

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

ANNUAL REPORT AND ACCOUNTS 2014/2015

HC 192

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and Accountability Act 2014

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Annual Report

Introduction

The Audit Commission closed on 1 April 2015, as enabled by the Local Audit and Accountability Act, which received Royal Assent on 30 January 2014. This is the final Annual Report and Accounts for the Audit Commission covering the year to 31 March 2015.

With the closure of the Audit Commission on 1 April 2015, Marcine Waterman, the Controller of Audit, relinquished her responsibilities as Accounting Officer. Jacinda Humphry, Department for Communities and Local Government (DCLG) Director of Finance, was appointed as Accounting Officer for the Audit Commission in succession to Marcine Waterman and, in line with Managing Public Money, where there is a change of Accounting Officer in the course of the year, the Accounting Officer in place at the year-end takes responsibility for the whole year's accounts, using assurances as necessary from the former Accounting Officer.

The former Accounting Officer, Marcine Waterman, has confirmed that the Commission operated, up until the handover of her Accounting Officer's duties to Jacinda Humphry on 31 March 2015, with appropriate governance and internal control and risk management.

Initial agreed plans to close the Commission in June 2015 were brought forward. A revised plan to achieve complete closure of the Commission by 1 April 2015 was agreed by Ministers in November 2014. As a result of this change DCLG, as residuary body for the Audit Commission, completed a number of closedown tasks and undertook post transfer issue resolution with transferee bodies. DCLG appointed a senior member of staff to be the closure programme manager, effect a smooth hand over from Commission Finance staff ahead of 1 April 2015, and create a clear resourced and timetabled plan and a comprehensive risk register. The closure programme and the production of the final accounts were subject to DCLG controls.

The Commission's 2014/15 Interim Annual Report and Accounts were signed off by the Commission's Audit Committee and Board in March 2015, having been subject to preliminary audit processes. DCLG then updated the accounts with amounts and disclosures to reflect the final position. The Commission's 2014/15 Annual Report and Accounts were signed off by the DCLG Audit and Risk Assurance Committee in June 2015.

Strategic Report

Outline of the year

The Audit Commission closed on 1 April 2015 with the legacy of its work in driving up standards, tackling fraud and ensuring value for money for the public purse secured.

As the Commission entered its final year, it revised its strategic objectives so that they set the course for the Commission's closure, while ensuring that it continued to deliver its key statutory functions. The Commission's work during this year focused on five objectives, and its achievements against each are set out below.

1 Supporting the transition to a new audit regime

The Commission's work under this objective fell into two categories. First, it worked with the Department for Communities and Local Government (DCLG) and others to help make the new arrangements for local public audit work. Its support to DCLG focused primarily on responding both publicly and directly to DCLG's proposals for secondary legislation, commencement orders and saving provisions.

In April 2014 the Commission responded to DCLG's consultation on an 'audit-substitute' transparency code for the smallest parish councils. It expressed concerns that the proposed code would not be an effective substitute for external audit and that it would increase rather than reduce the burden on councils covered by it.

In July 2014 the Commission responded to DCLG's consultation on a draft transparency code for internal drainage boards, charter trustees and port health authorities, and on three sets of draft regulations:

- the Local Audit (Smaller Authorities) Regulations 2014;
- the Local Audit (Specified Person) Regulations 2014; and
- the Accounts and Audit (England) Regulations 2014.

While the Commission responded fully to all parts of the consultation and welcomed a number of aspects, it expressed concern about the regulations that made possible collective auditor procurement and appointment for small bodies. It highlighted a number of practical implementation issues: the regulations have become increasingly complex in order to cover all procurement possibilities with a risk that they will not be understood or followed by the sector.

The Commission also continued to contribute to the work of other organisations, for example by working closely with the National Audit Office (NAO) in developing a new

Code of Audit Practice and supporting guidance which will first apply to audits of 2015/16 accounts.

The second area of work was to ensure an effective transfer of those core functions that will continue at other organisations after the Commission's closure, and that the transition was managed properly.

An independent company created by the Local Government Association (Public Sector Audit Appointments Limited) is responsible for overseeing the Commission's external audit contracts with audit firms from 1 April 2015 until those contracts end. It will manage the contracts and exercise statutory powers to appoint auditors, set and determine fees, and make arrangements for housing benefit subsidy certification. Three of the Audit Commission's analytical tools that are primarily maintained to support audit contracts will transfer to PSAA and will continue until the end of the current audit contracts: the two Value for Money Profiles Tools (for councils and for fire authorities), and the Audit Fees Comparator Tool.

The NAO assumed the Commission's functions of producing and maintaining the Code of Audit Practice and provide supporting guidance to auditors from 1 April 2015. Building on its existing work, including in the health sector, the NAO will also now carry out studies which consider the value for money of services delivered by groups of local government bodies.

The Commission's National Fraud Initiative (NFI) transferred to the Cabinet Office from 1 April 2015. The NFI matches data provided by some 1,300 participating organisations from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies, to prevent and detect fraud.

Throughout the year, the Commission worked with DCLG and the successor bodies to whom these functions transferred to ensure a smooth transition with no disruption to the on-going delivery of its statutory functions. The Commission established rigorous transition programme management arrangements with each successor body. In each case a transition programme board chaired by a senior executive from the transferee body was set up to oversee the operational transfer of work to help support a smooth handover to successor bodies. Initial agreed plans to close the Commission in June 2015 were brought forward. A revised plan to achieve complete closure of the Commission by 1 April 2015 was agreed by ministers in November 2014. As a result of this change DCLG, as residuary body for the Audit Commission, completed a number of closedown tasks and undertook post-transfer issue resolution with transferee bodies.

2 Oversee the delivery of consistent, high quality audits

In its final year, the Commission continued to focus on its core functions and duties. As before, this has required the simultaneous:

- oversight, evaluation and reporting on audit work carried out on the Commission's

behalf relating to past audit years as well as on the quality of work relating to the current audit year; and

- assurance that appropriate contractual, appointment and fees arrangements are in place for future audit years.

The remainder of this section is organised to correspond to these areas of the work programme.

The Commission continued to uphold audit standards by publicly reporting on the audit firms' compliance with its regulatory requirements and on the quality of their work. The Commission was committed to ensuring that the quality of the audit work provided by its suppliers was of the highest standards. To promote transparency and encourage best practice, the Commission provided throughout the year a series of reports on the assessments it made about their work. These included:

- the 'Quality Review Programme annual report', providing an overview of the quality of work across all of the Commission's audit suppliers;
- an 'annual regulatory compliance and quality report' for each firm providing audit services on the Commission's behalf; and
- a 'regime compliance monitoring report' for each firm on a quarterly (for firms auditing principal bodies) or half-yearly basis (for firms providing limited assurance).

In December 2014, the Commission published the last in its series of reports on the financial stewardship of local public bodies, *Auditing the Accounts 2013/14: Local Government Bodies*, which revealed that financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. The results for small bodies were however less satisfactory, with 1,015 parish councils (11 per cent) and 19 internal drainage boards (IDBs, 16 per cent) receiving a qualified opinion on their 2013/14 annual return by 30 September 2014. For parish councils and IDBs, the level of qualifications increased from 8 per cent and 9 per cent, respectively.

The first *Auditing the Accounts* report for principal local government bodies was prompted by concerns the Commission had regarding the timeliness and quality of the information reported by public bodies. The number of councils receiving an audit opinion by 30 September was 99 per cent in 2013/14. The timely presentation of audited accounts with an unqualified audit opinion is fundamental to good governance. It indicates that bodies have sound financial management arrangements and is the main way that they account for their use of taxpayer's money.

In July 2014, the Commission published *Auditing the Accounts 2013/14: NHS Bodies*, which found that the timeliness and quality of NHS trusts' financial reporting improved for 2013/14. In their first year, Clinical Commissioning Groups submitted their accounts on time but experienced some issues with quality. The Commission's appointed auditors were increasingly concerned for the financial resilience of NHS trusts, with a significant increase in the numbers of both qualified conclusions on value for money arrangements

and statutory reports to the Secretary of State for Health. The report found that the majority of NHS bodies put in place proper arrangements for securing value for money. However, auditors at 34 NHS trusts (34 per cent) issued a non-standard value for money conclusion relating to concerns about financial resilience. Last year, this figure was 26 per cent. The report also noted that more auditors used their statutory reporting powers at NHS bodies. For 2013/14, auditors referred nineteen NHS trusts (19 per cent) and 24 CCGs (11 per cent) to the Secretary of State for Health during the year, mainly due to issues with their financial position. For 2012/13, only six NHS trusts were referred.

The Commission continued to make arrangements for the certification of claims and returns under section 28 of the Audit Commission Act. Audit Commission auditors certify claims and returns to provide assurance to grant-paying bodies that claims for grants and subsidies comply with terms and conditions, or that information in financial returns is reliable.

It also developed and issued technical guidance to support auditors in delivering their responsibilities appropriately and consistently.

The Commission had a duty to prescribe scales of fees for the audit of accounts and had to consult before setting these. The final consultation on the work programme and scales of audit fees was launched in October 2014, relating to the 2015/16 financial year. Following the consultation, the Commission confirmed that it was setting audit fees at the lowest level since the Commission took on NHS audit in 1990. Fees can be preserved at this level after 2016/17 and the Commission hopes that the government will take the opportunity that was secured to lock in and extend the savings that have been achieved up to 2020.

While setting reduced audit fees, the Commission returned a further £6.9 million to its audited bodies in rebates. The rebates result from the efficient management of the Commission's closure. Its financial strategy since 2012 was to return retained earnings to audited bodies wherever possible. The £6.9 million rebate followed the £8 million rebated in March 2014.

The Commission appointed auditors to local authorities, health and police bodies and regulated the work that they do. In June 2014, the Commission consulted on the changes to auditor appointments needed from 2015/16, and later confirmed the appointments.

3 Help auditors and sectors to respond to current challenges

The Commission's national reports, briefings and online tools continued to help councils manage the financial challenges they face and provide better value for money.

The Commission kept its VFM Profiles Tool up to date with the latest published data on councils' expenditure and performance. The tool continued to prove useful to councils and auditors, with 5,563 unique visitors visiting the site 11,735 times in 2014.

Using data in the VFM Profiles Tool, the Commission published another three VFM data briefings. The Commission's briefing Managing Council Property Assets, published in June, identified that councils spent an estimated £5.6 billion – around 4 per cent of all revenue spending - on offices and other premises in 2012/13, and that they owned £2.5 billion of 'surplus' assets. The Commission called on councils to ensure they get best value from their estate and consider whether 'surplus' assets could be put to better use.

In councils' expenditure on looked after children, published in August, the Commission reported that councils spent a total of £3.4 billion supporting children in care in 2012/13. Despite a 12 per cent rise in the number of children in care over a four year period, councils' expenditure rose by only 4 per cent. However, the Commission found significant variation in the amount each council spent on the children they looked after, with the potential to reduce expenditure by £84 million if the highest spending councils made savings.

The Commission's final VFM data briefing, November's council tax and business rates collection: an update, revealed that £4.6 billion of council tax and business rates due in 2013/14 and previous years had not been collected. 2013/14 saw a slight improvement in business rates collection rates but a reduction in council tax collection rates. Had the previous year's collection rate been maintained, councils would have collected an additional £94 million.

The Commission's Financial Ratios Tool contains data on five key financial ratios relating to the assets, liabilities, reserves, borrowing, revenue expenditure and income of councils, fire authorities and police bodies. The data helps these organisations measure their financial resilience and enables other interested parties to scrutinise and challenge their financial position. The Commission published Interpreting the Accounts: A review of Local Government Financial Ratios 2007/08 to 2012/13 in September, which described how the financial ratios for councils have changed during a period of considerable change for local government finance. The report also called on local government to compile its own financial ratios data for comparison after the Commission closes.

In June, the Commission's final National Fraud Initiative report showed that its data matching exercise had identified a further £229 million of fraud, overpayment or error in the UK since the previous report in May 2012. The highest value categories in England continued to be pensions (£74 million), followed by council tax single person discount (£39 million) and then housing benefit (£33 million).

Using its statutory power to mandate English councils to provide information on the fraud they have detected, the Commission carried out its final annual survey of local government fraud in 2014. In November the Commission reported the results in Protecting the Public Purse 2014: Fighting Fraud against Local Government. Councils detected fraud valued at £188 million in 2013/14, a ten-fold increase since the Commission's first survey in 1990. The Commission also produced fraud briefings that auditors could use to communicate the results of the survey to each council to help members and officers to identify how they might improve their counter-fraud work.

The Commission's approach to helping councils prevent and tackle fraud resulted in it receiving a prestigious Institute of Revenues, Ratings and Valuations (IRRV) "Excellence in innovation" gold award in October.

The Commission continued to support the Local Government Association's improvement and productivity work by:

- preparing 37 factual briefings about councils' financial position to assist teams carrying out corporate peer challenges; and
- helping a group of councils explore the scope for improved value for money through stronger partnership working.

The Commission also organised the Local Government Auditor Survey 2014 in order to inform the NAO's work on the financial sustainability of local authorities. A 100 per cent response was received to the auditor survey by the due date of 16 July. The information was analysed by Audit Commission staff and used as evidence in the NAO's publications *Financial sustainability of local authorities 2014* and *The impact of Funding Reductions on Local Authorities* published in November.

4 Leading its people

The closure of any organisation represents a serious challenge to staff morale, and the Commission worked hard throughout the year to motivate and support staff; communicate with them in an open, honest and timely way; and give them the best possible future prospects.

Throughout April and May 2014 the Commission conducted a Management of Change consultation process with all staff, who were either to be made redundant or transferred to other organisations at the Commission's closure. The Commission's aim throughout the consultation exercise was – while meeting its legal obligations - to provide as much certainty as possible for staff, and listen to and take account of their views and suggestions. The consultation exercise was genuine and meaningful and, where it could, the Commission sought to find the best possible outcomes for all staff.

Following the formal consultation period letters were sent to staff confirming their position. The Commission then prepared notice or transfer letters and redundancy calculations and these were issued to staff at the end of September 2014 as per the timetable agreed by the Commission's Board.

At an understandably difficult time for staff, the Commission provided an outplacement support service for those subject to redundancy. The support comprised a series of workshops and one-to-one support meeting the requests made by staff. The Commission also organised workshops on methods for dealing with change and stress.

The Commission also explored options for secondment opportunities for staff as part of its programme of outplacement support. This was primarily aimed at staff at risk or under

notice of redundancy but also as a means of early and increasing engagement with transferee bodies for those staff who were subject to TUPE transfer. Such opportunities helped to maintain staff morale, were a rich source of personal development and enhanced the chances of the Commission's staff finding employment after the Commission closed, or assisted in the process of assimilation with their new employers. As well as being positive for staff, these secondments also represent a saving to the Commission, as secondment staff costs were being met by the other organisations. All secondments were subject to the delivery of the Commission's workplan and successful closure and transition.

