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

Annual Report and Accounts 2012/13

audit commission

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Annual report and accounts 2012/13

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Foreword

I was privileged to be appointed as Chairman in September 2012 and am delighted to be leading a professional organisation that is embracing the necessary changes to our role, leading to our planned closure in 2015, while continuing to ensure that high-quality, cost-effective audit is delivered to the public bodies we serve.

I am fortunate to be well-supported, not only by the Controller and her Executive Team, but by a Board which includes a number of reappointed and several newly appointed, Commissioners. I am particularly pleased that our Deputy Chairman, chair of the Audit Committee, and longest-serving Commissioner, Bharat Shah, will be with us until 2015.

We – the Board and the Executive Team – are leading a smaller, fit-for-purpose Commission, with a remit to maintain audit standards and deliver value for money audits, as well as our remaining functions.

The Commission has the power to carry out specific and important functions, and we are doing what is necessary to ensure that these responsibilities – particularly the National Fraud Initiative – move seamlessly to new homes after the Local Audit and Accountability Bill receives Royal Assent.

I said at my pre-appointment hearing in September, that it was important to keep our skilled staff, to make sure that they are supported, motivated and engaged, and to persuade them that there will be valuable opportunities to be gained from working at the Commission for the next couple of years. We are working hard to ensure this is the case.

There is a busy year ahead – we will be working with the Department for Communities and Local Government and with the Department of Health on the Local Audit and Accountability Bill as it moves through Parliament; we will continue to focus on the quality of audit and on protecting the public purse; and we will be retendering the audit contracts that were initially awarded in 2006 and 2007 and extended in 2010.

These contracts represent about 30 per cent of the total local public audit work carried out in England, and are worth £25.2 million a year. We believe that by retendering these contracts we can secure further reductions in audit fees for all bodies, which is particularly important in this difficult financial environment.

2012/13 was a challenging year, as will be the coming year. I am confident that the Commission will continue to meet these challenges with enthusiasm and success.

Jeremy Newman
Chairman

During 2012/13, the management team and staff across the Audit Commission dealt with some important changes and challenges. We worked with key stakeholders to help design and implement a new regime of local public audit and will continue to work with our sponsor departments over the coming year, as the Local Audit and Accountability Bill passes through Parliament.

Radically changing how we work, we outsourced the 70 per cent of our audit work, previously carried out by the in-house Audit Practice. We reduced the fees for all audited bodies by up to 40 per cent which, over five years, will save local public bodies some £250 million. We are now retendering the other existing contracts, first awarded in 2006 and 2007, as we believe that this will further reduce audit costs.

We have complied with our statutory duty to consult on, and set, scales of audit fees and are committed to maintaining an audit regime that delivers quality work. We report on the audit firms' compliance with our regulatory requirements for delivering audits and, through the Quality Review Programme (QRP), on the quality of the firms' audit work.

We published studies based on information from auditors, including *Protecting the Public Purse 2012: Fighting fraud against local government*, showing that councils were detecting more than 124,000 cases of fraud, totalling £179 million; *Tough Times 2012: Councils' financial health in challenging times*, during the four-year Spending Review; and, among our reports specifically on NHS bodies, the *NHS Financial Year 2011/12*, which found that primary care trusts, strategic health authorities and NHS trusts reported a combined underspend and surplus of £1.6 billion in 2011/12.

And, last but by no means least, the Commission's National Fraud Initiative, which matches electronic data within and between 1,300 public and private organisations. We confirmed that, since 1996, it had identified a landmark £1 billion potentially lost to fraud, overpayment or error, across the UK.

Following my appointment in 2012, we restructured, setting up an Executive Team to lead the smaller Commission, simplifying the way we are run, further reducing our costs and outsourcing much of our HR, IT and legal functions. In doing so, we have said goodbye to valued colleagues, some of whom had worked with us for over 20 years. We have either closed or disposed of offices and office space and will be moving elsewhere in the Crown Estate during 2013.

Of course, these achievements were only possible because of the continuous professionalism and commitment of our staff – those who have left the Commission over the past year, and those colleagues who are still with us. This has been a challenging time for all of us, and we look forward to working together, supporting and motivating our staff; ensuring that some of our functions will successfully transfer to other organisations; and focusing on the regulation of public audit and the continued protection of the public purse.

Marcine Waterman
Controller of Audit

Annual report

Outline of the year

Our 2012/13 work centred around five corporate objectives. In the following outline of the year, we consider the organisation's achievements, and progress towards each of these objectives.

1 Supporting the transition to a new audit regime

We continued to work with the government and our stakeholders to help develop a robust and sustainable framework for local public audit.

The Local Audit and Accountability Bill (the Bill), currently being debated in Parliament, will enable the planned closure of the Audit Commission. The Bill provides for the establishment of a new framework for regulating local public audit, modelled on provisions for company auditors in the Companies Act 2006. Under the proposals, local public bodies will appoint their own external auditors, on the advice of an independent auditor panel. The Comptroller and Auditor General of the National Audit Office (NAO) will be under a duty to publish a Code of Audit Practice, and will have new powers to undertake value for money studies in local government and access information held by councils. Auditors' duties and special reporting powers will be preserved, with no change to the scope of local public audit. Proposals relating to the audit of some 10,000 smaller local public bodies, such as parish councils, are still being developed. The Department of Health (DH) confirmed that the Bill will also apply to local NHS bodies.

Throughout the year, we have worked closely with the Department for Communities and Local Government (DCLG) and DH on the Bill, providing them with detailed comments on its structure and drafting. We have also worked with other bodies that will be taking on some of the Commission's current responsibilities, including the NAO and the Financial Reporting Council.

'We have worked closely with DCLG and DH on the Local Audit and Accountability Bill, providing them with detailed comments on its structure and drafting.'

The Bill was introduced after a period of pre-legislative scrutiny of the Draft Local Audit Bill, which was published in July 2012. In October 2012, we provided written and oral evidence to the ad hoc Committee appointed by Parliament to scrutinise the Draft Bill. We expressed some concerns, for example about a likely increase in audit fees for many local bodies if auditors are appointed locally and also our view, that properly constituted audit committees would be a more effective safeguard of auditor independence than auditor panels.

We also proposed that national information about the outcomes of local audit should be collected and analysed, to provide Accounting Officers and Parliament with meaningful conclusions and greater assurance about the public money allocated to local bodies. We called for the audit framework to be consistent across all local public bodies, including health bodies, with appropriate arrangements developed for smaller local public bodies.

The Draft Audit Bill ad hoc Committee made 29 recommendations when it reported in January 2013. Many of its findings accorded with our own views. Among them was a statutory requirement for strengthened audit committees, rather than auditor panels, with an independent chair and a majority of independent members. The Committee proposed a duty on the Secretary of State to identify which organisation could publish information about the outcomes of local audits and analyse that information. It also estimated that substantial economies could be realised through the central purchasing and appointment of auditors.

In parallel with our discussions about the policy aspects of the Draft Bill, we worked closely with DCLG officials about the transition to the new arrangements. Our 2012 contracts with firms for audit services are due to expire with the completion of the 2016/17 audits, although there is an option to extend them to 2019/20. They will therefore need to be novated to, and managed by, a transitional body. The transitional body will also need to oversee the new contracts that are being retendered later this year, to succeed our 2006 and 2007 contracts.

2 Managing the delivery of our work programme

The Commission has a full work programme, focusing on our core functions and duties. Through careful supervision of the audit contracts, we ensure that audit quality remains at an acceptable level. Our in-house audits continued until the Audit Practice closed on 31 October 2012.

In the 2011/12 audit year, the quality and timeliness of financial reporting at local public bodies improved. Our December 2012 report, *Auditing the Accounts 2011/12: Quality and timeliness of local public bodies' financial reporting*, found that no principal bodies received a qualified audit opinion on their 2011/12 accounts. The overwhelming majority of small bodies (93 per cent of parish councils and 96 per cent of internal drainage boards) received an unqualified opinion on their 2011/12 annual return.

Auditors issued their audit opinion on time at 98 per cent of councils, at 97 per cent of police bodies, parish councils and internal drainage boards; and at all fire and rescue authorities and other local government bodies. This was an improvement for all types of body compared with 2010/11 and was an excellent achievement, both for the audited bodies and the auditors carrying out the work.

Our in-house Audit Practice continued to deliver its audit and certification work to deadline throughout the 2011/12 audits. The quality of work by all of our auditors was maintained, as measured by regime-wide results from the Financial Reporting Council and by our internal monitoring programme. We strengthened our contract monitoring processes for overseeing the audits undertaken by the private-sector audit firms. Our revised proposals included visits to firms, surveys of audited bodies' satisfaction with the firms, and regime-wide events to discuss quality.

While overseeing the 2011/12 audits, we also prepared for the 2012/13 audit year. After announcing the award of contracts in last year's procurement exercise, we consulted on the statutory auditor appointments for the 2012/13 audit year. Having appointed interim auditors for the five month period from 1 April 2012, we consulted 738 principal audited bodies and 112 NHS charities on their permanent auditors. This process was supported by 18 introductory events in April and May 2012, hosted by the four firms that were successful in the procurement exercise. They were attended by over 500 representatives of 367 audited bodies and provided an opportunity for those bodies to meet the firms and to hear from us about the results of the procurement, the appointments process and our role up to March 2015.

Following the consultation, we only received representations about the proposed auditor appointment in 24 cases. In nine cases we proposed alternatives, affecting ten audited bodies. Our response to the representations was accepted in all cases, and the permanent auditors were appointed from 1 September 2012.

During the year, we consulted on, and made auditor appointments to, the newly elected Police and Crime Commissioners. We also appointed auditors to clinical commissioning groups, which took over certain responsibilities from NHS primary care trusts on 1 April 2013.

