VEHICLE CERTIFICATION AGENCY
An executive agency of the Department for Transport

Annual Report and Accounts
2011 - 2012

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CHIEF EXECUTIVE'S FOREWORD

Welcome to the Annual Report for the Vehicle Certification Agency (VCA) for 2011-2012. Our aim is to enable manufacturers and distributors to supply safe and environmentally compliant products to the UK and European market place. Many of our services compete with European public sector and international private sector providers. I am delighted to announce that our core Product Certifications activities increased again this year, a strong performance given the competitive strength of the sector. Our work for Government reduced as a result of the changes in priorities by the Department for Transport and Department for Business, Innovation and Skills.

Against a budget of £14 million, the VCA delivered an income of £15.2 million, with a surplus of £262,000 against a budget of £50,000, an excellent performance. Our costs include a substantial investment in new operating systems, and our ICT hardware to improve resilience. The productivity of our staff increased as a result of the introduction of new operating systems, and increasing demand in several markets. Regionally, UK, China and Asia Pacific continued to record strong growth in Type Approval activities and, despite challenging local economic issues in the North America market, our US operation saw a resurgence of our traditional activities for the Detroit 3, plus continuing interest in low carbon vehicles. Our Italian operation also continues to grow, and is spreading out into Southern Europe. A substantial element in the UK growth has come from trailer, truck and bus converter industries, which have come into Type Approval world through the Recast Framework Directive for European Whole Vehicles (ECWVTA).

I am again pleased to report that customer satisfaction has continued to improve this year, up to 95% overall. The Civil Service wide staff survey, undertaken in October 2010 showed the Agency to have an Engagement score increased to 69%, in the top 7 organisations across the Civil Service, maintaining the excellent performance of the prior year. These indexes highlight an Agency that is performing very well, delighting customers and staff. Key performance indicators like headcount utilisation and earnings per head have improved, so we have been able to hold down our fees, with only one increase in the past 8 years.

The Agency has continued to invest substantially in our future, with training, skills and infrastructure. Investments in ICT resilience, security and operating systems have started to deliver efficiency improvements, with more to come. I am pleased to report that there were no breaches of "Protect Personal" data.

In summary, the Agency has continued to develop its products, customers, staff and systems and is in good shape for the future.

Paul Markwick
Chief Executive

INTRODUCTION

Brief History and Background

The Vehicle Certification Agency (VCA) was established in 1990 and is an Executive Agency of the Department for Transport (DfT). Prior to 1990 the work now done by VCA was carried out by an operational division of the then Ministry of Transport. The VCA is currently an integral part of the Motoring Services (MS) Group and the accounts will be fully consolidated into the Departmental Group Accounts.

The VCA's main business is as the UK Type Approval Authority for new on and off-road vehicles, systems and components. VCA is responsible for approving that products have been designed and constructed to meet internationally agreed standards of safety and environmental protection. The VCA publishes a database of CO_2 emissions from passenger cars which underpins the graduated Vehicle Excise Duty (VED) and Company Car tax schemes, and the "Act on CO_2" campaign.

VCA is also the administrator for the approval of packages for the carriage of dangerous goods. We issue Vehicle Special Orders on behalf of DfT, to permit vehicles to use public roads that are unable to meet vehicle regulations because of their specialised design. VCA also operates on behalf of DfT, Business, Innovation and Skills (BIS) and the Department for Environment, Food and Rural Affairs (DEFRA), as the nominated enforcement body for a number of Statutory Instruments arising from European directives. This includes the obligations under the European emissions standards, Non-Road Mobile Machinery, the Waste Electrical and Electronic Equipment (WEEE) Regulations and the Waste Batteries and Accumulators Regulations.

In addition to statutory work, VCA provides a range of Management System Certification (MSC) services to the automotive industry supporting ongoing compliance to the Type Approval and Conformity of Production (CoP) requirements and regulations. These allow the automotive industry to demonstrate that they have the systems in place, not only to ensure the quality of their products, but also to minimise the impact on the environment from the manufacturing and design processes.

Organisation

VCA takes its policy lead from the DfT centre and the Motoring Services Group, working in particular with the International Vehicles Standards division, as well as the Dangerous Goods division and Cleaner Fuels & Vehicles. There is monthly reporting of financial and performance information to the Department for consolidation into HM Treasury and Cabinet Office returns, supported by challenge meetings with senior officials.

The Governance Statement, pages 21-28 shows who is on the management board and how it operates, while the Remuneration Report pages 15-19 provides information on board appointment terms, salary and pension entitlements.

MANAGEMENT COMMENTARY

Business Objectives and Secretary of State Key Performance Measures

VCA contributed to the transport commitments set out in the Department's Business Plan for 2011-12 particularly in the areas of vehicle safety, security and environmental impact and by providing excellent service to the public, evidenced through customer satisfaction surveys and by engaging in the transparency agenda, through providing monthly Quarterly Data Summary (QDS) data returns for publication.

VCA facilitates economic growth generally by providing a UK base for the global automotive industry to gain access to the European and other legislative markets as well as supporting UK industry in meeting the requirements for export to these markets. VCA chairs the DfT Vehicle Technology Forum, working with DfT policy leads, other DfT Agencies and the Chief Scientific Advisor's Unit. This group shares knowledge, understanding and experience of emerging Vehicle Technologies for best effect and value.

The specific VCA key performance measures, as agreed by the Secretary of State, are shown below, together with the general measures that apply to all Motoring Agencies.

Table 1: Secretary of State Key Performance Measures

Category	**Measure**	**Objective**	**Status**
Specific Operational	Deliver the agreed testing, enforcement programme. [Note in-service emissions funding withdrawn after measure set]]	DfT acceptance of reports by 31March 2012	Achieved
	Complete System and Component Type Approval certificates within 9 working days	90%	Achieved 95%
	Appraisal reports on our technical performance from independent panel members deemed to have no critical defects.	99%	Achieved 100%
	Ensure the continued consistency and quality of VCA's approvals by undertaking the following programmes: • Conformity of Production assessments for VCA issued approvals using the risk based methodology in line with the agreed programme. • Dangerous Goods packaging - Carry out a programme of Conformity of Production inspections in accordance with the Service Level Agreement agreed with the Department.	Complete work by 31 March 2012	Achieved
	Customer satisfaction – Maintain or improve the satisfaction of our customers, shown by survey	90%	Achieved 95%
	Protecting the environment – Cut carbon emissions from Agency buildings and business use of vehicles by 31 March 2012*	5% reduction	Not achieved*

Specific Financial	**Workforce –** Ensure efficient deployment of staff within business plan	Deliver financial surplus within 180 FTE	Achieved £262k surplus within FTE
	Ensure the number of working days lost due to sickness absence does not exceed target	5.0 days	Achieved 4.9 days
	Agency finance – Make further efficiency savings	Minimum £200k	Achieved £270k
	Deliver financial performance in line with Business Plan	Achieve a minimum £50,000 surplus	Achieved £262k surplus
	Management Systems Certification in Breakeven by March 2012 on a full cost basis	Breakeven on a full cost basis	Not achieved**
All Motoring Agencies Operational	Pay all invoices within 5 working days	80%	99.6%
	Provide response to Freedom of Information (FOI) requests within 20 working days	93%	100%
	Provide response to all Parliamentary Questions (PQs) within due date	85%	99%
	Provide response to MPs' correspondence within 7 working days	85%	100%
	Provide response to any official correspondence within 20 working days	80%	100%
	Deliver on eight Customer Promises regarding response time, dealing with complaints and providing information.	Deliver all eight promises	Achieved

** Although the measure was not achieved on an absolute basis, on an CO2e per FTE basis, there is a reduction of 4.93% since 2009-2010. VCA will be looking to refine this measure in future years so as to be consistent with VCA's other measures and business objectives.*

** Costs were reduced by 17% over 2010-2011, however, due to the current economic climate, a number of manufactures programmes were lost or deferred because of factory closures and extended shutdowns.

Business performance

The VCA was funded by parliament, via the DfT, through Voted Departmental Expenditure Limit (DEL) provision on the Supply Estimate for 2011-2012, under Motoring Agencies. It is required to cover its costs from income received. In 2011-2012 the VCA's key financial target was to achieve a £50,000 surplus on a full cost basis; this was exceeded by £212,000 by making a £262,000 surplus (£1,405,000 surplus in 2010-2011 re-stated).

The 2011-2012 surplus is lower than last year largely as a result of a significant reduction (£998k) in our Activities for Government as a consequence of the Governments change in priorities. This was offset in part by an increase in Product Certification income of £432,000 (4.8%). Total Staff costs were marginally lower than in the prior year by £50,000 (0.5%) however, total Full Time Equivalent (FTE) employees rose by 4 (2.3%). Although other cost efficiencies were made elsewhere during the year, costs increased in China by £184,000 (29.4%). Computer running costs rose by £148,000 (34.3%) due to continued investment and travel and subsistence because of the increase in Product Certification work and above inflation rises in fuel, air and rail travel.

Total net assets increased by 5% (£386,000) due an to increase in bank and cash balances and significant investment in operational software (principally the Type Approval, and MSC operating systems, our Case Management system for enforcement, and our customer database (XRM), which saw a 56% rise in the value of Intangible Assets to £652,000. £450,000 is included on the Statement of Financial Position as a liability (other payables) as a grant from DfT to upgrade the Midlands Centre accommodation, increasing capacity, and improving the environmental efficiency. The difficult economic conditions are illustrated by our bad debt provision increasing by £52,000 (prior year reduction of £156,000), plus the average debtor days have risen by 10 days to 61 days from 51 days in 2010-2011.

Table 2: Income and Expenditure five year trend (2007-2008 to 2011-2012)

