Annual report and accounts 2010/11

Audit Commission

Annual report and accounts 2010/11

Report and accounts of The Audit Commission for Local Authorities and the National Health Service in England, showing the Statement of comprehensive income for the year ended 31 March 2011, the Statement of financial position as at 31 March 2011, the Statement of cash flows for the year ended 31 March 2011 and the Statement of changes in taxpayers' equity for the year ending 31 March 2011, together with the Report of the Comptroller and Auditor General thereon.

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 12 July 2011.

HC1189 London: The Stationery Office £20.50

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

ISBN: 9780102972719

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

ID 2435468 07/11

Printed on paper containing 75% recycled fibre content minimum.

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Foreword

We started 2009/10 with a challenging strategy to reduce our costs and pass the benefits back to audited bodies. The challenge increased with the government's decision to end the Comprehensive Area Assessment (CAA) in May 2010, followed by the announcement of our abolition three months later.

We are proud of what we achieved last year. We absorbed the financial impact of ending CAA and inspection work and preparing for closure, kept our promise to reduce audit fees in 2010/11 and 2011/12, and prepared for meeting the financial challenges ahead. We did this by reducing costs significantly, as explained in the annual accounts (pages 40 to 91). We continued to oversee the audit of local public bodies and to deliver high quality audits. We worked closely with the Department for Communities and Local Government to consider the future audit arrangements. We continued to have a voice on important issues including police efficiencies, schools, the NHS, local government, and local government pensions.

These successes were due to the resilience and professionalism of the Commission's staff, when their own futures were in doubt. The personal cost of the changes was soon felt. The Commission has already made more than 400 valued staff redundant. Sadly, there will be more job losses in the coming months. We wish all our colleagues the best of luck in finding new and fulfilling careers elsewhere. We want to thank all staff, those who have gone and those who remain, for their continued commitment to the values of public service.

As with other bodies, our own spending has come under scrutiny through publication of our monthly spend and disclosures arising from MPs' questions and from Freedom of Information requests. This scrutiny has led to media comments about the value for money of some of our expenditure. In many cases, inaccurate assumptions were made about the nature and purpose of our expenditure. These stories have overshadowed a serious debate about the future of public audit, and dismayed staff who still have an important job to do. We hope that we can now put this phase behind us and concentrate on the important work the government wants us to do.

We will continue to work with the Department for Communities and Local Government to help put in place new arrangements for auditing England's local public bodies. We will also continue to contribute to the important public debate about the future of public audit, building on the evidence we gave to the Communities and Local Government Select Committee in March. Our response to the Department for Communities and Local Government's consultation on this issue is available on our website, and covers some important issues for the design of the new arrangements.

As this report goes to print we are working closely with the Department for Communities and Local Government on the specifics of the transfer of the work undertaken by our Audit Practice to the private sector. We hope there will be scope for a thriving distinctive new provider, mainly owned by the staff.

Michael O'Higgins
Chairman

Eugene Sullivan
Interim Chief Executive

Annual report

Outline of the year

At the beginning of 2010/11, the Audit Commission was preparing for a busy year. In addition to our ongoing audit work, we were gathering evidence to inform the second set of CAA, which was due to be published in December 2010.

In anticipation of a tough year for public finance, and in line with the government's Operational Efficiency Programme, we had a strategy to cut our costs by a third over three years. We planned to pass on significant savings to local bodies, including in 2010/11. This included, for example, earmarking 25 local offices for closure to help save money.

Then, in May 2010, the government announced its plans to abolish CAA. We were to find out, on Friday 13 August, that the government proposed to bring about the end of the Audit Commission itself. Despite the abolition news, and associated changes within the Commission, it was a year of highlights and achievements.

Efficiency programme

Early in the financial year, the Commission set up a change programme to deliver its planned savings. When the government announced that it was abolishing CAA, we adjusted our plans to reflect this. The Commission had made good progress in identifying plans and options for savings, and had already made some staffing and other changes, before news of our abolition. The programme changed again to take account of the proposed abolition.

We completed a major transformation programme in December 2010, delivering a smaller, reshaped Commission. We ended almost all of our inspections. We moved from a regional audit structure to a single national Audit Practice. We reorganised our central support services to reflect the changed circumstances of the Commission. We have closed 13 offices and mothballed excess office space to make planned long-term savings. The total number of people employed fell from 1,985 full-time equivalents (FTEs) to 1,409 during the year. At least another 200 FTEs will leave in 2011/12.

When redundancy costs are excluded, we reduced our operating costs by £32 million compared to the previous year. The savings enabled the Commission to rebate audit fees by £3.4 million. Recognising the pressure on local public bodies to reduce their costs, and as a result of our own cost-cutting exercises, we were able to announce a reduction in scale audit fees for 2011/12. Scale audit fees for local government, health and community safety are considerably lower for 2011/12 than for 2010/11. Larger bodies will see a reduction of between 5 and 10 per cent while smaller bodies will see their fees reduced by up to 20 per cent.

We ended the year in a strong financial position given the challenges, well placed to transfer the work of our Audit Practice into the private sector, as The Department for Communities and Local Government proposes.

Our Audit Practice

The Audit Practice carried out a fundamental restructure during 2010/11. Changing from a regional to a national structure enabled it to remove a tier of management and reduce senior posts by 22, saving £4 million. We have now established the practice on a commercial trading basis for 2011/12, and reduced costs in preparation for its move to the private sector.

We reduced the number of staff in the Audit Practice from 1,201 to 905 (FTE positions) by disbanding the regions, restructuring support and making staff delivering CAA redundant. The practice carried out a total of 560 audits this year, including 52 of NHS foundation trusts for which the practice competes with private sector firms. The practice continued to win new appointments in this market, despite the uncertainty over its future.

The practice continued to deliver timely and high-quality audits. Our internal assessments of audit quality showed continued improvement, as did the external inspection of our audits by the independent Audit Inspection Unit (AIU) which is part of the Professional Oversight Board of the Financial Reporting Council.

Helping our staff

Our Human Resources department has provided extensive support to staff leaving, or preparing to leave, the Commission. Workshops have been held on subjects ranging from CV training to setting up your own business.

We also arranged external secondments for staff wanting to develop and broaden their skills as they work out their notice. Following the abolition announcement, 38 staff took up temporary secondments within local and central government, housing associations, charities and other regulators.

Inspections

We completed 71 inspections of local authorities, police authorities and housing associations in 2010/11. This brought the total to 750 in the last five years. The Commission's Board agreed at its meeting in September 2010 that, following the abolition announcement, we would complete our inspection programme by December 2010. We may still, however, carry out occasional inspections if asked to do so by another regulator or government department. Our reports helped providers improve their services for some of the most vulnerable in society.

National studies and other publications

In agreement with the Department for Communities and Local Government officials, we continued to publish studies that were already underway before the abolition announcement. We focused on subjects that had a specific slant towards helping local public service providers deliver better value for money.

The Commission's UK-wide anti-fraud programme, the National Fraud Initiative (NFI), helped councils, housing associations and other local bodies identify £215 million in fraud, overpayment and errors in one year. The government has said it is committed to retaining the NFI after our abolition. We are working with government to help identify a new owner for our data matching work.

A separate report, *Protecting the Public Purse*, published in October, found that councils had detected £99 million worth of benefit fraud and over £15 million worth of council tax fraud.

We worked with Her Majesty's Inspectorate of Constabulary and the Wales Audit Office to identify £1 billion of savings that police forces in England and Wales could make. A series of tools accompanied the report to help the police cope with less money after a decade of increases in spending.

Our research into the Local Government Pension Scheme found that the scheme needs further action to manage the growing mismatch between liabilities and the resources available to fund them. We also looked at the growing problem of young people not in education, employment or training (NEET) in our *Against the Odds* report. It found that early low-cost interventions can bring large savings.

We identified regional variation in levels of staff sickness absence in the NHS, and suggested that £290 million could be saved by addressing sickness absence. In our annual report looking at the NHS's Payment by Results system, we found the NHS is getting better at clinical coding, which contributes to better data, better decisions and better outcomes for patients.

Looking forward

We end the financial year with a leaner workforce, but with a job still to do. Until legislation is passed to abolish the Audit Commission, we will continue to fulfil our statutory functions. We will oversee arrangements for the audit of local public bodies and, where appropriate, publish reports from audit and other work to help public services improve.

We are working closely with the Department for Communities and Local Government to develop plans for the future of local public audit. We hope the new plans will preserve the principles of public audit, including the independent appointment of auditors. We will also continue to shape the Commission's Audit Practice, so that our audit staff can look forward to successful futures in the private sector.

Commissioners during the period of review

All comments relating to the Commissioners reflect their activities during the year ended 31 March 2011.

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, having previously been Chairman of Alexander Mann Solutions. 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 is also the Chair of the charity Centrepoint, a Trustee of the National Centre for Social Research (NatCen) and 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, the social care charity working with people with complex needs involving substance misuse, mental health problems and learning disabilities. 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 started her career in local government, and then as a management consultant at Coopers & Lybrand and Ernst & Young, before moving to PA Consulting Group where she was a Senior Partner. She is an expert in all forms of organisational restructuring, sale and outsourcing. Janet was a Board member and Chair of the Audit Committee of the Healthcare Purchasing Consortium (NHS) until May 2010. She is a Non-Executive Director on the Board of the Defence Support Group, and on the Treasury Group Audit Committee. She is also a Non-Executive Director on the Board of the Rural Payments Agency (DEFRA) and a Member of its Audit Committee. Janet also undertakes selected consulting assignments.

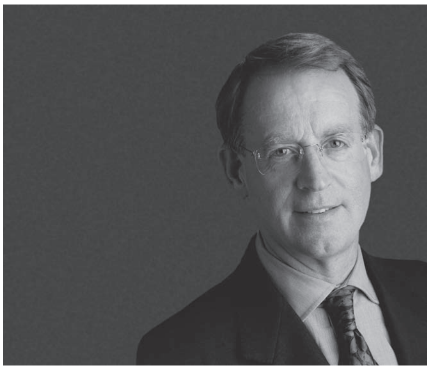
Councillor Sir Merrick Cockell
Sir Merrick was Chairman of London Councils from 2006 to 2010 and has been Leader of the Royal Borough of Kensington and Chelsea since 2000 and a councillor since 1986. In October 2010 he joined the Board of the London Pension Fund Authority. He is also Chairman of the 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, Trustee of 2020 Public Services Trust, 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.

Jim Coulter
Jim was Chief Executive of the National Housing Federation for 17 years until retiring in June 2005 and, before that, he had a similar role at Leeds Federated Housing Association. He is also a Board member of the Tenant Services Authority. He was Chair of Bridging Newcastle Gateshead, the housing market renewal pathfinder until 31 March 2011; has been a Board member of Shelter; a member of the North-East Regional Housing Board; Chair of Homeless Network; and has served on Department for Communities and Local Government project boards. Jim's appointment ended on 31 March 2011.

Dr Jennifer Dixon
Jennifer is Director of the Nuffield Trust. 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.

Sheila Drew Smith, OBE
Sheila is an independent management consultant on business development and related management and governance issues. She is a Board member of the Tenant Services Authority and of the London Thames Gateway Development Corporation. She was Executive Chair of Tower Hamlets Housing Action Trust until 2004/05 and was a Board member of the Housing Corporation from 2002 to 2008. She became a Non-Executive Director of the Infrastructure Planning Commission in March 2010 where she chairs its Audit Committee. Sheila's appointment ended on 31 December 2010.

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, 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 11 years and a member for 20. He is also Chair of the Barnsley Local Strategic Partnership, Chair of the Special Interest Group of Municipal Authorities (SIGOMA) and Chair of Barnsley Miller Partnership Ltd. 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 Appeals 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.

Sir Thomas Legg, KCB QC
Tom was Permanent Secretary of the Lord Chancellor's Department (now the Ministry of Justice) from 1989 to 1998. He is Non-Executive Director of the Imperial College Healthcare NHS Trust and was consultant to the law firm Clifford Chance for 12 years until he retired in August 2010. Tom's appointment ended on 31 March 2011.

Dame Denise Platt
Denise is a member of the Committee on Standards in Public Life. She was previously Chair of the Commission for Social Care Inspection and also chaired the independent advisory panel for the Local Innovation Awards Scheme. Among her voluntary sector roles Denise is Chair of the National AIDS Trust, a trustee of the National Society for the Prevention of Cruelty to Children (NSPCC) where she chairs the Audit and Risk Committee and a trustee of the Lloyds TSB Foundation. She is a Governor of the University of Bedfordshire and a member of the Independent Review Board of the Cheshire Fire and Rescue Service. Dame Denise's appointment ended on 31 August 2010.

Dr Raj Rajagopal
Raj was Chief Executive of BOC Edwards and Executive Director of the BOC Group plc from 2000 to 2006. From 1981 to 2000 he held various positions in the BOC Group plc including Managing Director of Edwards High Vacuum. He is a Non-Executive Director of Bodycote plc, WS Atkins plc and Spirax Sarco Engineering plc, a member of the Prime Minister's Council of Science and Technology and a Fellow of the Royal Academy of Engineering. He is also Chairman of HHV Pumps, an adviser to Bristlecone Ltd and Director of Dr Rajagopal Associates. He is Chairman of University of Manchester Intellectual Property Ltd. Raj's appointment ended on 31 August 2010.

Jenny Watson
Jenny is Chair of the Electoral Commission, a role she has held since January 2009. She is also a Non-Executive Director of Waste and Resources Action Programme (WRAP). She is a trustee of the Charities Aid Foundation and Money Advice Trust. Her past roles include Chair of the Equal Opportunities Commission and she was a founding Partner of Global Partners and Associates. Jenny's appointment ended on 31 August 2010.

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.

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	12/07/12
Jim Coulter	01/04/05	31/03/11
Dr Jennifer Dixon	01/11/03	31/12/12
Sheila Drew Smith, OBE	01/05/04	31/12/10
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
Sir Thomas Legg, KCB QC	01/04/05	31/03/11
Dame Denise Platt	01/09/07	31/08/10
Dr Raj Rajagopal	01/09/07	31/08/10
Jenny Watson	01/09/07	31/08/10
Councillor Chris White	01/06/05	31/05/11

Commissioners' interests

The following disclosures relate to Commissioners who were in post at 31 March 2011 and their activities during the year. 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)
- Non-Executive Director, HM Treasury and Chair, Treasury Group Audit Committee

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

Councillor Sir Merrick Cockell

- Member, Royal Borough of Kensington and Chelsea

Jim Coulter

- Chair, Bridging Newcastle Gateshead
- Board member, Tenant Services Authority

Dr Jennifer Dixon

- Director of the Nuffield Trust

Tony Harris

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

Councillor Stephen Houghton, CBE

- Member, Barnsley Metropolitan Borough Council
- Member, Barnsley Miller Partnership
- Fees from Improvement and Development Agency for peer member duties
- Member of Local Government Group Executive

Brian Landers

- None

Sir Thomas Legg, KCB QC

- Non-Executive Director, Imperial College Healthcare NHS Trust

Councillor Chris White

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

Senior managers during the period of review

Eugene Sullivan Interim Chief Executive
Eugene rejoined the Commission in June 2008 as Managing Director of Finance and Corporate Services. He became Interim Chief Executive and Controller of Audit on 1 April 2010. In June 2010 the Board decided to suspend the appointment process for a new Chief Executive and continue with the interim arrangements. There has been no change to this policy since the government's announcement in August 2010 of its plans to disband the Commission. The Commission has decided not to recruit a replacement to his former post of Managing Director of Finance and Corporate Services.

The Board has delegated authority for the day-to-day management of the Commission to the Interim Chief Executive. The Interim Chief Executive therefore has responsibility for running the organisation, staffing, and for its financial and other procedures, including conduct and discipline. He discharges this responsibility through his management team who meet on a regular basis throughout the year.

The Audit Commission's managing directors during the year to 31 March 2011 were:

Gareth Davies Managing Director, Audit Practice
Gareth became responsible for the Commission's in-house Audit Practice on 1 October 2010. He was previously the Commission's Managing Director of Local Government and Housing, and before that a Regional Director. Gareth's professional background is in public audit, including appointments as district auditor to major local authorities and NHS bodies. Gareth is also a trustee and Honorary Treasurer of Oxfam GB.

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

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

Andy McKeon Managing Director, Health, Communications and Public Reporting
Andy was the Director of Policy and Planning at the Department of Health. During his time at the Department he was also Head of Primary Care, and played a central role in the development of a number of white papers. He became responsible for Communications and Public Reporting when the Managing Director for this area of responsibility left on 10 November 2010.