The Commission worked hard to find new homes for all its core functions and the associated staff. Where staff transferred to carry out these functions, redundancy costs and the costs to the public purse were reduced. Transfers also ensure that the on-going impact of the Commission's core work will continue in the public sector, ensuring that the Commission's legacy is more than just financial.

The Commission thanked its staff for their considerable patience. They continued to deliver the Commission's functions in the shadow of uncertainty. The fact that so many staff transferred to other organisations means that the public sector will retain access to specialist skills in which the Audit Commission and its staff have invested considerable time and resource.

The Commission's equality objective for the year continued to relate to being a fair employer. The Commission aimed to ensure there was no difference in employment outcomes for its staff because of their age, gender, disability, gender reassignment, pregnancy and maternity, ethnicity, sexual orientation, or religion and belief. The Commission's approach to equalities, its equality objective for 2014, its Equality Action Plan and its equality information were all published on its website.

5 Be financially responsible

The Audit Commission exercised financial discipline and a robust control environment. The Commission's annual running costs were reduced to less than £8.7 million as it kept the costs of running the Commission, and its closure, to a minimum, consistent with the principles set out in Managing Public Money. Within this context the Commission was able to pass back a further £6.9 million as fee rebates to local audited bodies during the financial year.

This had all been achieved with no loss or diminution in the Commission's financial and other controls. The Commission has maintained the same high standards in the quality and delivery of its work. This was confirmed by the Commission's internal auditors (Government Internal Audit Agency (GIAA)) concluding there was substantial assurance over its controls in all areas they reviewed.

During the year the Commission shared office space with a number of other public bodies. In May and June 2014 the Commission completed the assignment of its

remaining three surplus buildings to other organisations: the Bristol Campus was assigned to HEFCE, the Commission's Solihull and Leeds offices were assigned to DCLG. This completed the disposal of the Commission's estate prior to closure.

The majority of the plant and equipment were disposed of and any remaining assets transferred to DCLG on closure.

Action was taken during the year to progress, as far as possible, the disposal of all current assets and liabilities prior to closure along with the transfer or novation of all contracts and other agreement to those bodies that assumed responsibility for the Commission's functions post 31 March 2015. In particular following discussions, the Commission was instructed by DCLG to dispose of the Icelandic Bank investments. Both sales were completed and proceeds were received. All trade and other debts were largely collected and any remaining current debts followed the transfer of function to which they related. Similarly the majority of liabilities were extinguished and any remaining current liabilities followed the transfer of function to which they related.

The Statements of Income and Comprehensive Income (pages 46-47) and the notes to the accounts (pages 51-91) provide more detail on the Commission's results for the year.

DCLG assumed responsibility for producing the final Annual Report and Accounts following the Commission's closure on 1 April 2015.

Jacinda Humphry
Accounting Officer
22 June 2015

Financial Review

The Audit Commission continued to exercise financial discipline and a robust control environment throughout the final year of operation. The Commission further contained and reduced costs, delivered efficiencies and passed back £6.9 million as fee rebates to local audited bodies.

Internal Audit confirmed through their reviews that there was substantial assurance over the Commission's controls in all areas they reviewed, providing assurance that the same high standards in the quality and delivery of the Commission's work have been maintained.

Income

The Commission's total operating income fell by £1.7 million (2.1 per cent) to £80.9 million (2013/14: £82.6 million). This has resulted from passing the benefits of the Commission's efficiencies and cost savings to the audited bodies through rebates.

Controlling costs

Total operating costs for the year, including transitional liabilities, reduced by a net £4.3 million (4.8 per cent) to £86.6 million (2013/14: £90.9 million).

The Commission spent less because of:

staffing changes and redundancies (£2.5 million); and

reduction in bought-in services (£3.5 million)

The Commission spent more because of increases in:

accommodation and related cost (£1.5 million) ; and

supplies and other services (0.2million)

Operating results

The Commission's operating deficit for the year was £5.7 million (2013/14: deficit of £8.1 million). Included in this is part of the Commission's IAS 19 accounting adjustment, a credit of £0.2 million (2013/14: debit of £0.9 million), which transfers to the pension reserve. Including investment income of £0.2 million (2013/14: £0.4 million), the Commission transferred a deficit of £5.7 million (2013/14: £6.8 million) to retained earnings.

Other non-operating IAS 19 adjustment gains of £4.6 million (2013/14: costs of £45.9

million) comprising actuarial gains of £11.7 million (2013/14: loss of £40.7 million) and a negative net return on pension scheme assets of £7.1 million (2013/14: deficit of £5.2 million) results in an overall deficit of £0.8 million (2013/14: deficit of £53.6 million). The total positive impact of IAS 19 adjustments of £4.9 million (2013/14: £46.8 million negative impact) decreases the pensions reserve deficit to £157.4 million at 31 March 2015 (2013/14: £162.3 million).

The Statements of Income and Comprehensive Income (pages 46-47) and the notes to the accounts (pages 51-91) provide more detail on the Commission's operating results for the year.

Financial position

The Commission's total assets less current liabilities decreased over the year by £6.3 million to £5.6 million at 31 March 2015. This movement is as a result of:

- All of the £31k plant and equipment were fully depreciated by the year end.
- The Commission was instructed by DCLG to dispose of the £1.7m Icelandic Bank investments which were completed and proceeds received before the year end.
- Action was taken during the year to progress as far as possible the disposal of all current assets and liabilities prior to closure along with the transfer or novation of all contracts and other agreement to those bodies that assumed responsibility for the Commission's functions post 31 March 2015.
- The majority of the trade receivables (decrease of £4.8 million) were collected.
- Other receivables and cash and cash equivalents decreased by £7.5 million because of rebates of fees to audited bodies and redundancy payments made during the year (the residual cash of £7.3 million was transferred to DCLG (£0.2 million), NAO (£0.08 million), Cabinet Office (£0.5 million) and PSAA (£6.6 million), at the closure of the Audit Commission and is included in Other receivables).
- A large proportion of the trade and other payables (decrease of £0.7 million) were extinguished and the deferred Income (decrease of £1.6 million) reflected reduced activity as the Commission moved towards closure.

The Commission's total non-current liabilities decreased by £5.5 million to £157.4 million at 31 March 201 (2013/14: £162.9 million). The difference is mainly due to a decrease in the Commission's pension liabilities (£4.9 million), and a reduction in non-current provisions (£0.6 million) as these became due for payment, or were utilised or released.

The Commission ended the year with £5.6 million of retained earnings (2013/14: £11.3 million). This position reflects the Commission's continued efforts to improve efficiency and realise the benefits of centrally-procured audit contracts. This overall position is offset by the net pension liability of £157.4 million (2013/14 £162.3 million), represented by the

deficit on the pension reserve. The result was, as in previous years, a negative taxpayers' equity amounting to £152 million at 31 March 2015 (2013/14: £151 million).

In the light of the Local Audit and Accountability Act having achieved Royal Assent in January 2014 and the closure of the Commission on 1 April 2015, as with 2013/14, the accounts have been prepared on a basis other than going concern. The accounting policies (note 1.3 to the financial statements) provide further detail.

Following the closure of the Commission on 1 April 2015, and in accordance with the transfer schemes introduced by Government, all assets and liabilities at the year-end have been transferred on 1 April 2015 to the following successor bodies:

- DCLG as residuary body for the Commission;
- the National Audit Office (NAO);
- the Cabinet Office; and,
- the transitional body (Public Sector Audit Appointments Limited).

The Statement of Financial Position (page 48) and the notes to the accounts (pages 51-91) provide more detail on the Commission's financial position at the end of the year. Note 19 (page 86-91) provides more detail on the transfers that took place on 1 April 2015.

Auditor's details

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

The Accounting Officer confirms that:

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

Jacinda Humphry
Accounting Officer
22 June 2015

Accounting Officer's Report

1. Statutory Background

The Audit Commission closed on 1 April 2015, as enabled by the Local Audit and Accountability Act, which received Royal Assent on 30 January 2014.

The Audit Commission was a public corporation set up in 1983 by the Local Government Finance Act 1982 to protect the public purse. The 1982 Act's relevant provisions were subsequently superseded by the Audit Commission Act 1998, a consolidating Act. In April 2014, the Government ceased the Commission's power to carry out a Corporate Governance Inspection where serious concerns exist about a council's service or corporate failure.

As at 31 March 2015 the Audit Commission had the following statutory powers and responsibilities:

- overseeing the external audit of local authorities and the NHS in England (Audit Commission Act 1998 and National Health Service Act 2006) – this involved making auditor appointments, setting fees and updating the Codes of Audit Practice;
- arranging for auditors to certify grant claims and returns, providing assurance to grant-paying bodies that claims for grants and subsidies complied with terms and conditions, or that information in financial returns was reliable;
- undertaking or promoting comparative and other studies designed to help improve the services and functions of audited bodies (Audit Commission Act 1998); and
- carrying out exercises to match electronic data within and between public and private sector bodies to prevent and detect fraud (Part IIA of the Audit Commission Act 1998).

Replacing the Audit Commission will be a new framework for local public audit, due to start after the Commission's contracts with audit suppliers end in 2017, or in 2020 if they are extended. An independent company created by the Local Government Association (Public Sector Audit Appointments Limited) is responsible for overseeing the Commission's external audit contracts with audit firms from 1 April 2015 until those contracts end. It will manage the contracts and exercise statutory powers to appoint auditors, set and determine fees, and to make arrangements for housing benefit subsidy certification.

Within the new audit framework, the National Audit Office (NAO) will prepare the Code of

Audit Practice which sets out what local auditors are required to do. The NAO's Code of Audit Practice was laid in Parliament on 12th January 2015 and came into force on 1st April 2015 for application to 2015-16 audits. The NAO has also started to expand their programme of value for money work to look at local services more explicitly.

The Audit Commission's powers to conduct the National Fraud Initiative (NFI) passed to the Cabinet Office on the 31st of March 2015, and the NFI will run under Cabinet Office powers from that date onwards.

This is the final Annual Report and Accounts for the Audit Commission.

2. The Commission Board

The Audit Commission's Board had overall responsibility for setting the Commission's values, standards, strategy, objectives, and for setting its budget. The Board oversaw the Commission's performance and was responsible for ensuring that it acted within its statutory remits. The Board comprised ten Commissioners, who served throughout the year, chaired by Jeremy Newman.

More details of the Commission's Board, its members and the committee structure are set out in the Governance Statement on page 30.

3. The Commissioners

All comments relating to the Commissioners reflect their activities during the year ended 31 March 2015.

Jeremy Newman (Chairman)

Jeremy was appointed as Chairman of the Audit Commission on 1 October 2012. He is a chartered accountant and the former Global Chief Executive (2008-2011) of BDO.

Bharat Shah (Deputy Chairman)

Bharat was the Deputy Chairman of the Audit Commission from September 2007 and Chair of the Audit Committee 2009 until its closure. At 31 March 2015, he was also Chairman of Nijjar Holdings Limited (T/A Freshways); Chairman of West Bromwich Building Society Staff Retirement Scheme; founder and Chairman of Smart-Sal Limited; Chairman of Alderbrook Ltd; a Non-Executive Director of Places for People Group; and has been providing business consultancy and executive mentoring since 2002.

Councillor Robert Anderson

Robert was appointed to the Audit Commission Board in 2012 and was appointed to the Audit Committee in 2013. Robert has been a Labour councillor for 18 years, and has been Leader of Slough Borough Council since 2008.

Janet Baker

Janet was a Commissioner since 2010 and was appointed as Crown Commercial Lead

by the Cabinet Office in January 2012, advising on a range of new commercial models and commercial matters. At 31 March 2015 she was a non-executive director of the Behavioural Insights Team, a joint venture company partly owned by the Cabinet Office and a non-executive member of the Board of the Defence Support Group, its audit committee and chairs its Remuneration Committee.

Councillor Adrian Collett

Adrian has been a councillor since 1980. He has been Leader of Hart District Council, Chair of Hampshire County Council's Roads & Development Committee and was Leader of the Liberal Democrat Opposition in Hampshire for 12 years. At 31 March 2015 he was Chair of Blackwater & Hawley Town Council.

Brian Landers

Brian was a Commissioner from 2010 and was also a member of the Audit Committee. At 31 March 2015 Brian was Chairman of Companies House and a member of the Competition Appeal Tribunal.

Councillor Robert Light

Robert was a Commissioner from 2011 and is a member of the Audit Committee. Robert has been a Kirklees councillor since 1987 and Conservative Group Leader since 2000.

Nicola Scrivings

Nicola was appointed to the Commission in January 2013. At 31 March 2015 she was Chair CHS Group, Chair Cambridgeshire Community Services NHS Trust, Chair Joint Audit Committee for the Cambridgeshire Police and Crime Commissioner and a Trustee of the Youth Hostel Association, Cambridge Cyrenians and Saffron Walden Arts Trust.

Andrea Sutcliffe

Andrea was appointed to the Audit Commission in January 2013. She has nearly 30 years' experience in health and social care, managing a range of services including those for children and older people. Andrea became the Chief Inspector of Adult Social Care for the Care Quality Commission (CQC) in October 2013.

Dr Ruth Thompson

Ruth was appointed in January 2013. At 31 March 2015 she was a member of the Moat Homes Ltd Board, Vice Chair of London TravelWatch, a Director of Fusion Lifestyle and is a governor at both Staffordshire University and Birkbeck, University of London.

Commissioners' appointment dates

	Appointment start date	Appointment end date
Jeremy Newman, Chairman	01/10/12	31/03/15
Bharat Shah, Deputy Chairman	01/09/07	31/03/15
Councillor Robert Anderson	13/06/12	31/03/15
Janet Baker	01/11/10	31/03/15
Councillor Adrian Collett	28/01/13	31/03/15
Brian Landers	01/11/10	31/03/15
Councillor Robert Light	15/09/11	31/03/15
Nicola Scrivings	28/01/13	31/03/15
Andrea Sutcliffe	28/01/13	31/03/15
Dr Ruth Thompson	28/01/13	31/03/15

4. The Executive

The Audit Commission Executive Team comprised five senior staff, who served throughout the year, led by the Controller of Audit and Accounting Officer, Marcine Waterman, all of whom left the Commission on 31 March 2015.

More details of the Commission's Executive Team are set out in the Remuneration Report on page 23.

The Executive was responsible for delivering the strategy set by the Board.

The Department for Communities and Local Government (DCLG), as sponsoring department, took over responsibility for preparation of the final Annual Report and Accounts and appointed Jacinda Humphry, DCLG Finance Director, as Accounting Officer on 1 April 2015.

5. Conclusion

At the end of March 2015, the Commission functions as required in the new audit framework were successfully transferred to the transferee bodies.

Finally, on behalf of the Department, I would like to thank all the staff of the Commission for their contributions and wish them the very best for the future.

Jacinda Humphry
Accounting Officer
22 June 2015

Remuneration Report

Controller of Audit and other senior appointments

During the 2014/15 year there was no change to the Audit Commission Executive Team.