Following a consultation, we confirmed that we would keep audit fees for 2013/14 at the same level, with no changes to the work programme

In December 2012, we launched a consultation on the work programme and scales of fees for the 2013/14 audits of local government, police and health bodies. Following our procurement exercise last year, coupled with the efficiency programme begun in 2009, we were able to announce reductions in audit and certification fees, of up to 40 per cent for some authorities. We also stated our intention to lock-in the fee reductions for the five years from 2012/13. Following our December 2012 consultation we confirmed that we would keep audit fees for 2013/14 at the same level, with no changes to the work programme. We then made a further reduction in the fees for police bodies for 2013/14, removing the element included in 2012/13 scale fees relating to auditors' work on financial reporting requirements for the transition from police authorities. The final work programme and scales of fees for 2013/14 were published in March 2013.

In addition to holding fees for 2013/14 work at the significantly reduced levels we set for 2012/13, we were able to rebate past audit fees, returning some £4.2 million to local government, police and fire and rescue bodies and £1.8 million to NHS bodies.

'The National Fraud Initiative and its contributors, supplying data and investigating potential frauds, has paid off to the tune of £1 billion'
Jeremy Newman
Chairman

Our National Fraud Initiative (NFI) matches electronic data within and between 1,300 organisations including councils; the police; hospitals; and 77 private companies. In May 2012, we reported on the outcomes of the 2010/11 data matching exercise, which identified almost £229 million of fraud, overpayments and errors in England. In March 2013, we confirmed that, over the 17 years of its existence, the NFI has helped identify over £1 billion potentially lost to fraud, overpayment or error, across the UK. The outcomes include the prevention and detection of 15,000 cases of pension overpayments worth £450 million; almost 100,000 cases of council tax single person discounts incorrectly awarded worth £160 million; and over £250 million of housing benefit overpayments. In addition, 68,736 blue badges and 97,361 concessionary travel passes have been cancelled.

The future operational owner of the NFI has yet to be confirmed, although the Commission's data matching functions could be transferred to the Secretary of State before being delegated to another organisation. We are currently looking at possible future homes for our other functions, and products such as our range of counter-fraud tools.

3 Helping our sectors

Our national reports and tools identify issues that matter to local public bodies. They support our stakeholders to meet the significant financial challenges they face.

In late 2012, we published two national reports on the state of councils' finances that made an acknowledged contribution to the issues that our stakeholders find most important. Both generated high levels of interest from senior councillors and officials, were quoted in Parliament and were drawn on in work by the NAO and others. Our November 2012 national report, *Tough Times 2012: Councils' financial health in challenging times*, found that auditors were reporting signs of financial stress in councils, even though they had largely delivered their planned savings and added to their reserves in 2011/12. A sizeable minority had to make additional in-year cuts, seek additional funding, or restructure efficiency programmes, in order to deliver their budgets.

'The settlement follows on from the first two years of the current spending round, and to see this in context, we should reflect on those first two years, in particular the report of the Audit Commission, Tough Times 2012, which is stark. Over the two years ending March 2013, councils will have had a cut in their funding equivalent to 9.3% of their 2010-11 revenue spending. This amounts to £5 billion.'
Lord McKenzie in the House of Lords, 17 January 2013

December 2012's *Striking a balance: Improving councils' decision making on reserves* examined the level of councils' financial reserves and made recommendations for improving local decision making. It called for councils to focus more attention on the £12.9 billion set aside in their reserves and to provide greater clarity about the reasons for holding them.

'The Audit Commission identified two factors that appear to have driven that growth [in reserves]. Some councils were highly effective in meeting their savings targets, creating underspends, which could be added to reserves… …The second factor identified was that councils were, "putting money aside to mitigate the risks of the ongoing cuts programme and changes to council funding from April 2013". That is all very sensible stuff, I would have thought.'
Baroness Donaghy in the House of Lords, 17 January 2013

The latest report in our counter-fraud series, *Protecting the Public Purse 2012: Fighting fraud against local government*, was published in November 2012. The report drew on our annual survey of all English councils' counter-fraud work, which is conducted under our statutory powers. The report found that councils are targeting their investigative resources more efficiently and effectively than in previous years, detecting more than 124,000 cases of fraud in 2011/12, totalling £179 million. Housing tenancy fraud is the single largest area of loss to fraud in local government, costing £900 million per year. Housing and council tax benefit frauds accounted for more than half of all the council fraud losses detected, valued at £117 million. The report reminded councils that a key weapon in fighting fraud is the Commission's National Fraud Initiative. It also highlighted the need to respond to emerging fraud risks such as business rates, Right to Buy housing discounts and schools.

'There is no doubt our findings show councils increasingly out-smarting the fraudsters. But while they are busy tackling established frauds, new ones keep emerging. Every threat exposed or investigated safeguards money which is needed more than ever.'
Jeremy Newman, Chairman of the Audit Commission, 8 November 2012

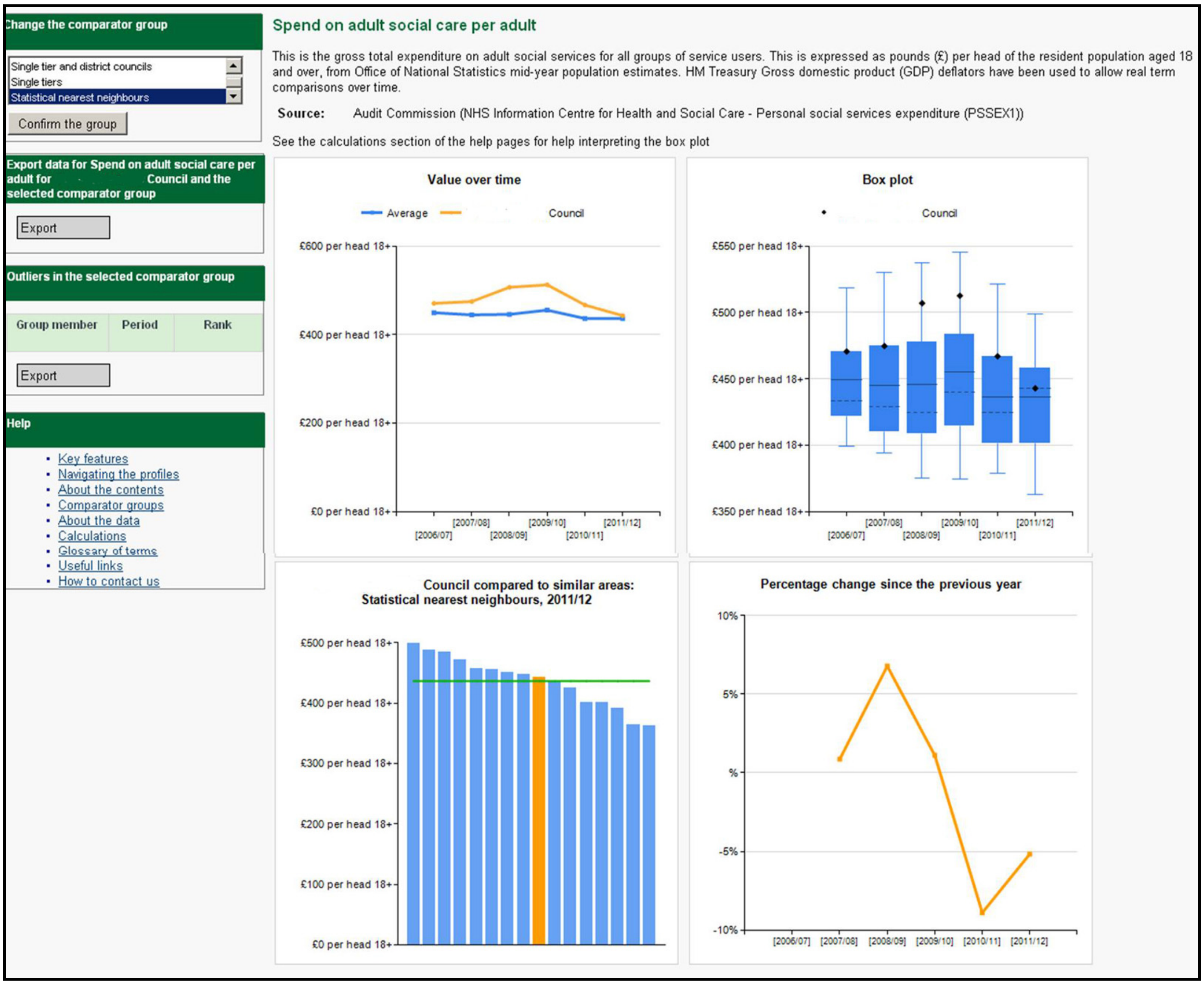
Councils 'more efficient' at fighting fraud, but new threats emerging Audit Commission

We also published several health and adult social care reports this year, on subjects such as best practice tariffs and their impact; data definitions in the NHS; and our annual audit of the data underpinning Payment by Results. August 2012's *Reducing the cost of assessments and reviews,* on social care assessments, found that councils could save up to £300 million if they reduced their costs to the level of the most efficient, taking into account the different needs of their populations. We also published a benchmarking tool that allows councils to assess and compare their costs, staffing and activity levels against others of similar type, geographic area, markets and scale of operation.

Our online tools have continued to prove useful to councils and health bodies. Our Value for Money (VFM) Profiles tool alone received 17,000 views from 9,000 visitors between 1 April 2012 and 31 March 2013. In 2012/13, we changed the technical infrastructure and systems we use to produce analytical tools. By using standardised software to report data, we have introduced a more cost-effective way of producing online information tools, as well as making them more compatible with systems used in other organisations, which we hope will take over the tools once the Commission closes. The VFM Profiles tool was the first tool produced using the new system, going live with new 2012/13 budget data on 1 November 2012. We also published a newly designed version of the Financial Ratios tool, and redesigned the Audit Fee Comparator tool. The screenshot (overleaf) gives an indication of the analyses available from the VFM Profiles tool.