Peter Wilkinson, CBE Managing Director, Policy Research and Studies
Peter has been at the Audit Commission since 1990, and a director since 1995. He has held a variety of appointments covering the Commission's strategy, policy and corporate management, as well as responsibility for external work in the local government, health and police sectors. Peter also assumed responsibility for Local Government, Housing and Community Safety from 1 October 2010.

David Walker Managing Director, Communications and Public Reporting
David was appointed Managing Director of Communications and Public Reporting at the Audit Commission in October 2008. He was previously editor of the Guardian's Public magazine, chief leader writer for The Independent and a regular presenter of BBC Radio Four's Analysis programme. David is a council member at the Economic and Social Research Council and a trustee of the Franco-British Council. David's employment with the Commission terminated on 10 November 2010. His responsibilities transferred to Andy McKeon, previously Managing Director of Health.

Auditor details

The financial statements are audited by the Comptroller and Auditor General. He has not provided any other service to the Commission during the period. The audit fee is disclosed in Note 3.3 (page 61).

The Accounting Officer (Eugene Sullivan) confirms that:

- there is no relevant audit 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 auditors are aware of all relevant audit information.

Remuneration report

Remuneration policy
The Commission considers the following when deciding the remuneration for the Audit Commission's Chief Executive and managing directors:

- the need to attract and keep suitably qualified and experienced individuals to enable the Commission to fulfil its remit and responsibilities;
- market intelligence and specialist advice on national and regional labour markets; and
- official guidance, including the government's pay policy for the public sector.

The Commission takes account of the government's controls on recruitment and follows best practice.

In March 2008 the Commission established a Remuneration Committee as a standing committee of the Board. It comprised three Commissioners and met at least once a year. Its Terms of Reference were:

- to approve the remuneration and other terms and conditions of service of the Chief Executive;
- to receive reports from the Chairman of the Commission on his annual appraisals of the Chief Executive following consultation with Commissioners;
- to approve the Chief Executive's recommendations on the remuneration of managing directors;
- to receive reports from the Chief Executive on his annual appraisals of managing directors;
- to approve or make recommendations on any issue referred to it by the Board; and
- to approve or, where matters are reserved to the Board, make recommendations, on such other issues as may be proposed by the Chairman or Chief Executive, for example the strategy on staff pay awards.

The Board disbanded the Remuneration Committee on 16 September 2010 because of the Secretary of State's announcement about the Commission's abolition. The full Board now deals with the matters previously considered by the Remuneration Committee.

Chief Executive's and managing directors' remuneration
The remuneration and contract terms of the Chief Executive and managing directors are determined by the Commission's Board in line with Schedule 1 of the Audit Commission Act 1998. The main components of the Chief Executive's and managing directors' remuneration are as follows.

- **Salary** – The Commission determined the basic salary for these post holders, on their appointment to these roles. This took account of each person's responsibilities, record of achievement and experience, and employment market analysis. The Interim Chief Executive and managing directors did not receive a cost of living pay award for 2010/11.
- **Other benefits** – The Chief Executive and managing directors 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 Chief Executive and managing directors are eligible to be members of the Audit Commission Pension Scheme (ACPS). This is a stand-alone defined benefit scheme with the same level of benefit for all members. Employee contributions vary

according to salary and average out at 7 per cent. The Interim Chief Executive and managing directors sacrificed 8 per cent of their basic salary for pension contributions from 1 July 2010 under the SMART pension arrangements. Some have chosen to sacrifice more. The salary sacrifice arrangements have no additional cost for the Commission. It pays the salary sacrificed into the pension scheme on the employee's behalf, along with the employer contribution of 17 per cent.

The Commission consulted employees on changes to the ACPS in early 2010. The Commission implemented the changes on 1 July 2010. SMART contribution levels increased on a tiered basis according to pay. The contributions by the Interim Chief Executive and managing directors via SMART Pensions increased from 6 per cent to 8 per cent. Their contributions will increase again on 1 April 2012 and 1 April 2013 to 8.5 per cent and then 9.5 per cent. The Interim Chief Executive and managing directors, except the Managing Director Communications and Public Reporting, joined the Commission before August 2008, so their normal retirement age (the earliest age they can draw their pension without reduction for early payment) is 60 years. The pension they build up after 30 June 2010 will have a normal retirement age of 65 years. The Managing Director Communications and Public Reporting had a normal retirement age of 65 years.

Other terms of employment

Notice periods and provisions for compensation for early retirement for the Chief Executive and managing directors are based on those for staff. The Interim Chief Executive and managing directors all have permanent employment contracts. The Interim Chief Executive's core terms and conditions of employment remain the same as if he were still Managing Director Finance and Corporate Services. The Commission does not have a scheme for performance-related bonus payments for any employee.

Chief Executive and managing director appointments

The Commission employed a full-time Chief Executive and seven full-time managing directors on 31 March 2010. By 31 March 2011, it employed a full-time Interim Chief Executive and five full-time managing directors. Plans already in place will reduce senior manager numbers again in 2011/12. By August 2011, the Commission will employ a full-time Interim Chief Executive and 3.8 full-time equivalent managing directors.

The following table summarises the position at 31 March 2011.

	Date of joining the Commission	Date appointed to post	Date of leaving post
Eugene Sullivan, Interim Chief Executive	02/06/08	01/04/10	
Eugene Sullivan, Managing Director Finance and Corporate Services	02/06/08	02/06/08	31/03/10
Gareth Davies, Managing Director, Audit Practice [1]	01/09/87	01/10/10	
Tracey Dennison, Managing Director, Human Resources	17/11/03	17/11/03	
Martin Evans, Managing Director, Audit Policy	05/10/98	06/06/04	
Andy McKeon, Managing Director, Health (and Communications and Public Reporting from 06/10/10)	08/09/03	08/09/03	
Peter Wilkinson, Managing Director, Policy Research and Studies [2]	21/05/90	15/03/04	
David Walker, Managing Director, Communications and Public Reporting	06/10/08	06/10/08	10/11/10

Note 1: Gareth was Managing Director Local Government, Housing and Community Safety (LGHCS) until 30/09/10.
Note 2: Peter was responsible for LGHCS from 01/10/10.

Interim Chief Executive remuneration (audited)

In February 2010, the Board appointed Eugene Sullivan as Interim Chief Executive from 1 April 2010, while waiting for a new permanent Chief Executive to arrive. The Board suspended the search for a permanent Chief Executive in June 2010 and confirmed Eugene would remain as Interim Chief Executive until circumstances changed. The Board determined the Interim Chief Executive's remuneration and contract terms in line with Schedule 1 of the Audit Commission Act 1998.

The total remuneration paid to the Interim Chief Executive in 2010/11 was £231,070 including basic salary, allowances and employer's pension contributions. In 2009/10, as Managing Director Finance and Corporate Services, Eugene Sullivan's total remuneration was £212,070. The Commission paid £48,664 for Eugene Sullivan's other benefits in 2010/11, bringing the total cost of employing the Interim Chief Executive to £279,734. In 2009/10, when Eugene Sullivan was Managing Director Finance and Corporate Services, the Commission paid £49,042 for other benefits, bringing the total cost of employing him to £261,112.

The Commission did not fill the post of Managing Director Finance and Corporate Services after appointing Eugene Sullivan as Interim Chief Executive. The Commission saved £26,000 on the Interim Chief Executive, managing director and director arrangements and saved £270,000 because it did not appoint a permanent Chief Executive.

Permanent Salary
The Interim Chief Executive's substantive post is Managing Director Finance and Corporate Services. The Commission determined Eugene Sullivan's remuneration for that role on his appointment by taking account of his responsibilities, experience, market analysis and remuneration for other managing directors. When the Board appointed him as Interim Chief Executive from 1 April 2010 his basic salary of £178,000 remained the same. In common with other senior colleagues, he did not receive a cost of living pay award for 2010/11, and sacrificed more of his basic salary for pension scheme contributions from 1 July 2011.

Pension
The Interim Chief Executive is eligible to be a member of the ACPS, a defined benefit scheme available to all staff. From 1 August 2008 employees contributed to the ACPS using a 'salary sacrifice' arrangement called SMART Pensions.

In 2010/11, the Interim Chief Executive sacrificed £13,000 of his basic salary for his SMART Pension contribution. The employer's pension contribution was £31,000. In 2009/10, as Managing Director Finance and Corporate Services, he sacrificed £11,000 of his basic salary for his SMART pension contribution and the employer's pension contribution was £30,000.

Other benefits
In common with other managing directors, Eugene Sullivan is eligible for a lease car or a transport allowance of £4,070. He has opted to receive the transport allowance. As Interim Chief Executive, he receives a responsibility allowance of £1,500 a month. In 2009/10, as Managing Director Finance and Corporate Services, he received the transport allowance of £4,070 and no responsibility allowance.

The Commission pays Eugene Sullivan's travel and subsistence costs when in London, in line with his terms and conditions of employment. These payments amounted to £8,438 for travel and £17,447 for subsistence in 2010/11. The Commission will pay the tax and national insurance due on these sums of £22,779 to HM Revenue and Customs. In 2009/10, when Eugene Sullivan was Managing Director Finance and Corporate Services, the Commission paid £26,086 for travel and subsistence, and tax and national insurance of £22,956.

Managing directors' remuneration details: salary and benefits (audited)

	Basic salary 2010/11	SMART pension salary sacrifice 2010/11 [1]	Basic salary less SMART pension salary sacrifice 2010/11	Other benefits 2010/11	**Basic salary and other benefits excluding SMART salary sacrifice 2010/11**	Basic salary and other benefits excluding SMART salary sacrifice 2009/10
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Gareth Davies [2]	175	(15)	160	3	**163**	166
Tracey Dennison	128	(10)	118	6	**124**	125
Martin Evans [2]	167	(28)	139	6	**145**	148
Andy McKeon	177	(13)	164	5	**169**	172
Peter Wilkinson [2]	175	(29)	146	6	**152**	155
David Walker [2, 3]	68	(14)	54	33	**87**	120
Total	890	(109)	781	59	**840**	886

Note 1: This column shows the salary sacrifice made in line with the SMART pension scheme. The minimum salary sacrifice for the Interim Chief Executive and managing directors was 6 per cent up to 30 June 2010 and 8 per cent from 1 July 2011.
Note 2: These managing directors chose to pay SMART pension contributions above the normal level as they have opted to make additional voluntary contributions. This does not have an adverse financial implication for the Commission.
Note 3: David Walker left the Commission on 10 November 2010. David's other benefits include £10,179 in redundancy payments, £20,275 for payments in lieu of notice, and £2,101 transport allowance.

Managing directors remuneration details: pension contributions (audited)

	Year to 31 March 2011 SMART pension salary sacrifice	Year to 31 March 2011 employer pension contribution	Year to 31 March 2011 total pension contribution	Year to 31 March 2010 total pension contribution
	£000	£000	£000	£000
Gareth Davies [1]	15	30	**45**	43
Tracey Dennison	10	21	**31**	29
Martin Evans [1]	28	28	**56**	53
Andy McKeon	13	30	**43**	41
Peter Wilkinson [1]	29	30	**59**	56
David Walker [1, 2]	14	15	**29**	40
Total [3]	**109**	**154**	**263**	262

Note 1: These managing directors chose to pay SMART pension contributions above the normal level as they have opted to make additional voluntary contributions. The normal level was 6 per cent up to 30 June 2010 and 8 per cent from 1 July 2011 for the Interim Chief Executive and managing directors. This does not have an adverse financial implication for the Commission.
Note 2: David Walker left the Commission on 10 November 2010.
Note 3: Total pension contributions increased in 2010/11 because employees paid more towards their pension through increased contribution rates from 1 July 2010.

Interim Chief Executive's and managing directors' pension entitlement details (audited)

	Total accrued pension at 31 March 2011	Real increase in accrued pension	Total accrued pension at 31 March 2010	**Transfer value at 31 March 2011**	Change in transfer value	Transfer value at 31 March 2010
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Eugene Sullivan	**7**	3	4	**146**	44	102
Gareth Davies	**57**	3	54	**794**	(39)	833
Tracey Dennison	**53**	1	52	**923**	(34)	957
Martin Evans	**58**	2	56	**1,142**	5	1,137
Andy McKeon	**79**	3	76	**1,613**	5	1,608
Peter Wilkinson	**44**	3	41	**955**	32	923
David Walker [1]	**4**	1	3	**81**	23	58

Note 1: David Walker's figures are based on a normal retirement age of 65 years. The benefits for the Interim Chief Executive and the other managing directors assume a normal retirement age of 60 years for service up to 30 June 2010, and 65 years for service after that date.

The total accrued pension at 31 March 2011 shown in the table above is the amount of pension the employee would receive at today's prices, based on their final salary and length of service for pension purposes, assuming no adjustment for early or late payment. The total accrued pension at 31 March 2010 is based on this same set of assumptions, adjusted for inflation for that year. The difference is the real increase in pension over the year reflecting changes in salary, length of service and inflation.

The Cabinet Office decides the assumptions the Commission has to use for calculating the notional transfer values. The Commission use the Public Sector Transfer Club (PSTC) arrangements as directed. The result of using the updated PSTC assumptions is the transfer values for some managing directors have reduced.

Commissioner remuneration policy

The Department for Communities and Local Government sets the remuneration levels for non-executive Commissioners and advises the Commission. Their pay is based on the expectation they work three days a month except for the Deputy Chairman. His remuneration reflects the expectation he works five days a month.

The Department for Communities and Local Government also approves the Chairman's remuneration based on an average weekly time commitment of two days.

The Department for Communities and Local Government also sets the annual cost of living increase for Commissioners. This is usually linked to the award granted to senior civil servants. There was no increase awarded in 2010/11.

None of the Commissioners serving between 1 April 2010 and 31 March 2011 received other remuneration benefits from the Commission, nor are they members of the Audit Commission Pension Scheme.

The Commission has unfunded liabilities of £91,000 (2009/10: £85,000) to provide a pension in respect of one former Commissioner. This pension is not yet in payment.

Commissioner remuneration details (audited)

	Year to 31 March 2011 £000	Year to 31 March 2010 £000
Commissioners who served in the year to 31 March 2011		
Michael O'Higgins (Chairman)	**90**	**90**
Bharat Shah (Deputy Chairman, Audit Committee Chairman), Audit Commission Pension Scheme Trustee)	**24**	**24**
Lord Adebowale, CBE	**14**	**14**
Councillor Sir Merrick Cockell	**14**	**10**
Jim Coulter [1]	**14**	**14**
Dr Jennifer Dixon	**14**	**14**
Sheila Drew Smith, OBE [2]	**11**	**14**
Councillor Steve Houghton, CBE	**14**	**14**
Sir Thomas Legg, KCB QC [1]	**14**	**14**
Dame Denise Platt [3]	**6**	**14**
Dr Raj Rajagopal [3]	**6**	**14**
Jenny Watson [3]	**6**	**14**
Councillor Chris White	**14**	**14**
Brian Landers [4]	**6**	**n/a**
Janet Baker [4]	**6**	**n/a**
Tony Harris [4]	**6**	**n/a**

Note 1: Jim Coulter's and Sir Thomas Legg's appointments ended on 31/03/2011.
Note 2: Sheila Drew Smith's appointment ended on 31/12/2010.
Note 3: Dame Denise Platt's, Raj Rajagopal's and Jenny Watson's appointments ended on 31/08/2010.
Note 4: Brian Landers's, Janet Baker's and Tony Harris's appointments started on 01/11/2010.

The remuneration report is approved by the Accounting Officer on behalf of the Board.

Eugene Sullivan
Accounting Officer

30 June 2011

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

Statement of Accounting Officer's responsibilities

In accordance with paragraph 11 (1) of Schedule 1 to the 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 period end including its income and expenditure, its financial position, changes in taxpayers' equity, and cash flows for the accounting period.

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 the going concern basis.

The Permanent Secretary of the Department for Communities and Local Government 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.

Statement on Internal Control

1. Scope of responsibility

1.1 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 2010/11

2.1 During 2010/11, the Audit Commission dealt with major changes to its scope and structure, and made significant efficiencies and budget reductions. The Commission has managed these changes and their associated risks without diluting its system of internal control.

2.2 The Commission began 2010/11 with a financial strategy that included 15 per cent savings over three years, to meet the government's efficiency targets. We restructured our regions and central directorates to achieve these savings and deliver more with less. We set up a Continuous Improvement and Innovation Board to manage our efficiency programme and identify further opportunities for savings.