Controller of Audit and other senior appointments

	Date of joining the Commission	Date appointed to post	Date of leaving post
Marcine Waterman, Controller of Audit	03/04/93	01/09/12	31/03/15
David Aldous, Associate Controller – Audit Technical Support	26/11/01	01/09/12	31/03/15
Jon Hayes, Associate Controller – Audit Compliance	08/02/88	01/10/12	31/03/15
Ian Hickman, Associate Controller – Information and Analysis	05/06/00	01/09/12	31/03/15
Neil Swift, Associate Controller – Corporate Resources	30/06/03	22/07/13	31/03/15

Remuneration policy for the Controller of Audit and senior staff

For the Controller of Audit, remuneration was set by the Commission Board and approved by the Secretary of State. For the remaining members of the Executive Team, remuneration was set by the Controller of Audit, in line with the Commission's normal terms and conditions of employment and job evaluation policy.

All arrangements complied with current government guidance on public sector pay restraint.

Controller of Audit and senior staff remuneration packages (audited)

The main details of the remuneration package for the Controller of Audit and members of the Executive Team were as follows:

- **Controller of Audit's appointment process and remuneration:** the

Controller of Audit was appointed following a competitive internal selection exercise. The remuneration package was agreed by the Secretary of State for Communities and Local Government.

- **Executive Team's appointment process:** the Executive Team structure was agreed by the Board. Appointments were made by the Controller of Audit, in line with the Commission's normal terms and conditions of service.
- **Other benefits:** some of the Executive Team were eligible for an allowance following the closure of the Commission's leased car scheme. A travel card for travel within London was available for some staff based at Marsham Street.
- **Pension arrangements:** the Controller of Audit and other senior staff were eligible to be members of the Audit Commission Pension Scheme (ACPS). This was a stand-alone defined benefit scheme, with the same level of benefits for all members. Contribution rates varied according to salary. As the Controller of Audit and other senior staff joined the Commission before August 2008, the scheme's normal retirement age (the earliest age a member could draw their pension without reduction for early payment) was 60. The normal retirement age for pension built up after 30 June 2010 is 65.
- **Other terms of employment:** the Controller of Audit and senior staff all had permanent employment contracts. The Commission did not have a performance-related bonus scheme. The Controller of Audit and these senior staff were required to give three months' notice if they resigned. All other terms and conditions were the same as for other staff.

Remuneration details for the Controller of Audit and senior staff (audited)

	Between 1 April 2014 and 31 March 2015						2013/14		
	Basic salary £000	Smart Pension salary sacrifice (SPSS) £000	Other taxable benefits £000	Basic salary and other benefits less SPSS £000	Commission pension contributions £000	Total remuneration before SPSS ^[1] £000	Basic Salary £000	Basic salary and other benefits less SPSS £000	Total remuneration before SPSS ^[1] £000
Controller of Audit									
Marcine Waterman ^[2]	137	(14)	246	369	32	415	135	126	162
Executive Team									
David Aldous	105	(8)	0	97	19	124	104	96	124
Jon Hayes	104	(8)	12	108	19	135	103	106	135
Ian Hickman ^[3]	122	(10)	140	252	23	285	121	111	143
Neil Swift ^[4]	107	(11)	134	230	25	266	102	103	139
Total	575	(51)	532	1,056	118	1,225	565	542	703

[1] The single total figure for remuneration was arrived at by adding the 'Basic salary' and

'Other taxable benefits' from this table to the 'Commission pension contributions' column from the Pension contributions for the Controller of Audit and other senior staff table on Page 26. This excludes the impact of the SMART pension salary sacrifice scheme.

[2] The Controller of Audit's other taxable benefits included a travel card payment of £2,288, a redundancy payment of £204,470 in line with her contract of employment and a payment in lieu of contractual notice of £39,741^[5]. During the year the Controller of Audit spent 42 days seconded to the Single Source Regulations Office (SSRO). No additional remuneration was paid and she remained on the Audit Commission payroll with all costs recovered from SSRO (£28,876).

[3] Ian Hickman's other taxable benefits included a redundancy payment of £139,568 in line with his contract of employment. During the period Ian spent 15 days seconded to DCLG, and 76 days seconded to the Northern Education Trust (NET). No additional remuneration was paid and he remained on the Audit Commission payroll with all costs recovered from DCLG (£9,100) and NET (£46,182).

[4] Neil Swift's other taxable benefits included a travel card payment of £2,288, a redundancy payment of £97,056 in line with his contract of employment and payment in lieu of contractual notice of £34,204^[5].

[5] The government brought forward the date of closure of the Commission to 1 April 2015 from a previously agreed date of 30 June 2015 after notices of redundancy had been issued. As a result pay and other contractual amounts in lieu of notice were due to affected staff. Accounting Officer approval was sought and received from DCLG for these payments, which are disclosed in the Losses and special payments note 18.

Hutton Fair Pay Review Disclosure (audited)

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

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

	2014/15	2013/14
Band of highest paid director's total remuneration (£000)	135-140	135-140
Median total remuneration (£000)	56	58
Ratio	2.5	2.4

There was only a marginal change in the ratio over the last 12 months as the Commission headed towards its closure.

Pension contributions for the Controller of Audit and other senior staff (audited)
Between 1 April 2014 and 31 March 2015

	Smart Pension salary sacrifice £000	Commission pension contributions £000	contributions Total pension £000	Total pension contributions 2013/14 £000
Controller of Audit				
Marcine Waterman	14	32	46	36
Executive Team				
David Aldous	8	19	27	28
Jon Hayes ^[1]	10	19	29	29
Ian Hickman	10	23	33	32
Neil Swift ^[1]	23	25	48	36
Total	65	118	183	161

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

Following approval from both DCLG and the ACPS Trustees, a payment was made to the pension scheme (£0.8 million) representing the augmentation calculated as at 1 April 2015 that would fall due if Jon Hayes was made redundant by Public Sector Audit Appointments Limited (PSAA) on 1 April 2017. The payment would otherwise fall due to PSAA and require funding from future fees or retained earnings transferred from the Commission. The use of the funds to pay for contractual enhanced benefits is conditional on the redundancy event. Otherwise it will be treated as employer pension contributions, limiting future liabilities arising from the Crown Guarantee.

Pension entitlement details for the Controller of Audit and other senior staff (audited)

	Total accrued pension at 31 March 2015	Increase in accrued pension	Total accrued pension at 31 March 2014	Transfer value at 31 March 2015	Change in transfer value	Transfer value at 31 March 2014
	£000	£000	£000	£000	£000	£000
Controller of Audit						
Marcine Waterman	34	3	31	751	181	576
Executive Team						
David Aldous	37	2	35	820	177	643
Jon Hayes	42	2	40	905	209	696
Ian Hickman	58	2	56	1,395	243	1,152
Neil Swift	19	3	16	403	133	270

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

Remuneration policy for Commissioners

DCLG sets the remuneration levels (including any increases) for Commissioners. The Chairman's remuneration was based on a time commitment of six days per month. The Deputy Chairman's remuneration reflected the expectation that he worked two days a month. No Commissioner received an increase in remuneration in 2014/15.

None of the Commissioners serving between 1 April 2014 and 31 March 2015 received other benefits from the Audit Commission, nor were they members of the ACPS.

Remuneration details for the Commissioners (audited)	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Jeremy Newman (Chairman)	30	30
Bharat Shah (Deputy Chairman, Audit Committee Chairman, Chair of Procurement Panel)	7	10
Councillor Robert Anderson	5	8
Janet Baker	5	8
Councillor Adrian Collett	2	3
Brian Landers	5	4
Councillor Robert Light	5	6
Nicola Scrivings	2	3
Andrea Sutcliffe	3	6
Dr Ruth Thompson	2	3

At 31 March 2014 the Commission had unfunded liabilities for the provision of a pension of £102,400 for a former Chairman. Following agreement of the Audit Commission Pension Scheme (ACPS) Trustees, DCLG and the Commission Board, this amount was transferred to the ACPS in April 2014 and the pension benefits will be paid directly by them. This extinguished the Commission's liability.

Jacinda Humphry
Accounting Officer
22 June 2015

Statement of Responsibilities

Statement of Accounting Officer's responsibilities

In accordance with paragraphs 3 and 4 of Schedule 1 to the Local Audit and Accountability Act 2014, the Secretaries of State for Communities and Local Government, and Health directed the Commission as to the form in which it should prepare its statutory Statement of Account. The accounts are prepared on an accruals basis and must show a true and fair view of the Commission's state of affairs at the year end, including its income and expenditure, its financial position, changes in taxpayers' equity, and cash flows for the accounting year.

In preparing the accounts the Accounting Officer will:

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

The Permanent Secretary for DCLG appointed the DCLG Finance Director, Jacinda Humphry, as the Accounting Officer for the Commission. HM Treasury's *Managing Public Money* sets out the responsibilities of the Accounting Officer, which include ensuring regularity and propriety in the use of public money; proper governance structures; effective decision making; and sound financial management.

Governance Statement

Introduction

With the closure of the Audit Commission on 1 April 2015, Marcine Waterman, the Controller of Audit, relinquished her responsibilities as Accounting Officer. I was appointed as Accounting Officer for the Audit Commission in succession to Marcine and, in line with Managing Public Money, where there is a change of Accounting Officer in the course of the year, the Accounting Officer in place at the year end takes responsibility for the whole year's accounts, using assurances as necessary from the former Accounting Officer. As Accounting Officer, with the assurances I have received from the former Accounting Officer, I must be able to assure Parliament and the public of high standards of probity in the management of public funds, including the Audit Commission Governance Statement.

DCLG created its own Audit Commission Closure Board to work alongside the Commission's transition programme management and internal team to ensure a well-managed closure of the Commission. Closedown was a shared endeavour between the Department and the Commission; the Closure Board's role was to oversee the efficient and effective delivery of a programme of closedown activity and to provide assurance to the Department's Principal Accounting Officer and the Audit Commission Board in relation to that programme. The DCLG Closure Board consisted of senior members of the Commission, DCLG's finance and legal teams, as well as attendance by the National Audit Office for the final three meetings as observers. The Board met monthly until the scale of the tasks and progression into 'business as usual' was guaranteed.

Governance in the period after 31 March 2015

Initial agreed plans to close the Commission in June 2015 were brought forward. A revised plan to achieve complete closure of the Commission by 1 April 2015 was agreed by ministers in November 2014. As a result of this change DCLG, as residuary body for the Audit Commission, completed a number of closedown tasks and undertook post transfer issue resolution with transferee bodies. DCLG appointed a senior member of staff to be the closure programme manager, effect a smooth hand over from Commission Finance staff ahead of 31 March 2015, and create a clear resourced and timetabled plan and a comprehensive risk register. The closure programme and the production of the final accounts were subject to DCLG controls.

The Commission's Interim Annual Report and Accounts 2014/15, prior to its dissolution, were signed off by the Commission's Audit Committee and Board in March 2015, having been subject to preliminary audit processes. DCLG then updated the accounts with amounts and disclosures to the final position. The Commission's Annual Report and

Accounts 2014/2015 were signed off by the DCLG Audit and Risk Assurance Committee in June 2015.

Governance in the period 1 April 2014 to 31 March 2015

Throughout the year, the Commission worked with DCLG and the successor bodies to whom its functions transferred, to ensure a smooth transition with no disruption to the on-going delivery of its statutory functions. The Commission worked with successor bodies to establish rigorous transition programme management arrangements. In each case a transition programme board chaired by a senior executive from the transferee body was set up to oversee the operational transfer of work to help support a smooth handover to successor bodies.

The former Accounting Officer, Marcine Waterman, has confirmed that the Commission operated with appropriate governance and internal control and risk management during the period 1 April 2014 to 31 March 2015.

1. Scope of responsibility

The former Accounting Officer upheld sound internal controls that supported the Commission's policies and objectives for the period from 1 April 2014 to 31 March 2015. The internal controls safeguarded public funds and assets as required under Managing Public Money. Upon closure, her Accounting Officer responsibilities ended and were handed over to the DCLG Accounting Officer, Melanie Dawes. On 7 May 2015, Melanie Dawes delegated Accounting Officer responsibility to Jacinda Humphrey, Finance Director at DCLG.

2. Background to events in 2014/15

During 2014/15, the Commission:

- remained an efficient and fit-for-purpose body delivering on its core and statutory functions; and
- continued preparations for the orderly closure of the Commission on 1 April 2015.

Through this period of significant change and uncertainty the Commission also successfully delivered its work programme during the year. This was achieved without reducing its internal controls. The Commission continued to uphold strong governance, robust internal controls and risk management to manage its services effectively and close down the Commission in an orderly and efficient way.

The Local Audit and Accountability Act 2014 enabled the Government, by commencing specific sections, to close the Audit Commission on 1 April 2015, which was taken into account in determining the basis of preparation of its 2014/15 accounts.

The Strategic Report and Accounting Officer's Report sections of this report describe events in 2014/15 in more detail.

3. Governance framework

3.1. The purpose of the Governance Statement

This part of the Governance Statement gives a clear understanding of the dynamics of the Commission's business and its control structure. Essentially, it aims to record the stewardship arrangements of the Commission and to supplement the accounts, providing a sense of how the Commission performed against its targets and objectives, and of how successfully it coped with the challenges it faced.

This Statement also explains how the Commission complied with the principles of good governance and reviews the effectiveness of these arrangements.

3.2 Commission's structure and governance framework

The Commission's governance framework and system of internal control was designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve statutory obligations, policies, aims and objectives; it could therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control was an on-going process designed to:

- identify and prioritise the risks to the achievement of the Commission's statutory obligations, policies, aims and objectives;
- evaluate the likelihood of those risks being realised and the impact should they be realised; and
- manage them efficiently, effectively and economically.

The Commission's governance framework and system of internal control was fully in place for the year ended 31 March 2015 and up to the date of the closure of the Commission on 1 April 2015 when a handover was completed to the nominated DCLG Accounting Officer. It accords with Treasury and Cabinet Office guidance. At no time did any part of the system of control fail or need to be suspended.

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

As a public corporation it operated under a framework agreement with its sponsoring Departments. It consulted Ministers and others when planning its work.

The Commission was managed and overseen by its Board. The Associate Controller Corporate Resources, who led the Commission's governance activity, attended each Board meeting, and periodically produced a comprehensive Corporate Governance Framework clearly setting out which matters were delegated and which were reserved to the Board. The Board approved the latest Corporate Governance Framework at its meeting on 25 March 2014. This reflected the Commission's outsourced audit delivery model and the efficient and fit-for-purpose structure, and referred to the passage of the legislation to close the Commission in April 2015.

The Audit Commission Board comprised ten Commissioners, who were appointees of the Secretary of State for DCLG, in consultation with the Secretary of State for Health. The 'Commissioners' Section in this report gives Commissioners' details and their terms of office.