'These tools and the expertise necessary to maintain and develop them are of potential on-going value to the sector as a means of helping councils understand their performance in comparison with others. Raising public awareness of the tools could also provide an additional means of helping local people hold their councils to account.'
Draft Local Audit Bill ad hoc Committee - Report of Session 2012-13
Report Draft Local Audit Bill: Pre-legislative Scrutiny, 17 January 2013

Figure 1. Screenshot from the VFM Profiles tool: an example of the analyses available



(Source: Audit Commission, 2013)

'A small number of fire and rescue authorities are using the European Foundation Quality Model as a way of looking more widely than just the self-assessment, with non-fire experts looking at their organisational practices. The benefit of this model seems to be around the year-on-year comparison of performance, providing a sense of continuity that current peer review arrangements do not offer. However, there are a number of other tools that do provide this on a statistical level, notably the Audit Commission's value for money profile tool, which I was surprised to hear nothing of on my visits. It is an excellent tool for comparing performance, both year-on-year and against other authorities and importantly is fully open to the public.'

Sir Ken Knight, 17 May 2013

Facing the future: Findings from the review of efficiencies and operations in fire and rescue authorities in England

4 Being financially responsible

As well as reducing audit fees significantly, we agreed a revised structure and business model, focusing on our core functions for the period until our planned closure. As a result, we were able to reduce our costs further. Accelerating elements of our closure programme and a continued emphasis on efficiency allowed us to reduce planned operating costs for the smaller Commission by over 15 per cent from original estimates.

In 2009, we set an ambitious three-year target of delivering 25 per cent efficiency savings by the end of 2012/13 and to pass the benefit of these savings back to local public bodies. This increased to 30 per cent following the announcement of our closure. By the end of 2012/13, operating costs had fallen to £94.9 million, a reduction of over 50 per cent since 2009/10 (£209.5 million). This success allowed us to rebate fees to local public bodies. In addition to the £6 million passed back in the early part of the year, based on savings from the latest contract awards, we rebated a further £6 million in March 2013. Subject to review and agreement by our Board, we will continue with this strategy until our closure in 2015.

In its final year, our Audit Practice continued to improve its quality, productivity and financial performance, delivering a margin £6.9 million above budget at £32.3 million. This is a real testament to the hard work and professionalism of teams across the Commission.

The Commission is committed to the principles of the Treasury's Better Payment Code of Practice and aims to pay 80 per cent of undisputed invoices from its suppliers within 10 days. During the 2012/13 financial year we paid 87 per cent of undisputed invoices within 10 days. We continue to make available details of expense claims of our senior staff and publish all spending with our suppliers over £250.

Our continued focus on the reduction on fees has led us to retender audit contracts worth £25.2 million a year. These contracts, currently held by private-sector audit firms, were initially awarded in 2006 and 2007 and were extended in 2010. They represent about 30 per cent of the total local audit work carried out in England. It is our view that, by terminating the 2006 and 2007 contracts and retendering, we can obtain greater reductions in audit fees for all bodies. The new arrangements will come into effect for the audit of the 2015/16 accounts.

As well as taking a responsible approach to our finances, we are committed to improving our environmental performance. We have made significant steps towards reducing the environmental impact of our work and have also improved the ways we measure and report progress, both internally and externally.

Our sustainability report at Appendix 2, shows our progress against the Sustainable Operations on the Government Estate targets and more recently the Greening Government initiative. We have exceeded our targets and have achieved an overall reduction of 2,952 tonnes in carbon dioxide equivalent (CO_2e) emissions, equating to a reduction of 64 per cent since 2008. Since we first started monitoring sustainability in 2008/09 we have reduced business travel miles by 73 per cent, travel costs by 77 per cent and increased energy efficiency, reducing our CO_2e emissions by 79 per cent. While some of this reduction can be attributed to the transfer of the Audit Practice, we had made significant steps before the transfer, such as reducing our business miles by 5.4 million against 2007/08 levels.

We have been rationalising how we manage our estate, and have closed many of our offices. On 1 April 2012, we were operating out of 25 locations, while holding 30 leases or licences. Following the departure of the Audit Practice on 31 October 2012, we closed 20 offices and now have five locations and eight leases. With further leases expiring and opportunities for sub-letting or assignment becoming available, we anticipate that we will have only one location and two leases to manage by July 2013. Remaining staff will relocate to other office space in the Crown Estate by late 2013.

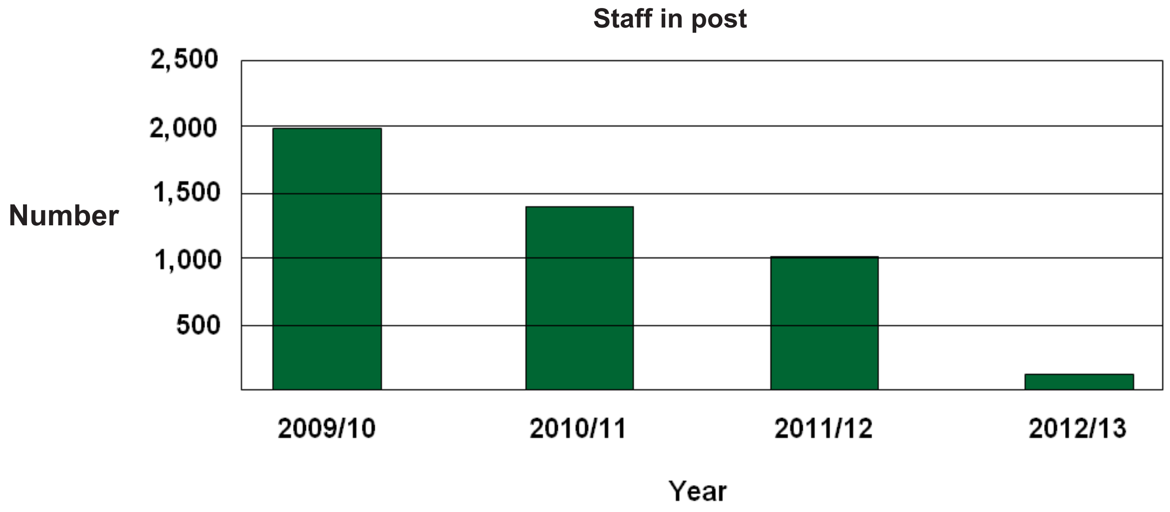
5 Leading our people

During a year of continuing change, we prioritised staff support and engagement. We want to ensure that staff stay engaged with our work while they remain with us, and provide support to help their transition to a new employer.

The transfer of the Commission's in-house audits to four of the major audit firms involved the Transfer of Undertakings (Protection of Employment) Regulations transfer of 663 staff at the end of October 2012. This was the culmination of several months of preparation to ensure staff understood their position and that their new employers were fully briefed.

With the transfer of the Audit Practice complete, we were able to move forward with the transition to the new smaller Commission. We avoided redundancies, where possible, by filling posts with existing Commission employees. In cases where we had to make staff redundant, we offered advice and support in the run up to their departure. This included a special intranet site, with links to job sites and training, guidance and advice.

Overall staff levels have fallen significantly as a result of these changes and once transitional work is complete later in 2013 numbers will reduce to fewer than 70 staff.



Policies, procedures and working practices were reviewed to make them fit for a smaller organisation.

Employee engagement will continue to be a major factor in motivating and retaining staff to ensure we deliver the Commission’s objectives. Steps to engage staff include the Controller’s fortnightly briefings, at which the Executive Team update all staff on recent developments. We regularly gather staff views and have set up a group from all grades to gather feedback from staff and explore ways to improve motivation and retain staff.

Our equality objective for 2013 continues to relate to being a fair employer. We aim to ensure there is no difference in employment outcomes for our staff because of their age, gender, disability, gender reassignment, pregnancy and maternity, ethnicity, sexual orientation, or religion and belief. Our approach to equalities, our equality objective for 2013, our Equality Action Plan 2013/14 and our equality information are all published on our website.

Financial review

The Audit Commission continued to deliver a strong financial performance.

Supporting corporate objectives
This has been a year of major upheaval for the Commission: we have seen the transfer of the Audit Practice into the private sector; the rationalisation of our estate; the outsourcing of support for our IT services; and our payroll and HR systems externalised. The headcount has reduced by over 870 staff, including 213 redundancies. All this was achieved while still maintaining the high quality of our work.

Despite this unprecedented level of change, we have maintained and improved our financial performance, including that of the Audit Practice in its final year. Coupled with progress on reducing costs and pursuing efficiencies, having reduced audit fees by up to 40 per cent, we will be financially sustainable through to March 2015, when we expect to close.

Our strong financial position at the end of the year has enabled us to rebate a further £6.0 million to local public bodies by year end, bringing the total amount rebated to £26.0 million since 2010. We increased our financial reserves (referred to in the annual accounts as 'retained earnings'), by being more productive and controlling costs.

Managing with less income
Our total operating income fell by £51.5 million (30.7 per cent) to £116.2 million (2011/12: £167.6 million). Income has reduced as we passed on efficiencies and cost savings to the bodies we audit. The Commission did not receive any grant income from DCLG to cover redundancy payments in 2012/13.

Controlling costs
We reduced our total operating costs for the year, including transitional liabilities, by £60.7 million (39.0 per cent) to £94.9 million (2011/12: £155.6 million). We achieved this by spending less than last year on:

- staffing, due to the transfer of the audit practice, reduced corporate support functions and efficiencies achieved as we moved to the smaller Commission (£34.9 million);
- redundancies (£19.1 million);
- travel and subsistence (£0.8 million);
- training and other costs (£0.4 million);
- accommodation and related costs (£13.3 million); and
- other supplies and services (£1.1 million).