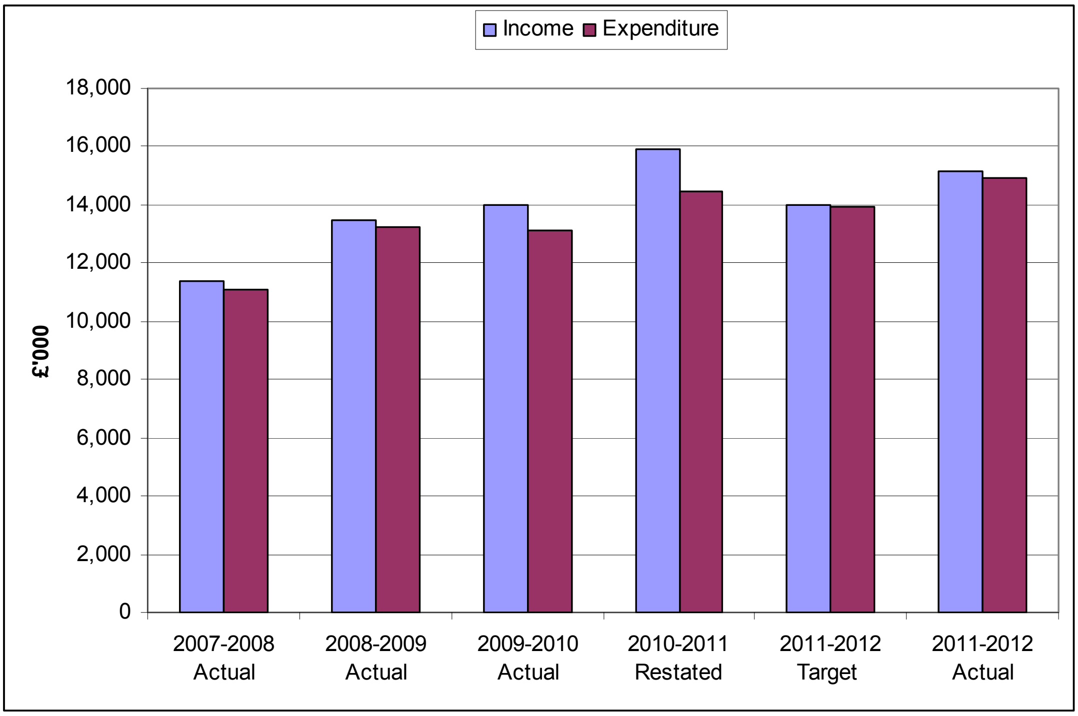
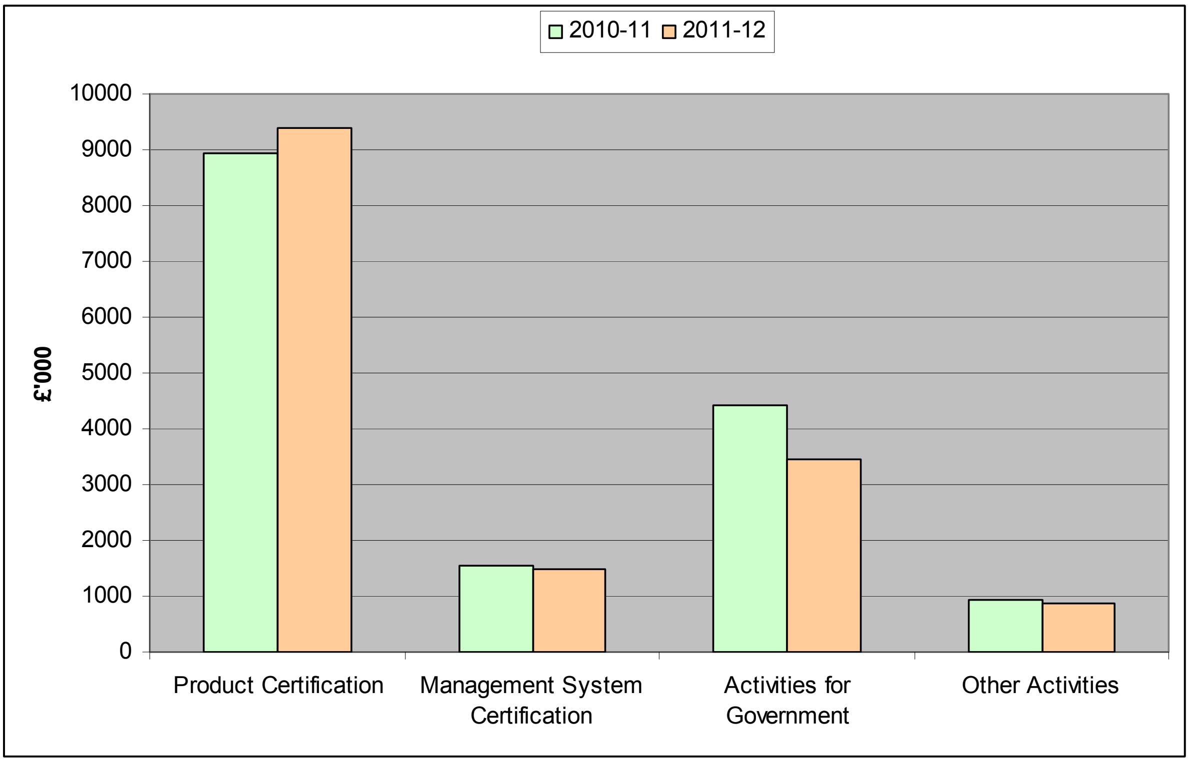


Table 3: Values for Income, Expenditure and Surplus/Deficit

	2007-2008 Actual	2008-2009 Actual	2009-2010 Actual	2010-2011 Restated	*2011-2012 (Target)*	**2011-2012 Actual**
Income	£11.39m	£13.50m	£14.01m	£15.89m	*£14.00m*	**£15.17m**
Expenditure	£11.09m	£13.25m	£13.14m	£14.49m	*£13.95m*	**£14.91m**
Surplus/ (Deficit)	£0.30m	£0.25m	£0.87m	£1.41m	*£0.05m*	**£0.26m**
Retained Surplus/ (Deficit)	£(0.71m)	(£0.46m)	£0.41m	£1.82m	*£1.87m*	**£2.08m**

Table 4: Segmental Income comparison 2010-11 to 2011-2012



Product Certification Income. Demand for Type Approval services was high throughout the year and grew across most geographical regions, leading to a global increase of 5% in income over 2010-2011. North America showed a slight decrease of £55,000 (4.6%), reflecting the local challenges for in that market. Type Approval income as a percentage of total VCA income has risen by 6% to 62% compared with last year.

VCA continued to be the chosen supplier of Type Approval services to many major global auto manufacturers with many new model programmes completed. As well as winning important work from new customers, the retention of work from established customers is equally critical to success. All customers regularly review the quality and cost-effectiveness of their suppliers, and the supply of Type Approval services is no different. While income did increase modestly against last year, costs increased by 23%, reflecting rising costs in professional engineering across the world and a higher allocation of fixed costs as other product areas declined.

Management System Certification Income. This is a very competitive market and this is reflected in the results. Price pressures have continued within the market especially from some of our major customers, with continuing factory closures and long term shutdowns in the industry. Despite this the Agency made considerable progress during the year reducing the operating deficit of this business unit from £635,000 to £322,000 in 2011-2012, however this was against a target to breakeven. Costs were managed and fell by 17% (£379,000). Unfortunately income also fell by 4.2%, mainly reflecting loss of business with two major clients, as they shut or sold factories to rebalance their activities. Significant progress was made with developing new business, however some of this will only appear in results in future years.

Activities for Government. This sector includes a number of discrete work areas for DfT, BIS and DEFRA. These include enforcement programmes policy support for Type Approval, and technical consulting services on Dangerous Goods Packaging and some environmental branches of DfT. In addition, VCA carries out bus lane and parking enforcement camera certification for the Streetworks Division, and issues Vehicle Special Orders for the International Vehicles Standards Division.

This work area is a declining proportion of the VCA's business as central government reviews its activities in a tight economic settlement. It has fallen for the third year running with a decrease of £1 million from 2010-

2011. The overall percentage of total income from this business unit has fallen from nearly a third to a fifth (20% in 2011-2012; 27% in 2010-2011and 31% in 2009-2010).

Other. This includes Dangerous Goods Packaging Certification, sales of Point of Sale software for car emissions data, sales of VISTA (Type Approval handbook) and Single Vehicle Approvals for Malta in Japan. Following the Japanese Earthquake in March 2011, Single Vehicle Approvals for Malta fell considerably.

Efficiency

VCA has continued to maintain the high utilisation of its staff in 2011-2012, and the average staff cost including contractors has decreased from £55,000 in 2010-2011 to £53,500 in 2011-2012 resulting in savings of £270,000.

Other financial information

Bonus Scheme. The Agency operates a group incentive bonus scheme that enables all staff to benefit from increased efficiency. The trigger for the payment of the 2011-2012 bonus is a surplus in excess of the published Business Plan target. Achievement of a range of service and quality targets is also necessary for payment of the maximum bonus. The surplus for the bonus calculations excludes movements in non-operational provisions and exchange translation losses/gains. In 2011-2012 £318,000 is included in the Accounts for the VCA Group Bonus Scheme. This is reduced from £345,000 in the 2010-2011 Accounts.

Payments to Creditors. VCA supports the Departmental scheme for the payment of invoices which follows the Treasury Prompt Payment Initiative, copies of which can be obtained from the Agency's headquarters. It is VCA's policy to pay undisputed invoices within 30 days of receipt and from May 2010, 80% of undisputed invoices within 5 days. VCA measures its performance by reviewing all invoices paid; the Agency achieved 99.7% of invoices paid within 30 days of receipt (unchanged from last year) and 94.5% within 5 days of receipt in 2011-2012, an improvement on 93.1% in 2010-2011.

Pension. Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described in the Financial Accounts, Notes 1(k) and 4(c).

Audit. The Comptroller and Auditor General is the statutorily appointed auditor for VCA's accounts. The notional cost of audit services in 2011-2012 was £45,000 (£50,000 2010-2011). No fees, actual or notional, were incurred for non audit work (£nil, 2010-2011).

PEOPLE

VCA firmly believes in utilising the potential and strengths of different people in the organisation, treating people as individuals, embracing variety, rejecting prejudice and accommodating changing working patterns. VCA believes that using a flexible people management approach motivates staff and creates an environment that enables all members of the Agency to be productive and to feel fulfilled.

Diversity

The Agency is committed to the DfT policy on equal opportunities. All Agency recruitment activity is undertaken on a fair and open basis, is subject to external checks and is in accordance with the *Civil Service Commissioner's Recruitment Code*.

Over the past year the Agency has recruited 16 new starters, of which 8 were male and 8 female. The average number of Civil Service FTE's in 2011-2012 was 144.2.

VCA has had Diversity Objectives in place for a number of years with the aims of:
- Creating a culture that values and promotes diversity
- Ensuring that managers demonstrate a commitment to diversity
- Developing and bringing on talent from diverse groups
- Ensuring recruitment processes reflect commitment to diversity; and
- Mainstreaming diversity in the business

All staff within the Agency attend diversity, bullying and harassment awareness courses as part of VCA's induction training plus refresher courses where appropriate.

The Agency has an Equality Scheme in place which has led to the production of Equality Impact Assessments when needed. VCA also seeks staff views through regular staff surveys, and two-way feedback at the monthly Team Briefs. It is pleasing to report that the Agency engagement score in the cross Civil Service survey remains in the High Performers sector at 69%.

Training

The number of training and development days decreased and in year expenditure was below budget as uncertainty and new controls meant delays in procurement, plus the increased demands on frontline staff delivery. In addition there has been a greater focus on job specific training rather than generic skills. However, a number of programmes continued including: regular talent management and succession planning considerations; continuing education by a number of staff who have achieved business-based and vocational qualifications during the year and graduate recruitment.

The third annual Type Approval Engineers' Conference was held and was attended by delegates from all VCA global offices. This is aimed at improving quality and standards across the Agency Product Certification operations. Discussions included process improvement, legislation, and technical seminars. Delegate feedback at an 87% satisfaction rate shows the value of this investment.

Accreditation

All VCA offices globally were successfully re-audited against the new requirements for Type Approval Technical Services in the Recast Framework Directive 2007/46/C and their Technical Service designations were maintained.

For MSC work our accreditations to various ISO standards by the United Kingdom Accreditation Service (UKAS) and to TS16949 by the International Automotive Task Force (IATF) were maintained following successful audits.

Working Environment

The health and safety of our employees remains a high priority and given the nature of some of the work undertaken, we continue to have a good record. Areas of particular note are:

- **Improved e-enabled services such as booking rooms, pool and hire vehicles;**
- **Refurbishment and expansion of our Midlands Centre facilities at Nuneaton; and**
- **Regular Health and Safety Committee meetings**
- **Formal and informal discussions take place with trade unions through the regular meetings of the Agency's Whitley Committee.**

Customer & Stakeholders

Maintenance of our close regular consultation with the motor industry was continued through our Type Approval Liaison Committee (TALC) meetings with the Society of Motor Manufacturers and Traders (SMMT). We also attended similar liaison meetings hosted by DfT, the Vehicle Importers Homologation Group, the Wheelchair Accessible Vehicle Converters Association (WAVCA) and the SMMT's Joint Engineering Committee (with DfT and BIS).

Investment continued in VCA's Technical & Quality Support Branch in order to ensure robust control of technical competence and internal quality, and the timely provision of technical and policy advice to operational offices. This year, 416 legislation interpretation questions were answered and 1322 pieces of legislation were downloaded, analysed, and logged onto VCA systems.