3.3 The Commission Board

The Commission's Corporate Governance Framework stated that the Board was responsible for setting the Commission's values, standards, strategy, objectives, and for setting its budget. The Board oversaw the Commission's performance and was responsible for ensuring that it acted within its statutory remits.

The Corporate Governance Framework set out which roles and powers were reserved to the Board and which were delegated to the Controller of Audit. The Corporate Governance Framework also set out the Commission's statutory framework and included the Commissioners' Code of Conduct, the Commission's financial policies and a statement of the Accounting Officer's responsibilities. During the year GIAA reviewed the Commission's governance arrangements and concluded there was substantial assurance that they were effective.

The Audit Commission's Corporate Governance Framework was published on its website.

During 2014/15 the Board:

- responded to DCLG on the implementation of the Local Audit and Accountability Act 2014;
- approved the appointment of local auditors for the 2014/15 audit year;
- monitored the quality of the work carried out by its contracted audit firms;
- consulted upon, and published, Work Programme and Scales of Fees for 2015/16;
- received assurances from the Audit Committee on the Commission's internal controls and risk management;
- agreed the Commission's budget and financial plans;
- oversaw the Commission's performance against its objectives, and financial performance; and,
- agreed the Commission's work plan and key messages.

The Audit Commission's Board's agendas and minutes were published on its website.

The Commissioners attended the following meetings:

Commissioners	Board	Audit committee
Jeremy Newman	4/4	N/A
Bharat Shah	4/4	4/4
Cllr Robert Anderson	4/4	4/4
Janet Baker	2/4	4/4
Cllr Adrian Collett	3/4	N/A
Brian Landers	4/4	4/4
Cllr Robert Light	3/4	3/4
Nicola Scrivings	4/4	N/A
Andrea Sutcliffe	4/4	N/A
Dr Ruth Thompson	4/4	N/A

The Chairman ensured that all Commissioners were involved fully in the work of the Board and assessed the performance of individual Commissioners. He also ensured that all Commissioners were fully briefed on the terms of their appointment and on their rights, duties and responsibilities. Recognising that it is best practice to review the Board's effectiveness, the Chairman considered the necessity for a review each calendar year.

The Commission Board complied in all major respects with the HM Treasury corporate governance code. The only significant exception was that the Commission Board fulfilled those aspects of the role of a Nominations and Governance Committee that were relevant to the Commission.

3.4 The Audit Committee

On behalf of the Board, the Audit Committee (the Committee) scrutinised the Commission's internal controls, key risks and risk management, and spending. In 2014/15, the Committee paid particular attention to the risks and controls over the transition programme boards and the closure of the Commission. The Committee signed off the Commission's financial, accounting, risk management, whistle-blowing and counter fraud policies.

The Committee ensured that the Commission had effective internal audit and assurance arrangements. It appointed the internal auditors, approved their work plans and received all internal audit reports, including management responses.

The Audit Committee considered the progress of the National Audit Office's external audit of the Commission, including the National Audit Office's interim progress report. The Committee followed up all internal and external audit recommendations to ensure management had carried out agreed actions. The Commission's Interim Annual Report and Accounts 2014/15 prior to its dissolution were signed off by the Commission's Audit

Committee and Board in March 2015, having been subject to preliminary audit processes. DCLG then updated the accounts with amounts and disclosures to reflect the final position. The Commission's Annual Report and Accounts for the year to 31 March 2015 were signed off by the DCLG Audit and Risk Assurance Committee in June 2015.

During 2014/15, the Audit Committee met four times. Membership of the Audit Committee during the year was:

Audit committee member	Year of office
Bharat Shah (Chair)	Full year
Cllr Robert Anderson	Full year
Janet Baker	Full year
Brian Landers	Full year
Cllr Robert Light	Full year

The former Accounting Officer attended all meetings of the Audit Committee.

The Board received the minutes of all Committee meetings. The Committee also presented an annual report to the Board, setting out its views on the Commission's governance and confirming whether there were strong controls in place.

Every year, the Committee carried out a review of its effectiveness. The most recent review took place in August 2014, when the GIAA assessed the Committee against the National Audit Office's best practice guidelines for audit committees. GIAA reported to the Audit Committee on 4 September 2014 that the Audit Committee complied in all material respects with the guidelines.

3.5 Scheme of Delegation and the Executive Team

The Commission had an Executive Scheme of Delegation, which set out delegations by the Controller of Audit, as required by the Corporate Governance Framework. This Scheme, which the Commission reviewed at least yearly, also set out the role of the Executive Team.

The Executive Scheme of Delegation was backed by a set of financial, IT and human resources policies. The Audit Committee and Board approved the financial policies yearly. The former Accounting Officer approved the more detailed financial procedures that supported the financial policies. The Commission issued new and updated governance policies to all staff, who had to confirm they had read and understood them. The Commission recorded and tracked these acknowledgements.

4. Risks and internal controls

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

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

- an organisational structure that supported clear lines of communication, monitoring, reporting and accountability;
- plans, objectives and priorities which took account of risk and were approved by the Board;
- that the Board decided the level of risk the Commission was prepared to accept;
- that the Executive Team oversaw risk management within the Commission; and
- a clear and proportionate process for monitoring performance and escalating risks, allowing risks to be brought to the attention of the Executive Team and the Audit Committee.

4.1 Risks and risk management

Capacity to handle risk

The Commission reviewed its risk management policy every year to ensure it reflected best practice and clarified the Commission's appetite for risk. The risk management policy was approved by the Executive Team and Audit Committee on behalf of the Commission Board.

The Commission actively identified, assessed and managed key risks using the Commission's corporate risk register. In order to mitigate its risks, the Commission had a clearly defined risk management structure. The Commission had a low appetite for risk, except for stakeholder risk where appetite was medium.

The Executive Team and Audit Committee reviewed significant corporate risks for completeness. The Audit Committee kept the substance of, and compliance with, risk management under review. The Committee could commission independent examinations of the Commission's risk management if necessary.

The Commission embedded risk management in the day-to-day management of its business. Members of the Executive Team considered and reported on their own risks as part of the corporate performance reporting procedures. In 2014/15, the Commission managed the following risks:

- The Commission finds it difficult to maintain its credibility and effective relationships with stakeholders.
- The Commission fails to comply with information legislation.
- An auditor's decision is subject to a successful legal challenge.
- The Commission's work on NFI is subject to a successful legal challenge.
- The Commission is unable to engage and retain its staff.

- Audit failure within the regime.
- One of the Commission's audit suppliers suffers financial failure.
- An employee issues legal proceedings against the Commission.
- Data loss, security breach or failure of IT supplier relating to the NFI.
- The Commission's financial governance arrangements are inadequate.
- Oversight of the closedown is not sufficient, resulting in issues arising which affected the effectiveness of the closedown.

4.2 Financial management

The Commission had effective controls in place to forecast, manage and report on its income and spending.

The Commission Board considered the Commission's performance and progress against its medium-term financial plan. The Executive Team and Board used one unified report to review financial and non-financial performance against the Commission's objectives.

During the final year before closure, particular attention was paid to the lessons learned from other closing bodies and the Commission ensured compliance with the related requirements of Managing Public Money in recognition of these potential risks. As a result, approval was sought from DCLG for potentially novel or contentious expenditure. This included approval being provided from the DCLG Accounting Officer for the proposal to retain staff beyond operational closure (1 April 2015) for a short period to 30 June 2015 to produce the final annual report and accounts and complete closedown and transfer activities. Following the Ministerial decision to bring forward the closure of the Commission in its entirety to 1 April 2015, approval was sought and subsequently received from the DCLG Accounting Officer to meet the consequential contractual obligations (including payment of Pay In Lieu Of Notice – PILON) for the reduced notice period for affected staff.

The Commission approved all spending before it was incurred and published details of individual spending over £250 on its website.

5. How the Commission evaluated internal controls

5.1 The Audit Committee

The role of the Audit Committee was set out above.

5.2 Internal audit

Internal audit was provided by GIAA. The GIAA Chief Audit Executive reported his independent opinion on the adequacy and effectiveness of the Commission's system of internal control and made recommendations for improvement. The Commission also encouraged and supported liaison between internal and external audit to achieve a more effective audit, based on a clear understanding of respective roles and requirements.

The GIAA Chief Audit Executive attended all Audit Committee meetings and had direct access to the Controller of Audit and to the Chair of the Audit Committee. The GIAA Chief Audit Executive had a private session with the Audit Committee members at least every year. The most recent private session took place on 9 June 2014.

5.3 External audit

The external auditor, the Comptroller and Auditor General, was appointed by statute. The NAO commented in its annual management letter on governance, controls and other issues arising from the external audit of the Commission's financial statements.

A representative of the external auditor was invited to, and attended all Audit Committee meetings and had direct access to the Controller of Audit, the GIAA Chief Audit Executive and to the Chair of the Audit Committee. The external auditor had a private session with the Audit Committee at least once a year. The last private session took place on 9 June 2014.

5.4 Quality review of audit work

The Commission had a well-developed, rigorous approach to reviewing the quality of the work of appointed auditors. The Commission's quality review process this year relied on the published results of the annual quality review of the firms' work by the Audit Quality Review Team (AQRT) – part of the Financial Reporting Council - and on the AQRT's inspection of the firms' work for the Commission.

The AQRT's work for the Commission covered the opinion on the financial statements and the VFM conclusion. The AQRT also assessed the extent to which the firm-wide quality processes had been applied to the Commission's audits. Separately the Commission carried out a programme of review and monitoring of audit suppliers' compliance with the Commission's regulatory requirements.

The Associate Controller (Audit Compliance) oversaw the Commission's audit compliance and quality regime and the Commission Board received all reports of the Associate Controller's findings. The results of both the quarterly and annual audit compliance and quality review programmes were published on the Commission's website.

5.5 Quality assurance over business critical models

The former Accounting Officer was required to include confirmation that an appropriate quality assurance framework was in place and was used for all business critical models during the period 1 April 2014 to 31 March 2015. Given the closure of the Audit Commission in April 2015, there were no medium or long term analytical models in use by the Commission.

5.6 Information assurance

The Commission aimed to avoid collecting and holding large volumes of personal data, unless it was required for a specific purpose, and put in place suitable measures to ensure the information risks were managed. These measures included the secure encryption of all laptops to the FIPS 140-2 standard and controls to prevent unauthorised access to the Commission's network systems. All staff were required to undertake annual information assurance training.

During 2014/15, the Commission had an Information Assurance Framework in place to control and protect information held by the Commission. Under the Framework, Information Asset Owners (IAOs) took responsibility for all data held by the Commission, ensuring their data was held, transferred and disposed of securely. The IAOs also ensured the Commission complied with the requirements of the Government Protected Information Scheme.

The Commission had controls and systems in place during 2014/15, which ensured compliance with the Data Protection Act and Freedom of Information Act requirements, and ensured that information held by the Commission was held securely and accurately processed. The Commission had plans in place to dispose of, transfer or archive its remaining data before the end of March 2015.

During the year GIAA reviewed the Commission's information assurance arrangements and concluded there was substantial assurance over these.

The Commission had to report protected personal data-related incidents to the Information Commissioner's Office. The Commission had no protected personal data security breaches during the year to 31 March 2015 that needed to be reported to the Information Commissioner or to its sponsoring department, DCLG. During the year, there were no lost or stolen items reported.

The Commission's NFI system collected large volumes of personal data, but had comprehensive security and risk management procedures in place. The NFI was accredited through the Risk Management Accreditation Document Set, a process backed by the National Technical Authority for Information Assurance. The accreditation provided assurance that the NFI system complied with HM Government Information Assurance Standard No.1 and Standard No.2. In addition, the NFI arrangements were subject to a series of independent audits undertaken by the participating audit regimes (for Scotland, Wales and Northern Ireland).

The Commission applied the statutory Code of Data Matching Practice to ensure that its data matching exercises complied with the Data Protection Act 1998. The Commission had a Data Matching Strategy Board in place, chaired by the Controller of Audit and it included independent members to ensure proper governance of data matching.

6. Review of effectiveness

The former Accounting Officer had responsibility for reviewing the effectiveness of the Commission's internal controls during the period 1 April 2014 to 31 March 2015. Her review of the control framework was informed by the work of the internal auditors and the senior managers of the Commission, who had 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.

7. Significant control issues

As part of the review of effectiveness, the former Accounting Officer was required to disclose any actions taken or proposed to deal with significant control issues during the period 1 April 2014 to 31 March 2015. Taking into account the tests in Managing Public Money, and the findings of internal and external audit she confirmed that the Commission had no significant control issues during 2014/15 and had no significant weaknesses to address. The Commission upheld internal controls during the year through risk management and other sources of assurance, including internal audit. The former Accounting Officer therefore believe there were satisfactory controls in place to identify and manage the significant risks faced by the Commission.

Following the closure of the Audit Commission, the Department received some correspondence asking about certain ICT and information assets. In response, the Department has been investigating the processes and circumstances surrounding their disposal and destruction. Investigations to date have found that there is no indication that the Audit Commission did not wholly comply with the requirements and regulations related to the disposal and destruction of assets, that the assets in question did not have any residual value at the date of disposal/destruction and, as a result, that there is no material impact on the Audit Commission's final accounts. The Department is continuing to investigate and will report conclusions to the Department's Audit and Risk Assurance Committee in due course.

8. Handover of risks and Accounting Officer responsibilities

The Audit Commission operated a robust risk management process for all risks identified in accordance with its risk management policy. Mitigating action was taken during the period and risks reviewed at each Executive Team meeting and reported to the Audit Committee.

Where possible, the Commission closed risks on the corporate risk register before its closure on 1 April 2015. Any remaining risks were transferred formally to the relevant receiving body or government Department, advising recipients:

- whether the risk relates to actions before or after 1 April 2015 (or both);
- whether any claims have been raised to date;
- whether other parties are involved in managing the risk; and
- what actions have been taken to manage the risk and what mitigation is in place.

This included the transfer of relevant risks to the DCLG Accounting Officer, who delegated them to the DGLG Director of Finance, as part of the handover of Accounting Officer responsibilities.

The former Accounting Officer wrote to the DCLG Accounting Officer, Melanie Dawes, to provide the necessary assurances and included a copy of her signed Governance Statement for the period 1 April 2014 to 31 March 2015 and details of transferred risks. The members of the Commission's Management Team have given their signed assurances that internal controls were effective within their areas of responsibility throughout the period 1 April 2014 to 31 March 2015.

Based on these assurances, on the operation of the control environment outlined above, supported by the opinion of the Commission's Audit Committee and DCLG's Audit and Risk Assurance Committee and the Head of Internal Audit Services, I am content that the Commission has operated with appropriate governance and an effective system of internal control and risk management during the period 1 April 2014 to 31 March 2015.

Jacinda Humphry
Accounting Officer
22 June 2015

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the Audit Commission for Local Authorities and the National Health Service in England (the Audit Commission) for the year ended 31 March 2015 under the Local Audit and Accountability Act 2014. The financial statements comprise: the Statement of Income, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in 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, certify and report on the financial statements in accordance with the Local Audit and Accountability Act 2014. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the

financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Audit Commission's affairs as at 31 March 2015 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Audit and Accountability Act 2014 and Secretary of State directions issued thereunder.