2.3 On 20 May 2010, the government abolished the CAA inspection regime. We stopped our CAA activities immediately and over the following months restructured our business to reflect this major change to our role.

2.4 On 13 August 2010, the Secretary of State for Communities and Local Government announced the Commission's abolition. We are working closely with the Department for Communities and Local Government to externalise the work of the in-house practice. Legislation to close the Commission is expected to receive Royal Assent in the early part of 2013.

2.5 We consider it appropriate to prepare our accounts for the year ended 31 March 2011 on a going concern basis. The Commission can meet its forward liabilities to 31 March 2012.

2.6 We have established an Audit Practice to deliver audits effectively and efficiently, and which is preparing to enter the audit market as an independent supplier. We have streamlined our support services to reflect the change in our business and to deliver efficient support to the Audit Practice while it remains part of the Commission.

2.7 We have achieved these significant changes without diminishing our internal controls. We have reaffirmed our effective prime and detailed financial policies and kept our banking arrangements under close scrutiny.

2.8 As part of our drive to meet cost reduction targets and increase efficiency, we reviewed our expenses policy during the year. We have reduced the amounts our staff can claim for hotel accommodation, meals and travel. Our expenses policy is based on a principle of 'no loss, no gain' for staff.

2.9 In accordance with the government's transparency agenda we have published details on our website of all spending over £500 every month, from April 2010 onwards. We have also published our spending data for 2009/10 and 2008/09.

2.10 We will maintain 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.

3. The purpose and nature of the system of internal control

3.1 Internal controls aim to reduce risk, not eliminate it. 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 of all their business activities; and
- a risk escalation process allowing risks identified within business plans to be brought to the attention of senior directors, the Audit Committee and Commission Board if required.

3.2. During 2010/11, the Commission rationalised its four regions into a single Audit Practice directorate. During 2010/11, we used the regional business plans and performance management systems to monitor performance in the Audit Practice. We drafted a new Audit Practice Business Plan to take effect from 1 April 2011. We will also have a Memorandum of Understanding with the Audit Practice in place for 2011/12. The Memorandum sets out governance arrangements for the Practice, working as if it were a company owned by the Commission.

3.3 The Audit Commission Management Team has set up a Transition Programme which identifies and manages projects to prepare for the eventual abolition of the Commission. Directorate management teams continue to manage our day-to-day business alongside the Transition Programme.

3.4 Since the government's abolition of CAA in May 2010 and abolition announcement in August 2010, the Commission has faced significant change and upheaval. The high-level controls have enabled the Commission to continue to manage its affairs and deliver its business effectively, with an awareness and active management of the risks involved.

3.5 We evaluate the effectiveness of our system of internal control through:

- scrutiny of internal audit reports, internal controls and risks by our Audit Committee;
- a regular programme of internal audit;
- external audit by the National Audit Office;
- review and external accreditation of our controls over information security;
- engagement of external reviewers where needed; and
- review and external accreditation of the quality of our audit work.

3.6 The system of internal control has been in place in the Commission for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

4. Our principal internal controls

The Commission's structure and governance framework

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

4.2 The Commission operates under a framework agreement with its principal sponsoring department, Communities and Local Government.

4.3 The Commission consults Ministers and others when planning its activities, including on the risks associated with different courses of action. Since the abolition announcement, the Commission has liaised extensively with the Department for Communities and Local Government on the timetable and process for the Commission's abolition and options for the future regulation of public audit.

4.4 The Commission Solicitor, who attends each Board meeting, produces a comprehensive Corporate Governance Framework, which clearly sets out which matters are delegated and which reserved to the Board. The Board reviews the Framework yearly.

4.5 The Commission Board comprises Commissioners who are independent appointees of the Secretary of State for Communities and Local Government in consultation with the Secretary of State for Health. The Commission's statutory accounts give details of the Commissioners and their terms of office.

4.6 New appointments or potential extensions of Commissioners' terms of office are made through representation by the Chairman and Chief Executive's Office to our Sponsor Branch at the Department for Communities and Local Government, which in turn puts our case forward to the Secretary of State for consideration. It is the Secretary of State who ultimately decides whether to agree a new appointment, or whether to extend an existing Commissioner's term of office.

4.7 The Board has final responsibility for ensuring that the Commission identifies and manages its risk effectively. The Audit Committee reviews the major risks at each if its five meetings. All reports to the Board include details of the risks arising from the issue under consideration.

4.8 The Commission's Corporate Governance Framework states the Board will review its performance every two years. The most recent review was undertaken by Deloitte and the outcome reported to the Commission Board on 22 April 2009. The Commission will consider the timing of the next review once the abolition timetable has been confirmed.

4.9 The Commission has also 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 also reviews yearly, covers all Directorates and the Audit Practice and embraces a systematic and common approach to delegation in the organisation. The Scheme 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.

4.10 The Scheme of Delegation sets out the role of the Commission's Management Team. The Management Team has responsibility for overseeing risk management within the Commission.

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

4.12 The Management Team considers all significant papers for both the Board and the Audit Committee, to ensure all relevant issues and risks are considered.

Risk management

4.13 The key risks managed by the Commission during 2010/11 were:

- that audit and inspection work could be of poor quality, and vulnerable to legal challenge;
- potential political criticism or adverse media coverage of the Commission;
- that 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;
- potential disruption to business continuity because of major incident, systems failure or supplier failure;
- potential inappropriate management of staff performance and employment related legal proceedings;
- the risk to effective delivery of the Commission's work programme as staff may leave or morale may reduce after the abolition announcement; and
- potential significant liabilities arising if the Audit Commission Pension Scheme is wound up when the Commission closes.

4.14 Our arrangements for managing risks are important to the effectiveness of internal control. The Commission:

- has set up a policy framework approved by the Commission Board and the Management Team, within which strategic risks are identified, managed and kept under review;
- reviews its risk management policy yearly to ensure the policy reflects best practice and clarifies the Commission's risk appetite;
- embeds risk management and compliance by making it part of day-to-day management;
- adopts a consistent approach to risk management throughout the organisation; and
- encourages staff to identify and manage risk.

4.15 Managing directors manage their own risks as a standard agenda item at their management team meetings and keep their own risk registers.The Management Team and Audit Committee review cross-cutting and significant corporate risks for completeness.

4.16 The Audit Committee keeps the design and operation of risk management under review. The Audit Committee commissions independent examinations of the Commission's risk management as it thinks fit. RSM Tenon undertook the most recent independent review in February 2010. RSM Tenon concluded there was substantial assurance the Commission's risk management policies and procedures were fit for purpose. The same risk management policies and procedures remained in place in 2010/11.

4.17 The Audit Committee receives regular presentations from the responsible managers on emerging or changing risks. These presentations detail the risk, how the risk is changing, and the steps being taken to limit or remove it. These regular reviews ensure the culture of risk management is maintained across the organisation.

4.18 The Commission's risk processes address information risks and the controls in place to protect the Commission's information assets. These processes recognise that personal and other sensitive information, including employee information, requires extra safeguards. Auditors and other employees will have access to personal data routinely as part of their work. Security and confidentiality are key requirements in holding this data.

Financial management

4.19 The Commission set up the Improving Financial Management Programme in 2009/10 to strengthen financial management, processing and reporting. During 2010/11, the Programme has introduced upgrades and improved the efficiency of the financial system (Agresso).

4.20 The Commission reviewed the scope of the Programme after the abolition announcement. The remaining projects planned by the Programme are to improve the efficiency of the payments process and to move two subsidiary systems used by the Commission's Audit Practice to a module of the Commission's corporate financial system. The Commission reduced the scope of these projects but decided to continue with them as the work will add value over the remaining life of the Commission. The improved purchase to pay process went live on 4 April 2011. The other project is due for completion by July 2011.

5. How we evaluate internal controls

The Audit Committee

5.1 Up to 2 December 2010, the Audit Committee comprised at least four Commissioners and met at least three times a year. On 2 December 2010, the Audit Committee amended its Terms of Reference to increase its membership to at least five Commissioners and the minimum number of meetings to five a year. In the year ended 31 March 2011, the Audit Committee met five times.

5.2 The Audit Committee's Terms of Reference are:

- to oversee the production of the Commission's annual accounts and to recommend them to the Board for approval;
- on behalf of the Board, to scrutinise any aspect of the work of the organisation against the criteria of best practice and to report as appropriate. The Committee will review, and challenge (where appropriate):
  - management proposals emerging from the Commission's change programme and any associated organisational, system or process changes;
  - the Commission's financial, accounting, treasury management and tax policies, practices and processes, including IT;
  - the Commission's internal control systems including policies for addressing fraud and arrangements for internal audit; in particular to appoint the internal auditors, approve their work plan and review their reports and the responses of management;
  - the arrangements for controlling and reporting Commission spending;
  - the Commission's spend data, with data to be published monthly from October 2010 as requested by the Secretary of State;
  - the Commission's assessment and management of risk, including risks to the orderly wind-down of the Commission's affairs and failure to comply with laws and regulation;
  - the results of the external audit by the National Audit Office, including their management letter and the response by management;
  - arrangements to sign off the Commission's final set of statutory accounts after the organisation closes; and
  - carrying out recommendations from audit reports;

- to oversee the Quality Review Process for assessing the performance of auditors and inspectors appointed by the Commission, whether from its own staff or from external suppliers; and
- to report yearly to the Board on its views of the governance of the Commission and its own effectiveness.

5.3 The members of the Audit Committee in the year under review were as follows.

Audit Committee Member	Period of Office
Bharat Shah (Chair)	Whole year
Sheila Drew Smith OBE	Until 31 December 2010
Sir Thomas Legg KCB QC	Until 31 March 2011
Councillor Chris White	Whole year
Brian Landers	Appointed 1 November 2010
Janet Baker	Appointed 1 November 2010
Tony Harris	Appointed 15 February 2011

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

5.5 The Audit Committee will review its effectiveness every year. The most recent review took place in January 2010, 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 18 February 2010 the Audit Committee complied in all material respects with the guidelines. The next review is scheduled to take place in July 2011, and the Audit Committee will receive the results in September 2011.

Internal audit

5.6 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 with 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.

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

External audit

5.8 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.

5.9 The external auditor is invited to, and attends, all Audit Committee meetings and has direct access to me and to the Chair of the Audit Committee.

Information Assurance

5.10 We aim to avoid collecting and holding large volumes of personal data, unless required for a specific purpose, and 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 standard, and controls to prevent unauthorised access to our network systems. We require all staff to undertake annual information assurance training. In 2010/11, all staff completed National School of Government online courses on information security.

5.11 In response to the abolition announcement, the Commission's Senior Information Risk Owner (SIRO) has set up an Information Transition Project. The Project will strengthen our information assurance framework to ensure all information is securely transferred or disposed of before the Commission closes. The project forms part of a wider programme managed by the SIRO, to ensure the Commission's knowledge, information and experience are made available to others where this is in the public interest.

5.12 During 2010/11, we had an Information Assurance Framework in place which included information risk controls.

- We have Information Asset Owners (IAOs) in place for all data held by the Commission. They are responsible for ensuring their data is held, transferred, and disposed of, securely.
- IAOs have undertaken an information assurance audit during the year, assessing the risks associated with their data and ensuring they have taken suitable mitigating action.
- The Information Asset Register has been updated to reflect the findings of the information assurance audits.
- IAOs have provided a signed declaration to the Commission's SIRO to confirm they have identified, evaluated and addressed the risks associated with the information they held during 2010/11.

5.13 The Commission had processes and systems in place during 2010/11 that ensure 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.

5.14 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 2011 that needed reporting to the Information Commissioner or to its sponsoring department, Communities and Local Government. During the year, the following small, localised incidents occurred.

Items lost or stolen	Number
Laptops	11
Personal digital assistants	5
Mobile phones	10
Memory sticks	10
CDs / DVDs	1

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

5.16 The NFI collects large volumes of personal data but has comprehensive security and risk management procedures in place. The Commission's NFI system is independently accredited through the Risk Management Accreditation Document Set (RMADS) 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.

5.17 We comply with the statutory Code of Data Matching Practice as key means of ensuring 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.

5.18 The Commission itself took part in the 2011 NFI data matching exercise, for pensions, payroll and payments data. The Head of Assurance has followed up the matches identified and found no evidence of fraud.

Quality review of audit and inspection work

5.19 The Commission has a well-developed, rigorous approach to reviewing the quality of the work of appointed auditors. Our quality review process places reliance on the published results of the annual quality review of the firms' work by the 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.

5.20 A separate programme of quality reviews focuses on those aspects of audit work that are specific to the Commission's audit regime and compliance with the Commission's regulatory requirements. These reviews are carried out by the Commission's Director of Audit Policy and Regulation, who reports her findings to the Commission's Audit Committee. The results of the annual quality review programme are published.

5.21 The Commission's in-house Audit Practice has put in place a comprehensive quality framework that meets the standards set out in the International Standard on Quality 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.

5.22 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.

5.23 In May 2010, the government abolished the CAA inspection regime. The Commission immediately stopped its CAA activities. During 2010/11, the Commission has completed a programme of outstanding inspection work, which is subject to a rigorous quality assurance framework. Trained staff undertake independent quality reviews both before and during on-site work. This review ensures the inspection process is consistent with guidance, and the work programmes and evidence gathered are enough to ensure robust conclusions.

6. Review of effectiveness

6.1 As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review of the control framework is informed by the work of the Commission's internal auditors, managing directors and comments made by the external auditors in their management letter and other reports. I have received assurances from the Audit Committee and from the Management Team that feed into my assessment of the effectiveness of the system of internal control. Internal audit work undertaken in the year assures me controls are sound and working as intended and confirmed management has carried out actions recommended in audit reports.

6.2 The Commission has scaled back its business and restructured its support services to achieve efficiencies and reflect the closure of CAA:

- our operating income in 2010/11 for continuing operations was £169.2 million, compared to £177.9 million in 2009/10;
- our operating costs in 2010/11 for continuing operations were £170.2 million, compared to £191.7 million in 2009/10; and
- we reduced our workforce from 1,985 FTEs at the start of the year to 1,409 by 1 April 2011.

6.3 Despite the significant contraction and restructuring of our business, no significant control issues arose during 2010/11 that require reporting in the Statement on Internal Control. The National Audit Office did not raise any significant control issues in 2010/11. The National Audit Office noted the Commission had already identified the key audit risks for 2010/11 and had made arrangements to manage them effectively.

6.4 The process the Commission has upheld to ensure internal control during the period includes both risk management and other sources of assurance, including internal audit.

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

Eugene Sullivan
Accounting Officer

30 June 2011

Financial review

1 The 2010/11 financial year was the most challenging in the Commission's history. It started the year with a demanding financial strategy. In May the Board had approved a management plan to reduce costs by £30 million over the next three years. We had cut fees and planned to return excess retained earnings to local bodies through rebates.

2 Consequently the Commission was well positioned to respond when the government announced in May that it was stopping CAA and inspection. The Commission's financial strategy enabled it to absorb the impact of a sudden £21.0 million loss of income from government grants and inspection fees. But temporarily it had to suspend the planned rebates.

3 The Commission had anticipated the pressures to achieve significant savings as part of the Operational Efficiency Programme. Cost indicators for back-office services in 2009/10 showed our costs already compared favourably with other public bodies. The Commission still approved a three-year savings target of 15 per cent from 1 April 2010.

4 In July the Board increased the three-year savings target to 30 per cent, including an in-year cut of 10 per cent. By 2013/14 the Commission planned to cut costs by £50 million. But we had to adapt our plans again in August 2010 when the government announced its intention to abolish the Commission.

5 Strong strategic financial management remained a constant amid the uncertainty. In September, the Commission took the difficult decision to cancel its planned intake of 60 graduate trainees. But it also confirmed £3.4 million fee rebates for 2010/11.

6 The Commission's priority is to continue to manage taxpayers' money responsibly through the challenges ahead. It has already reduced the cost of public audit and has confirmed plans to pass back £10 million of audit fee rebates for 2011/12. The Commission plans to at least match these rebates in cuts in fees for 2012/13. Its strategy ensures financial resilience pending decisions on the future of local audit.

Continuing operations (Statement of Income, page 42)

7 The Commission's continuing operations are the audits undertaken by the Audit Practice and by audit firms; the corporate, regulatory, studies and analysis functions; and support services. Income fell by £8.7 million including £3.4 million of rebates. The Commission paid £10.7 million for the first tranche of studies, analysis and support services redundancies. We achieved cuts in spending almost sufficient to offset the reductions in income and the redundancy costs. The result was a small operating deficit of just under £1.0 million, a significant achievement in the circumstances. The Commission has charged the costs it was not possible to extinguish as it stopped work on CAA and inspection in 2010/11 to continuing operations in line with International Financial Reporting Standards (IFRS) requirements. We have prepared the comparative figures for 2009/10 on the same basis to comply with those reporting standards. The costs shown in continuing operations

for 2009/10 included support for CAA and inspection work. The Commission estimates these costs would have broadly matched the surplus on discontinued operations in 2009/10 of £5.9 million.