The Agency maintained close links with policy officials in DfT; International Vehicle Standards (IVS) and the Office for Low Emission Vehicles (OLEV). VCA staff pro-actively offer advice and support on significant issues, for example this year we supported IVS on the set up and delivery of a Ministerial initiative on a trial of Longer Semi-Trailers to help reduce CO_2 by reducing the amount of commercial vehicle movements.

The Agency also works closely with the local community in areas such as:

- **Forging links with local inner-city schools by offering regular work experience placements to their students; and**
- **Attending local job fairs and Action Group meetings.**
- **Engagement with Universities**
- **Supporting the Governments initiative to introduce long term unemployed to the workplace**

SUSTAINABILITY REPORT

The Agency takes its environmental responsibility seriously and this is accomplished via our Sustainability Plan for internal improvement and through our work with external customers. This latter includes:

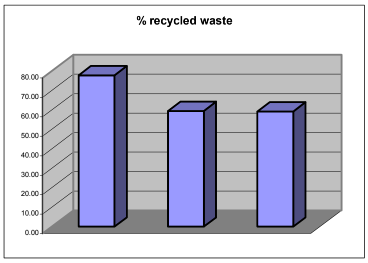
- Collating and publishing information (colour coded environment labels) on the fuel consumption and emissions of new and used vehicles, so that consumers may make an informed choice when purchasing new and used vehicles;
- Conducting in-service testing (the testing of vehicles that have been in-use for some time after purchase) to check the degree to which the vehicle's gaseous emissions performance changes as it ages;
- Testing new vehicles to ensure they meet the appropriate noise and emissions standards, thereby providing a degree of protection to the environment;
- Developing knowledge of sustainable vehicle emission technology developments and sharing this knowledge across the Department.

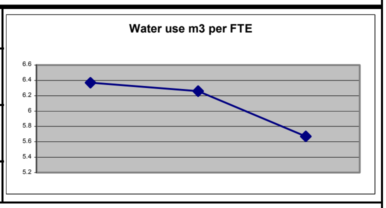
In addition, VCA are the enforcement agents for parts of the Batteries, WEEE and End of Life Vehicles Regulations in the UK.

Internally, the VCA Sustainability Development (SD) Plan is based on DfT and industry best practice guidelines. This includes targets for reducing carbon emissions from offices, ICT, office equipment, road vehicles, waste and water consumption. At VCA we have supported this by using 'Energy Star' compliant PC's and servers, introducing a cycle to work scheme and updating the Agency's travel plan.

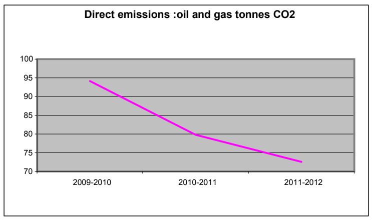
The Agency has an active Sustainability Improvement team, with staff from across the Agency actively involved. As a consequence we have achieved significant reductions in our carbon emissions from gas and oil usage, and this year our water consumption is under 6m^3 per head, which is in the 'good practice' category. In part this has been achieved by the introduction of 'hippos' in toilet cisterns. Our waste diverted from landfill remains at above 50% of total waste produced due to vigilant efforts by our sustainability team in promoting recycling of food, cans, paper, batteries, glass, plastic.

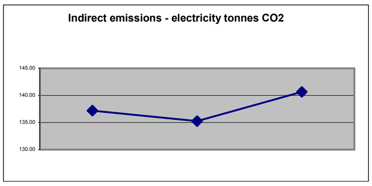
Table 5: VCA Sustainability three year trend (2009-2010 to 2011-2012)

WASTE		**2009-2010**	**2010-2011**	**2011-2012**	**Graphical Analysis**
Non - Financial Indicators	Total Admin Waste (tonnes)	8.71	4.44	7.20	
	Recycled Waste (tonnes)	6.78	2.64	4.26	
	Kg per head	61.33	31.37	47.68	
	Percentage recycled	77.80	59.44	59.17	
PERFORMANCE COMMENTARY AND TARGETS					
VCA has run very successful schemes and promoted recycling via its Sustainability group. Wastes recycled include food for composting, paper, cans and glass. Fluctuations shown above are generally due to the very low volumes produced by VCA, having two relatively small offices.					

WATER		**2009-2010**	**2010-2011**	**2011-2012**	
Non - Financial Indicators	Estates Water m^3	873	887	856	
	m^3 per head	6.37	6.26	5.67	
PERFORMANCE COMMENTARY AND TARGETS					
VCA identified that a large volume of water was being used for operational purposes at the Midlands office. In addition the baseline year did not reflect true useage, since Q1 and Q2 were estimates and very low. Q3 and Q4 were actual readings but very high due to fire engine testing. The last two months of 2011/12 gave two months of stable readings of 12 and 13m3 for the Midland Centre, so figures for all years have been adjusted, with an estimated reading for the Midlands Centre of 15m3 per month. The use of 'Hippos' and general awareness has seen our per head usage fall into the 'good practice' category.					

GREENHOUSE GAS (GHG) EMISSIONS		2009-2010	2010-2011	2011-2012
Gross Emissions (tonnes CO_2e)	Scope 1: Direct	94.13	79.82	72.55
	Scope 2: Indirect emissions	137.21	135.24	140.63
	Scope 3 item: Business Travel (not including rail and flights)	144.62	167.97	172.98
	Total	375.96	383.03	386.16
	Estates (DfT and Executive Agency buildings) Electricity (kWh)	252,151	257,784	268,057
Related Consumption Data	kWh Per head	1,775.71	1,821.79	1,775.21
	Private Car Usage (Measured by vehicle mileage - million road miles)	0.32	0.39	0.38
	Hire Car Usage (Measured by vehicle mileage - million road miles)	0.11	0.20	0.15
	Total Energy Expenditure*		£32,864	£50,838





PERFORMANCE COMMENTARY AND TARGETS

VCA has performed well and reduced both Gas usage (32% over baseline year) and oil usage (35% over baseline year). Electricity has shown a small increase of 2.5%, however VCA uses large amounts of electricity when performing some tests at the Midlands Centre, so this data can fluctuate. Operational electricity use is included in the above figures. We are in rented accommodation, but have installed automatic sensors where possible, and undertake switch off programmes for computers, printers etc. A large proportion of business domestic travel is related to jobs for customers, and is rechargeable. We have targets to increase our business, but if we do, then business mileage increases, so this is target is not fully applicable to VCA and/or should be related to FTEs/ activity.

(* relates to gas, oil and electricity)

To my knowledge, there is no relevant audit information of which the auditors are unaware. I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

PAUL MARKWICK
Chief Executive and Agency Accounting Officer

11 July 2012

Chief Executive Officer - Remuneration and Performance

Mr Paul Markwick is VCA's sole Senior Civil Servant (SCS) and is employed on contract terms. The contract contains a fixed notice period of 3 months, which may be terminated by mutual consent. If the Department chooses to terminate employment prior to the end of the fixed period, other than by mutual consent or termination due to inefficiency, misconduct or medical reasons, compensation may be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

The remuneration of Senior Civil Servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Non-Executive Directors

The non-executive directors (NED) of the Management Board received the following remuneration for their services during the year:

Non-Executive Director	2011-2012 (£'000)	2010-2011 (£'000)
Mr Martin Runacles (until December 2011)	4	8
Dr Bruce Macaulay	11	8
Prof John Sullivan (From February 2012)	4	
Total NED renumeration	19	16

Management Board - Remuneration and Performance

All other management board members have standard Civil Service employment contracts that govern their remuneration levels and performance conditions. All are permanent full-time employees.

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. The following sections provide details of the remuneration and pension interests of the Chief Executive and Board members employed by the Agency.

Salary, Benefits in Kind and Bonuses (Audited)

The table below includes all the members of the Management Board, employed by VCA, as at 31 March 2012. Salaries include gross salaries, overtime, and any other allowances subject to UK taxation, but exclude employer pension contributions. No additional fees were received in their capacity as board members nor were any benefits in kind received.

The total salary of the Chief Executive includes the payment of a bonus under the SCS scheme and relates to the achievement of objectives in respect of the 2011-2012 Financial Year. All other members of the Management Board are included in the VCA Group Bonus Scheme in which they receive the same bonus amount as all other VCA Civil Servants. This is defined within the MS Governance Handbook as limited to 5% of total pay budget and subject to approval by the Director General, taking into account delivery against the Agency's Business Plan targets.

		2011-2012			2010-2011	
Officials	**Salary £'000**	**Bonus Payments £'000**	**Benefits in kind (to nearest £100)**	Salary £'000	Bonus Payments £'000	Benefits in kind (to nearest £100)
Mr P Markwick	**95-100**	**5-10**	**-**	105-110*	10-15	-
Mr J Bragg	**65-70**	**0-5**	**-**	65-70	0-5	-
Mr R Brayfield	**65-70**	**0-5**	**-**	65-70	0-5	-
Mr A J Buckle	**55-60**	**0-5**	**-**	55-60	0-5	-
Ms M Fraser	**55-60**	**0-5**	**-**	55-60	0-5	-
Mr A Grimm	**55-60**	**0-5**	**-**	55-60	0-5	-
Mr P Higgs	**55-60**	**0-5**	**-**	55-60	0-5	-
Mr M Mulvaney	**55-60**	**0-5**	**-**	55-60	0-5	-
Mr B Perrett	**55-60**	**0-5**	**-**	55-60	0-5	-
Mr A Stenning	**55-60**	**0-5**	**-**	55-60	0-5	-

* Includes allowance for acting as interim GCDA Chief Executive.

Median Staff Pay Ratio (Audited)

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

This calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. The salary of the person in the middle of the all salaries as at the year end is taken as the median salary value.

	2011-2012	**2010-2011**
Band of highest paid Director (£'000)	**95-100**	105-110
Median total for all staff excluding highest paid Director (whole £)	**26,120**	26,120
Remuneration Ratio	**3.7**	4.1

The midpoint of the banded remuneration of the highest-paid director in the Agency in the financial year 2011-2012 was £97,500 (2010-2011, £107,500). This was 3.7 times (2010-2011, 4.1) the median remuneration of the workforce, which was £26,120 (2010-2011, £26,120).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The decrease in the ratio from last year is a consequence of the reduction in the salary of highest paid director, which reflects his changed responsibilities, while median staff pay was unchanged.

Pension Benefits (Audited)

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a ‘money purchase’ stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2012. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member’s earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website http://www.civilservice.gov.uk/pensions

Pension Information for 2011-2012 of Chief Executive and Management Board Members

Name and title	Accrued pension at pension age at 31 March 2012 and related lump sum	Real increase in pension and related lump sum at pension age	Cash Equivalent Transfer Value at 31 March 2012	Cash Equivalent Transfer Value at 31 March 2011*	Real increase in Cash Equivalent Transfer Value**	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Mr P Markwick Chief Executive	10-15 (-)	0-2.5	248	212	15	
Mr J Bragg Director	-	-	-	-	-	10,400
Mr R Brayfield Director	15-20 (50-55)	0-2.5	408	377	-6	
Mr A J Buckle Director	20-25 (65-70)	0-2.5	402	387	-8	
Ms M Fraser Director	20-25 (60-65)	0-2.5	388	360	-3	
Mr A Grimm Director	20-25 (70-75)	0-2.5	536	504	-12	
Mr P Higgs Director	0-5 (-)	0-2.5	40	27	10	
Mr M Mulvaney Director	20-25 (65-70)	0-2.5	445	415	-7	
Mr B Perrett Director	20-25 (65-70)	0-2.5	446	411	-8	
Mr A W Stenning Director	20-25 (70-75)	0-2.5	503	474	-11	

***Please note that the actuarial factors that are used in the Cash Equivalent Transfer Value (CETV) calculation were changed during 2011-2012. The CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors, for consistency. The CETV at 3 March 2011 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.**

****Taking account of inflation, the CETV funded by the employer has decreased in real terms, in the majority of cases.**

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Compensation for loss of office

No exit packages were made relating to 2011-2012.