Emphasis of matter – financial statements prepared on a basis other than going concern

Without qualifying my opinion, I draw your attention to the disclosures made in Note 1.3 concerning management's decision to apply a basis other than going concern in the preparation of the financial statements. This decision was made as the Audit Commission was abolished on 1 April 2015.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Local Audit and Accountability Act 2014 and Secretary of State directions made thereunder; and
- the information given in the Strategic Report and the Accounting Officer's 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 and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

Date: 24 June 2015

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Annual Accounts

Statement of Income

for the year to 31 March 2015

		Year to 31 March 2015	Year to 31 March 2014
	Note	£000	£000
Operating income			
Audit fee income	2.1	80,426	82,198
Other operating income	2.2	501	420
Total operating income		80,927	82,618
Operating costs			
Staff and Commissioner costs	3.1	5,508	8,011
Bought-in services	3.2	77,916	81,463
Other operating costs	3.3	3,194	1,501
Total operating costs		86,618	90,975
Deficit before tax		(5,691)	(8,357)
Corporation tax credit	8.3	(20)	(250)
Deficit after tax		(5,671)	(8,107)
Financing Income			
Net Investment return		220	416
Net return on pension scheme assets	5.12	(7,110)	(5,177)
Surplus (Deficit) for the financial period		(12,561)	(12,868)

The Commission's operations ceased on 1 April 2015 at which point all activities transferred to other organisations.

The Notes to the Financial Statements on Pages 51 to 91 form part of these accounts.

Statement of Comprehensive Income

for the year to 31 March 2015

		Year to 31 March 2015	Year to 31 March 2014
	Note	£000	£000
Surplus /(Deficit) for the financial year (from the Statement of Income)		(12,561)	(12,868)
Other income			
Actuarial gain/(loss) relating to the pension scheme	5.13	11,716	(40,735)
Total other income/(expenditure) for the period		11,716	(40,735)
Total comprehensive surplus/(deficit) for the period		(845)	(53,603)

Items within the Statement of Comprehensive Income will not be reclassified subsequently to the Statement of Income

The Notes to the Financial Statements on Pages 51 to 91 form part of these accounts.

Statement of Financial Position

as at 31 March 2015

		As at 31 March 2015	As at 31 March 2014
	Note	£000	£000
Non-current assets			
Intangible assets	6.1	0	0
Plant and equipment	6.2	0	31
Long-term financial assets	6.3	0	1,662
Total non-current assets		0	1,693
Current assets			
Trade receivables	7.1	1,585	6,349
Accrued trade income	7.2	358	431
Other receivables	7.3	8,060	1,963
Corporation tax	8.3	166	146
Short-term financial assets	7.4	0	0
Cash and cash equivalents	7.4	0	13,570
Total current assets		10,169	22,459
Total assets		10,169	24,152
Current liabilities			
Trade and other payables	8.1	1,167	1,842
Deferred income	8.2	3,288	4,904
Current provisions	9	103	5,469
Total current liabilities		4,558	12,215
Total assets less current liabilities		5,611	11,937
Non-current liabilities			
Non-current provisions	9	0	589
Net pension liability	5.8	157,414	162,306
Total non-current liabilities		157,414	162,895
Assets less liabilities		(151,803)	(150,958)
Financed by:			
Local government	10.1	4,828	8,849
Health	10.2	783	2,499
Retained earnings		5,611	11,348
Pension reserve	10.3	(157,414)	(162,306)
Total taxpayers' equity		(151,803)	(150,958)

The Notes to the Financial Statements on Pages 51 to 91 form part of these accounts.

Jacinda Humphry
Accounting Officer
22 June 2015

Statement of Cash Flows

for the period to 31 March 2015

		Year to 31 March 2015	Year to 31 March 2014
	Note	£000	£000
Operating deficit		(5,671)	(8,107)
Adjustments for:			
Pensions IAS 19 movement	3.1	(286)	893
Depreciation	3.3	31	162
Loss on disposal of plant and equipment (including impairments)	6.2	0	81
Decrease in receivables and accrued trade income	11	402	6,687
Decrease in payables and provisions	12	(8,246)	(9,596)
Corporation tax credit	8.3	(20)	(250)
Cash from operating activities		(13,790)	(10,130)
Corporation tax paid		0	(77)
Net cash from operating activities		(13,790)	(10,207)
Cash flows from investing activities			
Payments to acquire short-term financial assets	7.4	0	0
Repayments on maturity of short-term financial assets		0	15,000
Interest received	4	220	416
Net cash from investing activities		220	15,416
Net (decrease)/ increase in cash and cash equivalents		(13,570)	5,209
Cash and cash equivalents at the beginning of the year		13,570	8,361
Cash and cash equivalents at the period end	7.4	0	13,570

The Notes to the Financial Statements on Pages 51 to 91 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year to 31 March 2015

	Pension reserve	Retained earnings	Total
	£000	£000	£000
Balance at 31 March 2013	(115,501)	18,146	(97,355)
Total comprehensive deficit	(46,805)	(6,798)	(53,603)
Balance at 31 March 2014	(162,306)	11,348	(150,958)
Total comprehensive Income/(Deficit)	4,892	(5,737)	(845)
Balance at 31 March 2015	(157,414)	5,611	(151,803)

Notes to the Financial Statements

The notes that follow form part of the financial statements.

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

Notes 2-13 provide supporting information to the primary financial statements.

Notes 14-19 provide information on the operating results for the last four years; commitments under leases; contingent liabilities; related party transactions; losses and special payments; and events occurring after the end of the reporting year.

Note 1: Accounting conventions and policies

General accounting conventions and policies

1.1 Basis of accounts preparation

These accounts have been prepared in accordance with requirements of the Companies Acts 2006, without limiting the information given, and the relevant International Financial Reporting Standards (IFRS). Also included are additional disclosures in line with the Commission's Accounts Direction (Appendix A).

1.2 Accounting convention

The Commission prepared these accounts using the historical cost convention, adjusted to account for the:

- revaluation of non-current assets to their value to the business by reference to their current costs, in a form directed by the Secretaries of State with the approval of HM Treasury, under paragraphs 3 and 4 of Schedule 1 to the Local Audit and Accountability Act 2014 ;
- valuation of the pension scheme assets at fair value and liabilities at present value in line with IAS19; and
- valuation of financial instruments at fair value (note 1.15).

1.3 Going concern

The government announced its intention to disband the Commission in August 2010. Parliament endorsed this through the Local Audit and Accountability Act, which gained Royal Assent in January 2014 and sets out measures to close the Commission. The Commission closed on 1 April 2015. As with 2013/14, these accounts have been prepared on a basis other than going concern. The Commission's Audit Committee and subsequently the Commission's Board approved this in March 2014. All of the Commission's non-current assets and most of the non-current liabilities, with the

exception of the pension liability, were disposed of prior to the year end. The remaining Commission current assets and liabilities were transferred at net book value to the transferee bodies and therefore it was not considered necessary to make any adjustments to asset valuations in respect of the alternative break-up basis of accounts preparation in the current period.

1.4 Transfer of property, rights and liabilities to Transferee Bodies

As a result of the Local Audit and Accountability Act 2014, any remaining current assets and current liabilities were transferred to the transferee bodies on 1st April 2015. All assets and liabilities have been transferred at book value for nil consideration. Rights and liabilities in relation to the pension scheme transferred to the Department for Communities and Local Government at 1 April 2015. Transfer details are in Note 19.

1.5 Recent changes to accounting standards affecting the preparation of accounts

The Commission considered, under IAS 8, whether there were any changes to accounting policies arising from IFRS that have an impact on the current or prior year, or may have an effect on future years. The Commission reviewed any new or amended standards issued by the International Accounting Standards Board but not yet effective, to decide whether there should be any disclosures in respect of those new IFRS that are, or will be, applicable. There were no changes affecting the 2014/15 financial statements and no future impact due to closure.

1.6 Prior-period adjustments

There are no prior period adjustments in the 2014/15 accounts.

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

1.7 Segmental reporting

The Commission attributed income and expenditure directly, where possible, to either local government or health activities. Where this was not possible, for example other operating income (note 2.3), the Commission mainly attributed income and expenditure to each activity based on time worked.

1.8 Value added tax

The Commission recognised gross fee income and other operating income based on the value of chargeable work, exclusive of VAT.

1.9 Income recognition

The Commission credited operating income, whether generated by fees from authorities or otherwise, to the year of account in which the work was done, or the costs are incurred.

1.10 Rebates

The Commission treated rebates stemming from a decision of the Board and

communicated to audited bodies as a constructive obligation to make payments. The Commission recognised rebates in its accounts as a reduction of income.

Accounting conventions and policies relating to the Statement of Financial Position

1.11 Intangible assets

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

1.12 Plant and equipment

The Commission capitalised individual computer equipment purchases for over £5,000, other equipment purchases for over £1,000, and all office refurbishments.

1.13 Amortisation and depreciation

The Commission provided for depreciation on all intangible and plant and equipment assets. The Commission calculated depreciation charges to write off the cost less the estimated residual value of each asset in equal annual instalments over its expected useful life. The Commission had previously set the expected useful life of each category of asset as:

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

1.14 Accrued income

The Commission valued accrued trade income at estimated realisable value.

1.15 Financial Instruments

The fair value of the Commission's financial instruments approximated to their book values, at 31 March 2014 and 31 March 2015. The Commission used the following criteria to assess the fair value of financial instruments:

- long-term receivables – discounted cash flows at the investment interest rates;
- trade and other receivables and deferred income – discounted cash flows at prevailing interest rates or at their nominal amount less impairment losses if due in less than 12 months;
- trade and other payables – their nominal amount; and
- short-term financial assets, cash and cash equivalents – approximate to their book values because of their short maturity period. The Commission defined cash equivalents as investments of up to one month's duration.

With the exception of the Landsbanki deposit, the Commission's policy was that no trading in financial instruments would be undertaken and that all deposits were made in Pounds Sterling. The Landsbanki deposit was held in Icelandic Krona and revalued at each Statement of Financial Position date and prior to its sale (note 13).

1.16 Doubtful and irrecoverable debt

The Commission actively pursued all debt, and provided only where recovery was in doubt (note 7.1). The Commission netted any debt written off that was subsequently collected against the additional provision made in the year.

1.17 Operating leases

The Commission charged operating lease rentals on a straight-line basis over the lease term.

1.18 Dilapidation provisions

The Commission provided for dilapidation costs for its property leases. The Commission discounted the provision for future dilapidations for leased property to current value. There were no discounted provisions in the 2014/15 financial year (the real rates used for 2013/14 were -1.9 per cent for cash flows expected between 0 and 5 years. There were no expected cash flows after 31 March 2015.

1.19 Accounting estimates

Judgements and estimates were required in applying the Commission's accounting policies that may have had a significant effect on the amounts included in its financial statements. The main areas were:

- Provisions (note 9)
 - the Commission estimated provisions for redundancies in line with its standard terms and conditions of employment.
 - the Commission's estimates for onerous lease provisions were based on expected settlements to be paid to third parties on transfer or assignment of these leases. The Commission's estimates for dilapidation provisions were based on expected payments to be made as part of the settlement on transfer or assignment of the relevant leases noted above. These settlements took place early in the 2014/15 financial year.
- Provision for irrecoverable and doubtful debt (note 7.1)
 - subject to review of each debt, the Commission provided for debts between six and 12 months old at 50 per cent and debts older than 12 months at 100 per cent.
- Accrued trade income (note 7.2) and deferred income (note 8.2)
 - the Commission valued accrued and deferred income at estimated realisable value. To establish the stage of completion, the Commission assessed service performed against total service to be performed. This proportion of services completed to date was applied to the total audit fee to calculate the estimated realisable value. Using this method, the Commission calculated the accrued and deferred income it should recognise at the Statement of Financial Position date. Where the value of services completed was greater than the amount invoiced the Commission disclosed accrued income. Where the value of services completed was less than the amount invoiced the Commission disclosed deferred income.
- Non-current assets (note 6)
 - the Commission reviewed non-current assets each year for impairment, in line with accounting standards.

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

1.20 Pension scheme costs

The Commission provided a defined benefit pension scheme for its employees. The Commission showed the costs of the ACPS in its accounts, in line with IAS19 (Employee Benefits).

1.21 Recognition of actuarial gains and losses

The Commission recognised actuarial gains and losses in the Statement of Comprehensive Income annually as they arose.

Note 2: Operating income

2.1 Audit fee income

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

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Local government		
Audit fee income	61,349	63,364
Less rebates to local government bodies	(5,035)	(6,897)
Audit fee income	56,314	56,467
Health		
Audit fee income	26,026	27,400
Less rebates to health bodies	(1,914)	(1,669)
Audit fee income	24,112	25,731
Total audit fee income	80,426	82,198

2.2 Other operating income

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

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Staff seconded out to other organisations	416	239
Rental income received	20	77
Costs charged to the pension scheme	0	34
Sundry income	65	70
Total other operating income	501	420

2.3 Segmental analysis

a. Analysis by sector

Two government departments sponsored the Commission - DCLG and the DH. The Commission was required to keep a separate account of its local government and health activities.

Table 1: Summary of the total income for the year included in the Statement of Income		Year to 31 March 2015	Year to 31 March 2014
	Note	£000	£000
Operating income		80,927	82,618
Net investment return	4	220	416
Total income for the year		81,147	83,034

Table 2: Analysis of total income (shown in Table 1) between local government and health		Year to 31 March 2015	Year to 31 March 2014
		£000	£000
Local government income		56,820	57,048
Health income		24,327	25,986
Total income for the year (as in Table 1)		81,147	83,034

Table 3: Analysis of the total expenditure for the year shown in the Statement of Income		Year to 31 March 2015	Year to 31 March 2014
	Note	£000	£000
Operating costs		86,618	90,975
Corporation tax	8.3	(20)	(250)
Net return on pension scheme assets	5.12	7,110	5,177
Total expenditure for the year		93,708	95,902

Table 4: Analysis of expenditure (shown in Table 3) between local government and health		Year to 31 March 2015 £000	Year to 31 March 2014 £000
Local government expenditure		65,423	66,327
Health expenditure		28,285	29,575
Total expenditure for the year (as in Table 3)		93,708	95,902

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

Table 5		Year to 31 March 2015 £000	Year to 31 March 2014 £000
Income	Audit fees – net of rebates	56,314	56,467
	Other operating and finance income	506	581
Total income (as in Table 2)		56,820	57,048
Expenditure	(as in Table 4)	65,423	66,327
Deficit for the year		(8,603)	(9,279)

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

Table 6		Year to 31 March 2015 £000	Year to 31 March 2014 £000
Income	Audit fee net of rebates	24,112	25,731
	Other operating and finance income	215	255
	Total income (as in Table 2)	24,327	25,986
Expenditure	Total expenditure (as in Table 4)	28,285	29,575
Surplus/(Deficit) for the year		(3,958)	(3,589)

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

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

Local government	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Fees earned by the Commission	(3,891)	(5,718)
Fees earned by private accountancy firms	60,206	62,185
Other operating income and IAS 19 adjustments	505	581
Total income (as in Table 5)	56,820	57,048

Health	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Fees earned by the Commission	(1,597)	(1,619)
Fees earned by private accountancy firms	25,709	27,350
Other operating income and IAS19 adjustments	215	255
Total income (as in Table 6)	24,327	25,986

- c. Analysis of disclosable activity

The Commission had the statutory power to carry out certain other types of work provided it recovered the full cost of doing that work. The relevant section from the Audit Commission Act 1998 was:

- Section 28: certifying claims or returns made by an authority. The Commission received income for this work of £5,760,000 (2013/14: £8,234,000);

The Local Government and Public Involvement in Health Act 2007 (Schedule 2A, paragraph 9) extended powers granted to the Commission under section 35 of the Audit Commission Act 1998. The Commission had the statutory power to carry out advice and assistance work. The Commission received no income for this work during 2014/15 (2013/14: Nil).

