the year	**2**	22
Closing provision	**2**	22

9.2 Accrued trade income

This note provides an analysis of the accrued trade income (work completed, but not yet billed) shown in the Commission's Statement of Financial Position.

	31 March 2012	31 March 2011
	£000	**£000**
Local government	**795**	1,675
Health	**412**	906
Total accrued trade income	**1,207**	2,581

9.3 Other receivables

This note provides an analysis of the other receivables line in the Statement of Financial Position.

	31 March 2012	31 March 2011
	£000	**£000**
Accommodation prepayments	**1,303**	1,332
Leased car prepayments	**824**	1,239
Icelandic bank receivables	**1,119**	2,379
Other debtors and prepayments	**1,048**	2,257
Total other receivables	**4,294**	7,207

9.4 Short-term financial assets, cash and cash equivalents

The following note summarises the Commission's short-term financial assets, cash and cash equivalents as shown in the Statement of Financial Position. Cash equivalents are cash deposits that mature within a month.

	31 March 2012	31 March 2011
	£000	**£000**
Short-term financial assets	**54,900**	26,000
Cash and cash equivalents	**5,809**	6,064
Total short-term financial assets, cash and cash equivalents	**60,709**	32,064
Short-term financial assets (1 month and above)		
– maturing 3+ months	**33,900**	0
– maturing in 1-3 months	**13,000**	13,000
– maturing within 1 month	**8,000**	13,000
Total short-term financial assets	**54,900**	26,000

9.5 Whole of Government Accounts analysis of receivables

The Commission has to analyse its long-term and current receivables, and accrued trade income and other receivables in line with the Whole of Government Accounts framework. The following note summarises each category of receivable that we need to analyse for Whole of Government Accounts purposes.

	Note	31 March 2012 £000	31 March 2011 £000
Long-term financial assets	8.3	**2,577**	3,202
Trade receivables	9.1	**9,519**	12,528
Accrued trade income	9.2	**1,207**	2,581
Other receivables	9.3	**4,294**	7,207
Total receivables		**17,597**	25,518

The following note analyses the Commission's total receivables shown above as required by the Whole of Government Accounts framework.

	31 March 2012 £000	31 March 2011 £000
Central government bodies	**1,412**	2,043
Local government bodies	**5,107**	7,637
NHS bodies	**1,040**	2,101
Balances with bodies external to government	**10,038**	13,737
Total receivables	**17,597**	25,518

Note 10: Current liabilities

10.1 Trade and other payables

This note analyses the Commission's trade and other payables as shown in the Statement of Financial Position.

	31 March 2012	31 March 2011
	£000	£000
Trade payables	**118**	242
Taxation and Social Security	**1,885**	2,623
VAT	**3,049**	4,348
Accrual for holiday entitlement not yet taken	**1,640**	3,065
Accruals	**1,657**	2,745
Total trade and other payables	**8,349**	13,023

10.2 Deferred income

Deferred income represents the invoices raised in advance for work the Commission has yet to deliver.

	31 March 2012	31 March 2011
	£000	£000
Local Government	**24,659**	24,631
Health	**10,082**	11,081
External	**25**	0
Total deferred income	**34,766**	35,712

10.3 Corporation tax

The Commission has made a trading profit for the year which will be offset by trading losses brought forward from previous years. As a result there is no corporation tax liability on trading profits for the year. The Commission is liable for corporation tax on non-trading interest earned and Icelandic bank impairment credits during the year as set out below.

	Year to 31 March 2012	Year to 31 March 2011
	£000	£000
Interest receivable	**88**	83
Release of impairment of cash deposits	**537**	545
Total taxable income	**625**	628
Corporation tax payable [1]	**149**	0

[1] Corporation tax for 2011/12 is payable at a marginal tax rate of 24 per cent. In 2010/11 trading losses in the year were offset against non-trading taxable income. As a result no corporation tax was payable for the year.

10.4 Whole of Government Accounts analysis of payables

We have to analyse our trade, other payables, deferred income and corporation tax in line with the Whole of Government Accounts framework. The following note summarises each category of receivable that we need to analyse for Whole of Government Accounts purposes.

		31 March 2012	31 March 2011
	Note	£000	£000
Trade and other payables	10.1	**8,349**	13,023
Deferred income	10.2	**34,766**	35,712
Corporation tax	10.3	**149**	0
Total payables		**43,264**	48,735

The following note analyses the Commission's total trade and other payables, deferred income and corporation tax shown above as required by the Whole of Government Accounts framework.

	31 March 2012	31 March 2011
	£000	£000
Central government bodies	**11,193**	12,805
Local government bodies	**25,050**	24,200
NHS trusts	**4,152**	5,465
Balances with bodies external to government	**2,869**	6,265
Total payables	**43,264**	48,735

Note 11: Provisions

This note provides an analysis of the movement in provisions shown in the Statement of Financial Position.