PAUL MARKWICK
Chief Executive and Agency Accounting Officer

11 July 2012

FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury have directed the Vehicle Certification Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction in the Dear Accounting Officer letter DAO (GEN) 02/10

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency, the statement of income, changes in taxpayer's equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgments and estimates on a reasonable basis;

- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and

- prepare the accounts on a going concern basis.

The Permanent Secretary of the Department for Transport has appointed the Chief Executive of the Vehicle Certification Agency as the Accounting Officer for the Agency.

STATEMENT ON GOVERNANCE

Introduction and Role of Accounting Officer

HM Treasury introduced a new Corporate Governance Code for central government departments in July 2011. The new code builds on the principles of the original code published in July 2005, focusing on the role of boards, since these provide organizational leadership. I have provided details below of how the Vehicle Certification Agency (VCA)'s system of corporate governance has operated during 2011-2012, including any areas where the system has not operated in line with the Code.

As Accounting Officer for VCA, I have responsibility for maintaining a robust system of internal control that supports the achievement of the VCA's policies, aims and objectives whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. I am directly appointed by the Permanent Secretary of the Department for Transport (DfT), though ultimately responsible to the Secretary of State for Transport and Parliament.

VCA previously operated in accordance with the Motoring & Freight Services (MFS) Governance Handbook, this was superseded in 2011-2012 by the Corporate Group Corporate Governance Framework, authorised by the Secretary of State for Transport. These define the Agency's operating and financial accountability and responsibility. My staff work closely with their counterparts in DfT to ensure that planning and performance activities are aligned, clear accountability for risk management is agreed, joint action is taken where appropriate to manage, transfer or tolerate risks, and DfT is kept informed of risks as appropriate. 'Corporate Governance' is deemed to be the system by which an organisation is directed and controlled. I have ensured that the Agency's corporate governance arrangements are designed to comply with the *Code of Good Practice on Corporate Governance* in central government departments.

The Management Board Responsibilities and Performance

I am assisted in the effective management of VCA by a Management Board that considers the plans, performance and strategic direction of the Agency, and the most important risks to successful delivery of those plans. It meets on a regular basis, normally eight times a year and consists of the Chief Executive; ten VCA Heads of Branches and two non-executive members (NEDs).

The Management Board's members during 2011-2012 were:

Mr P Markwick; BSc, CEng, FIMechE	Chief Executive
Dr B Macaulay; Dr.Tech, BSc, C.Eng, MIEE	NED, Chair Audit Committee
Mr M Runnacles; (term end 31 Dec 2011)	NED, Chair Audit Committee
Prof J Sullivan; BEng, MEng (start1 Feb 2012)	NED
Mr J Bragg; HND	UK Operations
Mr R Brayfield; MSc	North American Operations
Mr A Buckle; BA, ACMA, CGMA	Finance, Accounts and ICT
Ms M Fraser; MSc, CMIIA	Central Services
Mr A Grimm; BSc, AMIMechE	Overseas Operations
Ms S Hawkins; BA, MSc, CPFA (start 1 Feb 2012)	Finance & Accounts
Mr P Higgs; HND, CIM	Business Development
Mr M Mulvaney; BSc	Asia Pacific Operations
Mr B Perrett; BSc, AMIMechE	Market Surveillance & Dangerous Goods
Mr A W Stenning; BSc CEng MIMechE	Technical and Quality Support

See the Remuneration Report (pages 15-19) for information on appointment terms, salary and pension entitlements for the Management Board. Ms Hawkins is on secondment from DfT and receives no salary or expenses from VCA.

In 2011-2012, six Management Boards took place with attendance by members as follows:

Board Member	Number of meetings attended (to 31 March 2012)
Mr Paul Markwick - Chairman	*6*
Dr Bruce Macaulay - NED,	*6*
Mr Martin Runnacles - NED	*2 (from 4)*
Mr John Sullivan - NED	*2 (from 2)*
Mr John Bragg	*3*
Mr Rob Brayfield	*3*
Mr Aidan Buckle	*4*
Ms Mary Fraser	*6*
Mr Andy Grimm	*6*
Ms Susanna Hawkins	*2 (from 2)*
Mr Paul Higgs	*6*
Mr Michael Mulvaney	*0*
Mr Brian Perrett	*4*
Mr Tony Stenning	*6*

The Management Board's purpose was defined in 2011 as the following:

- Approve the Agency Business Plan and Annual Report and Accounts
- Review of audit and feedback from the Audit Committee
- Review of the risk register
- Check progress to date of Secretary of State and key business measures
- Review biannual progress and strategy reports from the Branches
- Review of Quality performance and systems
- Review progress report on major projects
- Discuss on key strategic business issues

Each meeting is informed by a standard financial and performance report, the same report as that reviewed at DfT, and the Board takes any other reports from internal audit or business areas.

Dr Bruce Macaulay has declared interests with two rail groups (Alstom and Bombardier) and with De Montfort University. Prof John Sullivan has declared interests with Tata Motors, Wavetech AG, Synergetics Australia and Cambridge University. Where a potential conflict exists between these and VCA functions, Board members are excluded from those agenda items.

Other Governance Committees

The Motoring Services and Freight sponsorship board was eliminated in the Departmental re-structuring at the beginning of the 2011-2012 year. This has been replaced by a Motoring Services sponsorship role for DfT with a monthly performance review, which reviews performance and progress towards meeting the Ministerial Key Performance Measures. This is chaired by Brian Etheridge, MD Motoring Services, and supported by Leslie Gilbert, Business Partner and attended by myself as VCA Accounting Officer and the VCA Finance Director.

Audit Committee

This is chaired by a non-executive member of the Management Board and comprises the two other non-executive members. In 2011-2012 Mr Martin Runnacles chaired the committee for the two meetings held in 2011, while Dr Bruce Macaulay chaired the March 2012 meeting. Nick Bisson, the DfT appointed NED, has been replaced by Ms Caroline Rolfe from March 2012. Prof John Sullivan joined the Committee in February 2012. The VCA Chief Executive and Finance Director, as well as representatives from internal and external audit, are invited to attend Audit Committee meetings as non-voting members.

The Committee supports the Accounting Officer by advising on internal control and compliance, risk management processes and governance arrangements. In addition to its role to review the financial controls, the reporting of the financial results and the work of both internal and external audit, the Committee is presented with additional assurance and evidence in order to review any area considered to pose the most significant risks.

On assuming the role of Audit Committee Chairman, Dr. Bruce Macaulay discussed, reviewed and reaffirmed the Committee terms of reference with Nick Bateson of the National Audit Office (NAO), confirming that they are in line with those recommended in HM Treasury's Audit Committee Handbook with the exception of the number of meetings per year. It was further agreed that the Audit Committee should normally meet three times per year. This was considered appropriate and proportionate for the Agency.

The Audit Committee is responsible for ensuring that appropriate evidence is sought in order to close actions resulting from any audit recommendations. The Chair provides feedback to the Management Board and meets periodically with the Accounting Officer, Internal Audit and NAO. The Chair is a member of the DfT Heads of Audit Committee forum.

The forum meets three times per year, with colleagues from DfT and sister agencies' audit committees, with a view to sharing performance and learning between organisations. Summary reports of VCA Audit and Governance issues are presented and discussed.

Non-Executive Board Member's Report (Audit Committee Chair)

As an Independent Director and Chair of the Audit Committee, the following is my report on behalf of the Non-Executive Directors:

The external NED's bring relevant technical and commercial expertise to the Management Board and help set the strategic agenda of the Agency. Their outside perspective enables them to both challenge the Agency and identify opportunities. In 2011-2012 they have provided support to the developing business case for a South American office and contributed to discussion about balancing other expansionary opportunities with resource constraints. The current year Business Plan was monitored in year, and the 2012-2013 Business Plan measures reflect their understanding of VCA capacity.

Strategic Direction: The Board is clear about its obligations to the Secretary of State and equally clear about its mandate to support its business customers. In the past this has meant the Agency setting up subsidiary organisations in North America, Europe and Australasia. The future customer demands now include the need to operate in South America and eventually Russia. It is planned to open Agency representation in Brazil during 2012.

Key Staff: The Agency's greatest asset is its people. The ability to support its customers in future is directly related to the skill level of its staff. One major aspect limiting Agency growth is its inability (as part of Government) to offer competitive salaries for the key Engineering Staff. In March 2012 the Agency lost 3 key staff to customers. This trend is set to continue. Without competitive salaries, competitive benefits nor competitive notice periods, it is difficult to see how the Agency can continue to support its customers in future.

Government Agency and Commercial Business: The Agency board continues to struggle with the dichotomy of being both a Government Agency and having a commercial business to run. This is further challenged by the need to support clients who operate in territories around the world where the difficulties are both political and commercial. This ranges from how to recognise the Agency in a new country as a part of Government or not, to how to open a bank account when the Agency has no recognised business basis as a company that can trade.

Various mechanisms have been used to provide clarity for our clients and suppliers alike and most have required the use of local Agents or Partners who may not be as mature in their Governance perspective, as the Board would prefer. This process is not best suited to 'arms length smooth running' and extra effort has to be invested by the Agency and the Departments' auditing arm to ensure compliance with necessary procedures.

ICT Infrastructure: Much of the Agency ICT infrastructure is being transformed over the next few years, several operational systems are already installed and budgets planned for the outstanding projects. The Agency relies on Internet communications to its various offices around the world including those located in China and India. It has been a significant challenge to protect the Department's communications from Agency outposts whilst enabling them to operate effectively as part of our organisation.

All credit must be give to the Agency ICT department who has provided solutions where initially none were thought possible. Providing the investment plans continue, the Agency will be in excellent shape from an ICT perspective by the close of 2013.

Quality Assurance: The Board continues to task the rest of the Agency with improving its procedures – not for their own sake but to improve the consistency and quality of support we offer to our customers from whichever Agency office they may be interfacing with. This is a considerable challenge and one we are determined to progress. This included ensuring that the correct Health and Safety imperatives we operate in the UK are mirrored around the world. Our staff has the right to work in a safe and supportive environment. How can we approve other people if our own procedures are not exemplary?

Board Composition: The Board is a good combination of Civil Servants and NED's from associated Industry. This provides adequate political sensitivity and business leadership. The Audit committee is also independent with three NED's, one of whom is from the Department, capable of supporting and guiding the Agency Accounting Officer.

Audit Performance: Audit performance continues to improve year by year and our imperatives to meet Secretary of State Key Performance Measures. The Audit calendar for 2012-2013 has been agreed.

Dr Bruce Macaulay

11 July 2012

Compliance with Corporate Governance Code

In July 2011 the government introduced a new Corporate Governance Code for Ministerial Departments. This introduced some significant changes at DfT level, such as the requirement for the Secretary of State to chair the Departmental Board. However, as a delivery Agency operating in a commercial environment, VCA already gave their Non-Executive Board Members an enhanced role, bringing knowledge and experience from senior positions in large and complex organisations outside government to the benefit of the Management Board.