Note 3: Operating costs

3.1 Staff and Commissioner costs

This note provides a detailed analysis of the staff and Commissioner costs in the Statement of Income.

Staff and Commissioner costs	Year to 31 March 2015	Year to 31 March 2014
	£000	£000
Staff salaries ^[1]	3,147	5,117
Commissioners' remuneration	66	66
Social Security costs	365	417
Pension costs ^{[1] [2]}	1,862	2,304
Cost of lease cars	0	19
Subscriptions and other benefits	68	88
Total staff and Commissioner costs	5,508	8,011

[1] The staff salaries and pension costs figures include redundancy costs of £1,012,051 (2013/14: £1,713,000), these are net of redundancy provision releases.

[2] The pensions figure has been reduced by £286,000 (2013/14 increase: £893,000) resulting from the application of IAS 19.

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

Staff numbers	Year to 31 March 2015	Year to 31 March 2014
Central directorates	51	66
Secondees	5	4
Average number of staff employed in the year	56	70
In post at the year end	54	60

Summary of compulsory and other redundancies — exit packages

The notes that follow set out the redundancy and other departure costs paid or provided for in line with the Audit Commission's terms and conditions of employment.

Exit package costs 2014/15

Exit package cost bands	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
£10,001 – £25,000	0	0	0
£25,001 – £50,000	1	0	1
£50,001 – £100,000	1	0	1
£100,001 – £150,000	0	0	0
£150,001 – £200,000	1	0	1
£200,001 +	0	0	0
Total number of exit packages	3	0	3
Total cost £000 ^[1]	293	0	293

[1] In addition the Commission incurred losses as a result of making payments in lieu of notice for staff who were made redundant in March 2015 but had been included within the exit packages detailed below for 2013/14. These payments amounted to £245,000 (2013/14: nil) and have been separately disclosed in note 18.

Exit package costs 2013/14

Exit package cost bands	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
£10,001 – £25,000	5	0	5
£25,001 – £50,000	12	0	12
£50,001 – £100,000	1	0	1
£100,001 – £150,000	2	0	2
£150,001 – £200,000	1	0	1
£200,001 +	2	0	2
Total number of exit packages	23	0	23
Total cost £000	1,661	0	1,661

3.2 Bought-in service

This note analyses the bought-in services line in the Statement of Income. These were services procured by the Commission to support the delivery of audit.

Cost of bought-in services	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Payments to private accountancy firms	77,916	81,268
Audit contractors	0	195
Total	77,916	81,463

The note below sets out the average number of contractors (including secondments to the Commission) employed during the year.

Contractors employed	Year to 31 March 2015	Year to 31 March 2014
Contractors – average number in the year	3	3
Contractors – number engaged at the year end	3	4

The contractors employed were all secondments to the Audit Commission and the work that they carried out was not in support of audit services.

3.3 Other operating costs

The note below provides a breakdown of the other operating costs shown in the Statement of Income.

Other operating costs		Year to 31 March 2015	Year to 31 March 2014
		£000	£000
Accommodation	– rent and lease costs	84	(887)
	– other costs	(68)	(672)
Supplies and services		1,643	1,398
Depreciation		31	162
Impairment		0	28
Loss on disposal of non-current assets		0	53
Travel asubsistence	– staff	56	69
	– Commissioners	2	2
Recruitment and relocation		0	8
Training		27	22
Support contractors		593	417
Audit fee ^[1]		73	70
Professional fees		818	801
Publications		4	5
Debts provided for		(69)	25
Total operating costs		3,194	1,501

[1] All audit fees were for statutory audit work.

Note 4: Net investment return

This note provides information on the net return on investments in the period.

Net investment return	Year to 31 March 2015	Year to 31 March 2014
	£000	£000
Interest receivable	17	53
Release of impairment of cash deposits	203	363
Net investment return	220	416

Note 5: Audit Commission Pension Scheme (ACPS)

5.1 Outline of the ACPS

The Commission has a self-administered occupational pension scheme which was open to all permanent employees and employees who are on a fixed-term contract of two years or more. It is a defined benefit scheme partly funded by contributions from members based on seven per cent on average of pensionable salaries, unless they participate in the salary sacrifice scheme (the Smart Pensions Scheme). No contributions are payable by those members who participate in the Smart Pension arrangement, but the Commission pays an additional seven per cent (on average) of those members' pensionable salaries into the scheme on their behalf. There is a reduction in contractual salaries of the corresponding amount for staff participating in Smart Pensions, so there is no additional cost to the Commission.

The scheme is a Registered Pension Scheme under the provisions of Schedule 36 of the Finance Act 2004. The provision of a Crown Guarantee takes the pension scheme out of certain regulatory provisions that would otherwise apply, including the arrangements that are normally relied upon when future rates of employer contribution are set. Alternative arrangements have therefore been written into the pension scheme rules.

5.2 Financial overview of the ACPS

At 31 March 2015, the Scheme's assets were invested primarily in Diversified Growth Funds ("DGF"), the Scheme also invested in a Liability Driven Investment ("LDI") portfolio, which aimed to reflect a proportion of the change in the Scheme's liabilities. In addition, for part of the year, the Scheme had exposure to global equity markets through a portfolio of total return swaps. The Scheme's exposure to global equity markets was removed in September 2014, following strong performance. Overall, The Scheme's assets have increased in value over the year to 31 March 2015, reflecting the positive performance of the Scheme's DGFs, LDI and global equity exposure.

This note shows the net pension liability for the ACPS reducing from £162.3 million to £157.4 million over the year, with the increase in the scheme's assets offsetting the significant increase in the value of the scheme's liabilities. The overall increase in the scheme's liabilities is the combination of a number of factors.

- Members are one year older therefore future benefit payments are discounted less which increases the liability.
- There has been a significant decrease in corporate bond yields which reduces the rate at which future benefit payments are being discounted and therefore increases the scheme's liability.
- Inflation was lower than expected over the year therefore benefits are not increasing as fast as assumed, and this reduces the scheme liability.

On 31 May 2012 the Secretary of State for Communities and Local Government signed a Crown Guarantee for the ACPS. This will prevent any early crystallisation of liabilities and protects the accrued rights of past Commission employees.

IAS19 (Employee Benefits) requires us to discount future benefits for scheme members, the scheme's liabilities, to current day values. The discount rate used is based on the yield available on high-quality corporate bonds. The discount rate decreased by around 1.05 per cent over the year reflecting a reduction generally in long-term interest rates. This means future benefits are now discounted at a lower rate, resulting in a higher value of the scheme's liabilities. There are also some decreases in the scheme's liabilities because of market expectations for price inflation decreasing by around 0.03 per cent, which decreases the expected level of future benefits from the scheme.

5.3 Relationship between the reporting entity and the trustees

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

5.4 Funding obligations in relation to defined benefit schemes

The Commission's contributions amounted to £2.3 million in the 12 month period to 31 March 2015 at a contribution rate of 18.5 per cent of pensionable salaries: 25.5 per cent on average for members participating in the Smart Pensions Scheme. (2013/14: £1.7 million at a contribution rate of 18.5 per cent of pensionable salaries: 25.5 per cent on average for members participating in the Smart Pensions Scheme).

The levels of contributions were based on the latest service costs and the expected future cash flows of the defined benefit scheme. The duration of the scheme's liabilities was estimated at approximately 22 years.

5.5 How the liabilities arising from defined benefit schemes were measured

The Commission provided retirement benefits to former employees through a defined benefit scheme. The level of retirement benefit was principally based on salary earned in the last year of employment.

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

An alternative to the valuation of the projected unit method is a solvency basis, often estimated using the cost of buying out benefits at the Statement of Financial Position date by a suitable insurer. This amount represents the amount that would be required to settle the scheme liabilities at the Statement of Financial Position date rather than continuing to fund on-going liabilities of the scheme. The scheme's actuary estimates the amount required to settle the scheme's liabilities at the Statement of Financial Position date is around £675 million.

5.6 Principal assumptions

- a. The Commission received actuarial advice in setting its principal assumptions for valuing the pension scheme's assets and liabilities for accounting purposes as at 31 March 2015. The Commission also complied with IAS 19 (Employee Benefits) in setting these assumptions, which are set out in the following table.

Principal assumptions	2015	2014	2013	2012	2011
	% pa	%pa	% pa	% pa	% pa
Rate of inflation	3.20	3.50	3.55	3.45	3.65
Rate of salary increase	n/a	1.00 ^[2]	3.55 ^[1]	4.10 ^[1]	4.30 ^[1]
Discount rate for liabilities	3.35	4.40	4.50	5.00	5.55
Rate of increase of pensions in payment	3.20	3.50	3.55	3.45	3.65
Rate of increase of deferred pensions	3.20	3.50	3.55	3.45	3.65

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

[2] Until 31 March 2015, nil thereafter.

The post-retirement mortality table used in 2015 was as follows: a proportion (82% for male members, 102% for female pensioners, 97% for female non-pensioner members) of the SAPS S1 Year of Birth tables with allowance future improvements in line with the CMI 2014 projections with a long term rate of improvement of 1.5% per annum from 2006 (the long cohort projections were used between 2002 and 2006). In the 2014 IAS19 calculations, the mortality assumption was the same except using CMI 2013 projections with a long term rate of improvement of 1.5% per annum from 2006.

The assumed life expectations on retirement at age 60 were:

Life expectancy on retirement at 60 years	2015	2014
Retiring today		
Males	29 years	29 years
Females	30 years	30 years
Retiring in 20 years		
Males	32 years	32 years
Females	33 years	33 years

- b. Sensitivity analysis of the principal assumptions used to measure scheme's liabilities: the following table shows the impact of a change in each of the principal assumptions used to value the scheme's liabilities. The Commission changes one assumption at a time in calculating the impact on the value of scheme's liabilities, on an approximate basis for the year ending 31 March 2015. This was the same method as used in previous years.

Impact on the value of scheme liabilities

Assumption	Change in assumption	Impact on scheme Liabilities
Discount rate	Decrease by 0.5%	Increase by 11%
Rate of inflation	Increase by 0.5%	Increase by 10%
Rate of salary growth	n/a	n/a
Rate of mortality	Mortality table rated down by one year	Increase by 3%

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

At 31 March 2015, the scheme assets were invested in a portfolio that consisted primarily of DGFs. All DGF and LDI assets are invested in pooled funds with quoted prices in an active market. The fair value of the scheme assets as a percentage of total scheme assets, are set out below.

Fair value of the scheme assets

Financial instrument	2015	2014
DGFs	79%	77%
LDIs	20%	23%
Cash	1%	0%

The scheme did not hold any investments in instruments issued by the Commission or hold any assets that were property occupied by, or other assets used by, the Commission.

The Commission worked with the trustees to keep the investment strategy under review. The current investment strategy is detailed below.

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

to equities.

The LDI portfolio aims to hedge around 50 per cent of the interest rate risk and 70 per cent of the inflation risk of the scheme's liabilities. Three interest rate triggers are in place to implement an additional 20 per cent interest rate hedge to increase the scheme's interest rate hedging from 50 to 70 per cent as and when certain market conditions are satisfied.

The allocation of assets between the scheme's DGF and LDI will vary over time depending on collateral requirements and the extent to which the value of the scheme's assets varies in relation to the value of the liabilities. The capital requirements of the LDI portfolio and the equity total return swaps are managed by the scheme's LDI manager, which has the ability to transfer assets between the LDI and DGF portfolios as necessary.

5.8 Net pension liability

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

Net pension liability		31 March 2015	31 March 2014
	Note	£000	£000
Operating net pension liability		(162,306)	(115,501)
Movement in fair values of scheme assets	5.10	162,637	(33,780)
Movement in present value of scheme liabilities	5.9	(157,745)	(13,025)
Closing net pension liability		(157,414)	(162,306)

5.9 Reconciliation of present value of liabilities

This note provides an analysis of the change in the year of the present value of scheme's liabilities summarised in the table in note 5.8 above.

Reconciliation of present value of liabilities		Year to 31 March 2015	Year to 31 March 2014
	Note	£000	£000
Operating present value of defined benefit liability		942,486	929,461
Current service cost	5.11	1,093	1,280
Interest cost	5.12	40,944	41,301
Employee contributions		0	1
Changes in demographic assumptions underlying scheme liabilities	5.13	(1,880)	(9,172)
Changes in financial assumptions underlying scheme liabilities	5.13	158,141	9,658
Experience (gains) arising on the scheme liabilities	5.13	(16,694)	(7,224)
Benefits paid	5.10	(23,859)	(23,343)
Past service cost (includes curtailment)	5.11	0	524
Gains on settlements		0	0
Closing defined benefit liability		1,100,231	942,486

Over the year to 31 March 2015, one member retired with enhanced benefits as a result of redundancy. The enhanced terms given to this member were treated as a past service cost over the year to 31 March 2014 based on the 31 March 2014 assumptions, and were already allowed for in the DBO as at 31 March 2014.

5.10 Reconciliation of fair value of scheme assets

This note provides an analysis of the change in the year in the fair value of the scheme's assets summarised in note 5.8.

Fair value of scheme assets	Note	Year to 31 March 2015	Year to 31 March 2014
		£000	£000
Opening fair value of scheme assets		780,180	813,960
Interest income on scheme assets	5.12	33,834	36,124
Actuarial (losses)/ gains	5.13	151,283	(47,473)
Contributions by employer		2,250	1,732
Contributions by employees		0	1
Benefits paid	5.9	(23,859)	(23,343)
Expenses	5.9	(871)	(821)
Closing fair value of scheme assets		942,817	780,180

5.11 Analysis of the operating charge for the year

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

Operating charge for the pension scheme	Note	Year to 31 March 2015	Year to 31 March 2014
		£000	£000
Current service costs	5.9	1,093	1,280
Past service costs (includes gain on curtailment)	5.9	0	524
Expenses	5.10	871	821
Total operating charge		1,964	2,625

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

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

Net interest on pension scheme assets recognised in the Statement of Income	Year to 31 March 2015	Year to 31 March 2014
	£000	£000
Interest income on scheme assets	33,834	36,124
Interest cost	(40,944)	(41,301)
Net interest on pension scheme assets	(7,110)	(5,177)

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

This note provides an analysis of the net loss on the pension scheme's assets and liabilities shown in the Statement of Comprehensive Income. The table below includes the total of recognised losses in both years.