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

- replacing permanent audit staff who resigned with short-term contractors (£0.3 million); and
- contracting out work to audit suppliers, following the transfer of the Audit Practice (£9.5 million).

The Statement of Income (page 61) and the notes to the accounts (pages 66 – 105) provide more detail on our operating income and costs for the year.

Operating results

Our operating surplus for the year was £21.3 million (2011/12: surplus of £12.0 million). Included in this is part of our IAS 19 accounting adjustment, (a credit of £12.0 million), which transfers to the pension reserve. Including investment income of £0.8 million, we transfer £10.1 million to retained earnings.

Other non-operating IAS 19 adjustments, (costs of £18.7 million), reduce the overall surplus to £3.4 million. The total impact of IAS19 adjustments, (£6.7 million), increases the pensions reserve deficit to £115.5 million at 31 March 2013 (31 March 2012: £108.8 million).

The Statement of Income (page 61) and the notes to the accounts (pages 66 – 105) provide more detail on our operating results for the year.

Financial position

Our total assets decreased over the year by £39.2 million to £40.7 million at 31 March 2013. The decrease of £37.3 million in cash, cash equivalents and short-term investments was in line with our planning expectations. This decrease reflects changes in invoicing arrangements for the new audit contracts and redundancy payments made as staff numbers decreased and we restructured. Both current and non-current assets also decreased, reflecting our preparations for closure in March 2015.

Current liabilities decreased by £45.5 million. This is because:

- deferred income has decreased by £29.5 million because of our commitment to reduce audit fees and also changes to our billing as we outsourced to the Firms;
- redundancy and onerous lease provisions are reducing as they are utilised or released (£11.8 million); and
- trade and other payables continue to reduce (£4.3 million) as we reduce our overheads.

Our total non-current liabilities have increased by £2.9 million to £123.4 million at 31 March 2013 (31 March 2012: £120.5 million). The difference is mainly due to an increase in our pension liabilities, offset by a reduction in provisions as they have been utilised or released.

We ended the year with £18.1 million of retained earnings. This position is testament to the Commission's continued efforts to improve efficiency, bear down on costs and realise the benefits of our retendered, centrally-procured audit contracts. Overall this is a strong financial performance, achieved in difficult circumstances. This was more than offset by the net pension liability of £115.5 million, represented by the deficit on the pension reserve. The result was, as in previous years, negative taxpayers' equity amounting to £97.4 million at 31 March 2013 (31 March 2012: £100.8 million).

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

The Statement of Financial Position (page 63) and the notes to the accounts (pages 66 – 105) provide more detail on our financial position at the end of the year.

The future

In March 2012, the Commission's Board agreed a firm financial strategy until closure, to:

- reduce audit and grant certification fees by 40 per cent in 2012/13;
- give certainty to audited bodies by fixing audit fees; and
- pass back efficiencies, procurement savings and surplus retained earnings.

The Board reviewed the position in December 2012 and reaffirmed the strategy that will see much of our retained earnings returned to audited bodies whose fees have contributed to our retained earnings. Further fee rebates will be considered in 2013/14.

At the start of the 2013/14 financial year, we have been able to reduce staff numbers in the restructured Commission, excluding those employed exclusively on closure activities, to fewer than 70 and have reduced recurrent running costs from an anticipated £9 million a year to less than £7.2 million.

We continue to work closely with DCLG to ensure that decisions taken on the future local audit regime continue to focus on reducing costs, maximising efficiency and achieving value for taxpayers' money, as well as ensuring that the legislation creating the new audit regime transfers our assets and liabilities on closure to a successor body and deals with any contingent liabilities at that date.

Our remit

The Audit Commission is a public corporation, jointly sponsored by the Secretaries of State at the Department for Communities and Local Government and for Health. The principal sources of legislation are the Audit Commission Act 1998 and the Local Government Act 1999.

The Commission has three core statutory functions in relation to the audit of local government and NHS bodies.

1). **The appointment of auditors**
The Commission appoints auditors to local government, health and criminal justice organisations and regulates the work that they do. Following the outsourcing of the Commission's Audit Practice, all of these auditors are private firms.

2). **The Code of Audit Practice**
A key part of the statutory audit regime prescribed by the Act is for the Commission to prepare, and keep under review, a Code of Audit Practice (the Code), which prescribes the way in which auditors are to carry out their functions under the Act. The Code must be approved by Parliament at least every five years. In 2010, the Commission issued two new Codes, one for the audit of local government bodies and one for the audit of health bodies.

3). **Setting scales of fees**
The Commission has a duty to prescribe scales of fees for the audit of accounts and must consult before setting these.

The Commission also has statutory duties and functions in relation to:

- the certification of grant claims: the Commission has a duty, if required by the audited body, to make arrangements to certify claims or returns made by that body in respect of grants or subsidies;
- data matching: under sections 32A-32G of the Audit Commission Act 1998, the Commission has the powers to conduct data-matching exercises for the purpose of assisting in the prevention and detection of fraud; and
- studies: the Commission has the function, set out in the Audit Commission Act 1998, to undertake or promote comparative and other studies designed to help improve the services and functions of our audited bodies, with a statutory requirement to consult on our studies programme.

In May 2010, the government announced that it would cut local government inspection and abolish Comprehensive Area Assessment. In August 2010, the Secretary of State announced plans to close the Audit Commission.

The Queen’s Speech in May 2012 confirmed that the government would publish the Local Audit and Accountability Bill, setting out measures to close the Audit Commission and establish new arrangements for the audit of local public bodies. The government introduced the Bill in the House of Lords on 9 May 2013.

The Audit Commission expects to close in 2015.

Our Commissioners

Commissioners during the year of review

All comments relating to the Commissioners reflect their activities during the year ended 31 March 2013.

Jeremy Newman Chairman
Jeremy was appointed as Chairman of the Audit Commission on 1 October 2012. He is a chartered accountant by profession and the former Chief Executive (2008-2011) of BDO International. Prior to that, he was managing partner (2001-2008) of BDO's UK firm, having joined that firm as a trainee in 1978 and becoming a partner in 1986. He has worked extensively in audit and corporate finance and has acted for a wide range of businesses across a variety of industries.

He is a non-executive board member of the Crown Prosecution Service Board and Chair of its Audit and Risk Committee; a director of SIB Group and a trustee of Adventure Capital Fund, its parent charity; Chair of the SIB Group Audit Committee and a member of the ACF Investment Committee. He is also the Chair of Trustees of a local primary school and trustee of a number of private charitable trusts. His private sector interests include being non executive chair of TCS Global. He is also an Honorary Visiting Professor at Cass Business School, Faculty of Management.

Bharat Shah Deputy Chairman
Bharat has been the Deputy Chairman of the Audit Commission since September 2007 and Chair of the Audit Committee since 2009. Currently, he is 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; a Non-Executive Director of Places for People Group; a Trustee of Paul Strickland Scanner Centre; and has been providing business consultancy and executive mentoring since 2002.

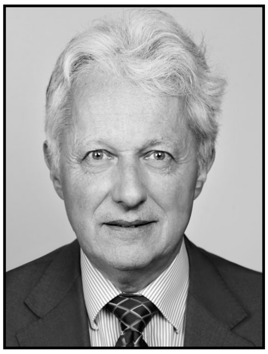
He has previously been the Chairman of two private equity backed businesses: the Sure Group (a long term property maintenance business); and the Picdar Group (a digital asset management business); and a Non-Executive Director of the West Bromwich Building Society.

Bharat trained as a certified accountant and worked for Eastman Kodak for 27 years where he rose exponentially from the 'shop floor' to the most senior executive position outside of the US in his role as the CEO of EAMER, Kodak Consumer Imaging and Vice President, Eastman Kodak. He was also a Vice President of Singer responsible for Europe, Africa, Middle East and Asia.

Janet Baker

Janet has been a Commissioner since 2010 and is also a member of the Audit Committee. Janet worked as a management consultant at Coopers & Lybrand, Ernst & Young and then as a Senior Partner at PA Consulting Group. She is an expert in all forms of organisational and commercial structuring and restructuring, including outsourcing and sale processes. In February 2012, Janet was appointed Crown Commercial Lead in the Cabinet Office, working on the development and delivery of new commercial models across government. She is also a non executive director on the Board of the Defence Support Group (MOD), Chair of its Remuneration Committee, and member of its Audit Committee; a non executive director on the Audit Committee of HM Treasury; a non-executive director of the Board of the Rural Payments Agency and a member of its Audit Committee.

Brian Landers



Brian has been a Commissioner since 2010 and is also a member of the Audit Committee. He previously worked as Finance and Operations Director at Penguin Group UK, Group Finance Director at Habitat, Finance Director of the retail division at WH Smith and Chief Internal Auditor at Sainsbury's. Brian is currently chairman of Companies House and a member of the Competition Appeal Tribunal. His public appointments have included Finance Director of HM Prison Service and Deputy Chairman of the Financial Ombudsman Service and he was until recently UK Treasurer of Amnesty International.

Councillor Robert Light

Robert has been a Commissioner since 2011 and is a member of the Audit Committee. Robert has been a Kirklees Councillor since 1987 and Conservative Group Leader since 2000. He was the Leader of Kirklees Council from 2006 to 2009 and was the first Chair of the Leeds City Region. He has also been Chair of the West Yorkshire Fire and Rescue Service. A leading member of the Local Government Association, Robert is Deputy Chair and a member of the Leadership Board, Executive Board and Children and Young People Board. He is also Deputy Chairman of the Environment Agency.