The Board was briefed on the 2011 ***Code of good practice for corporate governance in central government departments*** and in particular how the VCA operates to demonstrate compliance with the Code protocol. As the focus of the Code is on ministerial departments, so VCA has adopted the practices set out in the Code, wherever this is relevant and practical, commensurate with the size, status and legal framework of the Agency.   VCA is compliant with the Corporate Governance Code, with the exception that the Audit Committee's remit does not include formal oversight of risk, as this function is carried out by the full Management Board.

Risk Assessment

The system of risk assessment is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve targets, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of VCA targets, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Agency has a low to medium risk appetite at the corporate level; however, new projects or initiatives are assessed individually by reference to potential business impact, availability of resources and the value for money of stakeholder benefits. A particular issue is that as the Agency operates and has customers worldwide, it is exposed to exchange rate fluctuations and therefore financial risk. The Agency mitigates this risk by matching local income to local spend wherever possible. Conversely it does not benefit from positive currency movements.

The Agency's senior managers are responsible for risk management in their areas. The Agency has a published **Risk Management Policy** which provides extensive guidance to staff on the definitions, criteria and methods available for risk assessment, and identifies the main reporting procedures. It is made available to all personnel via VCA's Quality Control System (Q-Pulse) and our Intranet.

Staff and managers are required to **identify new or increased risks and opportunities** as part of the routine performance reporting process. At the VCA Management Board meetings, risk management is a standing agenda item, with full reviews scheduled bi-annually, including the maintenance of an Agency-wide risk register and sub-registers for the overseas operations. Risks are reviewed, the effectiveness of mitigating actions and their impact on residual risk is monitored, and changes identified and evaluated throughout the year.

VCA established its corporate risk register based on guidance published by HM Treasury. The register is managed dynamically, with a number of new risks being introduced whilst other risks have been removed or merged, reflecting the changing nature of the business environment in which the Agency works. Changes to the risk register may be suggested by any of VCA's staff, and are considered by the Management Board before being accepted on to the register.

The risk management system itself is reviewed annually in-house to ensure that it is still fit for purpose and appropriate revisions are made as approved by the Management Board. The system is also audited on an annual basis by the Audit & Risk Assurance Division of DfT and it is subject to comparison with other agencies in MS and DfT.

VCA supplies a monthly report to DfT Central Finance (SSS Report) highlighting VCA's top five risks showing the potential impact on Departmental Strategic Objectives, Secretary of State key performance measures and progress with mitigating actions. A representative from VCA also attends the monthly Departmental risk managers meeting.

Business Risks

The potential risks facing VCA are the same as with many commercial organisations operating in a global environment within the current economic environment, such as loss of customers due either to administration or competition, bad debt, communication issues, culture, and currency fluctuation risks. VCA has worked hard to minimise the bad debt exposure, and creditors are monitored on weekly basis by the senior management team. We have also undertaken a review of the bad debt provision and made write-offs in year, notified to HM Treasury via the Department where necessary.

Control Environment

During the course of the 2011-2012 audit, the NAO identified errors in their sample testing of the sales invoices for China. As a consequence the Board conducted a thorough review of the controls around recognition of VCA China income.

There were specific circumstances for revenue recognition in China that had contributed to this issue, which do not apply in other parts of the business. VCA has contracted a third party in China, to manage the day by day local legal requirements. The VCA's accounting policies on income recognition and inventories (work-in-progress) had not been consistently applied. Elsewhere, VCA use an engineer time and expenses system (SharpOWL) to record work against job numbers and generate estimates for accrued income. There are internet security issues that have prevented us giving the China office access to the SharpOWL system, but VCA will investigate setting up a standalone version of this system, to be able to monitor work-in-progress more effectively in-year. From the existing paper-based systems, management has estimated the value for work-in-progress in China and is included in the Financial Statements for 2011-2012.

In addition, customers can experience costs and difficulties in obtaining sterling, because the Chinese government limits the exchange of the renminbi into other currencies. As a result, it is the usual practice to invoice customers only once, at the end of a work programme lasting weeks or months, which may span accounting periods, rather than on completion of an individual test element. While the first control is to invoice promptly, and senior VCA staff will be visiting China shortly to ensure that local staff are now doing so, management will also make future contracts contain stage payment clauses where appropriate. There are no equivalent problems in the recognition of expenditure, because our third party partner invoices VCA for costs twice-yearly.

Information Assurance

VCA is committed to the recommendations of the Cabinet Office review of data handling. The Agency has, at board level a Senior Information Risk Owner (SIRO). The SIRO is responsible for both business and information risk and has the role to support actions to improve the level of information assurance including risk assessment and risk management throughout the Agency. The SIRO reports to the Agency Management Board and is required to provide an annual assurance report to the DfT SIRO.

VCA operates in a Business to Business environment mainly with the automotive industry. As such the Agency does not hold or process 'protect personal' data in respect of the general public. Reports on data security covering incidents, training and other data security related activities are presented and discussed at the Management Board Meetings**. During 2011-2012 there were no losses of commercial-in-confidence or 'protect personal' data.**

VCA's systems are also audited on an annual basis by the Audit & Risk Assurance (ARA) division of DfT. In 2011-2012 they concluded that **reasonable assurance** could be given for the operation of ITC systems. All VCA staff have completed the National School of Government 'Protecting Information' refresher training. VCA has received assurance from the DfT Shared Services Centre in respect to payroll processing.

Internal Audit

ARA provide the Group internal audit function. It operates to the standards defined in Government Internal Audit Standards. The work of ARA is informed by an analysis of the risks to which the Agency is exposed, and the annual internal audit programme is based on this analysis. On an annual basis, the DfT ARA manager responsible for VCA provides a report on internal audit activity in the Agency. The analysis of risk and the internal audit plans are endorsed by the Agency's Audit Committee and approved by me.

The ARA annual report to the Audit committee includes the ARA Audit Manager‘s independent opinion on the adequacy and effectiveness of the Agency's system of internal control, together with recommendations for improvement. On the basis of the evidence obtained during 2011-2012, they were able to provide an **overall substantial assurance** rating on the adequacy and effectiveness of VCA's arrangements for corporate governance, risk management, and internal control. In their opinion, there are no significant weaknesses that fall within the scope of issues that should be reported in the Statement on Governance.

This opinion was supported by audit work conducted throughout 2011-2012, with reports that concluded:

On Governance and Risk Management they gave **full assurance:**

- *Governance arrangements are clearly defined with a hierarchy of management responsibilities and accountabilities. The risk management policy is in place and is operating effectively, including provision for the escalation of risks to the Motoring Services directorate in DfT.*

Substantial assurance was given for Financial Assurance Testing, Business Development, Validation of KPIs and Dangerous Goods section:

- *The risk management and control systems in place over the VCA accounting systems are operating effectively*

External Audit

The National Audit Office (NAO) is the appointed external auditor for VCA. During their audit testing for the 2011-2012 accounts they identified two substantial issues relating to the allocation of income to the correct year of account leading to prior period adjustments detailed in Note 19. The two issues identified are as follows:

- An examination of a sample sales invoices relating to vehicle test work in China showed that income recorded in 2011-12 related to work that had been completed in 2010-11, which had not been billed or brought to account as accrued income in that year. VCA therefore examined all invoices related to activities in China and established that there had been systematic late invoicing since activities commenced in China. Consequently adjustments have been identified for each of the last three financial years, 2009-10 through to 2011-12;

  and

- Audit testing of invoices related to income from sales to Other Government Departments showed that an invoice accounted for in 2011-12 properly belonged to 2010-11 with a similar issue arising in 2012-13 where the income properly belongs to 2011-12.

The review undertaken for each of these issues now means that income in year, accrued income, work in progress and deferred income are now being accounted for consistently across all income generating areas of the business. Further internal controls have been strengthened to enable consistent and accurate accounting for income.

Other Explicit Review / Assurance Mechanisms

An annual programme of external audits is carried out by two Accreditation Bodies (United Kingdom Accreditation Service (UKAS) and Society of Motor Manufacturers and Traders (SMMT)) on the Agency's Management System Certification work.

Audits of all activities, covering the processes and procedures, are carried out by VCA Central Quality Internal Audit following ISO9001 conventions, to an agreed programme, and findings are recorded for resolution and reported to the Management Board. This is supplemented by a programme of audits on Type Approval work conducted by a panel of independent experts.

Conclusion

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of DfT ARA division who is our internal auditor, the executive managers within VCA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and plan to address any weaknesses, for example recognition of sales income in China.

The governance processes above have been applied in maintaining and reviewing the effectiveness of the system of internal control. ARA has provided me with substantial assurance that VCA procedures and internal controls have been in place and effective for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. Any weaknesses have been properly assessed; and that appropriate action has been taken to address them.

PAUL MARKWICK
Chief Executive and Agency Accounting Officer

11 July 2012

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of Vehicle Certification Agency (VCA) for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, 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 Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is 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 the financial statements in accordance with the applicable law and 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 Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; 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 the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2012, and of the surplus, changes in taxpayers' equity and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued there under.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Introduction, Management Commentary, People and Sustainability Report Sections within the Annual Report for the financial year for which the financial statements are prepared 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 returns adequate for my audit have not been received from branches not visited by my staff; 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 Governance 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

11 July 2012

STATEMENT OF COMPREHENSIVE INCOME

for the period ended 31 March 2012

	Notes	2011-2012 £'000	2010-2011 Restated* £'000
REVENUE	**2**	**15,167**	15,892
Cost of sales	**3,4**	**(11,982)**	(11,770)
GROSS SURPLUS		**3,185**	4,122
Administrative expenses - Non Pay	**3,4**	**(1,920)**	(1,765)
Administrative expenses - Pay	**3,4**	**(1,003)**	(952)
SURPLUS FOR THE YEAR		**262**	1,405
Net Gain/(Loss) on:			
- revaluation of intangibles	**7**	31	(38)
- revaluation of property, plant and equipment	**8**	18	(28)
Total comprehensive income for the period ended 31 March 2012		**311**	1,339

Revenue and operating surplus are derived entirely from continuing operations.

The notes on pages 35-52 part of these accounts.

* Prior year adjustment made and balances restated. See Note 19 for further details.

STATEMENT OF FINANCIAL POSITION
as at 31 March 2012

	Note	31 March 2012 £'000	31 March 2011 £'000 Restated*	01 April 2010 £'000 Restated*
Non-current assets:				
Intangible assets	**6**	**652**	419	376
Property, plant and equipment	**7**	**836**	887	913
Total non-current assets		**1,488**	1,306	1,289
Current assets				
Inventories		**482**	424	304
Trade and other receivables	**8**	**4,433**	4,602	4,069
Cash and cash equivalents	**9**	**4,635**	4,013	3,447
Total current assets		**9,550**	9,039	7,820
Total assets		**11,038**	10,345	9,109
Current liabilities				
Trade and other payables	**10**	**(2,589)**	(2,143)	(2,338)
Provisions	**11**	**(338)**	(471)	(500)
Total current liabilities		**(2,927)**	(2,614)	(2,838)
Non-current assets plus net current assets		**8,111**	7,731	6,271
Non current liabilities				
Provisions	**11**	**(36)**	(42)	-
Assets less liabilities		**8,075**	7,689	6,271
Taxpayers' equity				
General Fund		**7,956**	7,619	6,135
Revaluation reserve	**12**	**119**	70	136
				-
Total taxpayers' equity		**8,075**	7,689	6,271

The notes on pages 35-52 form part of these accounts.

* Prior year adjustment made and balances restated. See Note 19 for further details.