Actuarial movements recognised in the Statement of Comprehensive Income	Note	Year to 31 March 2015	Year to 31 March 2014
		£000	£000
Opening amount recognised		(150,410)	(109,675)
Actual return less interest income on scheme assets	5.10	151,283	(47,473)
Experience gains arising on the scheme liabilities	5.9	16,694	7,224
Changes in demographic assumptions underlying scheme liabilities	5.9	1,880	9,172
Changes in financial assumptions underlying scheme liabilities	5.9	(158,141)	(9,658)
Closing amount recognised		(138,694)	(150,410)

The net loss on actuarial movements in the year was £11,716,000 (2013/14: £40,735,000).

Note 6: Non-current assets

6.1 Intangible assets

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

	£000
Cost	
At 1 April 2014	19
Disposals	0
At 31 March 2015	19
Amortisation	
At 1 April 2014	19
Disposals	0
At 31 March 2015	19
Net book value	
At 31 March 2015	0
Cost	
At 1 April 2013	19
At 31 March 2014	19
Amortisation	
At 1 April 2013	19
At 31 March 2014	19
Net book value	
At 31 March 2014	0

[1] There were no losses on disposal of intangible assets in the year (2013/14: nil).

6.2 Plant and equipment

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

	Furniture and fittings	Computer equipment	Office equipment	Total
	£000	£000	£000	£000
Cost				
At 1 April 2014	0	74	0	74
Disposals	0	0	0	0
At 31 March 2015	0	74	0	74
Depreciation				
At 1 April 2014	0	43	0	43
Provided in year	0	31	0	31
Disposals	0	0	0	0
At 31 March 2015	0	74	0	74
Net book value				
At 31 March 2015	0	0	0	0
Cost				
At 1 April 2013	2,306	1,439	7	3,752
Impairment losses	0	(44)	0	(44)
Disposals	(2,306)	(1,321)	(7)	(3,634)
At 31 March 2014	0	74	0	74
Depreciation				
At 1 April 2013	2,127	1,344	7	3,478
Provided in year	126	36	0	162
Impairment losses	0	(16)	0	(16)
Disposals	(2,253)	(1,321)	(7)	(3,581)
At 31 March 2014	0	43	0	43
Net book value				
At 31 March 2014	0	31	0	31

[1] There were no losses on disposal (2013/14: £53,000) or impairments (2013/14: £28,000) during the period.

6.3 Long-term financial assets

This note reports the impaired value of the deposit and the accrued interest for the Icelandic investment. The deposit was sold in September 2014 (see note 13).

	31 March 2015 £000	31 March 2014 £000
Landsbanki Islands hf	0	1,662
Total long-term financial assets	0	1,662

Note 7: Current assets

7.1 Trade receivables

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

	31 March 2015 £000	31 March 2014 £000
Local government	1,111	4,464
Health	474	1,885
Total trade receivables	1,585	6,349

Less than three per cent of trade receivables were over six months old (2013/14: less than three per cent).

The total trade receivables balance shown above includes movements in the provision for irrecoverable and doubtful debts. These were netted against the appropriate debtor. The table below shows the movements in the provision included in total trade receivables.

	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Opening provision	73	73
Provision in the year	0	73
Utilised in the year	(4)	(11)
Released in the year	(69)	(62)
Closing provision	0	73

7.2 Accrued trade income

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

	31 March 2015	31 March 2014
	£000	£000
Local government	251	307
Health	107	124
Total accrued trade income	358	431

7.3 Other receivables

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

	31 March 2015	31 March 2014
	£000	£000
Accommodation prepayments	0	255
Icelandic bank receivables	0	426
VAT	276	1,062
Other debtors and prepayments ^[1]	7,784	220
Total other receivables	8,060	1,963

[1] Included is the prepayment of cash to the successor organisations, totalling £7,344,000, full details are provided in note 19.

7.4 Short-term financial assets, cash and cash equivalents

The following note summarises the Commission's short-term financial assets, cash and cash equivalents as shown in the Statement of Financial Position.

	31 March 2015	31 March 2014
	£000	£000
Short-term financial assets	0	0
Cash and cash equivalents	0	13,570
Total short-term financial assets, cash and cash equivalents	0	13,570

Note 8: Current liabilities

8.1 Trade and other payables

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

	31 March 2015	31 March 2014
	£000	£000
Trade payables ^[1]	744	532
Taxation and Social Security	0	136
Accrual for holiday entitlement not yet taken	53	138
Accruals	370	1,036
Total trade and other payables	1,167	1,842

[1] During the 2014/15 financial year the Commission paid 97.3 per cent of undisputed invoices within 30 days (2013/14: 92.6 per cent).

8.2 Deferred income

Deferred income represented invoices raised in advance for work the firms were yet to deliver.

	31 March 2015	31 March 2014
	£000	£000
Local government	2,305	4,176
Health	983	728
Total deferred income	3,288	4,904

8.3 Corporation tax

The Commission was liable for corporation tax on non-trading interest earned although this may be offset by trading losses made in the year. If the Commission made a trading profit for the year, it would be offset by trading losses brought forward from previous years. As a result, the Commission would not expect a corporation tax liability on any trading profits for the year.

	Year to 31 March 2015	Year to 31 March 2014
	£000	£000
Interest receivable	17	53
Total taxable income	17	53
Corporation tax payable for the year ^[3]	0	11
Amendments to charges for prior years ^{[1] [2]}	(20)	(157)
Corporation tax (receivable)/ payable	(166)	(146)

[1] Resolution of a query on the Commission's 2012/13 Corporation Tax return means the Commission were owed money back from HMRC (£157,000). In addition the Commission expected to recover £23,000 paid to HMRC for 2012/13, through the carry back of 2013/14 trading losses. Following a further enquiry from HMRC the Commission had an additional liability for 2011/12 of £14,000. This was because the Commission were required to use the main rate of corporation tax rather than the small profits rate. This resulted from the Commission having associated entities as it was ultimately controlled by DCLG.

[2] The reduction in charge of £20,000 reflects credits for 2013/14 (£11,000), and 2012/13 (£23,000), relating to tax on interest that the Commission were offsetting against 2013/14 trading losses. It also reflects the adjustment of £14,000 relating to 2011/12 as noted above.

[3] No tax was payable on the interest receivable as the Commission was able to offset trading losses in the year against this taxable income.

9: Provisions

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

Movement of provisions

	Redundancy costs £000	Dilapidations £000	Onerous leases £000	Total £000
At 1 April 2014	1,916	832	3,310	6,058
Utilised in the period	(1,733)	(832)	(3,307)	(5,872)
Released in the period	(80)	0	(3)	(83)
At 31 March 2015	103	0	0	103

The balance at 31 March 2015 was transferred to DCLG. Full details are included in note 19.

Note 10: Taxpayers' equity

10.1 Retained earnings for local government activities

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

		Year to 31 March 2015 £000	Year to 31 March 2014 £000
	Note		
Brought forward		8,849	13,912
Surplus/(Deficit) for period	2.3 (Table 5)	(8,603)	(9,279)
Net movement to the pension scheme reserve		4,783	4,216
Local government retained earnings		5,029	8,849

10.2 Retained earnings for health activities

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

	Note	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Brought forward		2,499	4,234
Surplus /(Deficit) for period	2.3 (Table 6)	(3,958)	(3,589)
Net movement to the pension scheme reserve		2,041	1,854
Health retained earnings		582	2,499

10.3 Pension reserve

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

	Note	Year to 31 March 2015 £000	Year to 31 March 2014 £000
Brought forward		(162,306)	(115,501)
Total operating charge and net return on scheme assets	5.11, 5.12	(9,074)	(7,802)
Cash payments to the scheme	5.10	2,250	1,732
Movement in the year from the Statement of Comprehensive Income		11,716	(40,735)
Pension reserve		(157,414)	(162,306)

Note 11: Movement in receivables and accrued trade income

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

	Note	Cash flow £000	31 March 2015 £000	31 March 2014 £000
Long-term financial assets	6.3	1,662	0	1,662
Trade receivables	7.1	4,764	1,585	6,349
Accrued trade income	7.2	73	358	431
Other receivables	7.3	(6,097)	8,060	1,963
Total receivables and accrued trade income		402	10,003	10,405

Note 12: Movement in payables and provisions

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

	Note	Cash flow £000	31 March 2015 £000	31 March 2014 £000
Trade and other payables	8.1	(675)	1,167	1,842
Deferred income	8.2	(1,616)	3,288	4,904
Provisions	9	(5,955)	103	6,058
Total payables and provisions		(8,246)	4,558	12,804

Note 13: Financial instruments

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

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

- **Liquidity risk:** The Commission made short-term cash investments in line with its treasury management strategy. The Commission held between £5 million and £10 million in cash in an overnight or instant access account with its bank. The

Commission had no investments at 31 March 2015.

- **Credit risk:** cash investments were permitted with HM Treasury's Debt Management Office (DMO) or, if unavailable, with named counterparties that had a short-term credit rating equal to P-1 (Moody) and A-1+ (Standard & Poor). The Commission only invested with the Debt Management Office during 2014/15.
- **Interest rate risk:** in the event the Commission made a cash investment with an organisation other than the DMO, it would maintain a mixture of fixed and variable rate deposits. At as 31 March 2015 the Commission had no investments with the DMO.

The Commission regularly reviewed its treasury management policy and management of credit risk during 2014/15.

In September 2014 the Commission sold its two Icelandic investments to Deutsche Bank. In October 2008, Landsbanki and Heritable bank entered into administration, stranding the Commission's cash investments with them. The Commission impaired the deposits held and accrued interest to the date of administration. The Commission reviewed the impaired deposits each year, in line with updated information and best practice guidance.

Heritable Bank

The initial deposit of £5 million held with Heritable bank earned £87,000 interest at its crystallisation date. The Commission expected to receive 88 per cent of the initial deposit and interest earned with Heritable Bank. Prior to its sale to Deutsche Bank the Commission had received 94.0 per cent (£4.8 million), and was not expecting any further payments. The Commission received a further £0.1 million as part of the sale to Deutsche Bank bringing the total recovered to 98% (£4.9 million).

Landsbanki

The Commission's initial deposit of £5 million held with Landsbanki earned £265,000 interest at its crystallisation date. On 28 October 2011, the Commission received confirmation of its priority creditor status and therefore expected to recover the full deposit and interest. With repayments expected to take place over several years, and estimated final repayment in December 2019, the Landsbanki deposit was valued in the Commission's 2013-14 Statement of Financial Position at a discounted value of £1.6 million. Early in 2014 the Commission entered negotiations with Deutsche Bank to buy the deposit for an amount in excess of this, and it was subsequently sold to them for £2.1 million. Overall this resulted in the Commission recovering 93.4% (£4.9 million) of its initial investment and interest earned.

The amount owed by Landsbanki was converted from Pounds Sterling into Icelandic Krona (ISK) at the rate applicable on the date of bankruptcy, 22 April 2009 (191.08 ISK/£), by the Landsbanki Winding Up Board upon submission of the Commission's claim. The Commission followed accounting standards and revalued the asset at each Statement of Financial Position date by applying current exchange rates to the value of the investment. This investment was also revalued prior to its sale, and resulted in an exchange loss of £52,000.

Note 14: Operating results for the last four years

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

	Year to 31 March 2015 £000	Year to 31 March 2014 £000	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Operating income	80,927	82,618	116,173	167,629
Operating costs after tax	(86,598)	(90,725)	(94,892)	(155,602)
Operating (deficit)/ surplus after tax	(5,671)	(8,107)	21,281	12,207

Note 15: Commitments under leases

15.1 Future minimum lease payments for non-cancellable operating leases for properties

The note below shows future minimum lease payments for the Commission's property leases for the period.

	31 March 2015 £000	31 March 2014 £000
Due within one year	0	522
Due up to five years	0	126
Total future minimum payments for non-cancellable operating leases for properties	0	648

The Commission spent £2,404,000 (2013/14: £2,201,000) on operating lease payments for property during the year to 31 March 2015.

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

The Commission sublet office accommodation with spare capacity sublet where possible. The Commission received £20,000 (2013/14: £77,000) rent income from property sublets in the year to 31 March 2015.

The Commission will not receive any further income from non-cancellable leases.

Note 16: Contingent liabilities

Litigation

The Commission indemnified appointed auditors for any reasonable legal costs that they incur when carrying out their special legal functions. The Commission also indemnified appointed auditors for any costs awarded against them as a result of such court proceedings. The amount incurred in any one year from these indemnities depended upon the progress of individual cases and so cannot be predicted or quantified until they crystallise. Liability transferred to the PSAA with effect from 1 April 2015.

Note 17: Related party transactions

The related party disclosures given below meet the requirements of IAS 24. Disclosure relates to key management personnel of the Commission, or their close family members, who were in a position of significant influence resulting from being elected to, receiving remuneration from, or being appointed to any organisation:

- where the Commission appointed the auditor or inspects the body;
- where there were specific statutory responsibilities to cooperate – for example, the Care Quality Commission;
- that is a central government department; or
- that was a provider or receiver of significant services to, or from, the Commission.

Transactions with related parties

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

In accordance with the Commission's accounts direction, its related party transactions and balances of £5,000 and above are disclosed below.

Commissioners

Jeremy Newman was appointed as Chairman of the Single Source Regulations Office in July 2014. During the period since this appointment amounts invoiced to the Single Source Regulations Office for services provided by the Commission amounted to £76,180. No balance was due to the Commission at 31 March 2015.

Councillor Robert Anderson is an elected Member and Leader of Slough Borough Council. During the year transactions for services provided by the Commission amounted to £227,780 (2013/14: £194,236). There were no balances outstanding between Slough Borough Council and the Commission at 31 March 2015 (2013/14: nil).

Councillor Adrian Collett is a member of Hampshire County Council. During the year

transactions for services provided by the Commission to the council amounted to £153,558 (2013/14: £182,596). There were no balances outstanding between Hampshire County Council and the Commission at 31 March 2015 (2013/14: the balance was below £5,000).

Adrian is also a member of Hart District Council. During the year transactions for services provided by the Commission to the council amounted to £88,040 (2013/14: £89,715). There were no balances outstanding between Hart District Council and the Commission at 31 March 2015 (2013/14: nil).