	Redundancy costs	Dilapidations	Onerous leases	Other	Year to 31 March 2012
	£000	£000	£000	£000	£000
Opening balance	8,971	1,822	1,130	0	**11,923**
Provision in year	19,470	929	9,152	167	**29,718**
Utilised in the year	(11,799)	(226)	(657)	0	**(12,682)**
Released in year	(87)	(141)	(103)	0	**(331)**
Closing balance	**16,555**	**2,384**	**9,522**	**167**	**28,628**

Analysis of expected timing of discounted flows

	Redundancy costs	Dilapidations	Onerous leases	Other	31 March 2012
	£000	£000	£000	£000	£000
Due within one year or less	14,862	138	1,790	167	**16,957**
Due after more than one year	1,693	2,246	7,732	0	**11,671**
Total	**16,555**	**2,384**	**9,522**	**167**	**28,628**

Redundancy costs: the Board has confirmed that from 1 April 2013 the restructured Commission will employ approximately 70 employees. Although we are in the process of reducing employee numbers, there remains some work to be done in confirming which employees will be directly affected and when they will leave.

Most of the redundancy provision is based on confirmed leaving dates which give us a reliable basis for calculation of the provision. However, where specific employees and end dates are not confirmed, our provision includes estimation around expected leave dates and redundancy costs. These estimates amount to £413,000 (2.5 per cent) of our overall provision and are calculated using average redundancy costs.

The sensitivity analysis below, using the highest or lowest redundancy costs rather than the average, shows the impact on the estimated element of the redundancy provision results in a range that is up to £0.7 million more or up to £2.1 million less than the estimated provision.

	Increase/ (decrease) in provision	Calculated provision
	£000	£000
No change – based on average redundancy cost	0	16,555
Maximum provision – based on highest cost	709	17,264
Minimum provision – based on lowest cost	(2,110)	14,445

Onerous leases: Where we expect to vacate properties before the leases have ended, and the lease becomes onerous, we make a provision for it in our accounts. The provisions are based on expected void and disposal costs provided by our external property advisers. On the basis of this advice, our provisions assume that properties will be disposed of by paying an incentive, equivalent to a fixed period's rent, at the end of the anticipated void period. If the assumed disposal does not take place, further costs that have not been provided for may be incurred. In addition, if a property is disposed of earlier than anticipated, the full amount of the provision may not be crystallised.

While our provisions reflect best estimates provided by our property advisers, there is no certainty that property disposals will occur in line with these assumptions. Changes to these assumptions may arise in the future due to changes in market conditions, which affect how long a property will remain vacant and the incentive required to dispose of it.

The sensitivity analysis below shows the impact on the onerous lease provision to changes in the assumptions in relation to void period, by decreasing or increasing the period by one year. Decreasing or increasing the estimated incentive period by one year would have a similar impact.

Change to void period	Increase/ (decrease) in provision	Calculated provision
	£000	£000
No change	0	9,522
+ 12 months	1,003	10,525
– 12 months	(2,351)	7,171

Note 12: Taxpayers' equity

12.1 Retained earnings for local government activities

Retained earnings show the net surplus or deficit for the year added to the cumulative amount brought forward from prior accounting years. The following note shows the movements in retained earnings for local government activities during the year.

		Year to 31 March 2012	Year to 31 March 2011 (restated)
	Note	£000	£000
Brought forward		**2,920**	26,800
Surplus/ (deficit) for year	2.4 (Table 5)	**12,345**	(20,800)
Net movement to the pension scheme reserve		**(9,548)**	(3,080)
Local government retained earnings		**5,717**	2,920

12.2 Retained earnings for health activities

Retained earnings show the net surplus or deficit for the year added to the cumulative amount brought forward from prior accounting years. The following note shows the movements in retained earnings for health activities.

	Note	Year to 31 March 2012 £000	Year to 31 March 2011 (restated) £000
Brought forward		**(528)**	2,310
Surplus/ (deficit) for year	2.4 (Table 6)	**7,390**	(1,226)
Net movement to the pension scheme reserve		**(4,541)**	(1,612)
Health retained earnings		**2,321**	(528)

12.3 Pension reserve

This note shows the movement on the pension reserve during the year resulting from the IAS19 (Employee Benefits) adjustments included in the Statement of Income and the Statement of Comprehensive Income.

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Brought forward	**(66,250)**	(106,421)
Total operating credit/ (charge)	**700**	(19,441)
Cash payments to the scheme	**13,389**	24,133
Movement in the year from the Statement of Comprehensive Income	**(56,638)**	35,479
Pension reserve	**(108,799)**	(66,250)

Note 13: Movement in receivables and accrued trade income

This note provides an analysis of the decrease in receivables and accrued trade income shown in the Statement of Cash Flows.