PAUL MARKWICK
Chief Executive and Agency Accounting Officer
11 July 2012

STATEMENT OF CASH FLOWS

for the period ended 31 March 2012

	Note	2011-2012 £'000	2010-2011 £'000 Restated*
Cash flows from operating activities			
Operating surplus		**262**	1,405
Adjustments for non-cash transactions			
Depreciation charges	**3**	**173**	177
Amortisation charges	**3**	**135**	105
Loss on disposal of non current assets	**3**	**22**	4
Notional charges	**5**	**75**	79
		667	1,770
(Increase) in inventories		**(58)**	(120)
Decrease/(Increase) in trade and other receivables	**8**	**169**	(533)
Increase/(Decrease) in trade and other payables	**10**	**446**	(195)
(Decrease)/Increase in provisions	**11**	**(139)**	13
Net cash inflow from operating activities		**1,085**	935
Cash flows from investing activities			
Purchase of intangible assets	**6**	**(349)**	(187)
Purchase of property, plant and equipment	**7**	**(114)**	(184)
Net cash outflow from investing activities		**(463)**	(371)
Cash flows from financing activities			
Proceeds from sale of property, plant and equipment		**-**	2
Net cash inflow from financing activities		**-**	2
Net Increase in cash and cash equivalents in period		**622**	566
Net Increase in cash and cash equivalents in period		**622**	566
Cash and cash equivalents at the beginning of the period	**9**	**4,013**	3,447
Cash and cash equivalents at the end of the period	**9**	**4,635**	4,013

The notes on pages 35-52 form part of these accounts.

* Prior year adjustment made and balances restated. See Note 19 for further details.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For the period ended 31 March 2011

Restated*	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
Taxpayers' equity at 1 April 2010	6,135	136	6,271
Surplus for the year	965	-	965
Profit restated as a result of Accounting policy change in treatment of Accrued Income	196	-	196
Profit restated as a result of China sales not disclosed correctly	244	-	244
Notional charges in the year (note 5)	79	-	79
Deficit on revaluation of non current assets	-	(126)	(126)
Backlog depreciation of re-valued non current assets and loss on disposal	-	60	60
Taxpayers' equity at 31 March 2011	7,619	70	7,689

For the period ended 31 March 2012

	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
Taxpayers' equity at 1 April 2011	**7,619**	**70**	**7,689**
Surplus for the year	**262**	**-**	**262**
Notional charges in the year (note 5)	**75**	**-**	**75**
Surplus on revaluation of non current assets	**-**	**80**	**80**
Backlog depreciation of re-valued non current assets and loss on disposal	**-**	**(31)**	**(31)**
Taxpayers' equity at 31 March 2012	**7,956**	**119**	**8,075**

The notes on pages 35-52 form part of these accounts.

* Prior year adjustment made and balances restated. See Note 19 for further details.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

The financial statements have been prepared in accordance with the 2011-2012 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

b. Accounting Convention

The accounts are prepared under the historical cost convention, modified to account for the revaluation of non-current assets and inventories, where material, at their value to the business by reference to their current costs.

c. Impending application of newly issued accounting standards not yet effective

Under IAS8 we are required to disclose accounting standards, issued but not yet effective which have yet to adopted and assess their future impact. There is one standard under this disclosure,

IFRS9 – Financial instruments.

IFRS 10 and 11. - definition of and accounting treatment required for subsidiaries and jointly controlled operations.

IFRS 12. - disclosures of interests in other entities

IFRS 13 - measuring fair value

We do not believe there will be an impact on the financial statements.

d. Income

The Agency is mainly funded from sales of services provided to the private sector and income is shown net of VAT where applicable. Other revenue is received from the DfT, BIS and DEFRA for regulatory and compliance work. Income from each job is recognised in the accounts once a chargeable stage of a job is completed, either as an accrual or in debtors. If work has not reached a chargeable stage, then costs are regarded as work-in-progress, see *Note 1h*. When invoices are issued in advance, these are treated as deferred income until the chargeable stage of the job is completed.

e. Non Current Assets: Intangible assets

Capitalisation

Intangible non-current assets, which are defined as non-financial assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights, are capitalised if they meet the following criteria;

- they are capable of being used for a period which exceeds one year, and
- they have a cost equal to or greater than £1,000 or
- they comprise applications software and licences with a cost of £1,000 or more.

Intangible non-current assets are amortised over 3-5 years.

Intangible non-current assets are stated at their cost, revalued to fair value using appropriate indices published by the Office for National Statistics and amortisation on such revalued amounts is provided on a straight line basis over the estimated useful lives of the assets.

f. Non Current Assets: Property, Plant & Equipment

Capitalisation

Tangible non-current assets, which are defined as non-financial assets that have physical substance and are identifiable and are controlled by the entity through custody or legal rights, are capitalised if they meet the following criteria;

- they are capable of being used for a period which exceeds one year, and
- they have a cost equal to or greater than £1,000.

Plant & Equipment are stated at their cost, revalued using appropriate indices published by the Office for National Statistics and depreciation on such revalued amounts is provided on a straight line basis over the estimated useful lives of the assets. Property is subject to professional valuation at least every five years in accordance with RICS guidance. In the years between professional valuations the VCA Management Board reviews the valuation to ensure there has not been a material change. Depreciation is charged in the month of acquisition and not in the month of disposal. Estimated useful lives are:

Plant and machinery	10 years
Furniture and fittings	10 years
Information technology and office equipment	*3-5 years*
Buildings excluding dwellings	Buildings are depreciated over the lower of useful economic life or land lease period;and land is not depreciated.
Transport equipment	4 years

g. Notional Charges

i. Audit Fee

The Vehicle Certification Agency is not charged an audit fee by the National Audit Office. A notional audit fee is charged to the statement of income based on the cost of the audit of the financial statements.

ii. Intra-Departmental Charges

The Agency includes in its accounts a notional charge for some of the services provided by the DfT.

h. Inventories - Stocks and Work in Progress

Work in progress represents costs incurred to the Statement of Financial Position date in respect of jobs on which a chargeable stage has not yet been reached. Expenditure on stationery, tools and spares is written off as incurred, as the amounts involved are not considered material.

i. Foreign Exchange

Monetary assets and liabilities in foreign currencies are translated into sterling at rates ruling at the Statement of Financial Position date. Transactions in foreign currencies during the year are recorded in Sterling at the average rate of exchange ruling in the month of the transaction. The resulting exchange differences are taken to the statement of income

j. Leases

All costs of operating leases are charged to the statement of income as they are incurred. At present there are no finance leases.

k. Pension Costs

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described at Note 3. The defined benefit elements of the schemes are unfunded. The Classic Scheme is non-contributory except in respect of dependent's benefits, under the Premium Scheme a contribution is made for which enhanced benefits are derived. Both the Classic and Premium schemes attract the same employer's contributions as a percentage of pensionable pay. VCA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, VCA recognises the contributions payable for the year.

l. Financial Assets and Liabilities

The Agency classifies its financial assets under loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are recognised at fair value which is not materially different from the book value.

The Agency classifies its financial liabilities under payables.

Payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Payables are recognised at amortised cost.

m. Early Retirement Costs

Compensation payments are provided for in the statement of income. Obligations relating to these former members of staff aged 50 or over are provided for until their normal date of retirement.

n. Prior Year adjustments

Material adjustments applicable to prior periods arising from machinery of government changes, changes in accounting policy or the correction of material errors are accounted for as prior year adjustments. Opening balances are adjusted for the cumulative effect of the prior year adjustment and comparative figures for the preceding period are restated, in accordance with IAS 8.

o. Holiday pay

An individual employee’s holiday pay year commences from their start date under employee contracts of employment and as a consequence an accrual is required for the unused portion of that entitlement as at the year end in accordance with IAS19.

p. Cash and cash equivalents

Cash and cash equivalents represent the balance of cash held in banks and accounts held within the Government Banking Service.

q. Provisions

Provisions represent the balance of uncertain items and have been calculated using the best information available at the time of these accounts.

2. REVENUE

Revenue is derived entirely from continuing operations. As described at Note 19 there is a prior period adjustment relating to the recognition of income.

a. Fees and Charges

The following information summarises the final report to the Agency's management team for the period ending 31 March 2012.

2011-2012	**Financial Objective**	**Full Cost**	**Revenue**	**Operating Surplus/ (Deficit)**	**Performance against financial objective**
		£'000	**£'000**	**£'000**	**£'000**
Product Certification	**20**	**9,129**	**9,383**	**254**	**234**
Management System Certification	**0**	**1,815**	**1,493**	**(322)**	**(322)**
Activities for Government	**30**	**3,007**	**3,436**	**429**	**399**
All other segments	**0**	**954**	**855**	**(99)**	**(99)**
Total	**50**	**14,905**	**15,167**	**262**	**212**
Net Operating Cost as per statement of income				**262**	

Included in the full cost of Management System Certification are internal development costs of £85,536 (2010-2011; £351,947).

2010-2011 Restated	Financial Objective	Full Cost	Revenue	Operating Surplus/ (Deficit)	Performance against financial objective
		£'000	£'000	£'000	£'000
Product Certification	676	7,411	8,951	1,540	864
Management System Certification	(663)	2,194	1,559	(635)	28
Activities for Government	147	3,945	4,434	489	342
All other segments	0	937	948	11	11
Total	160	14,487	15,892	1,405	1,245
Net Operating Cost as per statement of income				1,405	

Activities for Government are analysed in the related party note (note 16) and account for 22.65% (2010-2011; 27.9%) of total turnover and therefore is regarded a major group of customers.

b. Geographical Analysis

The Agency receives no funding from Central Government, deriving all of its income from services to Government Departments and External Customers.

	2011-2012			Total	2010-2011			Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
	UK	**Japan**	**USA**	**Total**	UK	Japan	USA	Total
Product Certification	**6,118**	**2,114**	**1,151**	**9,383**	6,021	1,724	1,206	8,951
Management System Certification	**798**	**-**	**695**	**1,493**	794	-	765	1,559
Activities for Government	**3,436**	**-**	**-**	**3,436**	4,434	-	-	4,434
All other segments	**728**	**125**	**2**	**855**	762	171	15	948
Total	**11,080**	**2,239**	**1,848**	**15,167**	12,011	1,895	1,986	15,892
Non-current assets	**1,487**	**-**	**-**	**1,487**	1,306	-	-	1,306

The financial objective of each of the services is full recovery of service costs. Performance against objectives for MSC work reflects the difficult economic climate within the motor industry and the turnaround timeframe for reacting to changes within the sector. Sales in China, India and Italy are accounted for in the UK office whilst the Japan office covers the Asia Pacific region including Australia and Malaysia.

3. COST OF SALES AND ADMINISTRATIVE EXPENSES

Cost of sales is defined as that expenditure which is directly related to a service being supplied to a specific third-party customer or market. This includes direct materials, labour and variable overheads to the extent that these relate specifically to turnover.

Administrative expenses includes all costs relating to the general management of the business, training, technical support, and any other costs not included under cost of sales

The prior period adjustment as described in Note 19 relates solely to income recognition, expenditure remains unchanged, this means that the CoS margin has changed in 2010-2011.

Cost of sales and administrative charges are further analysed by expenditure type as follows:

	Note	2011-2012	2010-2011
		£'000	£'000
Staff Costs	**4**	**9,631**	9,681
Travel and subsistence		**1,407**	1,267
Overseas operational expenses		**1,496**	1,174
Bad Debt provision		**52**	(156)
Admin provisions		**3**	25
Accommodation		**545**	563
Computer running costs		**579**	431
Communications		**180**	155
Legal and consultancy		**(20)**	110
Realised exchange (gain)/loss		**12**	(4)
Exchange (gain)/loss on translation	**12c**	**(24)**	(37)
Training		**125**	225
Amortisation of intangible assets	**6**	**135**	105
Depreciation charges (net)	**7**	**173**	177
Loss on disposal of non-current assets		**23**	4
DfT charges		**30**	58
Audit fee		**45**	50
Other admin expenses		**513**	659
Total cost of sales and administrative expenses		**14,905**	14,487

Legal and consultancy contain the reversal of the provision as noted in note 11 below.