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 16 years, and has been Leader of Slough Borough Council since 2008. In a career of over 30 years he has worked for blue-chip communication technology companies in the UK and the Netherlands, holding various finance and accounting roles.

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 on Hampshire for 12 years. He is currently Chair of Blackwater & Hawley Town Council. He was also a member of Hampshire Police Authority for 23 years and was Chair of the Authority at the time of its abolition in 2012. Before committing himself full time to local government, Adrian was a retail manager for MacFisheries and Mac Market Supermarkets.

Nicola Scrivings

Nicola was appointed to the Audit Commission in January 2013. She spent much of her career in the Royal Mail, including a commercial role with Parcelforce Worldwide as Marketing Director, and more recently as Regional Operations Director. She is also currently a Non-Executive Director of Cambridgeshire Community Service NHS Trust, Chair of CHS Group, and a Trustee for the Cambridge Cyrenians.

Andrea Sutcliffe

Andrea joined the Social Care Institute for Excellence as Chief Executive in April 2012. She was previously Chief Executive of the Appointments Commission for four years. Prior to that, Andrea was Deputy Chief Executive at the National Institute for Health and Clinical Excellence (NICE). Andrea's career started in the health service at Tower Hamlets Health Authority in 1986, progressing to Bloomsbury and Islington Health Authority. In 1992 she moved to Camden and Islington Community Health Services, managing services for older people; and then to St. George's Healthcare NHS Trust, as General Manager for Children, Women and Neurosciences Services. Before joining NICE, Andrea was also an Assistant Director in the Social Services Department for the London Borough of Camden.

Dr Ruth Thompson

Ruth was appointed to the Audit Commission in January 2013. She has held various senior and key positions across Whitehall, including as Interim Chief Executive, Partnerships for Schools, Director General of Higher Education at the Department for Innovation, Universities and Skills and Director of Higher Education Strategy at the Department for Education and Skills. She is a member of the Moat Homes Ltd Board, Deputy Chair of London TravelWatch and is a governor at Staffordshire University, and Birkbeck, University of London

Former Chairman and Commissioners leaving during the year

Michael O'Higgins

Michael was Chairman of the Audit Commission from October 2006 until September 2012, and became Chairman of The Pensions Regulator in January 2011. He is also a Non-Executive Director of HM Treasury and Chair of the Treasury Group Audit Committee. Michael is Chairman of Investec Structured Products Calculus VCT plc and was a Non-Executive Director of Oxford Medical Diagnostics plc until July 2012. Michael was the Chair of the charity Centrepoint until December 2011, and was a Visiting Professor of Economics at the University of Bath until June 2012. Previously, Michael was a Managing Partner with PA Consulting, leading its government and IT consulting groups, latterly as a director on its International Board. He was a Partner at Price Waterhouse and worked at the Organisation for Economic Cooperation and Development in Paris. He held academic posts at the University of Bath, the London School of Economics, Harvard University and the Australian National University.

Lord Adebowale, CBE

Victor is Chief Executive of Turning Point, one of the UK's leading health and social care organisations working with people with complex needs, including those affected by drug and alcohol misuse, mental health problems and people with a learning disability. He began his career in local authority estate management before joining the housing association movement. He worked with Patchwork Community Housing Association and the Ujima Housing Association. He was Director of the Alcohol Recovery Project and Chief Executive of youth homelessness charity Centrepoint. In 2000, Victor received a CBE for services to the unemployed and homeless young people and in 2001 became a cross-bench member of the House of Lords. Victor left the Commission in July 2012.

Dr Jennifer Dixon

Jennifer is Chief Executive of the Nuffield Trust and a member of the National Centre for Social Research. She was Director of Health Policy at the King's Fund and among previous posts she was Policy Adviser to the Chief Executive of the NHS. She has a background in clinical medicine and holds a PhD in health services research. Jennifer's term as Commissioner ended on 31 December 2012.

Tony Harris

Tony has extensive business experience and has held several senior roles including Chief Executive of ADT Fire & Security plc, Managing Director of NTL Business Inc and President, Business Services at BT plc. Before joining BT, Tony was an Executive Board member for 11 years at DHL Worldwide Express. He has served as a Non-Executive Director of Telspec plc and the Norbain Group and is currently a Senior Adviser to a private investment company and a Non-Executive Director of DEX Corporation, Empire World Trade Ltd, WRFC Trading Ltd and the Royal Surrey County Hospital NHS Foundation Trust. Tony's term as Commissioner ended on 31 December 2012.

Councillor Stephen Houghton, CBE

Stephen has been Leader of Barnsley Metropolitan Borough Council for 15 years and a member for 22. He is also Chair of the Barnsley Local Strategic Partnership, Chair of the Special Interest Group of Municipal Authorities (SIGOMA), Chair of Barnsley Miller Partnership Ltd and a Non-Executive Director of Barnsley Hospital Foundation Trust. He was awarded the CBE for services to local government in 2004. Stephen's term as Commissioner ended on 30 April 2012.

Councillor Sir David Williams

Sir David was previously an Audit Commissioner from 1997 to 2003. He was Leader of Richmond Council from 1983 until 2001 and Executive Member for E-Government and External Partnerships following the reorganisation of the Council from May 2001 to May 2002. He was also Cabinet Member for Communities from 2006 to 2010. Other appointments include Liberal Democrat Group Leader (and Deputy Chair) of the Local Government Association from its start in 1996 to 2001 and IDeA Board member from 2001 to 2005. Sir David was awarded a CBE in 1990 and a knighthood in 1999, for services to local government and the Local Government Association. Sir David's term as Commissioner ended on 31 December 2012.

Commissioners' appointment dates

	Appointment start date	Appointment end date
Jeremy Newman, Chairman (from 1 October 2012)	01/10/12	30/09/15*
Bharat Shah, Deputy Chairman	01/09/07	31/12/15*
Janet Baker	01/11/10	31/12/15*
Brian Landers	01/11/10	31/12/15*
Councillor Robert Light	15/09/11	31/12/15*
Councillor Robert Anderson	13/06/12	12/06/15*
Councillor Adrian Collett	28/01/13	31/12/15*
Nicola Scrivings	28/01/13	31/12/15*
Andrea Sutcliffe	28/01/13	31/12/15*
Dr Ruth Thompson	28/01/13	31/12/15*
Dr Jennifer Dixon	01/11/03	31/12/12
Tony Harris	01/11/10	31/12/12
Councillor Stephen Houghton, CBE	02/05/06	30/04/12
Councillor Sir David Williams	06/07/11	31/12/12
Michael O'Higgins, Chairman (until 30 September 2012)	01/10/06	30/09/12
Lord Adebowale, CBE	01/09/07	26/07/12

* or the date of the Commission's closure, whichever is sooner.

Commissioners' interests

The following disclosures relate to Commissioners who were in post during the year and their activities during the year, or to the date at which their appointment ceased. The disclosures arise where a Commissioner has been in a position of influence resulting from election to, receiving remuneration from, or appointment to any organisation:

- where the Commission appoints the auditor or inspects the body;
- where there are specific statutory responsibilities to cooperate — for example, with the Care Quality Commission;
- that is a central government body; and
- that is a provider or receiver of significant services to or from the Commission.

Jeremy Newman Chairman (from 1 October 2012)

- Non-Executive Member, Crown Prosecution Service Board
- Chair, Audit & Risk Committee (CPS)
- Director, SIB Group
- Chair, Group Audit Committee (SIB Group)
- Trustee, Adventure Capital Fund (ACF)
- Member, Investment Committee (ACF)

Bharat Shah Deputy Chairman

- Non-Executive Director, Places for People Group (Registered Social Landlord)
- Trustee of Paul Strickland Scanner Centre (a company with limited liability and a registered charity)
- Chairman, Smart-Sal Limited (a company providing mobile phones & tablets salary sacrifice schemes to employers)

Janet Baker

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

Brian Landers

- Chairman, Companies House
- Member, Competition Appeal Tribunal

Councillor Robert Light

- Member, Kirklees Council
- Member, Local Government Association
- Local Government Association Peer
- Member, Environment Agency
- Family member an employee of Bradford Metropolitan District Council

Councillor Robert Anderson

- Elected Member and Leader of Slough Borough Council until 2014

Councillor Adrian Collett

- Member, Blackwater & Hawley Town Council
- Member, Hampshire County Council
- Member, Hart District Council
- Member, Yateley Town Council
- Receiving remuneration from the College of Policing (Occasional Assessor)
- Secretary, Hart District Association of Parish and Town Councils
- Member, Frimley Park Hospital Foundation Trust
- Member, Hampshire Partnership NHS Trust

Nicola Scrivings

- Chair, CHS Group
- Non-Executive Director, Cambridge Community Services NHS Trust

Andrea Sutcliffe

- Chief Executive, Social Care Institute for Excellence
- Family member is a Managing Director of NHS Commissioning Support Unit

Dr Ruth Thompson

- Vice-Chair, London TravelWatch
- Member, Audit Committee, Higher Education Funding Council for England

Michael O'Higgins Chairman (until 30 September 2012)

- Non-Executive Director, HM Treasury – From 1 April to 30 September 2012
- Chair, Treasury Group Audit Committee (HM Treasury) – From 1 April to 30 September 2012
- Chair, The Pensions Regulator – From 1 April to 30 September 2012

Lord Adebowale, CBE

- Chief Executive and Company Secretary of Turning Point (Registered Social Landlord) – From 1 April to 26 July 2012

Dr Jennifer Dixon

- Chief Executive, Nuffield Trust – From 1 April to 31 December 2012
- Member, National Centre for Social Research – From 1 April to 31 December 2012

Tony Harris

- Non-Executive Director, Royal Surrey County Hospital NHS Foundation Trust – From 1 April to 31 December 2012

Councillor Stephen Houghton, CBE

- Member, Barnsley Metropolitan Borough Council – From 1 to 30 April 2012
- Member, Barnsley/Miller Partnership – From 1 to 30 April 2012
- Local Government Improvement and Development Peer - From 1 to 30 April 2012
- Member, Local Government Group Executive – From 1 to 30 April 2012
- Non-Executive Director, Barnsley Hospital Foundation Trust – From 1 to 30 April 2012

Councillor Sir David Williams

- Member, Richmond upon Thames Council – From 1 April – 31 December 2012

Our auditor's details

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

The Controller of Audit (Marcine Waterman) confirms that:

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

Remuneration report

Controller of Audit and managing director appointments

The Audit Commission has been in transition over the last twelve months as preparations continue for our closure in 2015. We have a substantially new Board and a new Chairman. We have radically changed our business model and are now a much smaller organisation – fit-for-purpose and proportionate with a smaller management team in place.