		Cash inflow	31 March 2012	31 March 2011
	Note	£000	£000	£000
Long-term financial assets	8.3	**625**	2,577	3,202
Trade receivables	9.1	**3,009**	9,519	12,528
Accrued trade income	9.2	**1,374**	1,207	2,581
Other receivables	9.3	**2,913**	4,294	7,207
Total receivables and accrued trade income		**7,921**	17,597	25,518

Note 14: Movement in payables and provisions

This note provides an analysis of the increase in payables and provisions shown in the Statement of Cash Flows.

		Cash flow	31 March 2012	31 March 2011
	Note	£000	£000	£000
Trade and other payables	10.1	**(4,674)**	8,349	13,023
Deferred income	10.2	**(946)**	34,766	35,712
Provisions	11	**16,705**	28,628	11,923
Total payables and provisions		**11,085**	71,743	60,658

Note 15: Financial instruments

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

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

- **Liquidity risk:** we make short-term cash investments in line with our treasury management strategy. We hold between £5 million and £10 million of cash in an overnight or instant access account with our banker. The longest dated cash investment at 31 March 2012 matures on 27 September 2012.

- **Credit risk:** cash investments are permitted with the HM Treasury's Debt Management Office or, if unavailable, with named counterparties that have a short-term credit rating equal to P-1 (Moody) and A-1+ (Standard & Poor). The Commission only invested with the Debt Management Office during 2011/12.
- **Interest rate risk:** in the event the Commission makes a cash investment with an organisation other than the Debt Management Office, it would maintain a mixture of fixed and variable rate deposits.

The Commission regularly reviewed its treasury management policy and management of credit risk during 2011/12.

At the end of November 2011, the Commission held six deposits with the Debt Management Office in addition to two held with Landsbanki and Heritable bank.

In October 2008, both Landsbanki and Heritable bank entered into administration, stranding the Commission's cash investments with them. The Commission impaired the deposits held and accrued interest to the date of administration. The Commission reviews the impaired deposits each year, in line with updated information and best practice guidance.

Heritable Bank

The initial deposit of £5.0 million held with Heritable bank earned £87,000 interest at its crystallisation date. We complete our annual impairment review on our Heritable asset in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). In line with this guidance we currently expect to receive 88 per cent of the Heritable Bank balance, and the annual impairment review has resulted in a credit of £196,000 to the Statement of Income. As at 31 March 2012, we have received £3.5 million of the initial deposit and interest earned.

Landsbanki

Our initial deposit of £5.0 million held with Landsbanki earned £265,000 interest at its crystallisation date. On 28 October 2011 we received confirmation of our priority creditor status and therefore expect to recover the full deposit and interest. As at 31 March 2012 we have received a first distribution of £1.5 million.

The amount owed by Landsbanki was converted from British Sterling (GBP) into Icelandic Krona (ISK) at the rate applicable on the date of bankruptcy, 22 April 2009 (191.08 ISK/£), by the Landsbanki Winding Up Board upon submission of the Commission's claim. The Commission follows accounting standards and revalues this asset at each Statement of Financial Position date by applying current exchange rates to the value of the investment. This has resulted in an exchange rate loss of £469,000 this year. This forms part of the total impairment credit of £343,000.

The following table shows the sensitivity of changes to exchange rates if they were to increase or decrease.

Landsbanki deposit sensitivity of changes to exchange rates

Exchange Rate (ISK to GBP)	205.00	201.71	180.00
Impact on amount chargeable to the Statement of Income	£549,000 decrease	£469,000 decrease	£133,000 increase

Except for the Landsbanki deposit, the Commission's policy is that no trading in financial instruments will be undertaken and that all deposits will be made in pounds sterling.

Note 16: Operating results for the last four years

This note provides a high-level overview of the Commission's financial performance over the last four years.

	Year to 31 March 2012	Year to 31 March 2011	Year to 31 March 2010	Year to 31 March 2009
	£000	£000	£000	£000
Operating income	**167,629**	183,462	213,098	215,686
Operating costs	**(155,453)**	(209,519)	(221,037)	(209,238)
Notional capital costs	**0**	0	0	(873)
Operating surplus/ (deficit)	**12,176**	(26,057)	(7,939)	5,575

Note 17: Commitments under leases

17.1 Future minimum lease payments for non-cancellable operating leases for properties
The note below shows future minimum lease payments for the Commission's property leases at 31 March 2012.

	31 March 2012	31 March 2011
	£000	£000
Due within one year of 31 March 2012	**3,141**	3,388
Due up to five years after 31 March 2012	**5,342**	7,324
Due more than five years after 31 March 2012	**3,734**	5,138
Total future minimum payments for non-cancellable operating leases for properties	**12,217**	15,850

The Commission spent £2,861,000 (2010/11: £3,557,000) on operating lease payments for property in the year to 31 March 2012.

Some of our contractual commitments relating to lease payments are provided for in our accounts. As we contract in size we are providing for lease and associated costs where we will vacate property before the lease ends (note 11). Our unprovided exposure is disclosed within contingent liabilities (note 18.2).

17.2 Future minimum lease payments for non-cancellable operating leases for cars and photocopiers

The note below shows future minimum lease payments for the Commission's cars and photocopiers at 31 March 2012.