4 STAFF NUMBERS AND RELATED COSTS

a. Staff Costs comprise

	2011-2012			2010-2011		
	£'000 Permanently employed staff	**Others**	**Total**	£'000 Permanently employed staff	Others	Total
Wages and salaries	**5,850**	**-**	**5,850**	5,885	-	5,885
Social security costs	**481**	**-**	**481**	437	-	437
Other pension costs (Note 4c)	**919**	**-**	**919**	891	-	891
Agency, temporary and contract staff	**-**	**2,381**	**2,381**	-	2,468	2,468
Total net costs	**7,250**	**2,381**	**9,631**	7,213	2,468	9,681

b. Average number of full time equivalent employees

	2011-2012			2010-2011		
	Number Permanently employed staff	**Others**	**Total**	Number Permanently employed staff	Others	Total
Senior management	**10**	**-**	**10**	10	-	10
Professional, technical & technical support	**114**	**33**	**147**	114	31	145
Administrative support	**19**	**4**	**23**	19	2	21
Total	**143**	**37**	**180**	143	33	176

Technical support staff are involved in fee-earning activities. Within the total for 'Others' there are 25 full-time equivalent locally engaged overseas staff (2010-2011; 27).

c. Pension Commitments

The PCSPS is an unfunded multi-employer defined benefit scheme but VCA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 30 September 2007 Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2011-2012, normal employer's contributions of £896,788 (2010-2011; £868,754) were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% (2010-2011; 16.7% to 24.3%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2011-2012 payments of £23,133 (2010-2011; £22,666) were made to this scheme.

5. NOTIONAL CHARGES

	2011-2012 £'000	2010-2011 £'000
DfT on-costs	**30**	29
Audit fee	**45**	50
Total	**75**	79

DFT on-costs - These are included to reflect the cost of services provided by other units within the DfT. The amounts are calculated to reflect the full cost of providing these services to the Agency.

Audit fee - This is included for the annual audit of the Agency's Financial Statements by the Comptroller and Auditor General. The auditors received no remuneration for non audit services.

VCA recovers full costs in accordance with the fees and charges policy, which includes recovery of notional charges.

6. NON-CURRENT ASSETS: INTANGIBLE ASSETS

	Assets In Development £'000	**Software Licences £'000**	**Information Technology £'000**	**Total £'000**
Cost or Valuation				
As at 1 April 2011	63	167	696	926
Additions	162	2	185	349
Disposals	-	(90)	(262)	(352)
Reclassifications	(143)	-	143	-
Revaluations	-	7	40	47
As at 31 March 2012	**82**	**86**	**802**	**970**
Amortisation				
As at 1 April 2011	-	126	381	507
Charge for year	-	17	118	135
Disposals	-	(89)	(251)	(340)
Revaluations	-	3	13	16
As at 31 March 2012	**-**	**57**	**261**	**318**
Net Book Value				
As at 31 March 2012	**82**	**29**	**541**	**652**
As at 1 April 2011	63	41	315	419

	Assets In Development £'000	Software Licences £'000	Information Technology £'000	Total £'000
Cost or Valuation				
As at 1 April 2010	135	171	508	814
Additions	41	9	137	187
Disposals	-	(3)	(5)	(8)
Reclassifications	(113)	-	113	-
Revaluations	-	(10)	(57)	(67)
As at 31 March 2011	63	167	696	926

Amortisation				
As at 1 April 2010	-	118	320	438
Charge for year	-	16	89	105
Disposals	-	(3)	(5)	(8)
Revaluations	-	(5)	(23)	(28)
As at 31 March 2011	-	126	381	507
Net Book Value				
As at 31 March 2011	63	41	315	419
As at 1 April 2010	135	53	188	376

Intangible non current assets are carried at fair value using indexation.

Indexation is to the latest reliable indices in accordance with the requirements of the FReM. The indices used are obtained from the Office of National Statistics. Where it is considered that there has been permanent impairment to assets at the end of the financial year they have been written off to the statement of income. In 2011-2012 the total amount taken to the statement of income as impairment in value was zero (2010-2011; £nil). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the statement of income.

All intangible non-current assets have a finite life and are amortised over 3-5 years. Individual material intangible non-current assets are:

	2011-2012 £'000	2010-2011 £'000
Cost or Valuation		
E-Procurement licenses	-	17
Management Systems Certification database software	58	195
TAMS database software	122	40
Business intelligence software	-	23
Ametc enforcement software	120	-
CRM enforcement software	23	-

7. NON-CURRENT ASSETS: TANGIBLE ASSETS – PROPERTY, PLANT & EQUIPMENT

	Assets Under Construction	**Buildings excluding Dwellings**	**Transport Equipment**	**Furniture & Fittings**	**Information Technology and Office Equipment**	**Plant & Machinery**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost or Valuation							
As at 1 April 2011	-	238	63	194	893	491	1,879
Additions	4	-	-	4	77	29	114
Disposals	-	-	-	-	(177)	-	(177)
Revaluation	-	-	-	-	36	(4)	32
As at 31 March 2012	**4**	**238**	**63**	**198**	**829**	**516**	**1,848**
Depreciation							
As at 1 April 2011	-	26	22	148	599	197	992
Charge for year	-	9	9	15	98	42	173
Disposals	-	-	-	-	(167)	-	(167)
Revaluation	-	-	-	-	15	(1)	14
As at 31 March 2012	**-**	**35**	**31**	**163**	**545**	**238**	**1,012**
Net Book Value							
As at 31 March 2012	**4**	**203**	**32**	**35**	**284**	**278**	**836**
As at 31 March 2011	-	212	41	46	294	294	887

Note 7 (cont'd)

	Assets Under Construction	Buildings excluding Dwellings	Transport Equipment	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
As at 1 April 2010	-	238	52	193	902	415	1,800
Additions	-	-	15	1	92	76	184
Disposals	-	-	(4)	-	(42)	-	(46)
Revaluation	-	-	-	-	(59)	-	(59)
As at 31 March 2011	-	238	63	194	893	491	1,879
Depreciation							
As at 1 April 2010	-	17	16	132	562	160	887
Charge for year	-	9	9	16	106	37	177
Disposals	-	-	(3)	-	(38)	-	(41)
Revaluation	-	-	-	-	(31)	-	(31)
As at 31 March 2011	-	26	22	148	599	197	992
Net Book Value							
As at 31 March 2011	-	212	41	46	294	294	887
As at 1 April 2010	-	221	36	61	340	255	913

Tangible non current assets are carried at fair value using indexation.

Indexation is to the latest reliable indices in accordance with the requirements of the FReM. The indices used are obtained from the Office of National Statistics. Where it is considered that there has been permanent impairment to assets at the end of the financial year they have been written off to the statement of income. In 2011-2012 the total amount taken to the statement of income as impairment in value was zero (2010-2011; £ nil). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the statement of income.

Non-dwelling land and buildings are carried at professional valuation on the basis of existing use value. The valuation was carried out as at 30 September 2008 by Insignia Richard Ellis, Chartered Surveyors in accordance with the RICS Valuation Standards.

8. TRADE AND OTHER RECEIVABLES

a. Analysis by Type

	At 31 March 2012	*At 31 March 2011*	*At 1 April 2010*
	£'000	£'000	£'000
Trade receivables	**2,537**	2,203	2,382
Other receivables	**31**	24	33
Prepayments	**306**	313	242
Accrued income	**1,559**	2,062	1,412
Total	**4,433**	4,602	4,069

The Agency has no receivables due after more than one year, except for salary advances of which £5,667 (2010-2011; £1,389) is due after one year.

b. Intra Government Balances

	At 31 March 2012 £'000	At 31 March 2011 £'000	At 1 April 2010 £'000
Balances with departmental bodies	**548**	638	728
Balances with other central government bodies	**311**	258	115
Balances with bodies external to government	**3,574**	3,706	3,226
Total	**4,433**	4,602	4,069

9. CASH AND CASH EQUIVALENTS

	At 31 March 2012 £'000	At 31 March 2011 £'000	At 1 April 2010 £'000
OPG Balance	**-**	-	1,592
GBS balance	**2,790**	2,170	-
UK current account	**279**	476	816
Cash in hand and at other banks	**1,566**	1,367	1,039
Total	**4,635**	4,013	3,447

10. TRADE AND OTHER PAYABLES

a. Analysis by Type

	At 31 March 2012 £'000	At 31 March 2011 £'000	At 1 April 2010 £'000
Amounts falling due within one year			
Trade payables	**15**	3	8
VAT	**17**	4	62
Other payables	**905**	399	463
Accruals	**1,243**	1,337	1,195
Deferred income	**409**	400	610
Total amounts falling due within one year	**2,589**	2,143	2,338
Included in other payables are:			
Deposits from manufacturers	**239**	153	259

The accruals balance at 31 March 2012 includes £245,120 (2010-2011; £218,822) in respect of VCA's March 2011 payroll cost due to DfT. Also included in accruals as at 31 March 2012 is the holiday pay accrual of £205,125 (2010-2011; £215,454) as required by IAS19. There are no payables balances falling due after one year.

b. Intra Government Balances

	At 31 March 2012 £'000	At 31 March 2012 £'000	At 1 April 2010 £'000
Balances with departmental bodies	**403**	382	406
Balances with other Central Government bodies	**2**	2	-
Balances with bodies external to Government	**2,184**	1,759	1,932
Total	**2,589**	2,143	2,338

11. PROVISIONS

	Early Retirement £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2011	**28**	**485**	**513**
Provisions added in the year	**-**	**3**	**3**
Provisions utilised in the year	**(6)**	**(13)**	**(19)**
Provisions released in the year	**-**	**(123)**	**(123)**
Balance at 31 March 2012	**22**	**352**	**374**

	Early Retirement £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2010	-	500	500
Provisions added in the year	32	38	70
Provisions utilised in the year	(4)	(11)	(15)
Provisions released in the year	-	(42)	(42)
Balance at 31 March 2011	28	485	513

There is an Early Retirement Provision due after more than one year of £16,729 (2010-2011; £22,421). Other provisions consist of a dilapidation provision of £19,200 (2010-2011; £19,200) due after more than one year and other provisions of £338,142 (2010-2011; £470,836) are in relation to overseas allowances. The provisions have been calculated in accordance with IAS 37 using 2011-2012 costs and current Government rates where applicable. The release of the provision of £123,000 was made on a decision that the event for which the provision was originally raised for would no longer come to fruition.

Note 11 (Cont'd)

Non-current liabilities	**31 March 2012 £'000**	31 March 2011 £'000
EXPIRING:		
- within one year	**338**	471
- in second to fifth years inclusive	**27**	31
- over five years	**9**	11
Total	**374**	513

12.

a. RECONCILIATION OF REVALUATION RESERVE
For the year period 31 March 2012

	Transport Equipment	**Software Licenses**	**Software Application**	**Furniture & Fittings**	**Information Technology and Office Equipment**	**Plant & Machinery**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2011	**-**	**7**	**6**	**7**	**25**	**25**	**70**
Surplus on revaluation of non current assets	**1**	**7**	**40**	**-**	**36**	**(4)**	**80**
Backlog depreciation of re-valued non current assets	**-**	**(4)**	**(13)**	**-**	**(15)**	**1**	**(31)**
As at 31 March 2012	**1**	**10**	**33**	**7**	**46**	**22**	**119**

b. RECONCILIATION OF REVALUATION RESERVE
For the year period 31 March 2011

	Transport Equipment	Software Licenses	Software Application	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2010	-	12	39	7	53	25	136
Surplus on revaluation of non current assets	-	(10)	(57)	-	(59)	-	(126)
Backlog depreciation of re-valued non current assets	-	5	24	-	31	-	60
As at 31 March 2011	-	7	6	7	25	25	70

c. CHANGES IN EXCHANGE RATE MOVEMENTS
For the year period ended 31 March 2012

Net Exchange Rate Movements	**2011-2012 £'000's**	2010-2011 £'000's
Balance as at 1 April 2011 / 2010	**748**	711
Movements in Year	**24**	37
Balance as at 31 March 2012 / 2011	**772**	748

The opening balance as at 1 April 2011 relates to historical net movements up to the financial accounting year 2010-2011.