The transition to the smaller Commission began in September 2012 with the appointment of the new Controller of Audit and a completely new management team with reduced grades and remuneration. From 1 October 2012, the members of the Commission's most senior management team, the Executive Team, were the full-time Controller of Audit and five full-time senior managers.

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	-
David Aldous, Associate Controller – Audit Technical Support	26/11/01	01/09/12	-
Jon Hayes, Associate Controller – Audit Compliance	08/02/88	01/10/12	-
Ian Hickman, Associate Controller – Information and Analysis	05/06/00	01/09/12	-
Julie Hope, Head of Governance	24/11/03	01/09/12	-
Neil Swift, Head of Finance and Operations	30/06/03	01/10/12	-

Remuneration policy for the Controller of Audit and senior staff

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

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

Controller of Audit and senior staff remuneration package (audited)

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

- The Controller of Audit was appointed following a competitive internal selection exercise. The remuneration package of the successful candidate was agreed by the Secretary of State.
- 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 these staff are eligible for a lease car or transport allowance. A travel card for travel within London is available for some staff based at Millbank.
- Pension arrangements: the Controller of Audit and other senior staff are eligible to be members of the Audit Commission Pension Scheme. This is a standalone defined benefit scheme with the same level of benefits for all members. Contribution rates vary according to salary. As the 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 have permanent employment contracts. The Commission does not have a performance-related bonus scheme. Other than notice periods, all other terms and conditions are the same as for other staff. The Controller of Audit and these senior staff are required to give three months' notice if they resign.

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

	1 April 2012 to 31 March 2013 (or from the date of appointment)						1 April 2011 to 31 March 2012
	Basic salary	Smart Pension salary sacrifice (SPSS)	Basic salary less SPSS	Special responsibility allowances	Other taxable benefits	Basic salary and other benefits excluding SPSS	Basic Salary and other benefits excluding SPSS
	£000	£000	£000	£000	£000	£000	£000
Controller of Audit							
Marcine Waterman	78						
Full year equivalent	*134*	6	72	0	1	**73**	0
Executive Team							
Ian Hickman	71						
Full year equivalent	*120*	6	65	0	4	**69**	0
Jon Hayes	51						
Full year equivalent	*102*	4	47	0	6	**53**	0
David Aldous	60						
Full year equivalent	*103*	5	55	0	0	**55**	0
Neil Swift	45						
Full year equivalent	*90*	3	42	0	7	**49**	0
Julie Hope	58						
Full year equivalent	*100*	5	53	0	1	**54**	0
Total	**363**						
Full year equivalent	***649***	**29**	**334**	**0**	**19**	**353**	**0**

Previous management arrangements

Before September 2012, the Audit Commission Management Team comprised an interim Chief Executive, 2.6 full time managing directors and three other senior employees, all of whom were in post on 1 April 2012. One senior manager left to take up a new post, the others left on redundancy following the completion of a number of transitional projects. Their departure dates are set out in the following table.

Previous management team appointments

	Date of joining the Commission	Date appointed to post	Date of leaving post
Eugene Sullivan, Interim Chief Executive, Managing Director of Corporate Services	02/06/08	02/06/08	30/11/12
Tracey Dennison, Managing Director, Human Resources	17/11/03	17/11/03	31/03/13
Martin Evans, Managing Director, Audit Policy	05/10/98	01/04/06	31/05/13
Andy McKeon, Managing Director, Health, Communications and Policy, Analysis and Research	08/09/03	08/09/03	31/12/12
Jeremy Boss, Director of Business Information Services	26/04/04	26/04/04	28/02/13
Roger Hamilton, Commission Solicitor	01/11/04	01/11/04	31/01/13
Sonia Rees, Finance Director	19/01/09	01/04/10	02/12/12

Remuneration policy for the previous management arrangements

For the interim Chief Executive, remuneration was set by the Commission Board. The Board also set the remuneration for all managing directors. For the remaining posts, the Chief Executive determined remuneration in line with the Commission's normal terms and conditions of employment.

Previous management team - remuneration packages (audited)

The main components of the interim Chief Executive and managing directors' remuneration package were as follows:

- The interim Chief Executive and managing directors were appointed by the Board, which agreed their remuneration packages.
- Salary: the basic salary originally set for these employees took account of each person's responsibilities, qualifications and experience, and a market analysis of the salary for similar roles.
- Other benefits are the same as for the new management team.
- Pension arrangements are the same as for the new management team.
- Other terms of employment are the same as for the new management team. The only exception was the Managing Director, Health, Communications and Policy, Analysis and Research who was contracted to receive 12 months' notice from the Commission and left on 31 December 2012.

Remuneration details for the previous management team (audited)

	1 April 2012 to 31 March 2013 (or from the date of appointment)						1 April 2011 to 31 March 2012
	Basic salary	Smart Pension salary sacrifice (SPSS)	Basic salary less SPSS	Special responsibility allowances	Other taxable benefits and redundancy payments	Basic salary and other benefits excluding SPSS	Basic salary and other benefits excluding SPSS
	£000	£000	£000	£000	£000	£000	£000
Interim Chief Executive							
Eugene Sullivan[1]	74						
Full year equivalent	*178*	0	74	8	15	**97**	235
Managing directors							
Eugene Sullivan [1]	45						
Full year equivalent	*178*	0	45	0	32	**77**	n/a
Gareth Davies	0	0	0	0	0	**0**	327
Tracey Dennison[2]	127	10	117	0	76	**193**	123
Martin Evans [3]	111	19	92	0	1	**93**	114
Andy McKeon [4,5]	106	0					
Full year equivalent	*142*		106	0	100	**206**	161
Peter Wilkinson	0	0	0	0	0	**0**	350
Other senior employees							
Jeremy Boss [7]	128						
Full year equivalent	*139*	10	118	0	75	**193**	131
Roger Hamilton[4,6]	74						
Full year equivalent	*88*	0	74	0	65	**139**	117
Sonia Rees [8]	93						
Full year equivalent	*139*	7	86	3	3	**92**	138
Total	**758**						
Full year equivalent	*1,102*	**46**	**712**	**11**	**367**	**1,090**	**1,696**

[1] Eugene Sullivan's other taxable benefits include £2,713 paid to him as a transport allowance (2011/2012: £4,070) and a redundancy payment of £30,865. We also paid him travel and subsistence when he was in London acting as interim Chief Executive in line with his contract of employment. These payments amounted to £2,496 for travel and £10,623 for subsistence to 31 August 2012 including the income tax and national insurance due to HM Revenue and Customs (HMRC) (2011/12: £48,922). Eugene stopped contributing to the Audit Commission Pension Scheme on 5 April 2012. Eugene reverted to his post as Managing Director Corporate Services on 1 September 2012. He left the Commission on 30 November 2012.

[2] Tracey Dennison left the Commission on 31 March 2013. Tracey's other taxable benefits included a redundancy payment of £68,678.

[3] Martin Evans reduced his working pattern to 3 days a week (0.6 FTE) on 1 November 2012 and then to 2 days a week from 1 January 2013.

[4] Andy McKeon and Roger Hamilton ceased contributing to the Pension Scheme on or before 5 April 2012.

[5] Andy McKeon left the Commission on 31 December 2012. Andy's other taxable benefits included a redundancy payment of £94,773.

[6] Roger Hamilton reduced his working pattern to 3 days a week (0.6 FTE) on 1 May 2012. Roger left the Commission on 31 January 2013. His other taxable benefits include a redundancy payment of £64,333.

[7] Jeremy Boss left the Commission on 28 February 2013. Jeremy's other taxable benefits included a redundancy payment of £71,190.

[8] Sonia Rees left the Commission on 2 December 2012.

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. They also do not include severance payments which have been made following the announcement of the Audit Commission's closure.

This is summarised in the following tables:

	2012/13
	£000
Band of highest paid director's total remuneration	165-170
Median total remuneration	49
Ratio	3.4

	2011/12
	£000
Band of highest paid director's total remuneration	245-250
Median total remuneration	44
Ratio	5.6

The reduction in the ratio over the last 12 months reflects the transition to the new, restructured organisation as preparations continue to close in 2015. As a result the remuneration of the highest paid director has reduced.

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

	Between 1 April 2012 and 31 March 2013			
	Smart Pension salary sacrifice	Commission pension contributions	Total pension contributions	Total pension contributions 2011/12
	£000	£000	£000	£000
Controller of Audit				
Marcine Waterman	6	14	**20**	n/a[2]
Executive Team				
David Aldous	5	11	**16**	n/a
Jon Hayes[1]	4	9	**13**	n/a
Ian Hickman	6	12	**18**	n/a
Julie Hope	5	10	**15**	n/a
Neil Swift [1]	7	8	**15**	n/a
Total	**33**	**64**	**97**	**n/a**

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

[2] n/a indicates that these staff were not in these posts in 2011/12.