8 The Commission's Audit Practice delivers 69 per cent of the audit work, producing income of £115.3 million. Private audit firms deliver 31 per cent of the work, producing £51.7 million. Government proposals for the future of local audit aim to increase opportunities for private audit firms to deliver audit services direct to local bodies. They also aim to give audited bodies more say in appointing their auditor. The government's consultation on the proposals was expected to close on 30 June 2011.

9 It is not yet clear how long the Commission will continue. As long as it does, it will continue to make the best use of public money. It will set fees at a level to cover its costs and return any surpluses to audited bodies through lower fees or rebates. The Commission therefore expects income to continue to fall year-on-year to around £160 million in 2011/12 and £130 million in 2012/13, assuming it can deliver the cuts in fees it has planned.

Discontinued operations (Statement of Income, page 42)

10 The discontinued operations are CAA and other inspection programmes. When the government announced in May 2010 that CAA would stop immediately, the Commission began consultations with staff facing redundancy straight away. We issued redundancy notices as soon as the consultation ended. The Commission completed most of its inspection work in December 2010 and has no plans to do any more, unless asked to by government or other regulators.

11 The Commission received £1.4 million in fees for completed inspection work. The Department for Communities and Local Government and other government departments paid us £12.9 million in grants towards the cost of work on CAA and other inspections and the stranded costs of paying staff through their redundancy period. Grant income fell short of the original budget by around £11 million, just as the Commission faced a redundancy bill of £15.1 million. The Commission has therefore recorded a loss of £25.1 million on discontinued operations. The surplus on discontinued operations in 2009/10 of £5.9 million reflects the way the Commission must show prior year comparative figures for other operating costs to comply with the relevant IFRS. In 2009/10, continuing operations included support costs for CAA and inspection work broadly equal to the surplus on discontinued operations.

Staff and redundancy costs

12 The Commission employed 1,409 full-time equivalent (FTE) staff at 31 March 2011, down 576 FTEs from 1,985 at 31 March 2010. Voluntary leavers accounted for some of the decrease. Most of the reduction was a direct result of the redundancies caused by stopping CAA and inspection work and abolition as explained below.

13 Over 250 staff (240 FTEs) have already left the Commission because CAA and inspection work stopped. Efficiencies in the audit approach and merging the four regions into a national Audit Practice led to about 70 FTE redundancies. Corporate and support staff, some 100 FTEs, have also left in the first tranche of abolition-related redundancies. Around another 190 FTEs under notice of redundancy will leave by the end of July 2011. The Commission has selected 22 staff for voluntary redundancy who will leave by November 2011. The Commission expects to employ about 1,200 FTEs by 31 March 2012.

14 Staff and Commissioners' costs, including staff redundancy payments of £25.8 million, totalled £138.4 million in 2010/11. Redundancy costs were £20.5 million higher than in 2009/10 but the salary bill reduced by £14.0 million as staff began to leave. The Commission's salary bill will continue to reduce in line with planned staff cuts.

15 The 2010/11 financial year was the last of the Commission's three-year pay agreement. Employees earning less than £100,000 had a 0.7 per cent cost of living pay rise on 1 April 2010. The Commission will comply with the government's two year pay freeze starting 1 April 2011 for those earning more than £21,000 a year. Those earning less than £21,000 will get a pay rise of £250 in 2011/12.

Audit Commission Pension Scheme

16 The Commission has a self-administered occupational pension scheme open to all employees. Trustees manage the ACPS fund. The basis and financial performance of the ACPS is set out in Note 7 (page 64). The trustees increased the employee contribution that all active members of the scheme make towards the cost of their pension on a sliding scale according to salary, from 6 per cent to an average of 7 per cent. There will be another 0.5 per cent increase in April 2012 and another 1 per cent increase in April 2013.

Summary

17 The deficit for the year for the Commission's operations including financing income is £22.0 million (Statement of Income, page 42). The Statement of Comprehensive Income (page 44) shows actuarial gains of £35.5 million relating to the pension scheme. The Statement of Changes in Taxpayers' Equity (page 48) shows the overall income of £13.5 million split by the improvement in the pension scheme reserve of £40.2 million, and the deficit on the Commission's operations of £26.7 million. The Commission's retained earnings therefore fell by £26.7 million from £29.1 million on 1 April 2010 to £2.4 million by 31 March 2011. The Commission confined use of retained earnings to cover mainly the reported deficit on operations. The Commission's financial performance during the year was strong, despite the challenges it faced. The Commission has prepared thoroughly for the future by cutting the costs of its corporate centre.

18 Looking to the rest of its future, the Commission plans to minimise closedown liabilities and to cover the cost of making all staff not part of its Audit Practice redundant. The Department for Communities and Local Government has committed to cover other closedown costs, including property and other leases and any redundancies associated with externalising the Audit Practice. The Department for Communities and Local Government has also given an undertaking that it will protect pension scheme members' accrued benefits and is taking steps to avoid immediate crystallisation of the scheme's liabilities.

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 2011 under the Audit Commission Act 1998. These comprise the Statement of Income, the Statement of Comprehensive Income, 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.

In addition, 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 2011 and of its deficit 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.

Emphasis of Matter – Going Concern

Without qualifying my opinion, I draw attention to the disclosures made in note 1.5 to the financial statements concerning the application of the going concern principle in light of the announcement to abolish the Commission, which is subject to legislation and therefore uncertain. This announcement may cast significant doubt about the ability of the Commission to continue as a going concern. The financial statements do not contain the adjustments that would result if the Commission was unable to continue as a going concern.

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 Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

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

7 July 2011

Statement of Income for the year ending 31 March 2011

Continuing operations	Note	Page	**Year to 31 March 2011** £000	Year to 31 March 2010 (restated) £000
Operating income	2			
Audit fee income	2.1	52	**167,002**	175,526
Other operating income	2.2	53	**2,216**	2,359
Total operating income	2.3	53	**169,218**	177,885
Operating costs	3			
Staff and Commissioner costs	3.1	58	**99,214**	103,387
Bought-in services	3.2	60	**45,121**	54,460
Other operating costs	3.3	61	**25,855**	33,885
Total operating costs			**170,190**	191,732
Surplus/ (deficit) from continuing operations	4	62	**(972)**	(13,847)
Discontinued operations				
Total CAA and inspection grant and fee income	5	63	**14,244**	35,213
Total operating costs	5	63	**39,329**	29,305
(Deficit)/ surplus from discontinued operations	5	63	**(25,085)**	5,908
Operating deficit			**(26,057)**	(7,939)
Financing income				
Net investment return	6	64	**628**	384
Net return/ (loss) on pension scheme assets	7.10	71	**3,403**	(1,483)
Deficit for the financial year			**(22,026)**	(9,038)

The Statement of Income (page 42) brings together the Commission's income (expressed as the value of work done) and costs (valued on an accruals basis) in running the business during the year. It also includes financing income.

The Commission has restated its 31 March 2010 financial position in this statement. This is to reflect the disclosure requirements for discontinued operations. It also reflects the change in accounting policies for 2010/11 for notional capital charges to match the change in the Government's Accounts Direction for the Commission (Note 1.2 (h), page 50 and Appendix 1, page 91). The Commission no longer needs to show notional capital charges in its accounts. These were equal and opposite entries and had no effect on the overall financial position. Adjusting for this change in policy ensures the position at 31 March 2011 is comparable with that at 31 March 2010.

The Statement of Income (page 42) shows a small deficit of £1.0 million on continuing services (2009/10: £13.8 million deficit). Income dropped by £8.7 million because of cuts in fees, reductions in work, and fee rebates of £3.4 million. The Commission paid out £10.7 million in redundancy costs as it reduced the size of its corporate and support services. Continuing operations includes other operating costs that reduced but did not stop with our CAA and inspection work. The Commission minimised the deficit on continuing operations by restructuring into a more efficient audit business. It did this by cutting the cost of bought-in services and other operating costs more rapidly than planned before the CAA and inspection and the abolition announcements.

The £13.8 million deficit on continuing operations in 2009/10 reflects the Commission's financial strategy for that year which was to reduce its retained earnings. This could only be achieved by operating at a deficit to draw down reserves.

The Statement of Income (page 42) shows a deficit on discontinued operations of £25.1 million for the year (2009/10: £5.9 million surplus). In 2010/11 this reflects redundancy costs, loss of CAA and inspection fee and grant income, and stranded salary costs for redundant staff.

The deficit for the financial year shown in the Statement of Income is £22.0 million. It includes a credit from the pension accounting adjustments of £4.7 million. This is made up of:

- a credit of £1.3 million against contributions to the pension fund (included in the staff and commissioner cost line of the Statement of Income); and
- a net return on pension scheme assets of £3.4 million (shown on the net return on pension scheme assets line of the Statement of Income).

The underlying deficit for the year for the Commission excluding the surplus on the pension accounting adjustments is therefore £26.7 million. This is mainly due to the deficit on discontinued operations of £25.1 million and other operating costs relating to discontinued CAA and inspection work.

Statement of Comprehensive Income for the year ending 31 March 2011

	Note	Page	**Year to 31 March 2011** £000	Year to 31 March 2010 (restated) £000
Deficit for the financial year (from the Statement of Income, page 42)			**(22,026)**	(9,038)
Other income				
Actuarial gains/ (losses) relating to the pension scheme	7.11	71	**35,479**	(103,504)
Total other income for the year			**35,479**	(103,504)
Total comprehensive income/ (loss) for the year			**13,453**	**(112,542)**

The Statement of Comprehensive Income brings together the deficit for the year on the Commission's operations and other income. For the Commission, other income reflects the actuarial gains for the year (losses in 2009/10) in line with IAS 19 (Employee Benefits). The actuarial gain for 2010/11 was £35.5 million and led to a total income for the year of £13.5 million.

The impact of the Commission's results for the year and that for pensions are shown in the Statement of Changes in Taxpayers' Equity (page 48).

Statement of Financial Position as at 31 March 2011

	Note	Page	As at 31 March 2011 £000	As at 31 March 2010 £000
Non-current assets	8			
Intangible assets	8.1	73	**634**	1,180
Plant and equipment	8.2	74	**4,834**	6,903
Long-term receivables	8.3	75	**3,202**	4,828
Total non-current assets			**8,670**	12,911
Current assets	9			
Trade receivables	9.1	75	**12,528**	16,692
Work in progress	9.2	76	**2,581**	6,666
Other receivables	9.3	76	**7,207**	8,793
Short-term investments	9.4	77	**26,000**	47,000
Cash and cash equivalents	9.4	77	**6,064**	306
Total current assets			**54,380**	79,457
Total assets			**63,050**	92,368
Current liabilities	10			
Trade and other payables	10.1	78	**13,023**	19,304
Deferred income	10.2	79	**35,712**	38,926
Current provisions	10.3	79	**9,556**	3,592
Total current liabilities			**58,291**	61,822
Total assets less current liabilities			**4,759**	30,546
Non-current liabilities				
Non-current provisions	11	80	**2,367**	1,436
Net pension liability	7.6	69	**66,250**	106,421
Total non-current liabilities			**68,617**	107,857
Assets less liabilities			**(63,858)**	(77,311)
Financed by				
Retained earnings:	12			
Local government	12.1	81	**(65)**	26,800
Health	12.2	81	**2,457**	2,310
			2,392	29,110
Pension reserve	12.3	82	**(66,250)**	(106,421)
Total taxpayers' equity			**(63,858)**	(77,311)

The Statement of Financial Position (page 45) summarises the Commission's assets and liabilities at the end of the accounting period and shows how they are represented by its retained earnings and the pension reserve.

During the year, the Commission's net liabilities reduced by £13.4 million to £63.9 million (2009/10: £77.3 million). An improvement in the net pension liability of £40.1 million (from £106.4 million deficit to £66.3 million deficit) was offset by the movement in the Commission's retained earnings of £26.7 million (from £29.1 million to £2.4 million). The Commission used its retained earnings mainly to pay for the deficit caused by the government's decisions to stop our CAA and inspection work and disband the Commission. The Commission's retained earnings at the end of the year were sufficient for the Board to confirm planned cuts in fees for 2011/12 audits.

Our accounting conventions and policies for the Audit Commission Pension Scheme (Note 1.5, page 52) explain the basis for completing our accounts on a going concern basis despite having a negative equity position at the end of the year because of the net pension liability. The net pension liability decreased because the annual actuarial report at year end showed asset values had increased by £55 million, offsetting an increase in liabilities of £14.9 million. Note 1.5 (page 52) provides more detail on the implications for the pension scheme's status as a going concern because of abolition. Note 7 (page 64) provides more detail on the pension accounting entries in the Commission's key financial statements.

Work in progress, trade payables and deferred income have reduced as a result of stopping CAA and use of resources work. A drive to reduce costs where possible has seen a reduction in other payables and receivables.

Cuts and rebates in audit fees, reductions in income for discontinuing services and redundancy payments within the year led to a decrease in cash balances.

We have increased current and non-current provisions from £5.0 million to £11.9 million made up of redundancies (£9.0 million), onerous property leases (£1.1 million) and dilapidations (£1.8 million).

The notes that follow form part of these statements.

Eugene Sullivan
Accounting Officer

30 June 2011

Statement of Cash Flows for the year ending 31 March 2011

	Note	Page	Year to 31 March 2011 £000	Year to 31 March 2010 (restated) £000
Operating deficit			**(26,057)**	(7,939)
Adjustments for:				
Pensions	3.1	58	**(1,289)**	(2,032)
Depreciation	3.3	61	**2,061**	1,757
Amortisation	3.3	61	**572**	665
Loss on disposal of plant and equipment	8.2	74	**403**	1,027
Decrease in receivables and work in progress	13	82	**11,461**	7,963
Decrease in payables and provisions	14	83	**(2,600)**	(7,581)
Net cash from operating activities			**(15,449)**	(6,140)
Cash flows from investing activities				
Payments to acquire short-term investments	9.4	77	**(26,000)**	(47,000)
Repayments on maturity of short-term investments	9.4	77	**47,000**	57,000
Interest received	6	64	**628**	384
Purchase of intangible assets	8.1	73	**(26)**	(1,318)
Purchase of plant and equipment	8.2	74	**(395)**	(2,258)
Net cash from investing activities			**21,207**	6,808
Net increase in cash and cash equivalents			**5,758**	668
Cash and cash equivalents at the beginning of the year			**306**	(362)
Cash and cash equivalents at the end of the year	9.4	77	**6,064**	306

The Statement of Cash Flows analyses transactions for the year to show the sources of cash, how it was spent, and how cash balances changed. The decrease in short-term investments of £21.0 million (Note 9.4, page 77) reflects decreases in operating income and costs and increased redundancy payments. We held more cash at 31 March 2011 because we needed to ensure liquidity to pay for the redundancies. We reduced audit fees and received less grant and fee income for CAA and inspection work, so we had less money owed to us at year end. Because we cut back on spending, we also owed less money.

Statement of Changes in Taxpayers' Equity for the year ending 31 March 2011

	Pension Reserve	Retained Earnings	Total
	£000	**£000**	**£000**
Balance at March 2009	**(3,466)**	**38,697**	**35,231**
Total comprehensive income/ (loss)	(102,955)	(9,587)	(112,542)
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)**

The Statement of Changes in Taxpayers' Equity explains the changes in the Commission's retained earnings during the year. It also explains the changes in the pension reserve. These changes are driven by the financial performance for the year summarised in the Statement of Income (page 42) and Statement of Comprehensive Income (page 44).

The deficit on the pension reserve reduced to £66.25 million (2009/10: £106.421 million). The net movement for the year was £40.2 million. This was due to:

- a surplus of £4.7 million on the pension accounting entries we have to reflect in our accounts to comply with the international accounting standard for pensions (IAS19); and
- a net improvement in the actuarial valuation of the ACPS assets less liabilities at 31 March 2011 of £35.5 million.

The £4.7 million surplus on the pension accounting entries consists of two items. The first is the surplus on contributions for the year of £1.3 million included in the staff and Commissioner cost line in the Statement of Income (page 42). The second is the net return on pension scheme assets of £3.4 million shown in the financing income section of the Statement of Income (page 42).