	31 March 2012	31 March 2011
	£000	£000
Due within one year of 31 March 2012	**980**	2,122
Due up to five years after 31 March 2012	**0**	2,049
Total future minimum payments for non-cancellable operating leases for cars and photocopiers	**980**	4,171

The Commission spent £1,884,000 (2010/11: £2,832,000) on operating lease payments for cars and photocopiers in the year to 31 March 2012. Operating leases for photocopiers ended in June 2011.

17.3 Future rents receivable from non-cancellable operating leases for sublet property

All building leases are taken out in the name of the Audit Commission. Office accommodation with spare capacity is sublet. The following note summarises the income the Commission will receive from the property it has sublet.

	31 March 2012	31 March 2011
	£000	£000
Due within one year of 31 March 2012	**914**	816
Due up to five years after 31 March 2012	**456**	1,351
Total future rent receivable from non-cancellable operating leases for sublet property	**1,370**	2,167

The Commission received £897,000 (2010/11: £1,070,000) rent income from property sublets in the year to 31 March 2012.

Note 18: Contingent liabilities

18.1 Litigation

The Commission indemnifies appointed auditors for any court costs they incur when carrying out their special legal functions. The Commission also indemnifies appointed auditors for any costs awarded against them as a result of such court proceedings. The amount incurred in any one year from these indemnities depends upon the progress of individual cases and so cannot be predicted or quantified until they crystallise.

The Commission currently has two ongoing litigation cases. The total estimate of costs for these cases, if the Commission was required to pay them, is £0.3 million plus up to £0.1 million costs.

18.2 Onerous leases

The Commission has provided for onerous leases where we expect to vacate properties before the leases have ended. The provisions are based on expected void and disposal costs (rent-free incentive assumptions) provided by our external property advisers. On the basis of this advice, our provisions assume that properties will be disposed of by paying an incentive, equivalent to a fixed period's rent, at the end of the anticipated void period. If the assumed disposal does not take place, extra costs which have not been provided for may be incurred. Our assumption for calculating the provision is that, following the disposal of a property by payment of an incentive, there will be no further cost to the Commission.

While our provisions reflect best estimates provided by our property advisers, there is no certainty that property disposals will occur in line with these assumptions. In addition to amounts provided for in our accounts, the following table shows those properties where there remains a potential additional exposure to the Commission.

Property	Lease end	Provision in our accounts	Additional exposure
		£000	£000
Bristol properties	10 January 2023	4,498	4,836
Leeds City Office Park	19 January 2020	374	1,399
Leicester Rivermead [1]	28 September 2022	0	3,111

[1] Leicester Rivermead was disposed of on 31 October 2011. In line with normal practice, the lease assignment included the provision of an Authorised Guarantee Agreement where the Audit Commission (or successor body) will cover the costs of the lease in the event the assignee defaults and is unable to pay in accordance with the terms of their lease agreement.

18.3 Millbank service charge costs

Under the terms of its property leases for office space in Millbank, the Audit Commission has a liability for building service charges. These charges are apportioned across all tenants within Millbank and paid quarterly based on estimated expenditure provided by the landlord. Under the terms of the leases, the landlord should provide annual expenditure statements after the year end to reconcile actual expenditure with the on-account payments. No audited statements have been provided since 2007. The Commission has been pursuing annual reconciliations of audited expenditure since this date and has recently issued a Part 18 Notice under the Civil Procedure Rules to demand this information.

At present it is unknown whether the annual reconciliations will result in a demand for additional sums due, or refunds of on-account overpayments. Our estimate of the maximum exposure to the Commission is £0.3 million.

18.4 Redundancies

In April 2012 the Audit Commission Management Team approved a voluntary redundancy exercise in the North East region. It is expected that between two and four audit managers or principal auditors will be made redundant, with estimated maximum liability of £0.1 million.

Note 19: Related party transactions

The related party disclosures given below meet the requirements of IAS 24. Disclosure relates to key management personnel of the Commission, or their close family members, who are in a position of significant 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 Care Quality Commission;
- that is a central government department; and
- that is a provider or receiver of significant services to or from the Commission.

Transactions with related parties

Such transactions are all carried out on an arm's length basis and are conducted on normal commercial terms, with the exception of grants received from DCLG. No amounts were written off or forgiven during the year and outstanding balances were settled under normal trading terms.

Commissioners

Councillor Sir Merrick Cockell is a member of the Royal Borough of Kensington and Chelsea. During the period until 28 July 2011 when Merrick's appointment as a Commissioner ended, transactions for services provided by the Commission to the Borough amounted to £113,954 (2010/11 full year: £364,129).

Dr Jennifer Dixon is a director of the Nuffield Trust. During the year transactions for services provided by the Commission to the Nuffield Trust amounted to £78,522 (2010/11: nil). The balance due to the Commission at 31 March 2012 was £1,770.