13. CAPITAL COMMITMENTS

The Agency has capital commitments for intangible non current assets of £99,644 (2010-2011; £48,102) and property, plant & equipment of £166,677 (2010-2011; nil) as at 31 March 2012.

14. COMMITMENTS UNDER LEASES

The Agency has commitments for future minimum lease payments under non-cancellable operating leases as follows:

	31 March 2012 £'000	31 March 2011 £'000
EXPIRING:		
Land and buildings - within one year	**404**	409
Land and buildings - in second to fifth years inclusive	**614**	818
Land and buildings - over five years	**395**	449
Total	**1,413**	1,676

Total rentals for 2011-2012 of £420,570 (2010-2011; £423,031) were charged to the statement of income. At present there are no finance leases.

15. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2012 (31 March 2011; nil).

16. RELATED PARTY TRANSACTIONS

VCA is an executive agency of the DfT.

The DfT is regarded as a related party. During the year, VCA has had a number of material transactions with the Department. Income in 2011-2012 from the Department was £1,654,877 (2010-2011; £2,174,910). While charges made to the VCA by the DfT amounted to £55,381 (2010-2011; £84,805). In addition, VCA received sales income from other government departments of £1,769,095 (2010-2011; £2,258,860) and charges were £1,256 (2010-2011; £595).

During the year, none of the Board Members, members of the key management staff or other related parties has undertaken any material transactions with VCA.

17. FINANCIAL INSTRUMENTS

a. Nature and Extent of Risks arising from Financial Instruments.

VCA does in many respects face the same degree of exposure in respect of receivables that many commercial businesses do; however, it does not face the same level of financial risk in respect of loans. In addition financial assets and liabilities generated by day-to-day operational activities are not linked to long term credit facilities. The short-term liquidity and interest rate risks are therefore slight.

Financial Assets by Category Loans and receivables:	Note	At 31 March 2012 £'000	At 31 March 2011 £'000
Cash and cash equivalents	9	4,635	4,013
Trade receivables	8	2,537	2,203
Other receivables	8	31	24
Accrued income	8	1,559	2,062
Total		8,762	8,302

Financial Liabilities by Category Financial liabilities measured at amortised cost:-	Note	At 31 March 2012 £'000	At 31 March 2011 £'000
Trade payables	10	15	20
VAT payable	10	17	4
Other payables	10	905	399
Accruals	10	1,243	1,320
Total amounts falling due within one year		2,180	1,743
Included in other payables are:			
Deposits from manufacturers		239	153

b. Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Agency's customers or counterparties fail to fulfil their contractual obligations to the Agency.

The majority of debtor balances with bodies external to government relate to balances with entities in the automotive industry for Product Certification and Management System Certification.

The Agency seeks to mitigate the risk of default from Receivables by maintaining Pre-fund Creditor accounts for customers purchasing Submacs (Individual Type Approval Certificates) and transferring the cash from the Creditor Account to the Debtor Account, as and when invoices are raised.

In the case of all other external debtor accounts, the customer is requested to complete an Agency Application Form providing two external trade references. Prior to providing the service credit checks are obtained from an External Agency by VCA's Credit Control Section which carries out the monitoring and chasing of outstanding balances on a regular basis as part of the Agency's credit control procedures.

The Agency has no significant prepayment arrangements in place. Extending credit and making prepayments places funds at risk, and therefore, stringent controls on the formal writing off of debts are required, to ensure that all effort is made.

For the purposes of the Agency's disclosures regarding credit quality, its financial assets have been analysed as follows:-

Financial assets subject to credit risk **at 31 March 2012**

	Note	Neither overdue nor individually impaired	Overdue but not individually impaired	Individually impaired	Total carrying value
		£'000	£'000	£'000	£'000
Cash and cash equivalents	**9**	**4,635**	**-**	**-**	**4,635**
Trade receivables	**8**	**956**	**1,092**	**489**	**2,537**
Other receivables	**8**	**31**	**-**	**-**	**31**
Accrued income	**8**	**1,559**	**-**	**-**	**1,559**
Total		**7,181**	**1,092**	**489**	**8,762**

The Agency has £351,209 intra departmental account receivable balances included in Financial Assets and £309,024 with other Government departments. Assets individually impaired represent balances subject to insolvency procedures and in addition has been calculated on both a geographic basis and age basis against specific debts and is the sum of all individual balances overdue for payment by at least 180 days, across the UK, US, Japanese and Australian sales ledgers.

Financial assets that are overdue but not individually impaired	Note	At 31 March 2012			
		Overdue 0-1 months	Overdue 1-3 months	Overdue over 3 months	Total
		£'000	£'000	£'000	£'000
Trade receivables	**8**	**546**	**437**	**109**	**1,092**
Total		**546**	**437**	**109**	**1,092**

Reconciliation of Bad Debt Provision	2011-2012	2010-2011
	£'000	£'000
Balance at 1 April 2011	**459**	631
UK (reductions)/additions	**22**	(108)
USA (reductions)/additions	**14**	(54)
Japan (reductions)	**(6)**	(13)
Australia additions	**-**	3
Balance at 31 March 2012	**489**	459

Note 17 (Cont'd)

c. Liquidity Risk

Maturity of financial liabilities		At 31 March 2012			
	Note	On Demand	Not more than 3 months	Over 3 months but not more than 1 year	Total
		£'000	£'000	£'000	£'000
Trade payables	10	15	-	-	15
VAT	10	-	17	-	17
Other payables	10	239	666	-	905
Accruals	10	1,243	-	-	1,243
Total		1,497	683	-	2,180

This is the risk that the Agency is unable to meet its obligations when they fall due and to replace funds when they are withdrawn. As the Agency is a government organisation, this risk is thought to be negligible. Government manages liquidity by requiring departments to provide cash flow forecasts.

d. Foreign Currency Risk

The Agency is exposed to foreign currency fluctuations on its cash balances, trade receivables and trade payables.

Total financial assets by currency		At 31 March 2012			
	Note	UK	USA	Japan	Australia
		£'000	$'000	Yen'000	AUD'000
Cash and cash equivalents	9	3,069	1,003	110,425	152
Trade receivables	8	1,865	539	41,804	27
Other receivables	8	31	-	-	-
Accrued income	8	1,179	132	39,010	1
Totals		6,144	1,674	191,239	180
Closing sterling exchange rate		1.0000	1.5978	131.4870	1.5423
Converted £'000		6,144	1,048	1,454	117

The USA represents 13.29% of the total outstanding accounts receivable balance and Japan represents 12.53% of the total outstanding accounts receivable balance. The Agency's financial performance is subject to movements in exchange rates, these are migrated and by matching local expenditure with local income wherever possible in local currencies.

Total financial liabilities by currency		At 31 March 2012			
		UK	USA	Japan	Australia
	Note	£'000	$'000	Yen'000	AUD'000
Trade payables	10	15	-	-	-
VAT payable	10	17	-	-	-
Other payables	10	826	95	2,544	-
Accruals	10	1,143	56	8,416	2
Totals		2,001	151	10,960	2
Closing sterling exchange rate		1.0000	1.5978	131.4870	1.5423
Converted £'000		2,001	95	83	1

e. Exchange Translation Risk

The matrix below shows the effect a 10% decrease or increase in the closing rate value of Sterling will have on the valuation of overseas financial instruments.

	Decrease in Value			Actual Rate			Increase in Value		
Overseas financial assets by currency	USA	Japan	Australia	USA	Japan	Australia	USA	Japan	Australia
	$'000	Yen'000	$'000	$'000	YEN'000	AUD'000	$'000	Yen'000	AUD'000
Cash and cash equivalents	1,003	110,425	152	1,003	110,425	152	1,003	110,425	152
Trade receivables	539	41,804	27	539	41,804	27	539	41,804	27
Accrued Income	132	39,010	1	132	39,010	1	132	39,010	1
Total	1,674	191,239	180	1,674	191,239	180	1,674	191,239	180
Closing sterling exchange rate 31 March 2012	1.4380	118.3383	1.3881	1.5978	131.4870	1.5423	1.7576	144.6357	1.6965
Converted £'000	1,164	1,616	130	1,048	1,454	117	952	1,322	106
Overseas financial liabilities by currency									
Other payables	95	2,544	-	95	2,544	-	95	2,544	-
Accruals	56	8,416	2	56	8,416	2	56	8,416	2
Total	151	10,960	2	151	10,960	2	151	10,960	2
Closing sterling exchange rate 31 March 2012	1.4380	118.3383	1.3881	1.5978	131.4870	1.5423	1.7576	144.6357	1.6965
Converted £'000	105	93	1	95	83	1	86	76	1
Net	1,059	1,523	129	953	1,371	116	866	1,246	105
Net effect on statement of income	106	152	13	-	-	-	(87)	(125)	(11)

18. EVENTS AFTER THE REPORTING PERIOD

There are no reportable adjusting events after the reporting period that are not reflected in the accounts above. The accounts were authorised for Issue (released to the Secretary of State to lay before Parliament) on 11th July 2012 by Paul Markwick as Chief Executive and Agency Accounting Officer.

19. RESTATEMENT OF PRIOR YEAR BALANCES

IAS 18 gives specific guidance on the recognition of revenue for the rendering of services, when the process is incomplete. If the outcome of the transaction can be estimated reliably, the associated revenue should be recognised according to the state of completion; if the outcome cannot be estimated reliably, revenue should be recognised only to the extent of expenses incurred that are recoverable. VCA has applied this guidance by recognising revenue when a chargeable stage of a job is complete, and otherwise recognising an inventory balance (see Accounting Policies 1d. and 1h.)

In previous years, in accordance with that policy, work that had not been invoiced at the time of consolidation into DfT Group statements was treated as work-in-progress and held as inventory on the Balance Sheet (Note 1h). In 2012, the Management Board decided to make two changes, which are discussed below. In accordance with IAS 8, these changes are reflected in prior period adjustments and the restatement of balances as at 1 April 2009.

First, the income from China sales had not been accounted in accordance with our accounting policies, as no work-in-progress had been recognised under inventories. This omission has been rectified and consequently, these statements include valuations of opening and closing work-in-progress inventory. Second, an adjustment to 2010-11 income was needed for the enforcement (SEB) programme of work with DfT. As the quarter four 2010-2011 programme of work was incomplete it was originally included in the accounts as Work in Progress. It is now shown as accrued income for 2010-201, less deferred income.

Summary of prior period adjustments	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Sales Income	**Cost Of Sales**	**Accrued Income**	**Deferred income**	**Inventory**
2010-2011 before restatement	**15,324**	**(11,642)**	**533**	**(342)**	**531**
Adjustments for:					
Removal of WiP and move to sales for late invoice;					
SEB	383	(187)	440	(57)	(187)
Introduction of WiP for China operations;					
China	185	59	1,089	-	80
2010-2011 after restatement	**15,892**	**(11,770)**	**2,062**	**(399)**	**424**

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