Note 1.5 (page 51) provides more detail on the going concern issues for the pension scheme. Note 7 (page 64) provides more information on the pension figures included in the Commission's accounts.

This statement also shows the Commission's retained earnings reducing by £26.7 million from £29.1 million on 1 April 2010 to £2.4 million by 31 March 2011. The reduction reflects the Commission's plans to confine the use of retained earnings to cover mainly the reported deficits on operations.

Notes to the financial statements

Introduction
The notes that follow form part of the financial statements.

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

Notes 2-16 (pages 52 to 84) provide supporting information to the primary financial statements.

Notes 17-22 provide information on the operating results for the last four periods (page 85), commitments under leases (page 85), contingent liabilities (page 87), related party transactions (page 88), losses and special payments and events occurring after the reporting period (page 91).

Note 1: Accounting conventions and policies

1.1) General accounting conventions and policies
(a) The Commission prepares its accounts using the historical cost convention, modified to account for the:
- revaluation of fixed assets to their value to the business by reference to their current costs, in a form directed by the Secretary of State, with the approval of HM Treasury, under paragraph 11 (1) of Schedule 1 to the 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 1.3c, page 50).

(b) The Commission's accounts meet the requirements of the Companies Acts 2006, without limiting the information given, and the relevant International Financial Reporting Standards (IFRS).

(c) The Commission has considered, in accordance with IAS 8, whether there have been any changes to accounting policies arising from IFRS which have an impact on the current or prior period, or may have an effect on future periods. The Commission has also reviewed any new or amended standards issued by the IASB but not yet effective, to determine if it needs to make any disclosures in respect of those new IFRS that are or will be applicable. None of these changes are anticipated to have a significant impact on the financial statements.

1.2) Accounting conventions and policies relating to Statement of Income (page 42) and Statement of Comprehensive Income (page 44)
(a) The Commission attributes income and expenditure directly where possible to either local government or health activities (Note 2.3, page 53). Where this is not possible, we attribute income and expenditure to each activity on time worked or other appropriate basis.

(b) The Commission recognises gross fee income and other operating income on the value of chargeable work exclusive of VAT.

(c) The Commission credits operating income, whether generated by direct government grant, fees to authorities or otherwise, to the year of account in which the work is done.

(d) The Commission does not treat the net costs arising from any litigation as part of its operating result. The Commission shows the net cost of any litigation in the Statement of Income (page 42).

(e) The Commission treats rebates stemming from a decision of the Board and communicated to audited bodies as a constructive obligation to make payments. It recognises rebates in its accounts as a reduction of income.

(f) The Commission's Accounts Direction for 2010/11 (Appendix 1) no longer requires us to include notional capital costs in our accounts. The Commission previously had to calculate notional capital costs at 3.5 per cent of net assets and liabilities. The Commission has restated its 2009/10 accounts to reflect this accounting policy change. As a fee earning body, the Commission was allowed to net this cost out of the Statement of Income (page 42) so the net effect of this restatement is nil.

(g) The Commission disaggregates income and expenditure between continuing and discontinued operations in line with the relevant International Financial Reporting Standard. Discontinued operations therefore only includes the income and expenditure directly and wholly attributable to work that has stopped.

1.3) Accounting conventions and policies relating to the Statement of Financial Position

(a) The Commission provides for depreciation on all plant and equipment and intangible 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.

Furniture and fittings	10 years
Computer equipment	3 years
Office equipment	5 years
Intangible assets – software	3 years

The Commission capitalises individual computer equipment purchases in excess of £5,000, other equipment purchases in excess of £1,000, and all office refurbishments.

The Commission also capitalises 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.

(b) The Commission values work in progress at estimated realisable value.

(c) The fair value of the Commission's financial instruments approximate to their book values at 31 March 2011 and 2010. The Commission uses the following criteria to assess the fair value of its financial instruments.

- 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 investments, cash and cash equivalents – approximate to their book values due to their short maturity period. Cash equivalents are defined as investments of up to one month's duration.

(d) The Commission actively pursues all debt, and provides only for that element where recovery is in doubt. The Commission nets any debt written off that is subsequently collected against the additional provision made in the period.

(e) The Commission charges operating lease rentals on a straight-line basis over the lease term.

(f) The Commission provides for dilapidation costs for its property leases. The Commission discounts the provision for future dilapidations for leased property to current value. The real rate used was 2.2 per cent (2009/10: 2.2 per cent).

(g) The Commission has to make judgements and estimates in applying its accounting policies that may have a significant effect on the amounts it includes in its financial statements. The main areas are:

I. Current provisions and non-current provisions (Note 10.3, page 79 and Note 11, page 80).
- The Commission estimates provisions for redundancies in line with its standard terms and conditions for employment.
- The Commission bases its estimates for onerous lease provisions on assumptions about anticipated void periods and possible incentives needed to sublet a property. These assumptions are based on the Commission's assessment of current market conditions and surveyors' market reports.
- The Commission estimates dilapidation provisions based on its assessment of likely dilapidation costs when we plan to vacate a property. We base this assessment on an 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.

II. Provision for irrecoverable and doubtful debt (Note 9.1, page 75).
- Subject to review of each debt, the Commission provides for debts between 6-12 months old at 50 per cent and debts older than 12 months at 100 per cent.

III. Work in progress (Note 9.2, page 76).
- The Commission values work in progress at estimated realisable value using a percentage complete method to calculate the work in progress it should recognise on assignments. This is an estimate of the amount of work performed to date as a proportion of the total services to be performed.

IV. Non-current assets (Note 8, page 73).
- The Commission reviews non-current assets annually for impairment in line with accounting standards.

1.4) Accounting conventions and policies relating to the Audit Commission Pension Scheme

(a) The Commission provides a defined benefit pension scheme for its employees. It shows the costs of the ACPS in its accounts in line with IAS 19 (Employee Benefits).

(b) The Commission recognises actuarial gains and losses immediately in the Statement of Comprehensive Income.

1.5) Going concern

The government announced its intention to disband the Commission in August 2010. The Commission's senior management team reviewed the appropriateness of preparing the 2010/11 financial statements on a going concern basis in February 2011.

Parliament will need to pass the legislation necessary to abolish the Commission. The timing is uncertain. The senior management team concluded it unlikely the relevant legislation would be in place and operational before the end of the 2011/12 financial year. 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 appropriate for the Commission to prepare its 2010/11 accounts on a going concern basis. The Audit Committee approved this approach in February 2011.

The senior management team has also considered the implications of the pension reserve deficit of £66.3 million shown in the Statement of Financial Position (page 45) on the Commission's status as a going concern. The pension reserve is in deficit because the valuation of pension liabilities in the annual actuarial report at 31 March 2011 exceeded the valuation of pension assets at that date. The Commission's retained earnings at 31 March 2011 were insufficient to cover the pension reserve deficit had all pension liabilities been payable at that date. In the last resort, the Department for Communities and Local Government would have provided a grant to cover the shortfall. Parliamentary spending controls mean that such provisions may not be issued in advance of need. There is, however, no reason to believe the necessary government funding would not be forthcoming, and so senior management concluded this was not a going concern issue.

News of the Commission's abolition may have implications for the pension scheme as a going concern. The Department for Communities and Local Government has however provided strong assurances it does not intend to allow these significant liabilities to crystallise. The Commissioners' strong expectation is this will not affect the Commission's status as a going concern for 2010/11 or following years.

Note 2: Operating income

2.1) Audit fee income

This note provides a detailed analysis of audit fee income for continuing operations shown in the Statement of Income (page 42).

	Year to 31 March 2011	Year to 31 March 2010
	£000	**£000**
Local government		
Audit fee income	**109,606**	117,740
Less rebates to local government bodies	**(2,314)**	(5,065)
Audit fee income	**107,292**	112,675
Health		
Audit fee income	**60,843**	64,400
Less rebates to health bodies	**(1,133)**	(1,549)
Audit fee income	**59,710**	62,851
Total audit fee income from continuing operations [1]	**167,002**	**175,526**

[1] The drop in income between years reflects the Commission's commitment to cut the cost of local audit. It also reflects a reducing number of bodies subject to the local audit regime as NHS Trusts become Foundation Trusts, and a reduction in grant certification work. The combined impact was to reduce audit fee income by £8.5 million. The Commission plans to continue this strategy and expects to see an annual reduction income of around £15.0 million in 2011/12.

2.2) Other operating income

This note provides a detailed analysis of the other operating income for continuing operations shown in the Statement of Income (page 42).

	Year to 31 March 2011	Year to 31 March 2010
	£000	**£000**
Staff seconded out to other organisations	**508**	495
Rebates due under contractual agreements [1]	**52**	227
Accommodation rental received [2]	**1,070**	803
Costs charged to the pension scheme	**280**	260
Sundry income	**306**	574
Total other operating income	**2,216**	2,359

[1] As hotel room rates and the number of hotel nights needed for staff working away from home reduced, so did the rebate the Commission received on Expotel bookings.
[2] Accommodation rental received has increased to reflect a full year of rental income for space at our Millbank office sublet to the Charity Commission.

2.3) Segmental analysis

i. Analysis by government department

Two government departments sponsor the Commission – the Department for Communities and Local Government and the Department of Health. The Commission has to keep a separate account of its local government and health activities.

Table 1 below summaries the total income for the year included in the Statement of Income (page 42).

Table 1		**Year to 31 March 2011**	Year to 31 March 2010
	Note	**£000**	**£000**
Operating income – continuing [1]	4	**169,218**	177,885
Operating income – discontinued [2]	5	**14,244**	35,213
Net investment return	6	**628**	384
Net return on pension scheme assets [3]	7.10	**3,403**	0
Total income for the year		**187,493**	213,482

[1] Total operating income for continuing operations fell mainly because of the Commission's financial strategy of passing back efficiency savings and excess retained earnings to audited bodies through cuts and rebates in fees.
[2] Total operating income for discontinued operations decreases because CAA inspection work ended.
[3] Table 1 shows a net return on pension scheme assets for the year of £3.4 million (2009/10: £1.5 million loss shown in operating costs).

Table 2 below analyses the total income for the year shown in Table 1 between local government and health. Table 2 splits net investment return, net return on the pension scheme assets, and the other operating income shown in the Statement of Income (page 42), between local government and health in proportion to their operating income for continuing services.

Table 2	**Year to 31 March 2011**	Year to 31 March 2010
	£000	**£000**
Local government income – continuing	**111,667**	114,635
Local government income – discontinued	**14,244**	35,213
Total local government income	**125,911**	149,848
Total health income	**61,582**	63,634
Total income for the year (as in Table 1)	**187,493**	213,482

Table 3 below analyses the total expenditure for the year shown in the Statement of Income (page 42).

Table 3		**Year to 31 March 2011**	Year to 31 March 2010
	Note	**£000**	**£000**
Operating costs – continuing [1]	4	**170,190**	191,732
Operating costs – discontinued [2]	5	**39,329**	29,305
Net loss on pension scheme assets [3]	7.10	**0**	1,483
Total expenditure for the year		**209,519**	222,520

[1] Operating costs for continuing operations reduced by £21.5 million to £170.2 million (2009/10: £191.7 million). This reflects the Commission's financial strategy to reduce the cost of continuing operations.
[2] Operating costs for discontinued operations in 2010/11 of £39.3 million include redundancy payments of £15.1 million for staff involved in CAA and inspection work and their stranded salary costs.
[3] Table 3 shows a net loss on pension scheme assets for 2009/10 of £1.5 million. The net return on pension scheme assets in 2010/11 is shown in Table 1 as income.

Table 4 below analyses the expenditure for the year shown in Table 3 between local government and health.

Table 4	**Year to 31 March 2011**	Year to 31 March 2010
	£000	**£000**
Local government – continuing	**110,367**	126,090
Local government – discontinued	**39,329**	29,305
Total local government expenditure	**149,696**	155,395
Total health expenditure	**59,823**	67,125
Total expenditure for the year (as in Table 3)	**209,519**	222,520

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

Table 5		**Year to 31 March 2011**	**Year to 31** March 2010
		£000	**£000**
Local government			
Income	Audit fees – net of rebates – continuing	**107,256**	112,675
	Inspection fees – discontinued	**1,361**	7,197
	Grants – discontinued	**12,883**	28,016
	Other operating income and IAS 19 adjustments	**4,411**	1,960
	Total income (as in Table 2)	**125,911**	149,848
Expenditure	Continuing	**110,367**	126,090
	Discontinued	**39,329**	29,305
	Total expenditure (as in Table 4)	**149,696**	155,395
Deficit for the year [1]		**(23,785)**	(5,547)

[1] The deficit in 2010/11 reflects the Commission's continuing commitment to reduce costs, reductions in grants and fees for CAA and inspection work, and the redundancy costs associated with ending this work. Note 4 (page 62) and Note 5 (page 63) provide more detail. The deficit in 2009/10 reflected the Commission's commitment to reduce the cost of audit for audited bodies shown in Table 5 as a reduction in income compared to the previous year (2008/09: £154.3 million).

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

Table 6		**Year to 31 March 2011**	Year to 31 March 2010
		£000	**£000**
Health			
Income	Audit fee net of rebates – continuing	**59,746**	62,851
	Other operating income plus IAS 19 adjustments – continuing	**1,836**	783
	Total income (as in Table 2)	**61,582**	63,634
Expenditure	**Total expenditure** (as in Table 4)	**59,823**	67,125
Surplus/ (deficit) for the year [1]		**1,759**	(3,491)

[1] The deficit in 2009/10 reflected the Commission's commitment to reduce the cost of audit for audited bodies shown in Table 6 as a reduction in total income compared to the previous year (2008/09: £66.6 million).

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

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

Local government	**Year to 31 March 2011**	Year to 31 March 2010
	£000	**£000**
Continuing operations		
Audits undertaken by the Commission	**72,436**	78,531
Audits undertaken by private accountancy firms	**34,820**	34,144
Total continuing operations	**107,256**	112,675
Discontinued operations		
Inspection fees	**1,361**	7,197
Grants	**12,883**	28,016
Total discontinued operations	**14,244**	35,213
Other operating income and IAS 19 adjustments	**4,411**	1,960
Total income (as in Table 5)	**125,911**	149,848

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

Health	**Year to 31 March 2011**	Year to 31 March 2010
	£000	**£000**
Audits undertaken by the Commission	**42,880**	46,891
Audits undertaken by private accountancy firms	**16,866**	15,960
Other operating income and IAS 19 adjustments	**1,836**	783
Total income (as in Table 6)	**61,582**	63,634

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

Section 28: certifying claims or returns made by an authority. The Commission received income for this work of £17,745,000 (2009/10: £20,966,000).

Section 29: additional audits undertaken with the consent of the Secretary of State. The Commission did no work of this type in 2010/11 or 2009/10.

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 2010/11 or 2009/10.

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 £2,327,000 (2009/10: £1,750,000).

iv. Analysis of assets and liabilities
Note 9.5 (page 77) and note 10.4 (page 79) 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

The following table provides a detailed analysis of the staff and commissioner costs that relate to continuing operations in the Statement of Income (page 42).

Staff and Commissioner costs	Year to 31 March 2011	Year to 31 March 2010 (Restated)
	£000	**£000**
Staff salaries [1]	**70,597**	76,091
Commissioners' remuneration	**261**	270
Social Security costs	**6,082**	6,779
Pension costs [1], [2]	**17,749**	15,216
Cost of lease cars	**3,746**	4,269
Subscriptions and other benefits	**779**	762
Total staff and Commissioners' costs	**99,214**	103,387

[1] The staff salaries and pension costs figures include redundancy costs for continuing operations of £10,716,000 (2009/10: £5,320,000). The Commission's total redundancy costs for the year including those of CAA and inspection were £25,826,000 (2009/10: £5,320,000).
[2] The pension cost figure includes a credit of £1,289,000 resulting from the application of IAS19 (2009/10: £2,032,000 credit).

The table below sets out the average number of full-time equivalent staff employed during the year.

Staff employed	Year to 31 March 2011	Year to 31 March 2010
	£000	**£000**
Audit Practice	**1,227**	1,302
Central directorates	**544**	681
Secondees	**9**	8
Average number of staff employed in the year	**1,780**	1,991
In post at year end	**1,409**	1,985

Summary of compulsory and other redundancies — exit packages

The table that follows sets out the redundancy and other departure costs paid or provided for in 2010/11 in accordance with the Audit Commission's terms and conditions of employment. Exit costs are accounted for in full in the accounting period the redundancy notices are issued.