Councillor Stephen Houghton is a member of Barnsley Metropolitan Borough Council. During the year transactions for services provided by the Commission to the Council amounted to £426,717 (2010/11: £470,093). The balance due to the Commission at 31 March 2012 was £28,505.

Councillor Robert Light is a member of Kirklees Council. During the period from 15 September 2011 when Robert's appointment as a Commissioner started, transactions for services provided by the Commission to the Council amounted to £280,368. The balance due to the Commission at 31 March 2012 was £96. Robert is also a member of Local Government Improvement and Development, to which transactions for services provided by the Commission during the period from his appointment amounted to £15,000. There was no balance due to the Commission at 31 March 2012.

Councillor Chris White is a member of Hertfordshire County Council. During the period until 31 May 2011 when Chris's appointment as a Commissioner ended, transactions for services provided by the Commission to the Council amounted to £34,792 (2010/11 full year: £397,207). Chris is also a member of St Albans City and District Council, to which transactions for services provided by the Commission during the period until his appointment ended amounted to £10,502 (2010/11 full year: £155,164).

Councillor Sir David Williams is a member of Richmond upon Thames Council. During the period from 6 July 2011, when David's appointment as a Commissioner started, transactions for services provided by the Commission to the Council amounted to £219,640. The balance due to the Commission at 31 March 2012 was £18,536.

Management team

Gareth Davies During the year the Commission ran a competitive tender exercise in accordance with European procurement rules for the outsourcing of work of the Audit Practice. A Staff Protocol was put in place in anticipation of employees of the Audit Practice seeking to participate in the competitive tender exercise, to ensure there was a level playing field for all bidders. With the permission of the Commission, Gareth Davies, Managing Director of the Audit Practice, established DA Partnership Ltd, a company of which he was sole shareholder and director, which proposed to bid in partnership with Mazars LLP.

In accordance with the Staff Protocol, Gareth Davies took sabbatical leave from the Audit Commission in order to prepare the DA Partnership bid so as to ensure due separation between the bid and the Commission during the outsourcing. An agreement was entered into to ensure the leave of absence was at no cost to the public purse. A conflict of interest was registered pursuant to the Staff Protocol in which Gareth Davies acknowledged his interest in the outsourcing.

Further, arrangements were made so that any group charged with making decisions on behalf of the Commission about outsourcing of the Audit Practice did not include any member of the Audit Practice. Nor did it include any other individual or Board member who formed part of, or had an interest in, an outsourced Audit Practice or in any other potential bidding organisation. Strict information barriers were maintained to prevent any confidential information being disclosed to DA Partnership Limited or any other bidder, or to the Audit Practice.

On Monday 5 March 2012, as a result of the competitive tendering, the Commission awarded a five year contract to DA Partnership Limited for audit services in the North East and North Yorkshire area, with a total notional value of £5 million per year. This area comprised one lot out of ten that were outsourced, of which the total value was just under £90 million per year.

On the same date Gareth left the Commission. The Commission had no other transactions with DA Partnership Limited during the year, other than to transfer the domain name of DA Partnership to the new company.

Martin Evans is a member of the Audit and Risk Committee of DCLG. Details of transactions with DCLG are given below.

Other related parties

The Commission is a public corporation sponsored jointly in the year by DCLG and the Department of Health.

During the year, amounts invoiced to DCLG for services provided by the Commission to, or on behalf of DCLG, or received in grant income from DCLG, amounted to £11.9 million (2010/11: £10.6 million). During the year we were invoiced by DCLG for £117,736 for services received by the Commission (2010/11: £1,726). There was no balance due to or from DCLG at 31 March 2012.

There were no transactions with the Department of Health during the year.

Compensation of key management personnel

The compensation of key management personnel is set out in the remuneration report.

Note 20: Losses and special payments

The Commission has constructive losses of £2,961,000 (2010/11: £251,000).

A constructive loss occurs when correctly ordered goods or services are received and paid for; but a later event or change of policy means those goods or services are no longer needed. Individual losses greater than £250,000 have been detailed below.

Decisions to immediately stop inspection activities, privatise the work of the Audit Practice from November 2012, and to restructure the Audit Commission to a much smaller residuary body from April 2013, have resulted in a significant reduction in the size of the Commission's business. Staff numbers have already reduced and will reduce more at 31 October 2012. One outcome of the decision to abolish the Audit Commission is that we will have surplus property. Where possible we will exercise lease break or expiry clauses in line with the government property spending controls. However, we have incurred constructive losses in excess of £250,000 as a result of mothballing and disposal of properties during the year. The total of these property-related losses is £2,548,000.

Losses in relation to mothballed properties arise when we are not yet able to end the leases and we incur unavoidable costs for these vacant properties that provide no more value to the business. These costs totalled £1,097,000.

In addition, we have fully depreciated the associated furniture, fixtures, fittings and equipment assets within these properties that are now surplus to requirement. These costs totalled £821,000.