Councillor Robert Light is a member of Kirklees Council. During the year transactions for services provided by the Commission to the council amounted to £301,921 (2013/14: £241,090). There were no balances outstanding between Kirklees Council and the Commission at 31 March 2015 (2013/14: nil).

Nicola Scrivings is Chair of Cambridgeshire Community Services NHS Trust. During the year transactions for services provided by the Commission to the trust amounted to £98,616 (2013/14: £83,534). The balance due to the Commission at 31 March 2015 was nil (2013/14: the balance was below £5,000).

Executive Team

Marcine Waterman was appointed as Interim Chief Executive of the Single Source Regulations Office in September 2014. During the period since this appointment amounts invoiced to the Single Source Regulations Office for services provided by the Commission amounted to £76,180. No balance was due to the Commission at 31 March 2015

Other related parties

The Commission was a public corporation sponsored jointly in the year by DCLG and DH.

During the year the Commission was invoiced by DCLG for £232,417 for services received by the Commission (2013/14: £401,216). At 31 March 2015 £267,000 was still due by the Commission (2013/14: nil).

During the year amounts invoiced to DCLG for services provided by the Commission amounted to £74,025 (2013/14: £78,137). There was no balance due to the Commission at 31 March 2015 (2013/14: £17,133).

Compensation of key management personnel

The compensation of key management personnel is set out within the Remuneration Report.

Note 18: Losses and special payments

The Commission had constructive losses of £3,631,000 (2013/14: £2,986,000).

A constructive loss occurs when correctly ordered goods or services are received and paid for but a later event or change of policy means those goods or services are no longer needed. In accordance with the Commission's accounts direction individual losses greater than £300,000 are detailed below.

Following the decision to close the Commission, it had undergone significant restructuring and reduced the size of its business and workforce. This had resulted in the Commission having surplus property. Where possible, the Commission had exercised lease break or expiry clauses in line with the Government's property spending controls. However, the Commission incurred constructive losses in excess of £300,000 as a result of mothballing and disposal of properties. The total of these property-related losses was £3,310,000 (2013/14: £2,933,000).

The Commission also incurred losses during the period, as a result of making payments in lieu of notice for staff who were made redundant in December 2014. These redundancies resulted from the unforeseen and immediate cessation of the Commission's Counter Fraud work programme. The Commission was contractually required to make payments in respect of the individuals' contractual notice period. These payments amounted to £63,000 (2013/14: nil).

In addition the Commission incurred losses as a result of making payments in lieu of notice for staff who were made redundant in March 2015. These were in respect of a small number of staff who had initially been given notice that their employment would terminate after 31 March 2015, in order to finalise aspects of the Commission's closure. As all remaining staff left the Commission on or before 31 March 2015, those staff with a redundancy date after this were entitled to payment in lieu of notice. The amount of the payment represents their contractual entitlements until the notified redundancy dates. These payments amounted to £245,000 (2013/14: nil).

Losses of £13,000 were also incurred in respect of costs for services paid for by the Commission which were not used due to the Commission's closure on 1 April 2015, and for which payment could not be recovered from the service provider (2013/14: nil).

The Commission did not make any special payments which require disclosure in the accounts during the year (2013/14: nil).

Note 19: Events occurring after the reporting period

Assets and Liabilities transferred from the Audit Commission to the transferee bodies under the Local Audit and Accountability Act 2014

Following the closure of the Audit Commission on 1 April 2015 and in accordance with the Local Audit and Accountability Act 2014, Transfer Orders were made to transfer all property, rights and liabilities of the Audit Commission to successor organisations on 1 April 2015. The transfers were as follows:-

- all property, rights and liabilities in relation to data matching and all intellectual rights relating to the National Fraud Initiative were transferred to the Cabinet Office;
- all property, rights and liabilities in relation to studies and examinations into the economy, efficiency and effectiveness of the use of resources; and code of audit practice were transferred to the National Audit Office (NAO);
- all property, rights and liabilities in relation to items in respect of Sections 3, 7 and 28 of the Audit Commission Act 1998 were transferred to Public Sector Audit Appointments Ltd; and
- Any property, rights and liabilities not included in the abover were transferred to DCLG.

The table below details the current asset and current liability amounts included in the Audit Commission Accounts at 31 March 2015 which were transferred to each organisation on 1 April 2015.

	Pre-Transfer March 2015 £000	Transfer to DCLG £000	Transfer to NAO £000	Transfer to Cabinet Office	Transfer to PSAA £000	Audit Commission 1 April 2015
Current Assets						
Trade Receivables	1,585	(49)	0	(231)	(1,305)	0
Accrued Income	358				(358)	0
Other Receivables	716	(346)	0	(357)	(13)	0
Corporation Tax	166	(166)	0	0	0	0
Prepayments ^{[1][2]}	7,344	(200)	(8)	(518)	(6,618)	0
Total Assets	10,169	(761)	(8)	(1,106)	(8,294)	0
Current Liabilities						
Trade and Other Payables	1,167	(658)	(8)	(10)	(491)	0
Deferred Income	3,288		0	(1,096)	(2,192)	0
Current Provisions	103	(103)	0	0	0	0
Total Current Liabilities	4,558	(761)	(8)	(1,106)	(2,683)	0
Total Assets Less Current Liabilities	5,611	0	0	0	(5,611)	0

[1] All cash due to the successor organisations was paid on 30 and 31 March 2015. The outcome of these transactions is to include a prepayment in the Statement of Financial Position within Other Receivables (the cash was due on 1 April 2015) in accordance with the Property Transfer Scheme 2015.

[2] The cash due to PSAA was made via DCLG as PSAA were not able to receive cash until after 1 April 2015. This transfer was effected to DCLG on 31 March 2015.

The amount of cash transferred to each organisation on 30/31 March 2015 matched the current liabilities transferred on 1 April 2015. Consequently, there is no net gain or loss to report through the 1st April 2015 Statement of Income.

The table below details the non current liability and retained earnings included in the Audit Commission Accounts at 31 March 2015 which were transferred to each organisation on 1 April 2015.

	Pre-Transfer March 2015 £000	Transferred to DCLG £000	Transferred to NAO £000	Transferred to Cabinet Office £000	Transferred to PSAA £000	Audit Commission 1 April 2015 £000
Retained Earnings	5,611	0	0	0	(5,611)	0
Net Pension Liability	(157,414)	157,414	0	0	0	0

Impact on the Financial statements as a result of transfers on 1 April 2015

The impact on the financial statements on 1 April 2015 are shown on the following pages.

Statement of Income on 1 April 2015

	1 April 2015	Year to 31 March 2015
	£000	£000
Operating income		
Audit fee income	0	80,426
Other operating income	0	501
Total operating income	0	80,927
Operating costs		
Staff and Commissioner costs	0	5,508
Bought-in services	0	77,916
Other operating costs	0	3,194
Total operating costs		86,618
Transfer of Pension Liability	157,414	0
Total Transfers	157,414	
Deficit before tax	157,414	(5,691)
Corporation tax credit	0	20
Deficit after tax	157,414	(5,671)
Financing Income		
Net investment return		220
Net return on pension scheme assets		(7,110)
Surplus (Deficit) for the financial period	157,414	(12,561)

Statement of Comprehensive Income on 1 April 2015

		1 April 2015	Year to 31 March 2015
	Note	£000	£000
Surplus /(Deficit) for the financial period (from the Statement of Income)		157,414	(12,561)
Other income			
Actuarial gain/(loss) relating to the pension scheme	5.13	0	11,716
Total other income for the period		0	11,716
Total comprehensive surplus/(deficit) for the period		157,414	(845)

Statement of Financial Position on 1 April 2015

	As at 1 April 2015	As at 31 March 2015
	£000	£000
Non-current assets		
Intangible assets	0	0
Plant and equipment	0	0
Long-term financial assets	0	0
Total non-current assets	0	0
Current assets		
Trade receivables	0	1,585
Accrued trade income	0	358
Other receivables	0	8,060
Corporation tax	0	166
Short-term financial assets	0	0
Cash and cash equivalents	0	0
Total current assets	0	10,169
Total assets	0	10,169
Current liabilities		
Trade and other payables	0	1,167
Deferred income	0	3,288
Current provisions	0	103
Total current liabilities	0	4,558
Total assets less current liabilities	0	5,611
Non-current liabilities		
Non-current provisions	0	0
Net pension liability	0	157,414
Total non-current liabilities	0	157,414
Assets less liabilities	0	(151,803)
Financed by:		
Local government	0	4,828
Health	0	783
Retained earnings	0	5,611
Pension reserve	0	(157,414)
Total taxpayers' equity	0	(151,803)

Statement of Cashflows on 1 April 2015

There were no cashflows on 1 April 2015 as a result of these transfers as all cash was transferred on 30 and 31 March 2015. Consequently a Statement of Cashflows has not been produced.

The effect of the transfer of the pension liability to DCLG and the transfer of the retained earnings to PSAA on the Statement of Changes in Taxpayers' Equity is shown in the table below.

Statement of Changes in Taxpayers' Equity on 1 April 2015

	Pension reserve	Retained earnings	Total
	£000	£000	£000
Balance at 31 March 2015	(157,414)	5,611	(151,803)
Transfer to Retained earnings	157,414	(157,414)	0
Comprehensive Deficit	0	157,414	157,414
Transfer to PSAA	0	(5,611)	(5,611)
Balance at 1 April 2015	0	0	0

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

The authorised date for issue is the date the accounts are certified by the Comptroller and Auditor General

Appendix A: Accounts Direction

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

The Audit Commission for Local Authorities and the National Health Service in England Accounts direction given by the Secretary of State for Communities and Local Government and the Secretary of State for Health with the consent of the Treasury, in accordance with paragraphs 3 and 4 of Schedule 1 to the Local Audit and Accountability Act 2014.

- 1** The annual financial statements of the Audit Commission for Local Authorities and the National Health Service in England (hereafter in this accounts direction referred to as “the Commission”) shall give a true and fair view of the income and expenditure and cash flows for the financial year and the state of affairs at the year end. Subject to this requirement, the financial statements for 2014/15 shall be prepared in accordance with:
the accounting and disclosure requirements of the Companies Act;
International Financial Reporting Standards;
any guidance that the Treasury may issue from time to time in respect of the financial statements of public corporations; and
any other specific disclosure requirements of the Secretaries of State;

insofar as these requirements were appropriate to the Commission and are in force for the year for which the financial statements are prepared, and except where agreed otherwise with the Secretaries of State and the Treasury, in which case the exception shall be described in the Notes to the Financial Statements.
- 2** The annual accounts shall contain a Remuneration Report which shall contain the information specified in Schedule 7A of the Companies Act 1985 (as amended by the Companies Act 2006) and comply with any requirement of that Schedule as to how information is to be set out in the report, for which purpose the Commission’s Chairman, Controller of Audit and all members of the management board shall be taken to be directors.
- 3** Schedule 1 to this direction gives additional disclosure requirements of the Secretaries of State.
- 4** This direction shall be reproduced as an appendix to the financial statements.
- 5** This direction replaces all previously issued directions.

Signed by authority of the Secretary of State
for Communities and Local Government

Signed by authority of the Secretary of State
for Health

Ben Stoneman

An officer in the Department for Communities
and Local Government

Date 1 May 2015

Andrew Baigent

An officer in the Department of Health

Date 1 May 2015

Schedule 1

Additional disclosure requirements

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

1 The income and expenditure account or the notes thereto

- a. The following income:
fees; and
other income.
- b. The following expenditure:
audit fees to private firms;
other amounts payable to private accountancy firms; and
debts written off and movements in provisions for bad and doubtful debts.

2 The Notes to the Financial Statements

- a. Fee income is to be analysed between:
Local government authorities; and
Health Service authorities.
- b. For work carried out under each of the following sections in the Audit Commission Act 1998 (item i) and Local Government and Public Involvement in Health Act 2007 (item ii), a statement showing the income and expenditure for the year:
section 28 (certification of claims, returns etc.); and
paragraph 9 of Schedule 2A (advice and assistance work).
- c. For each of the following categories of business, a statement showing the opening income and expenditure reserve, income and expenditure for the year and the closing income and expenditure reserve.
Local government authorities; and
Health Service authorities.

- d. Details of employees, other than Commission members, showing:
the average number of persons employed during the year, including part-time employees and secondees, analysed between appropriate categories;
the total amount of loans to employees;
employee costs during the year, showing separately;
wages and salaries;
early retirement costs;
social security costs;
contributions to pension schemes;
payments for unfunded pensions; and
other pension costs.
- e. In the note on receivables, prepayments and payments on account shall each be identified separately.
- f. * Particulars, as required by the accounting standard on related party disclosures, of material transactions during the year and outstanding balances at the year end (other than those arising from a contract of service or of employment with the Commission), between the Commission and a party that, at any time during the year, was a related party. For this purpose, notwithstanding anything in the accounting standard, the following assumptions shall be made:
transactions and balances of £5,000 and below are not material;
the following are related parties:
- subsidiary and associate companies of the Commission;
 - pensions funds for the benefit of employees of the Commission or its subsidiary companies (although there is no requirement to disclose details of contributions to such funds);
 - board members and key managers of the Commission;
 - members of the close family of board members and key managers;
 - companies in which a board member or a key manager is a director;
 - partnerships and joint ventures in which a board member or a key manager is a partner or venturer;
 - trusts, friendly societies and industrial and provident societies in which a board member or a key manager is a trustee or committee member;
 - companies, and subsidiaries of companies, in which a board member or a key manager has a controlling interest;
 - settlements in which a board member or a key manager is a settlor or beneficiary;
 - companies, and subsidiaries of companies, in which a member of the close family of a board member or of a key manager has a controlling interest;
 - partnerships and joint ventures in which a member of the close family of a board member or of a key manager is a partner or venturer;
 - settlements in which a member of the close family of a board member or of a key manager is a settlor or beneficiary; and
 - DCLG, as the sponsor department for the Commission.

For the purposes of this sub-paragraph:

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

The close family of an individual is the individual's spouse, the individual's relatives and their spouses, and relatives of the individual's spouse. For the purposes of this definition, "spouse" includes personal partners, and "relatives" means brothers, sisters, ancestors, lineal descendants and adopted children.

A controlling shareholder of a company is an individual (or an individual acting jointly with other persons by agreement) who is entitled to exercise (or control the exercise of) 30 per cent or more of the rights to vote at general meetings of the company, or who is able to control the appointment of directors who are then able to exercise a majority of votes at board meetings of the company.

- g. A statement of losses and special payments during the year, being transactions of a type which Parliament cannot be supposed to have contemplated. Disclosure shall be made of the total of losses and special payments if this exceeds £300,000, with separate disclosure and particulars of any individual amounts in excess of £300,000. Disclosure shall also be made of any loss or special payment of £300,000 and below if it is considered material in the context of the Commission's operations.

*Note to paragraph 2 (f) of Schedule 1: under the Data Protection Act 1998 individuals need to give their consent for some of the information in these sub-paragraphs to be disclosed. If consent is withheld, this should be stated next to the name of the individual.