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

	Total accrued pension at 31 March 2013	Increase in accrued pension	Total accrued pension at 31 March 2012	Transfer value at 31 March 2013	Change in transfer value	Transfer value at 31 March 2012
	£000	£000	£000	£000	£000	£000
Controller of Audit						
Marcine Waterman	28	2	26	544	95	449
Executive Team						
David Aldous	31	1	30	584	99	485
Jon Hayes	37	1	36	665	113	552
Ian Hickman	53	2	51	1,119	187	932
Julie Hope	30	1	29	561	89	472
Neil Swift	14	2	12	233	55	178

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

Details for previous management arrangements

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

	Between 1 April 2012 and 31 March 2013			
	Smart Pension salary sacrifice	Commission pension contributions	Total pension contributions	Total pension contributions 2011/12
	£000	£000	£000	£000
Interim Chief Executive				
Eugene Sullivan [1]	0	1	**1**	44
Managing directors				
Gareth Davies	0	0	**0**	43
Tracey Dennison	10	22	**32**	32
Martin Evans [2]	19	19	**38**	46
Andy McKeon [1]	0	1	**1**	42
Peter Wilkinson	0	0	**0**	25
Other senior employees				
Jeremy Boss	10	22	**32**	35
Roger Hamilton [1]	0	0	**0**	47
Sonia Rees	7	16	**23**	35
Total	**46**	**81**	**127**	**349**

[1] These employees stopped contributing to the Audit Commission Pension Scheme on or before 5 April 2012.

[2] Martin Evans elected to pay Smart Pension contributions above the minimum level. This does not have an adverse financial implication for the Commission.

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

	Total accrued pension at 31 March 2013	Increase in accrued pension	Total accrued pension at 31 March 2012	Transfer value at 31 March 2013	Change in transfer value	Transfer value at 31 March 2012
	£000	£000	£000	£000	£000	£000
Interim Chief Executive						
Eugene Sullivan [1]	10	0	10	209	8	201
Managing directors						
Gareth Davies [2]	61	0	61	983	0	983
Tracey Dennison	61	3	58	1,263	197	1,066
Martin Evans	68	3	65	1,572	271	1,301
Andy McKeon [1]	87	0	87	2,054	270	1,784
Peter Wilkinson [3]	48	0	48	1,049	0	1,049
Other senior employees						
Jeremy Boss	17	2	15	326	19	307
Roger Hamilton [1]	18	0	18	415	0	415
Sonia Rees	68	1	67	942	124	818

[1] These employees stopped contributing to the Audit Commission Pension Scheme on or before 5 April 2012.

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

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

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

Remuneration policy for the Commissioners

DCLG sets the remuneration levels for Commissioners. Pay was originally based on the expectation that Commissioners would work three days per month, although this was reduced to two days from 1 February 2012 for four Commissioners and to one day for two Commissioners. The Deputy Chairman's remuneration reflects the expectation that he works five days per month. The Chairman's remuneration is based on a time commitment of six days per month. No Commissioner received an increase in remuneration in 2012/13.

None of the Commissioners serving between 1 April 2012 and 31 March 2013 received other benefits from the Audit Commission, nor are they members of the Audit Commission Pension Scheme. The Commission has unfunded liabilities for the provision of a pension of £117,000 (2011/12: £103,000) for a former Chairman. The Commission has made DCLG's Audit Commission Closedown Board aware of this liability.

Remuneration details for the Commissioners (audited)	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Jeremy Newman (Chairman) [1]	**15**	0
Michael O'Higgins (previous Chairman) [2]	**45**	90
Bharat Shah (Deputy Chairman, Audit Committee Chairman, Chair of Procurement Panel, Chair of the Appointments Panel and Audit Commission Pension Scheme Trustee)	**24**	24
Lord Adebowale, CBE [3]	**2**	8
Janet Baker	**14**	14
Dr Jennifer Dixon	**11**	14
Tony Harris	**7**	14
Councillor Steve Houghton, CBE [4]	**1**	14
Brian Landers	**10**	14
Councillor Robert Light	**10**	7
Councillor Sir David Williams	**4**	9
Councillor Robert Anderson [5]	**4**	0
Councillor Adrian Collett [6]	**0**	0
Nicola Scrivings [6]	**0**	0
Dr Ruth Thompson [6]	**0**	0
Andrea Sutcliffe [6]	**0**	0
Councillor Sir Merrick Cockell	**0**	5
Councillor Chris White	**0**	2

[1] Jeremy Newman's appointment as Chairman began on 1 October 2012. His annual salary

is £30,000 for 6 days' work per month.

[2] Michael O'Higgins term of appointment as Chairman ended on 30 September 2012.

[3] Lord Adebowale resigned on 26 July 2012.

[4] Councillor Stephen Houghton's appointment ended on 30 April 2012.

[5] Councillor Robert Anderson's appointment began on 13 June 2012. His annual salary is £4,788 for 1 day's work per month.

[6] The appointments of Councillor Adrian Collett, Nicola Scrivings, Andrea Sutcliffe and Dr Ruth Thompson began on 28 January 2013. Their annual salary is £2,394 for 6 days' work per year.

Marcine Waterman
Controller of Audit
24 June 2013

Statement of responsibilities

Commissioners’ responsibilities

The Commission’s Corporate Governance Framework, which is reviewed annually, and published on the Commission’s website, sets out in detail the responsibilities of the Board and the issues that are delegated to the Controller of Audit.

The Board:

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

Statement of Accounting Officer’s responsibilities

In accordance with paragraph 11 (1) of Schedule 1 to the Audit Commission Act 1998, the Secretaries of State for Communities and Local Government, and Health directed the Commission as to the form in which it should prepare its statutory Statement of Account. The accounts are prepared on an accruals basis and must show a true and fair view of the Commission’s state of affairs at the year end, including its income and expenditure, its financial position, changes in taxpayers’ equity, and cash flows for the accounting year.

In preparing the accounts the Accounting Officer will:

- observe the accounts direction (Appendix 1) issued by the Secretaries of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- unless inappropriate, prepare the accounts on a going concern basis.

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

Governance statement

1. Scope of responsibility

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

On 26 July 2012, the Commission’s Board agreed a new management structure for the Commission and a new Executive Team was appointed in September 2012. The Executive Team is smaller than the previous Audit Commission Management Team, and is proportionate to the Commission’s much reduced size after the closure of its Audit Practice and outsourcing of all its public audit work.

As part of the restructure, the Board appointed me as Controller of Audit for the Audit Commission on 1 September 2012 and the Permanent Secretary at DCLG appointed me as the Commission’s Accounting Officer from that date.

Until 31 August 2012, Eugene Sullivan was the Commission’s Interim Chief Executive and Accounting Officer. On 31 August 2012, Eugene Sullivan wrote to me formally confirming that:

- during the period from 1 April 2012 to 31 August 2012, sound internal controls, risk management and governance arrangements were in place, which accorded with Treasury guidance; and
- to the best of his knowledge, no significant internal control issues arose in the period 1 April 2012 to 31 August 2012.

2. Background to events in 2012/13

During 2012/13, the Commission has been in transition and has:

- successfully outsourced the work of its in-house Audit Practice with effect from 1 November 2012;
- closed down its in-house Audit Practice on 31 October 2012;
- significantly reduced in size, evolving into a small, efficient and fit-for-purpose body to manage the audit contracts;
- closed and decommissioned its hub offices and audit rooms in audited bodies’ premises; and
- appointed a Controller of Audit and smaller Executive Team to manage the new outsourced business model and prepare for the efficient and orderly closure of the Commission in March 2015.

The Commission has successfully delivered its work programme during the year, while managing these unprecedented changes.

We have made these changes without reducing our internal controls. We will continue to uphold robust internal controls and risk management to manage our services effectively and close down the Commission in an orderly and efficient way.

We await final confirmation of the date the Commission will close, but are working to the assumption in the Local Audit and Accountability Bill, which is that we will close in March 2015. We have prepared our 2012/13 accounts on a going concern basis as:

- the Bill is expected to receive Royal Assent by March 2014, but the Commission will lay the 2012/13 accounts before Parliament in July 2013;
- other public sector bodies will take over the statutory functions of the Commission – management of audit contracts, the *Code of Audit Practice*, technical support to auditors and the National Fraud Initiative – after the Commission closes in March 2015; and,
- on 31 May 2012, the Secretary of State at DCLG signed a Crown guarantee for the Commission's pension scheme.

The forewords, outline of the year and financial review sections of this report describe events in 2012/13 in more detail.

3. Governance framework

3.1 Commission's structure and governance framework

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

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

The Commission is managed and overseen by its Board. The Head of Governance, who attends each Board meeting, produces a comprehensive Corporate Governance Framework, which clearly sets out which matters are delegated and which are reserved to the Board.

The Board approved a new Corporate Governance Framework at its meeting on 14 March 2013. The new version of the Corporate Governance Framework reflects the Commission's outsourced audit delivery model and smaller structure after the closure of the Audit Practice and refers to the passage of the legislation to close the Commission in March 2015.