In October 2011 we also disposed of our Leicester office where the disposal cost represented value for money against the residual lease liability. The cost of the property disposal equated to three years and three months' rent plus disposal fees, totalling £630,000. However, given current economic circumstances, and having considered independent advice on market conditions, this offered value for money and reduced the stranded costs for this property of £3.1 million that would have ultimately passed to others once we are abolished.

The Commission did not make any special payments during the year (2010/11: nil).

Note 21: Events occurring after the end of the reporting year

The Commission's financial statements are laid before the Houses of Parliament by the Secretary of State for Communities and Local Government. International Accounting Standard 10 (IAS 10) requires the Commission to disclose 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 the date the accounts are certified by the Comptroller and Auditor General.

Appendix 1: Accounts direction

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

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

1 The annual financial statements of the Audit Commission for Local Authorities and the National Health Service in England (hereafter in this accounts direction referred to as "the Commission") shall give a true and fair view of the income and expenditure and cash flows for the financial year and the state of affairs at the year end. Subject to this requirement, the financial statements for 2010/11 and for subsequent years shall be prepared in accordance with:

- the accounting and disclosure requirements of the Companies Act;
- International Financial Reporting Standards;
- any guidance that the Treasury may issue from time to time in respect of the financial statements of public corporations;
- 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 financial statements are prepared, and except where agreed otherwise with the Secretaries of State and the Treasury, in which case the exception shall be described in the notes to the financial statements.

2 The annual accounts shall contain a Remuneration Report which shall contain the information specified in Schedule 7A of the Companies Act 1985 and comply with any requirement of that Schedule as to how information is to be set out in the report, for which purpose the Commission's chairman, chief executive and all members of the management board shall be taken to be directors.

3 Schedule 1 to this direction gives additional disclosure requirements of the Secretaries of State.

4 This direction shall be reproduced as an appendix to the financial statements.

5 This direction replaces all previously issued directions.

Signed by authority of the Secretary of State for Communities and Local Government
Julie Carney
An officer in the Department for Communities and Local Government
Date 31 March 2011

Signed by authority of the Secretary of State for Health
Stephen Mitchell
An officer in the Department of Health
Date 31 March 2011

Schedule 1

Additional disclosure requirements

The following information shall be disclosed in the financial statements, as a minimum, and in addition to the information required to be disclosed by paragraph 1 of this direction.

1 The income and expenditure account or the notes thereto

a. The following income:

- fees; and
- other income.

b. The following expenditure:

- audit fees to private firms;
- contract audit assistance for the Commission's regional operations;
- other amounts payable to private accountancy firms; and
- debts written off and movements in provisions for bad and doubtful debts.

2 The notes to the financial statements

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:

- local government audits;
- local government inspections;
- National Health Service audits, and
- National Health Service inspections.

b. For work carried out under each of the following sections in the Audit Commission Act 1998 (items i to iii) and Local Government and Public Involvement in Health Act 2007 (item iv), a statement showing the income and expenditure for the year:

- section 28 (certification of claims, returns etc.);
- section 29 (agreed audit of accounts);
- section 36 (studies at request of educational bodies); and
- paragraph 9 of Schedule 2A (advice and assistance work).

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.

- Local Government authorities; and
- Health Service authorities.

d. Details of employees, other than Commission members, showing:

- the average number of persons employed during the year, including part-time employees and secondees, analysed between appropriate categories;
- the total amount of loans to employees;
- employee costs during the year, showing separately;
- wages and salaries;
- early retirement costs;
- social security costs;
- contributions to pension schemes;
- payments for unfunded pensions; and
- other pension costs.

e. In the note on receivables, prepayments and payments on account shall each be identified separately.

f. * 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:

- transactions and balances of £5,000 and below are not material;
- the following are related parties:
  - subsidiary and associate companies of the Commission;
  - 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);
  - board members and key managers of the Commission;
  - members of the close family of board members and key managers;
  - companies in which a board member or a key manager is a director;
  - partnerships and joint ventures in which a board member or a key manager is a partner or venturer;
  - trusts, friendly societies and industrial and provident societies in which a board member or a key manager is a trustee or committee member;
  - companies, and subsidiaries of companies, in which a board member or a key manager has a controlling interest;
  - settlements in which a board member or a key manager is a settlor or beneficiary;
  - 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;
  - 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;
  - settlements in which a member of the close family of a board member or of a key manager is a settlor or beneficiary; and
  - the Department for Communities and Local Government, as the sponsor department for the Commission.

For the purposes of this sub-paragraph:

- A key manager means a member of the Commission's management board.
- 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.
- 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.

g. 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 (f) of Schedule 1: 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.

Appendix 2: Sustainability report

This is the first year in which HM Treasury requires all public sector organisations, including the Audit Commission, to report on sustainability within their annual reports and accounts.

Summary of performance

The Commission is committed to improving its environmental performance and reducing the environmental impact of its work. As a regulator, we strive to set a good example to the bodies we audit. Over the last five years, we have made significant steps towards becoming more sustainable, and to improve the ways we measure and report progress internally and externally.