Exit package cost bands 2010/11	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	**£25.56 million**	**£0.27 million**	**£25.83 million**

The table below sets out the redundancy and other departure costs paid or provided for in 2009/10 in accordance with the Audit Commission's terms and conditions of employment.

Exit package cost bands 2009/10	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	6	12	18
£10,001 – £25,000	10	14	24
£25,001 – £50,000	10	24	34
£50,001 – £100,000	1	19	20
£100,001 – £150,000	0	4	4
£150,001 – £200,000	1	3	4
£200,001 +	0	4	4
Total number of exit packages	**28**	**80**	**108**
Total cost	**£0.81 million**	**£4.51 million**	**£5.32 million**

3.2) Bought-in services

This note analyses the bought-in services line relating to continuing services in the Statement of Income (page 42). 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 2011**	Year to 31 March 2010
	£000	**£000**
Payments to private accounting firms	**40,678**	40,153
Research and other consultancy costs [1], [2]	**103**	3,336
Audit and inspection contractors [1], [3]	**4,340**	10,971
Total	**45,121**	54,460

[1] The Commission adopted the Department for Communities and Local Government definition of consultancy and contractor costs in 2010/11.
[2] The decrease of £3.2 million in research and consultancy costs to £0.1 million (2009/10: £3.3 million) mainly reflects the Commission's plans to reduce spending and improve efficiency so it could cut audit fees.
[3] The decrease of £6.7 million in audit and inspection contractors costs to £4.3 million (2009/10: £11 million) reflects the Commission's plans to reduce spending and the closing of inspection programmes.

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

Contractors employed	**Year to March 2011**	Year to March 2010
Contractors – average number in the year	**158**	197
Contractors – number in post at year end	**72**	187

3.3) Other operating costs

The following table provides more detail on the other operating costs relating to continuing operations shown in the Statement of Income (page 42).

Other operating costs		**Year to 31 March 2011**	Year to 31 March 2010 (Restated)
		£000	**£000**
Accommodation	– rent lease costs [1]	**5,064**	4,558
	– other costs [1]	**3,832**	3,389
Supplies and services		**7,233**	9,588
Depreciation [2]		**2,061**	1,757
Amortisation [2]		**572**	665
Travel and subsistence	– staff	**2,055**	3,099
	– Commissioners	**7**	20
Recruitment and relocation		**215**	890
Training		**1,461**	3,170
Support contractor costs		**2,095**	5,265
Audit fee		**72**	72
Professional fees [3]		**1,056**	1,006
Publications		**124**	400
Debts provided for		**8**	6
Total operating costs [4]		**25,855**	33,885

[1] Rent lease and other accommodation costs increased in the year because we had to provide for onerous property leases as we mothballed space as staff numbers reduced.
[2] The combined costs of depreciation and amortisation increased in the year because we had to review asset lives as we mothballed office space and withdrew from offices.
[3] Professional fees increased slightly because of legal and marketing costs for subletting properties vacated in the year.
[4] Except for the items listed in notes 1 to 3 above, the audit fee and 'debts provided for', all other operating costs reduced significantly during the year in line with the Commission's plans to reduce spending.

Note 4: Continuing operations

This note provides more details of the income and expenditure for the Commission's continuing audit and other operations shown in the Statement of Income (page 42). 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 during the year. Corporate and support services have already reduced in size and the Commission will continue to reduce fixed overheads as quickly as possible as it prepares for the Audit Practice's transfer to private ownership and abolition.

Continuing operations	**Year to 31 March 2011**	Year to 31 March 2010
	£000	**£000**
Operating income		
Audit fee income	**170,449**	182,126
Less rebates	**(3,447)**	(6,600)
Total audit fee income	**167,002**	175,526
Other income	**2,216**	2,359
Total operating income	**169,218**	177,885
Operating costs		
Staff and Commissioners' costs	**90,875**	99,002
Redundancy costs	**10,716**	5,320
Holiday pay accrual movement	**(1,088)**	1,097
IAS 19 (Employee Benefits) for pension contributions	**(1,289)**	(2,032)
Total staff and Commissioners' costs	**99,214**	103,387
Bought-in services	**45,121**	54,460
Other operating costs	**25,855**	33,885
Total operating costs	**170,190**	191,732
Operating surplus/ (deficit) for continuing operations [1]	**(972)**	(13,847)

[1] The Commission decreased costs faster than originally planned in 2010/11. It successfully offset reductions in income and fee rebates, redundancy costs for reducing the size of corporate and support services, and overheads. We have dealt with other operating costs in line with the relevant International Financial Reporting Standards. The other operating costs for continuing operations therefore includes all costs that did not stop completely as we brought CAA and inspection work to a close. The table above shows other operating costs reduced by £8.0 million during 2010/11 because of prompt management action to cut spending as fast as was possible.

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 (page 42). Discontinued operating costs only include other operating costs that are directly and wholly attributable to the CAA and inspection work the Commission stopped doing during the year. These costs have reduced but are not extinguished. We have to report this way to comply with the relevant International Financial Reporting Standards (Note 1.2 (g) page 50).

Discontinued operations	Year to 31 March 2011	Year to 31 March 2010
	£000	£000
Operating income		
Inspection fee income	**1,361**	7,197
Grant income		
Department for Communities and Local Government	**9,740**	21,020
Department for Communities and Local Government – Fire	**522**	1,915
Department for Communities and Local Government – Housing	**244**	2,961
Other departments	**2,377**	2,120
Total inspection income	**14,244**	35,213
Operating costs		
Staff salaries [1]	**16,283**	20,630
Social Security costs	**1,812**	1,918
Pension costs [1]	**4,322**	4,027
Lease cost of cars	**1,170**	1,451
Travel and subsistence costs – staff	**487**	880
Redundancy costs	**15,110**	0
Other operating costs	**145**	399
Total operating costs	**39,329**	29,305
Operating (deficit)/ surplus [2]	**(25,085)**	5,908

[1] Staff salaries and pension costs include stranded salary and pension costs for the staff directly involved in CAA and inspection work.
[2] The deficit on discontinued operations in 2010/11 reflects cuts in grant and fee income, salary costs, and redundancy costs associated with stopping CAA and inspection work.

Note 6: Net investment return

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

Net investment return	Year to 31 March 2011	Year to 31 March 2010
Interest receivable [1]	**83**	416
Impairment of cash deposits [2]	**545**	(32)
Net investment return	**628**	384

[1] Interest receivable reduced in 2010/11 because we had less cash to place as short-term investments due to in-year reductions in income and redundancy payments. The Commission's investment strategy is to minimise risk. With the exception of the two Icelandic bank deposits, all cash surplus to working capital requirements is deposited with HM Treasury's Debt Management Office.
[2] The Commission carries out impairment reviews of its Icelandic bank deposits annually in line with accounting standards. Following review at 31 March 2011, we released £0.5 million to the Statement of Income. Note 16 provides more detail.

Note 7: Audit Commission Pension Scheme

Outline of the ACPS

The ACPS is a self-administered occupational pension scheme open to all employees. It is a defined benefit scheme partly funded by contributions from active members unless they participate in the salary sacrifice (SMART pension) arrangement. Employee contribution and SMART pension levels vary according to salary and average out at 7 per cent across the scheme. No contributions are paid by those employees who participate in the SMART pension scheme, but the Commission pays the additional amount into the scheme on their behalf. There is a corresponding reduction in contractual salaries for employees participating in this arrangement, so there is no additional cost to the Commission.

On 1 July 2010 two changes were made to the scheme. Firstly, the rate of contribution (or SMART pension level) made by employees was increased from a flat 6 per cent to a scale which varies according to salary. The average contribution increased to 7 per cent. Further increases are due to be implemented of a flat 0.5 per cent in April 2012 and a flat 1 per cent in April 2013. Secondly, the normal retirement age for future service was increased to age 65 years from 1 July 2010 for all members, with transitional protection up to 31 March 2015 for members nearing retirement. For example, a member retiring before 31 March 2013 would have their pension paid as if their normal retirement age had stayed 60 years. Later retirements will have a lower level of protection. Staff who joined the scheme on or after 1 August 2008 already had a normal retirement age of 65.

Financial overview of the ACPS

This note shows the net pension liability for the ACPS decreased from £106.4 million to £66.3 million over the year, mainly due to positive asset returns. This is a position common across many companies in the UK and comes as a result of increases in corporate bond yields and decreases in expectations of future price inflation.

IAS19 (Employee Benefits) requires the Commission 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 in 2009/10 to more historically normal levels because of returning market confidence. Corporate bond yields fell by another 0.05 per cent in 2010/11. This means future benefits are now discounted at a lower rate, resulting in a higher value of the scheme's liabilities. This increase was partially offset by market expectations for reducing salary inflation – helped by a two-year pay freeze – that lowers future benefits.

At 31 March 2011, the scheme's assets were invested in a portfolio that consisted primarily of diversified growth funds. These assets have improved in value as a result of the market. The increase in contributions from 23 per cent to an average of 24 per cent as a result of the increase in employee contributions has had a positive impact on the scheme's assets.

An increase in the fair value of the scheme's assets of £55 million more than offsets the overall increase in the value of the scheme's liabilities of £14.9 million.

7.1) Relationship between the reporting entity and the Trustees

The ACPS 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 nominated by management, four nominated by members, and an independent chair.

7.2) Future funding obligations in relation to defined benefit schemes

The most recent actuarial valuation was performed by an independent actuary for the trustees of the scheme as at 31 March 2008.

The Commission's contributions amounted to £24.1 million (Note 7.8, page 70) in the 12 month period to 31 March 2011 (2009/10: £21.8 million).

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

7.3) How the liabilities arising from defined schemes are measured

The Commission provides retirement benefits to some of its former, and approximately 97.5 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 and length of service.

The liabilities of the scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This amount is reflected as a deficit in the Statement of Financial Position. The projected unit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

An alternative method of valuation to the projected unit method is a solvency basis often estimated using the cost of buying out benefits at the Statement of Financial Position date with a suitable insurer. This amount represents the amount that would be required to settle the scheme liabilities at the Statement of Financial Position date rather than the Commission continuing to fund ongoing liabilities of the scheme. The Commission's actuary estimates the amount required to settle the scheme's liabilities on a buy-out basis at the Statement of Financial Position date is approximately £400 million.

7.4) Disclosure of principal assumptions

a. The Trustees' principal assumptions

Full actuarial valuations are conducted triennially. The last one completed as at 31 March 2008 used the projected unit method. The trustees will arrange for a full actuarial valuation as at 31 March 2011. The trustees expect to have the results next year.

The market value of the net assets of the scheme at 31 March 2008 was £477 million and, at that time, provided cover for 96 per cent of the benefits members had accrued after allowing for expected future increases in earnings. The principal financial assumptions used by the actuary and quoted in real terms relative to price inflation were as follows.

Trustee's principal assumptions	2008	2006
	% pa	% pa
Rate of interest	Term dependent 4.0% at 5 years duration 3.2% at 20 years duration 2.8% at 40 years duration	2.1
Rate of salary increase	**0.75**	0.75

b. The Commission's principal assumptions

The Commission has sought actuarial advice in setting its principal assumptions for valuing pension scheme assets and liabilities for its accounting purposes as at 31 March 2011. The Commission has also complied with IAS 19 (Employee Benefits) in setting these assumptions. The principal financial assumptions used by the Commission at 31 March 2011 appear in the following table.

Commission's principal assumptions	2011	2010	2009	2008	2007
	% pa	% pa	% pa	% pa	% pa
Rate of inflation	**3.65**	3.8	3.3	3.4	3.1
Rate of salary increase [1]	**4.30**	4.45	3.95	4.05	3.75
Discount rate for liabilities	**5.55**	5.6	6.6	6.3	5.3
Rate of increase of pensions in payment	**3.65**	3.8	3.3	3.4	3.1
Rate of increase of deferred pensions	**3.65**	3.8	3.3	3.4	3.1

[1] This allows for salary escalation due to promotion, and reflects a pay freeze until 1 April 2013.

The post-retirement mortality tables used in 2011 are PA00 Year of Birth tables. This table also includes an allowance for improvements to anticipated life expectancy. This is expected to continue to rise in line with the higher rates observed over the last 30 years for the longer term (up to 2040) with future improvements then tailing off. The assumed life expectancies on retirement at age 60 are as follows.

Life expectancy on retirement at 60 years	2011	2010
Retiring today		
Males	**29 years**	28 years
Females	**31 years**	31 years
Retiring in 20 years		
Males	**31 years**	30 years
Females	**33 years**	32 years

The Commission calculates the expected return on the scheme assets using assumptions on the long-term expected returns by asset class as follows.

	2011	2010
Equities and diversified growth funds	**7.45%**	7.65%
Property	**5.55%**	5.55%
Corporate bonds	**5.6%**	5.6%
Gilts and liability driven investment funds	**4.35%**	4.55%
Cash	**0.5%**	0.5%
Assets taken at	**bid value**	bid value

c. 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.

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 2011, the scheme assets were invested in a portfolio that consisted primarily of diversified growth funds. The fair value of the scheme assets as a percentage of total scheme assets is detailed in the following table.

Financial instrument	2011	2010
UK equities	0%	0%
Overseas equities	0%	0%
Diversified growth funds	88%	84%
Property	0%	4%
Corporate bonds	0%	0%
Liability driven investment funds	11%	9%
Cash	1%	3%

The Commission and Trustees work together to keep the investment strategy under review. The current investment strategy is detailed below.

Growth assets and cash assets portfolios

The growth assets portfolio is held in diversified growth funds that invest in UK and overseas equities, bonds and a range of other asset classes. The diversified growth funds reduce funding level volatility without compromising on expected returns.

Cash assets are held within a liability driven investment 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, with three interest rate triggers 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 liability driven investment portfolio is expected to account for around 10 per cent of the scheme's assets to meet collateral requirements. The remaining 90 per cent will be held in diversified growth funds. The actual proportions vary from time to time depending on short-term collateral requirements and the extent to which the scheme's assets may vary in relation to the liabilities. Diversified growth fund assets are liquidated as necessary to provide a prudent level of liquidity necessary for the liability driven investment manager to maintain the Swap Fund investments.

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 2011**	31 March 2010
	Note	**£000**	**£000**
Fair values of scheme assets [1]	7.8	**662,179**	607,138
Present value of scheme liabilities [2]	7.7	**(728,429)**	(713,559)
Net pension liability		**(66,250)**	(106,421)

[1] The fair value of scheme assets increased during the year because investment values improved in line with market expectations. Contributions into the scheme have increased by an average of 1 per cent during the year. This also improved the value of scheme assets.
[2] The present value of scheme liabilities increased because corporate bond yields improved and discount rates increased as a result. This more than offset a reduction in the present value of scheme assets because of lower expectations for inflation.

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 (page 69).

Reconciliation of present value of liabilities		**Year to 31 March 2011**	**Year to 31 March 2010**
	Note	**£000**	**£000**
Opening present value of defined benefit liability		**713,559**	477,338
Current service cost	7.9	**21,170**	19,227
Interest cost	7.10	**40,189**	31,700
Employee contributions		**125**	99
Actuarial (gains)/ losses	7.11	**(29,397)**	197,923
Benefits paid		**(18,891)**	(13,294)
Past service cost [1]	7.9	**5,718**	566
Gains on curtailments and settlements [2]		**(4,044)**	0
Closing defined benefit liability	7.6	**728,429**	713,559

[1] Past service costs have increased significantly due to the number of redundancies in the year.
[2] A curtailment gain has arisen due to the number of redundancies. This is a pension contribution saving for the Commission in the future.

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 (page 69).

Fair value of scheme assets	Note	**Year to 31 March 2011** £000	Year to 31 March 2010 £000
Opening fair value of scheme assets		**607,138**	473,872
Expected return on scheme assets	7.10	**43,592**	30,217
Actuarial gains	7.11	**6,082**	94,419
Contributions by employer [1]		**24,133**	21,825
Contributions by employees		**125**	99
Benefits paid		**(18,891)**	(13,294)
Closing fair value of scheme assets	7.6	**662,179**	607,138

[1] The employer contributions decreased in 2010/11 by £2.3 million. This was offset by £4.4 million for redundancies for employees under the Civil Service Scheme terms and conditions. Based on the current contribution rate of 24 per cent on average of pensionable salaries for SMART pension members (who sacrifice 7 per cent of salary) and 17 per cent of pensionable salaries for non-SMART pension members, the Commission expects to contribute £15.5 million in cash contributions to the scheme in 2011/12.

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.