Overall we have made good progress against the Sustainable Operations on the Government Estate (SOGE) targets and more recently the Greening Government initiative. We have exceeded our targets and have achieved an overall reduction of 1,828 tonnes in CO_2e emissions, equating to a reduction of 43 per cent since 2008.

Since we first started monitoring sustainability in 2008/09 we have reduced business travel miles by 52 per cent, travel costs by 60 per cent and increased energy efficiency, reducing our carbon dioxide equivalent (CO_2e) emissions by 43 per cent. We have also reduced waste and increased our efforts on sustainable procurement.

We are now working towards the Greening Government Commitments that were introduced in 2010 following the change of government.

In 2010, the government announced plans to abolish the Audit Commission. We will continue to work towards achieving the government sustainability targets until our abolition.

Performance summary 2011/12

Area	Actual performance	Normalised performance per full-time equivalent (FTE)
Carbon dioxide equivalent emissions (tonnes CO_2e)	2,399	2
Total energy consumption (kWh)	2,366,949	1,922
Total energy expenditure (£)	125,287	102
Total recycled waste (tonnes)	88.6 [1]	-
Water consumption (m^3)	3,191	3
Water expenditure (£)	12,573	10

[1] All recycled waste excluding recycled IT equipment.

Greenhouse gas emissions

Energy consumption

We have made significant efforts to reduce the amount of energy consumed by our buildings, including:

- tighter controls on heating;
- passive infrared (PIR) lighting; and
- installation of automatic meter readers.

These measures have helped us achieve a reduction in CO_2e emissions of 43 per cent, since 2008/09, exceeding our internal target of a 20 per cent reduction by 2015. We have also already exceeded the government's target of an overall 30 per cent reduction by 2020. In 2011/12 we did see a small increase in emissions per FTE as staff numbers reduced quickly but lease obligations prevented us from reducing office space at the same pace. Where it has not been possible to dispose of surplus space it has been mothballed reducing costs and emissions.

The total saving across all utilities (gas, electricity and water) from 2008/09 to 2011/12 was £192,800.

Energy Consumption (Scope 2[1])		2011/12	2010/11	2009/10	2008/09
Non-financial indicators (kWh)	Gas consumption (kWh)	432,022	966,114	1,060,489	1,097,157
	Electricity consumption (kWh)	1,934,927	3,284,840	3,335,337	3,882,885
	Total energy emissions (CO_2e tonnes)	1,064	1,596	1,636	1,878
	Emissions per FTE (CO_2e tonnes)	0.9	0.9	0.8	1.1
Financial indicators (£000)	Total energy costs	125	227	247	299

[1] Scope 2 emissions are those resulting from energy consumed which is supplied by another party.

We only report our energy use in our buildings where we are directly invoiced and responsible for payments or where automatic meter readings are available. We have reported on eight sites for electricity and six sites for gas.

Travel

Since 2005 we have introduced several initiatives to reduce employee business travel, and associated emissions. No new cars have been added to the fleet in the last year as cars are reallocated as staff numbers decrease. These initiatives have included:

- encouraging staff to choose fleet vehicles with emissions below 130g/km;
- introducing hybrid vehicles to the fleet;
- extending videoconferencing facilities across all offices;
- introducing green travel plans at key sites; and
- eliminating unnecessary meetings to cut travel and costs.

These measures have helped the Commission reduce its CO_2e travel-related emissions by 43 per cent since 2008/09 (see table above), which exceeds the government's target of a 34 per cent reduction by 2020.

Some of this reduction is due to the Commission decreasing in size, but that is not the only reason. We have reduced the number of business miles travelled per FTE by 8 per cent this year. We have achieved a 35 per cent reduction in travel costs per FTE over the last four years because of changes to the way we work.

Over the last four years our total business miles have reduced by 52.2 per cent. Our public transport miles have also reduced by 66 per cent and road miles by 46 per cent. Total business travel expenditure has reduced by 59 per cent over the last four years to 31 March 2012. The total saving in travel costs from 2008/9 to 2010/11 was £1.6 million.

Travel (scope 3[1])		2011/12	2010/11	2009/10	2008/09
Non-financial indicators (CO_2e tonnes)	Air travel	3	8	12	20
	Rail travel	98	204	282	304
	Road travel	1,234	1,585	2,041	2,025
	Total emissions	1,335	1,797	2,335	2,349
	Emissions per FTE	1.1	1.0	1.2	1.2
Financial indicators (£m)	Total travel costs	1.1	1.6	2.3	2.7

[1] Scope 3 emissions are those relating to official business travel directly paid for by an organisation.

Waste

The Audit Commission has introduced and improved recycling facilities at its major offices in recent years. Our office waste typically comprises paper, cardboard, food and drinks waste and packaging. Among our initiatives we have:

- introduced dedicated confidential waste collection points in all offices;
- reduced the number of non-recycling waste bins in offices and provided cup and can recycling points in all offices;
- introduced framework contracts for the compliant recycling or disposal of furniture and IT consumables. This is particularly relevant because of our estate rationalisation in preparation for our abolition; and
- reduced the volume of plastic cup waste by removing vending services and introducing recycled mugs.

In the last four years we increased the amount of waste we recycled per FTE by 105 per cent. Over the last three years, our paper recycling has increased by 78 per cent. Over the last year our plastic cup and can waste has reduced by 77 per cent, equating to 63 per cent reduction per FTE. However, at some sites, the volume of waste created is too low to make recycling initiatives viable.

We only report recycled waste on buildings where volumes are sufficient for our waste management contractors to provide us with waste data. This report only covers recycled waste contracts (see table below). We generate a minimal amount of waste that is not recycled, mostly within multi-tenanted offices, where levels are not recorded separately for the Commission. Consequently we are not required to report on waste where it is not recycled.

Recycled waste (Scope 1[1])		2011/12	2010/11	2009/10	2008/09
Non-financial indicators (tonnes)	Cups and cans	11.2	42.0	69.8	55.1
	Furniture	29.7	31.5	21.1	No data
	Paper – confidential waste	26.1	12.6	15.2	14.0
	Paper – disposal of records	21.6	16.8	11.6	No data
	Total	88.6	102.9	117.7	69.1
	Tonnes per FTE	0.072	0.057	0.059	0.035
Financial indicators (£000)	Total costs	71	91	79	43

[1] Scope 1 emissions are from sources owned or controlled by the organisation.

Use of finite resources

Water

Our SOGE target is to reduce our 2004/05 levels of water consumption by 25 per cent by 2020. To help achieve this target we have:

- installed water volume reducers in toilet cisterns and waterless urinals;
- installed water-reducing shower heads;
- abolished bottled water orders for hospitality bookings; and
- installed automatic meter readers across key sites.

These measures have helped us to achieve a cubic metre reduction of 36 per cent per FTE over the three years, to April 2011. The consumption in 2011/12 has increased by 4 per cent to April 2012, because of increased water flushing to prevent Legionella in our mothballed offices. Water costs have reduced by 60 per cent over the four years to 31 March 2012. (See table below).

Water consumption (Scope 2 [1])		2011/12	2010/11	2009/10	2008/09
Non-financial indicators (m^3)	Water consumption	3,191	4,355	6,252	7,556
	Water consumption per FTE	2.6	2.5	3.1	3.9
Financial indicators (£000)	Total water costs	12.6	14.9	17.8	31.7

[1] Scope 2 emissions are those resulting from energy consumed which is supplied by another party.

We only report water use in our buildings where we are directly billed and responsible for payments. We have reported on six sites based on the best available evidence. Water is used for washrooms and drinking water.

Biodiversity

The Audit Commission has not undertaken any biodiversity projects.

Sustainable procurement

All products and services bought have some impact on the environment and on people and communities. Our sustainable procurement approach has focused on recognising and mitigating these impacts at various stages of the procurement process, where it is proportionate and cost-effective to do so. These are detailed below.

- **Planning.** We look at whether a product or service is really needed or whether we can meet the need in another way (reducing, recycling, reusing or working in partnership). For example, we have reused office furniture when reducing our estate. We assess the sustainability implications of buying the product or service, including the economic, environmental and social effects of producing, delivering, using and disposing of it. For example, we introduced remanufactured toners after product trials, with a closed loop arrangement where we return empty toners to the supplier for remanufacture.
- **Specification.** We carefully review the specifications for products or services to reduce the economic, environmental and social impact. For example, for office removals, storage and disposals, we specify that redundant furniture must be donated to the third sector and follow guidelines on sustainable disposal.
- **Contract terms.** Our standard contract terms have clauses that require suppliers to cooperate with the Commission in seeking reasonable and practical ways to improve the sustainability of the delivery of the goods or services.
- **Selection criteria.** We ask for relevant evidence of technical competence to deliver environmental requirements where relevant to the procurement. For example, we asked for environmental policies, method statements, organisational objectives and practices in relation to the sustainable disposal of redundant furniture.
- **Evaluation.** We evaluate tenders based on whole-life costs and take into account the hidden costs of procurement decisions. For example, we have invested in videoconferencing equipment that has reduced travel costs in the Commission.
- **Contract management and monitoring.** We work with our suppliers during the life of the contract to deliver environmental improvements to goods and services. For example, we reviewed and reduced the frequency of visits for Portable Appliance Testing and confidential waste disposal, thereby reducing the number of miles travelled to service the contracts.

Governance

Our sustainability governance arrangements are monitored and discussed monthly by functional management teams. Low impact areas are monitored internally by our Estates team. The high level impact area of business miles is included in performance indicators reported to the Board.

Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: **0844 798 3131**
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square
London SW1A 2JX
Telephone orders/General enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

Stock code: GCM3705

ISBN 978-0-10-297853-7

9 780102 978537

10_0406