	Note	**Year to 31 March 2011** £000	Year to 31 March 2010 £000
Current service costs	7.7	**21,170**	19,227
Past service costs	7.7	**5,718**	566
Gains on settlements and curtailments [1]		**(4,044)**	0
Total operating charge		**22,844**	19,793

[1] The contribution due from the Commission as calculated above is shown in the staff and Commissioners' cost line in the Statement of Income. This operating charge includes a credit of £1,289,000 (2009/10: £2,032,000 credit) as a result of the application of IAS 19.

7.10) Analysis of the net return on pension scheme assets recognised in the Statement of Income (page 42)

This note analyses the surplus/ (deficit) arising from the IAS19 calculation of the value of pension assets. The Statement of Income (page 42) includes this surplus or deficit as a source of financing income.

Net return on pension scheme assets recognised in the Statement of Income	**Year to 31 March 2011**	Year to 31 March 2010
	£000	**£000**
Expected return on pension scheme assets	**43,592**	30,217
Interest cost	**(40,189)**	(31,700)
Net return on pension scheme assets	**3,403**	(1,483)

7.11) Analysis of the actuarial movements recognised in the Statement of Comprehensive Income (page 44)

This note provides an analysis of the net gain in the pension scheme assets and liabilities shown in the Statement of Comprehensive Income (page 44). The table below includes the total of recognised gains from previous financial years and the gain in the current financial year.

Actuarial movements recognised in the Statement of Changes in Taxpayers' Equity		**Year to 31 March 2011**	Year to 31 March 2010
	Note	**£000**	**£000**
Opening amount recognised		**(85,132)**	18,372
Actual return less expected return on scheme assets	7.8	**6,082**	94,419
Experience gains/ (losses) arising on the scheme liabilities	7.7	**6,671**	(27,995)
Changes in demographic and financial assumptions underlying scheme liabilities	7.7	**22,726**	(169,928)
Net gain/ (loss) in the year		**35,479**	(103,504)
Closing amount recognised		**(49,653)**	(85,132)

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 reduced since last year as a result of increased contributions referred to in Note 7.1 (page 65) and market performance.

Pension scheme performance	**31 March 2011**	31 March 2010	31 March 2009	31 March 2008
	£000	**£000**	**£000**	**£000**
Scheme liabilities (Note 7.6)	**(728,429)**	(713,559)	(477,338)	(493,571)
Scheme assets (Note 7.6)	**662,179**	607,138	473,872	476,866
Deficit	**(66,250)**	(106,421)	(3,466)	(16,705)
Actual returns less expected returns on assets	**6,082**	94,419	(42,723)	(68,684)
Actual returns less expected returns on assets as a percent of scheme assets	**0.9%**	15.6%	(9.0%)	(14.4%)

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 (page 45).

Intangible assets	Software
	£000
Cost	
At 1 April 2009	891
Purchases	1,318
Disposals	0
At 31 March 2010	**2,209**
Purchases [1]	26
Disposals [2]	(506)
At 31 March 2011	**1,729**
Amortisation	
At 1 April 2009	364
Provided in period	665
Disposals	0
At 31 March 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] This purchase related to software licences bought in the early part of the year. The Commission cancelled all other software investment following the government's announcements in August 2010.

[2] Disposals in the year relate to fully depreciated assets that are no longer in use within the Commission.

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

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 (page 45).

Plant and equipment	Furniture and fittings	Computer equipment	Office equipment	Total
	£000	**£000**	**£000**	**£000**
Cost				
At 1 April 2009	12,584	1,027	152	13,763
Purchases	1,392	859	7	2,258
Disposals	(2,424)	(355)	(106)	(2,885)
At 31 March 2010	**11,552**	**1,531**	**53**	**13,136**
Purchases	330	65	0	395
Disposals [1]	(1,233)	0	(16)	(1,249)
At 31 March 2011	10,649	1,596	37	12,282
Depreciation				
At 1 April 2009	5,745	475	114	6,334
Provided in period	1,312	427	18	1,757
Disposals	(1,397)	(355)	(106)	(1,858)
At 31 March 2010	5,660	547	26	6,233
Provided in year	1,548	503	10	2,061
Disposals [1]	(833)	0	(13)	(846)
At 31 March 2011	**6,375**	**1050**	**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 £403,000 (2009/10: £1,027,000), made up of the cost of assets disposed of £1,249,000 less the depreciation to date on these assets of £846,000. The disposals mainly related to the Commission's programme for reducing office accommodation costs.

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

8.3) Long-term receivables

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 2012.

Long-term receivables	**31 March 2011**	31 March 2010
	£000	**£000**
Heritable Bank	**444**	1,351
Landsbanki Islands hf	**2,758**	3,477
Total long-term receivables [1]	**3,202**	4,828

[1] The balances for each investment reduced as the repayments still to collect that fall due within a year of 31 March 2011 become a current asset (Note 9.3, page 75).

The total balance outstanding from the Icelandic deposits is £5,581,000 comprising £3,202,000 in long-term receivables (above) and £2,379,000 in current receivables (Note 9.3, page 75).

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 (page 45).

Trade receivables	**31 March 2011**	31 March 2010
	£000	**£000**
Local government	**8,587**	12,962
Health	**3,941**	3,730
Total trade receivables [1]	**12,528**	16,692

[1] Trade receivables decreased at 31 March 2011 because the balance at 31 March 2010 included a grant income receivable of £4.1 million.

Less than 0.7 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 following table shows the movements in the provision included in total trade receivables.

Provision for irrecoverable and doubtful debts	**31 March 2011**	31 March 2010
	£000	**£000**
Opening provision	**15**	9
Net provision released in the year	**(15)**	(9)
Provision made in the year	**22**	15
Closing provision	**22**	15

9.2) Work in progress

This note provides an analysis of the work in progress line shown in the Commission's Statement of Financial Position (page 45).

Work in progress	**31 March 2011**	31 March 2010
	£000	**£000**
Local government	1,675	5,335
Health	906	1,331
Total work in progress [1]	2,581	6,666

[1] Work in progress decreased at 31 March 2011 mainly because CAA inspection work stopped during the year.

9.3) Other receivables

This note provides an analysis of the other receivables line in the Statement of Financial Position (page 45).

Other receivables	**31 March 2011**	31 March 2010
	£000	**£000**
Accommodation prepayments	**1,332**	1,457
Leased car prepayments	**1,239**	1,566
Icelandic bank receivables [1]	**2,379**	977
Other debtors and prepayments [2]	**2,257**	4,793
Total other receivables	**7,207**	8,793

[1] Icelandic bank receivables have increased at 31 March 2011 as more of the repayments expected in later financial years fall due within one year. The remaining balances due over one year are detailed in Note 8.3.
[2] Other debtors and prepayments have reduced at 31 March 2011 because of the timing of payments at 31 March 2010.

9.4) Short-term investments, cash and cash equivalents

The following table summarises the Commission's short-term investments, cash and cash equivalents as shown in the Statement of Financial Position (page 45). Cash equivalents are cash deposits that mature within a month.

Short-term investments, cash and cash equivalents	**31 March 2011**	31 March 2010
	£000	**£000**
Short-term investments	**26,000**	47,000
Cash and cash equivalents	**6,064**	306
Total short-term investments, cash and cash equivalents [1]	**32,064**	47,306
Short-term investments (1 month and above)		
– maturing in 1-3 months	**13,000**	7,000
– maturing within 1 month	**13,000**	40,000
Total short-term investments	**26,000**	47,000

[1] Short-term investments, cash and cash equivalents have reduced at 31 March 2011 as the Commission has less to invest as a result of reducing revenue streams and increased redundancy costs.

9.5) Whole of Government Accounts analysis of receivables

The Commission has to analyse its long-term and current receivables, and work in progress and other receivables in line with the Whole of Government Accounts regulations. The following table summarises each category of receivable that we need to analyse for Whole of Government Accounts purposes.

Receivables		**31 March 2011**	31 March 2010
	Note	**£000**	**£000**
Long-term receivables	8.3	**3,202**	4,828
Current receivables	9.1	**12,528**	16,692
Work in progress	9.2	**2,581**	6,666
Other receivables	9.3	**7,207**	8,793
Total receivables		**25,518**	36,979

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

Whole of Government Accounts analysis of total receivables	**31 March 2011**	31 March 2010
	£000	**£000**
Central government bodies	**2,043**	8,270
Local government bodies	**7,637**	11,194
NHS trusts	**2,101**	3,284
Balances with bodies external to government	**13,737**	14,231
Total receivables	**25,518**	36,979

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 (page 45).

Trade and other payables	**31 March 2011**	31 March 2010
	£000	**£000**
Trade payables [1]	**242**	810
Taxation and Social Security [2]	**6,971**	3,801
Accrual for holiday entitlement not yet taken [3]	**3,065**	5,400
Accruals [4]	**2,745**	9,293
Total trade and other payables	**13,023**	19,304

[1] Trade payables have reduced at 31 March 2011 because of planned reductions in spending across the Commission.

[2] Taxation and Social security creditors are higher at 31 March 2011 mainly because of the timing of payments at year end.

[3] Accrual for holiday entitlement not yet taken has reduced at 31 March 2011 due to a reduction in staff numbers and staff using their holiday entitlement.

[4] Accruals have reduced at 31 March 2011 due to the inclusion of rebates at the 31 March 2010. There was no equivalent amount outstanding at 31 March 2011. Other accruals are also lower because of reduced spending in the year.

10.2) Deferred income

Deferred income represents the invoices raised in advance for work the Commission has yet to deliver. The table below compares the Commission's deferred income balance at 31 March 2011 to the previous year.

Deferred income	**31 March 2011**	31 March 2010
	£000	**£000**
Total deferred income	**35,712**	38,926

10.3) Current provisions

This note provides an analysis of the movement in the current provisions shown in the Statement of Financial Position (page 45). These current provisions are for redundancy costs where individuals had received their notice before the year end, and dilapidations costs and onerous lease provisions that are due to be released within the next 12 months.

Current provisions	Redundancy costs	Dilapidations	Onerous leases	**31 March 2011**	31 March 2010
	£000	**£000**	**£000**	**£000**	**£000**
Opening balance	3,178	414	0	**3,592**	736
Reclassification of provisions [1]	0	330	0	**330**	(4)
Utilised in period	(3,178)	(279)	0	**(3,457)**	(367)
Provision in period	8,735	(94)	450	**9,091**	3,227
Closing balance	**8,735**	**371**	**450**	**9,556**	**3,592**

[1] This relates to the provisions that became current at 31 March 2011 as they moved to becoming due within one year (Note 11, page 80).

10.4) Whole of Government Accounts analysis of trade and other payables and deferred income

The Commission has to analyse its trade and other payables and its deferred income balances in line with the Whole of Government Accounts regulations. The following table summarises the Commission's trade and other payables and deferred income balances.

Trade and other payables and deferred income		**31 March 2011**	31 March 2010
	Note	**£000**	**£000**
Trade and other payables	10.1	**13,023**	19,304
Deferred income	10.2	**35,712**	38,926
Total trade and other payables and deferred income		**48,735**	58,230

The following table analyses the Commission's total trade and other payables and deferred income shown above as required by the Whole of Government Accounts regulations.

Whole of Government Accounts analysis of trade and other payables and deferred income	**31 March 2011**	31 March 2010
	£000	**£000**
Central government bodies	**12,805**	12,491
Local government bodies	**24,200**	28,011
NHS trusts	**5,465**	8,017
Public corporations	**0**	116
Balances with bodies external to government	**6,265**	9,595
Total trade and other payables and deferred income	**48,735**	58,230

Note 11: Non-current provisions

This note provides an analysis of the movement in the non-current provisions shown in the statement of financial position. These non-current provisions are mainly for future dilapidations costs which are released at the cessation of the lease and onerous lease provisions due to be released after one year.

	Redundancy costs	Dilapidations	Onerous leases	**31 March 2011**	31 March 2010
	£000	**£000**	**£000**	**£000**	**£000**
Opening balance	0	1,436	0	**1,436**	1,313
Reclassification of provisions [1]	0	(330)	0	**(330)**	4
Utilised in the year	0	0	0	**0**	0
Provision in year	236	345	680	**1,261**	119
Closing balance	**236**	**1,451**	**680**	**2,367**	**1,436**

[1] This relates to non-current provisions that became current at 31 March 2011 as they moved to being due within one year (Note 10.3, page 79).

Note 12: Retained earnings

12.1) Retained earnings for local government activities

Retained earnings show the net deficit or surplus for the year together with the cumulative amount brought forward from prior accounting periods. The following table shows the movements on the retained earnings for local government activities during the year.

Local government retained earnings		**31 March 2011**	31 March 2010
	Note	**£000**	**£000**
Brought forward		**26,800**	32,705
Deficit for year	2.3i	**(23,785)**	(5,547)
Net movement to the pension scheme reserve		**(3,080)**	(358)
Local government retained earnings [1]		**(65)**	26,800

[1] The high level of redundancies has exhausted retained earnings in local government.

12.2) Retained earnings for health activities

Retained earnings show the net deficit or surplus for the year together with the cumulative amount brought forward from prior accounting periods. The following table shows the movements on the Commission's retained earnings for health activities.

Health retained earnings		**31 March 2011**	31 March 2010
	Note	**£000**	**£000**
Brought forward		**2,310**	5,992
Surplus/ (deficit) for year	2.3i	**1,759**	(3,491)
Net movement to the pension scheme reserve		**(1,612)**	(191)
Health retained earnings		**2,457**	2,310

12.3) Pension reserve

The pension reserve shows the additional surplus or deficit experienced during the year resulting from the application of IAS19 (Employee Benefits) together with the balance brought forward from prior accounting periods.

Pension reserve	**31 March 2011**	31 March 2010
	£000	**£000**
Brought forward	**(106,421)**	(3,466)
Total operating charge [1]	**(19,441)**	(21,276)
Cash payments to the scheme (Note 7.8, page 70)	**24,133**	21,825
Movement in the year from the Statement of Comprehensive Income (page 44)	**35,479**	(103,504)
Pension reserve	**(66,250)**	(106,421)

[1] This is the total operating charge for the pension scheme (£22,844,000 Note 7.9, page 70) adjusted for the net return or loss on pension scheme assets shown in the financing income section of the Statement of Income (£3,403,000 page 42).

Note 7 (page 64) provides more detail on the pension accounting entries in the Commission's accounts.

Note 13: Movement in receivables and work in progress

This note provides an analysis of the decrease in receivables and work in progress shown in the Statement of Cash Flows (page 47).

Receivables and work in progress			**Year to 31 March 2011**	Year to 31 March 2010
	Note	**Cash inflow**	**£000**	**£000**
Long-term receivables	8.3	**1,626**	**3,202**	4,828
Trade receivables	9.1	**4,164**	**12,528**	16,692
Work in progress	9.2	**4,085**	**2,581**	6,666
Other receivables	9.3	**1,586**	**7,207**	8,793
Total receivables and work in progress		**11,461**	**25,518**	36,979

Note 14: Movement in payables and provisions

This note provides an analysis of the decrease in payables and provisions shown in the Statement of Cash Flows (page 47).

Payables and provisions			**Year to 31 March 2011**	Year to 31 March 2010
	Note	**Cash inflow/ outflow**	**£000**	**£000**
Trade and other payables	10.1	**(6,281)**	**13,023**	19,304
Deferred income	10.2	**(3,214)**	**35,712**	38,926
Current provisions	10.3	**5,964**	**9,556**	3,592
Non-current provisions	11	**931**	**2,367**	1,436
Total payables and provisions		**(2,600)**	**60,658**	63,258

Note 15: Taxation

The Commission started to complete Corporation Tax returns from 1 January 2009. The Commission is liable for Corporation Tax, but anticipates its liability for 2010/11 will be nil (2009/10: nil).

Note 16: 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:** short-term flexibility is achieved by holding between £5 million and £10 million on a call account and having access to overdraft facilities. The Commission only makes short-term cash investments in line with its treasury management strategy. The longest dated cash investment at 31 March 2011 matures on 29 June 2011.
- **Credit risk:** cash investments are permitted with the HM Treasury's Debt Management Office (DMO) 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 DMO during 2010/11.
- **Interest rate risk:** in the event the Commission makes a cash investment with an organisation other than the DMO, 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 2010/11.

At the end of March 2011 the Commission held six deposits with the DMO in addition to two held with Heritable Bank and Landsbanki.

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 annually in line with updated information and best practice guidance.

Heritable Bank

The Commission has completed an annual impairment review on our Heritable asset in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This resulted in a credit of £133,000 to the Statement of Income (page 42).

Landsbanki

The Commission has also carried out an impairment review of its Landsbanki investment. We decided to use a prudent recovery rate of 89 per cent given the court proceedings relating to recovery continue (Note 19.4, page 88). The recovery rate used is in line with legal and technical accounting advice. The review resulted in an impairment credit of £412,000 to the Statement of Income (page 42).

The following table shows three different scenarios based on three potential recovery rates – the recovery rate provided by CIPFA, the rate provided through internal advice as described above, and the rate which would apply should the Commission lose its priority status for payment by Landsbanki.

Scenario	CIPFA advice with priority status	Internal advice based on priority status	CIPFA advice without priority status
Recovery rate	94.85%	89.00%	38.21%
Recoverable amount	£3.7 million	£3.5 million	£1.5 million

The amount owed by Landsbanki was converted from British Sterling (GBP) into Icelandic Krona (ISK) on 22 April 2009 following a change in Icelandic law at a rate of 190.62 ISK/GBP. The Commission has followed accounting standards and revalued the asset as at 31 March 2011 by applying an exchange rate of 183.881 ISK/GBP to the initial value of the investment. This has resulted in an exchange rate gain of £281,000. This forms part of the total impairment credit of £412,000 for the Landsbanki deposit outlined above.

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

Exchange Rate (ISK to GBP)	195.00	183.881	180.00
Impact on amount chargeable to the Statement of Income	£30,000 decrease	£281,000 increase	£368,000 increase

With the exception of 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 17: Operating results for the last four periods

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

Operating results	**Year to 31 March 2011**	Year to 31 March 2010 (restated)	Year to 31 March 2009	Year to 31 March 2008
	£m	**£m**	**£m**	**£m**
Operating income	**183.5**	213.1	215.7	219.7
Operating costs	**(209.6)**	(221.0)	(209.2)	(215.3)
Notional capital (costs)/credits	**0**	0	(0.9)	(0.5)
Operating surplus/ (deficit)	**(26.1)**	(7.9)	5.6	3.9

The deficit for the year ended 31 March 2010 reflects the Commission's decision to reduce its retained earnings. It planned for redundancies (£5.3 million) and rebates (£1.9 million) but during that year saw that it could also bring forward future rebate commitments taking the total rebates that year to £6.6 million while the deficit remained at £7.9 million.

The deficit for the year ending 31 March 2011 mainly reflects the losses on the discontinued operations of CAA and inspection of which £15.1 million was unanticipated redundancy costs and the balance was the in-year loss of fee and grant income.

Note 18: Commitments under leases

18.1) Future minimum lease payments for non-cancellable operating leases for properties
The table below shows future minimum lease payments for the Commission's property leases at 31 March 2011.

Future minimum lease payments for non-cancellable operating leases for properties	**31 March 2011**	31 March 2010
	£000	**£000**
Due within one year of 31 March 2011	**3,388**	3,899
Due up to five years after 31 March 2011	**7,324**	13,100
Due more than five years after 31 March 2011	**5,138**	12,637
Total future minimum payments for non-cancellable operating leases for properties	**15,850**	29,636

The reduction in future minimum lease payments at 31 March 2011 has resulted from the decision by the Commission to exit properties at lease break dates where possible.

The Commission spent £3,557,000 on operating lease payments for property in 2010/11.

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

The table below shows future minimum lease payments for the Commission's cars and photocopiers at 31 March 2011.

Future minimum lease payments for non-cancellable operating leases for cars and photocopiers	**31 March 2011**	31 March 2010
	£000	**£000**
Due within one year of 31 March 2011	**2,122**	2,750
Due up to five years after 31 March 2011	**2,049**	3,571
Total future minimum payments for non-cancellable operating leases for cars and photocopiers	**4,171**	6,321

The reduction in future minimum lease payments at 31 March 2011 has resulted from leases for cars held at 31 March 2010 coming to an end during the year, and the Commission leasing very few new cars in the year.

The Commission spent £2,832,000 on operating lease payments for cars and photocopiers in 2010/11.

18.3) 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 table summarises the income the Commission will receive from the property it has sublet.

Future rent receivable from non-cancellable operating leases for sublet property	**31 March 2011**	31 March 2010
	£000	**£000**
Due within one year of 31 March 2011	**816**	974
Due up to five years after 31 March 2011	**1,351**	3,505
Due more than five years after 31 March 2011	**0**	2,921
Total future rent receivable from non cancellable operating leases for sublet property	**2,167**	7,400

The reduction in future rent receivable at 31 March 2011 is mainly due to the Commission's decision to exit its London Millbank property at the lease break date in 2013. This reduces future rental income streams as the Commission will not earn rental income after this date on the part of the property it has sublet.

The Commission received £1,070,000 rent income from property sublets in 2010/11.

Note 19: Contingent liabilities

19.1) 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 as a result of these indemnities depends upon the progress of individual cases and cannot, therefore, 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 £0.325 million plus up to £0.1 million costs.

19.2) Taxation

The Commission has sought a ruling from HM Revenue and Customs (HMRC) for several years on the correct VAT treatment for its inspection work without success. The Commission decided to employ a VAT specialist during the year to review the issue with the aim of settling the matter. The specialist advised the Commission should treat its inspection work as a non-business activity and that it should therefore restrict recovery of VAT paid from HMRC. We have written to HMRC outlining the advice we have received and to say we will restrict recovery of VAT paid for non-business activities once it has confirmed this is the correct approach. If HMRC confirms the advice the Commission has received, it may seek to recover the VAT the Commission has theoretically over recovered for the past four years. We estimate this could amount to £0.9 million.

The Commission also continues to seek a ruling from HMRC on the correct treatment of VAT for its data-matching work. Counsel has advised we should not charge VAT on this work, nor recover the VAT on costs incurred in connection with it. If this were to take effect, the extra cost to the Commission would be less than £0.1 million a year. A change could be applied retrospectively to July 2008.

19.3) Redundancies and onerous leases

Thirty-one members of staff received notice of redundancy during the year but had their notice suspended as the Commission seconded them to the Advisory Services division of the national Audit Practice formed on 1 October 2010. The final leaving date for these employees is uncertain as it depends on the Advisory Services division's success in meeting its business plan targets for 2011/12. The Commission set the 2011/12 budget on the basis of these staff remaining in post for the full year so we have not provided for this cost in the accounts. The Commission has estimated the redundancy cost at £1.2 million should these individuals leave the Commission.

In April the Commission has invited a selected group of staff in its Audit Practice to apply to be considered for voluntary redundancy. The aim of the scheme is to match employee numbers and grades to that needed for the Audit Practice to deliver its work. The Commission will release 22 staff it has approved for voluntary redundancy under this scheme on 30 November 2011 at an estimated maximum cost of £1.3 million. The Commission has amended its Medium Term Financial Plan to reflect the impact of this cost on retained earnings in 2011/12. It will reduce the Audit Practice liability for the Department for Communities and Local Government.

The Commission has provided for an onerous lease in respect of one half of its Leicester Rivermead property that is now vacant. The Commission continues to occupy the other half. The Commission has marketed the whole property and intends to move out of it. At 31 March 2011 the Commission had not decided on a date for moving out of this property, and had no prospective tenant. The Commission estimates it would have had to make an onerous lease provision of £0.5 million in its accounts if it had moved out on 31 March 2011.

19.4) Icelandic Bank Deposits

The Commission has a £5.0 million deposit with Landsbanki Islands hf. The Commission has impaired the deposit and accrued interest (Notes 6 on page 64 and 16 on page 83), but some uncertainty remains as to the final amount that will be repaid. Based on legal and technical advice, the Commission has impaired the value of the original deposit on the basis that it has a priority creditor status. In the unlikely event that the Commission were to lose this priority status, it would need to impair the amount by a further £2.0 million.

Note 20: Related party transactions

The related party disclosures given below meet the requirements of International Accounting Standard 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.

The interests of Commissioners in post at 31 March 2011 are set out on page 14. Details of material transactions with related parties for all Commissioners in the period, and any relating to other key management personnel of the Commission, are provided below.

Transactions with related parties

Such transactions are all carried out on an arm's-length basis and are conducted on normal commercial terms. No amounts were written off or forgiven during the year and outstanding balances were settled under normal trading terms.

Commissioners

Sir Merrick Cockell is a member of the Royal Borough of Kensington and Chelsea. Transactions for services provided by the Commission to the Borough amounted to £472,789 (2008/09: £353,183 during the period of appointment). The balance due to the Commission at 31 March 2011 was £30,446.

Jim Coulter and Sheila Drew Smith are Board members of the Tenant Services Authority. During the year transactions for services provided by the Commission to the Authority amounted to £441,311 (2009/10: £79,818). The balance due to the Commission at 31 March 2011 was £10,972. Jim is also Chairman of Bridging Newcastle Gateshead, and during the year transactions for services provided by the Commission amounted to £49,900 (2009/10: nil). The balance due to the Commission at 31 March 2011 was £16,867.

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 £522,922 (2009/10: £473,395). The balance due to the Commission at 31 March 2011 was £55,053. Stephen is also a Peer Member of the Improvement and Development Agency, and during the year transactions for services provided by the Agency to the Commission amounted to £22,790 (2009/10: £117,817). There was no balance due to the Agency at 31 March 2011.

Denise Platt is an Independent Review Board Member of Cheshire Fire and Rescue Service. During the period until 31 August 2010 when Denise's appointment as a Commissioner ceased, transactions for services provided by the Commission to the Service amounted to £28,312 (2009/10: £59,598).

Chris White is a member of Hertfordshire County Council. During the year transactions for services provided by the Commission to the Council amounted to £504,751 (2009/10: £514,058). The balance due to the Commission at 31 March 2011 was £35,821. Chris White is also a member of St Albans City and District Council, to which transactions for services provided by the Commission amounted to £228,386 (2009/10: £253,402). The balance due to the Commission at 31 March 2011 from this Council was £13,885.

Management team

Martin Evans is a member of the Audit and Risk Committee of the Department for Communities and Local Government. Details of transactions with the Department for Communities and Local Government are given below.

David Walker's brother is the Chief Executive of Broxbourne Borough Council. During the period until 10 November 2010 when David's appointment on the management team ended, transactions for services provided by the Commission to the Council amounted to £77,777 (2009/10: £166,642).

Other related parties

The Commission is a public corporation sponsored jointly in the year by the Department for Communities and Local Government and the Department of Health.

During the year, amounts invoiced to the Department for Communities and Local Government for services provided by the Commission to, or on behalf of the Department for Communities and Local Government, amounted to £9.9 million (2009/10: £26.3 million). The balance due to the Commission at 31 March 2011 was nil.

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

Compensation of key management personnel

IAS 24 also requires the disclosure, in aggregate, of the compensation of key management personnel and these details are set out below. These positions have influence over decision making at Board and Audit Commission management team level.

	Short-term benefits (salary and taxable benefits)	Post-employment benefits (pension contributions)	Redundancy benefits	Total Year to 31 March 2011	Total Year to 31 March 2010
	£000	£000	£000	£000	£000
Commissioners [1]	259	0	0	259	270
Interim Chief Executive and managing directors [2]	1,066	307	10	1,383	1,409
Other key management personnel [3]	256	81	0	337	331
Regional directors [4]	274	50	0	324	667
Total	**1,855**	**438**	**10**	**2,303**	**2,677**

[1] The Secretary of State for Communities and Local Government approves the remuneration for Commissioners.
[2] The figures for the year ending 31 March 2011 for the Interim Chief Executive and managing directors correspond with the remuneration report (pages 18 to 26). These reflect the reduction in managing director posts from seven full-time equivalents at 31 March 2010 to five by 31 March 2011.
[3] The other key management personnel are the Finance Director and the Commission Solicitor. The Commission created a Finance Director role in 2010/11 and did not fill the post holder's former role. The Commission Solicitor post existed in 2009/10. Both post holders attended Audit Commission management team meetings during 2010/11 because the Commission decided not to replace the Managing Director Finance and Corporate Services post when Eugene Sullivan became Interim Chief Executive on 1 April 2010.
[4] The Commission restructured on 1 October 2010 creating a single national Audit Practice in place of the four former operational regions. This table shows the cost of employing the four former regional directors until 30 September 2010. Two of the regional directors have since left the Commission, and two have transferred to posts in the new Audit Practice reporting to the Managing Director Audit Practice.

Note 21: Losses and special payments

The Commission has reduced its running costs, in line with Government policy. As property is a significant part of overall running costs, the Commission has reduced the size of its estate. Where possible the Commission has exercised lease break clauses. However, in vacating some properties, the Commission has incurred constructive losses of £251,000.

A constructive loss occurs when correctly ordered goods or services are received and paid for but a later event causes a change of policy that means those goods or services are no longer needed.

The Commission's constructive losses relate to furniture, fixtures, fittings and equipment bought for its properties no longer needed as office accommodation is reduced in line with its contracting need for office space.

The Commission did not make any special payments during the year (2009/10: nil).

Note 22: Events occurring after the end of the reporting period

The Department for Communities and Local Government wrote to local authority chief executives on 2 June 2011 to tell them it had asked the Commission to begin preparatory work on outsourcing its Audit Practice. Ministers have identified this as their preferred option for externalising the Audit Practice, but have yet to confirm this as the way forward. The Commission continues to work with the government to help it implement its new policies for local audit and to keep potential closedown liabilities, including pensions, to a minimum. The Commission has already streamlined corporate and support services. It has started to review its strategic, management and financial plans in readiness for a ministerial decision on outsourcing the Audit Practice.

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 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 7 July 2011.

Appendix 1

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:

(a) the accounting and disclosure requirements of the Companies Act;
(b) International Financial Reporting Standards;
(c) any guidance that the Treasury may issue from time to time in respect of the financial statements of public corporations;
(d) any other specific disclosure requirements of the Secretaries of State;

insofar as these requirements are appropriate to the Commission and are in force for the year for which the 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.

5 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.

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

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

8 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:
   i. fees; and
   ii. other income.

b. The following expenditure:
   i. audit fees to private firms;
   ii. contract audit assistance for the Commission's regional operations;
   iii. other amounts payable to private accountancy firms; and
   iv. debts written off and movements in provisions for bad and doubtful debts.

2 The notes to the 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:
   i. local government audits;
   ii. local government inspections;
   iii. National Health Service audits, and
   iv. 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:
   i. section 28 (certification of claims, returns etc.);
   ii. section 29 (agreed audit of accounts);
   iii. section 36 (studies at request of educational bodies); and
   iv. 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.
   i. Local Government authorities; and
   ii. Health Service authorities.

d. Details of employees, other than Commission members, showing:
   i. the average number of persons employed during the year, including part-time employees and secondees, analysed between appropriate categories;
   ii. the total amount of loans to employees;
   iii. employee costs during the year, showing separately:
      a wages and salaries;
      b early retirement costs;
      c social security costs;
      d contributions to pension schemes;
      e payments for unfunded pensions; and
      f 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:
   i. transactions and balances of £5,000 and below are not material;
   ii. the following are related parties:
      a subsidiary and associate companies of the Commission;
      b 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);
      c board members and key managers of the Commission;
      d members of the close family of board members and key managers;
      e companies in which a board member or a key manager is a director;
      f partnerships and joint ventures in which a board member or a key manager is a partner or venturer;
      g trusts, friendly societies and industrial and provident societies in which a board member or a key manager is a trustee or committee member;
      h companies, and subsidiaries of companies, in which a board member or a key manager has a controlling interest;
      i settlements in which a board member or a key manager is a settlor or beneficiary;
      j 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;
      k 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;
      l settlements in which a member of the close family of a board member or of a key manager is a settlor or beneficiary; and
      m the Department for Communities and Local Government, as the sponsor department for the Commission.

For the purposes of this sub-paragraph:

i. A key manager means a member of the Commission’s management board.
ii. The close family of an individual is the individual’s spouse, the individual’s relatives and their spouses, and relatives of the individual’s spouse. For the purposes of this definition, “spouse” includes personal partners, and “relatives” means brothers, sisters, ancestors, lineal descendants and adopted children.
iii. A controlling shareholder of a company is an individual (or an individual acting jointly with other persons by agreement) who is entitled to exercise (or control the exercise of) 30 per cent or more of the rights to vote at general meetings of the company, or who is able to control the appointment of directors who are then able to exercise a majority of votes at board meetings of the company.

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.

Our history and statutory background

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

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

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

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

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

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

In May 2010 the government instructed the Commission to cease its programme of CAA and associated inspection work. In August 2010 the government announced the abolition of the Commission. Instead local authorities will be required to appoint their own auditors from the private sector as soon as the legislative timetable allows.

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Stock code: GCM 3689

ISBN 978-0-10-297271-9

9 780102 972719

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