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

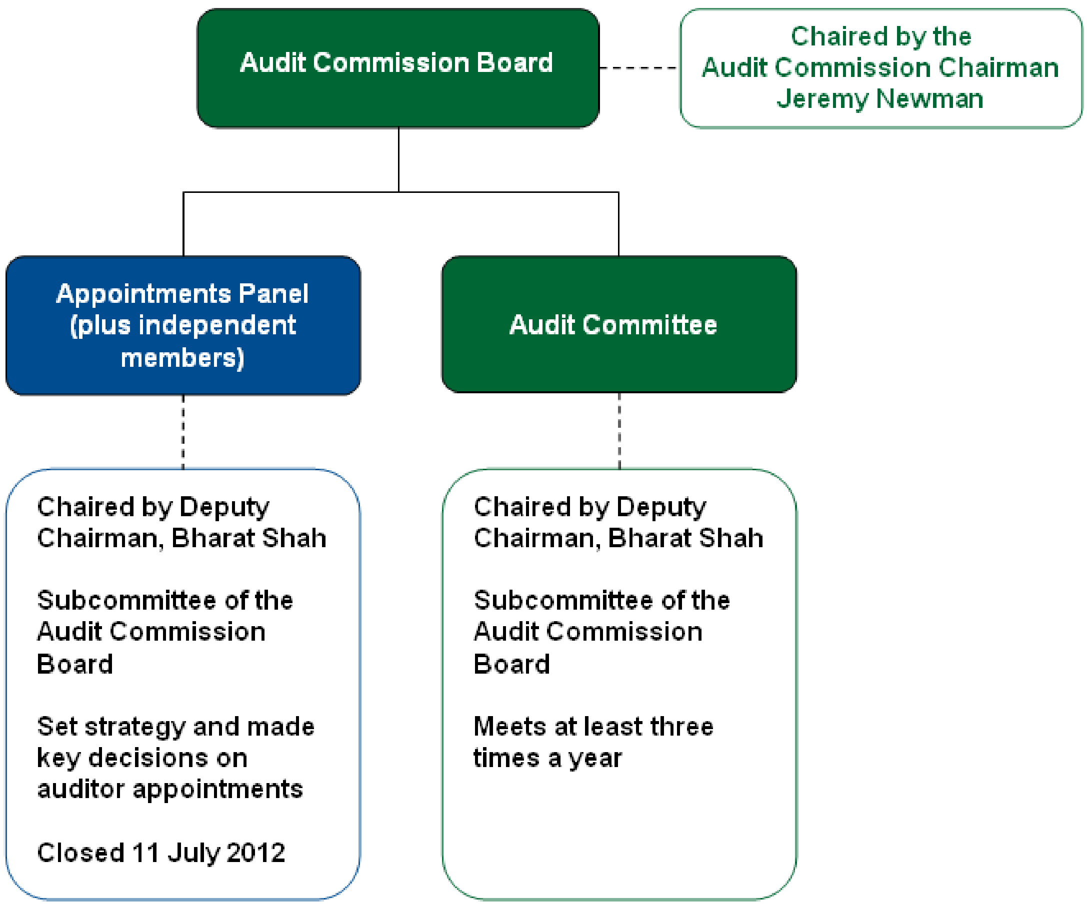
3.2 The Commission Board

The Commission's Corporate Governance Framework states that the Board is responsible for setting the Commission's values, standards, strategy, objectives, and for setting its budget. The Board oversees the Commission's performance and is responsible for ensuring that it acts within its statutory remits.

The Corporate Governance Framework sets out which roles and powers are reserved to the Board and which are delegated to the Controller of Audit. The Corporate Governance Framework also sets out the Commission's statutory framework and includes the Commissioners' Code of Conduct, the Commission's financial policies and a statement of the Accounting Officer's responsibilities. The Audit Commission's Corporate Governance Framework is published on its website.

The 'Statement of Responsibilities' section in the Annual Report describes the Commissioners' role and responsibilities.

In 2012/13 the Commission Board and its committees were as follows:



During 2012/13 the Board has:

- approved the appointment of local auditors for the 2012/13 audit year;
- from November 2012, monitored the quality of the work carried out by its contracted audit firms;
- overseen the closure of the Commission's Audit Practice on 31 October 2012;
- agreed a smaller, proportionate and fit-for-purpose management structure for the Commission to manage the audit regime and prepare for closure in March 2015;
- reviewed and updated the Commission's Corporate Governance Framework;
- received assurances from the Audit Committee on the Commission's internal controls and risk management;
- agreed the Commission's budget and medium term financial plans;
- overseen the Commission's performance against its objectives, and financial performance;
- reviewed and updated the Commission's complaints process; and
- agreed the Commission's studies work plan and key messages.

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

The Commissioners have attended the following meetings:

	Meetings attended (of the total meetings held which the Commissioners could have attended)		
Commissioners	**Board**	**Audit Committee**	**Appointments Panel**
Michael O'Higgins (appointment ended 30 September 2012)	3/3	N/A	N/A
Jeremy Newman (appointed 1 October 2012)	2/2	N/A	N/A
Bharat Shah	4/5	5/5	2/2
Lord Adebowale (resigned 26 July 2012)	2/2	N/A	N/A
Cllr Robert Anderson (appointed 13 June 2012)	5/5	1/1	1/1
Janet Baker	4/5	4/5	N/A
Cllr Adrian Collett (appointed 28 January 2013)	1/1	N/A	N/A
Dr Jennifer Dixon (appointment ended 31 December 2012)	3/4	N/A	2/2
Tony Harris (appointment ended 31 December 2012)	2/4	4/4	N/A

Cllr Stephen Houghton (appointment ended 30 April 2012)	0/0	N/A	0/0
Brian Landers	5/5	5/5	N/A
Cllr Robert Light	3/5	3/5	1/2
Nicola Scrivings (appointed 28 January 2013)	1/1	N/A	N/A
Andrea Sutcliffe (appointed 28 January 2013)	1/1	N/A	N/A
Dr Ruth Thompson (appointed 28 January 2013)	1/1	N/A	N/A
Sir David Williams (appointment ended 31 December 2012)	4/4	N/A	2/2

The Chairman ensures that all Commissioners are involved fully in the work of the Board and assesses the performance of individual Commissioners. He also ensures that all Commissioners are 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 considers the necessity for a review each calendar year.

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

3.3 The Appointments Panel

During 2011, the Commission outsourced its in-house audit work, awarding contracts to external audit firms in March 2012. Given the unprecedented scale of the outsourcing exercise, on 8 December 2011, the Commission Board set up an Appointments Panel to oversee the appointment of auditors, once contracts were awarded. The Panel made recommendations on auditor appointments to the Board for formal approval.

The Panel was made up of Commissioners and two independent members:

- Bharat Shah (Chair);
- Dr Jennifer Dixon;
- Councillor Stephen Houghton (until his appointment ended on 30 April 2012);
- Councillor Robert Anderson (appointed 13 June 2012 and replaced Councillor Stephen Houghton);
- Councillor Robert Light;
- Councillor Sir David Williams;
- Mike More, Chief Executive of Westminster City Council (non-voting independent member); and
- Sean Nolan, Chair of the Association of Local Authority Treasurers' Societies (non-voting independent member).

The Appointments Panel met twice during the year to decide the strategic policy for the appointment of external auditors to local authorities from 2012/13; review representations from audited bodies objecting to proposed appointments; and recommend auditor appointments for approval by the Commission Board.

The Appointments Panel met for the last time on 11 July 2012 to recommend appointments for the 2012/13 audit year. The Panel's recommendations were presented for approval by the Board at its meeting of 26 July 2012.

3.4 The Audit Committee

On behalf of the Board, the Audit Committee scrutinises any part of the Commission's business, including internal controls, key risks and risk management, and spending. In 2012/13, the Committee paid particular attention to the controls over transition projects and the closure of the Audit Practice. The Audit Committee signs off the Commission's financial, accounting, risk management, whistle-blowing and counter-fraud policies.

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

The Audit Committee considers the results of the NAO's external audit of the Commission, including the NAO's management letter and management responses. The Committee oversees the production of the Commission's Annual Report and Accounts, and recommends them to the Board for approval. The Audit Committee follows up all internal and external audit recommendations to ensure management has carried out agreed actions.

Up to 8 November 2012, the Audit Committee oversaw the Quality Review Process for assessing the performance of auditors appointed by the Commission, whether from its own staff or from external suppliers. From 8 November 2012, responsibility for the Quality Review Process passed to the Commission Board.

During 2012/13, the Audit Committee met five times. Membership of the Audit Committee during the year was:

Audit Committee Member	Year of Office
Bharat Shah (Chair)	Whole year
Janet Baker	Whole year
Cllr Robert Light	Whole year
Brian Landers	Whole year
Tony Harris	Until 31 December 2012
Cllr Robert Anderson	Member from 1 January 2013

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

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

Every year, the Audit Committee carries out a review of its effectiveness. The most recent review took place in August 2012, when the Head of Assurance assessed the Committee against the NAO's best practice guidelines for audit committees. The NAO examined the assessment. The Head of Assurance reported to the Audit Committee on 13 September 2012 that the Audit Committee complied in all material respects with the guidelines.

3.5 Transition Governance

In 2011/12, the Commission managed the transition to a smaller structure through a formal Transition Board. In 2012/13, the Audit Commission Management Team developed the proposals for the transition to the Commission's new smaller structure. From September, the newly appointed Executive Team oversaw and managed the transition and is now responsible for managing preparation for closure as part of normal business activities.

3.6 Scheme of Delegation and the Executive Team

The Commission has a Scheme of Delegation, which sets out delegations by the Controller of Audit, as required by the Corporate Governance Framework. This Scheme, which the Commission reviews at least yearly, also sets out the role of the Executive Team.

The Commission has reviewed and updated the Scheme of Delegation to reflect the restructuring of the Commission after the closure of the Audit Practice, and the appointment of the new Executive Team.

The Scheme of Delegation is backed by a set of financial, IT and human resources policies. The Audit Committee and Board approve the financial policies yearly. As Accounting Officer, I approve the more detailed financial procedures that support the financial policies. The Executive Team has reviewed and updated the Commission's policies to reflect the new smaller structure of the Commission after the closure of the Audit Practice.

The Commission issues new and updated governance policies to all staff, who must confirm they have read and understood them. The Commission records and tracks these acknowledgements.

4. Risks and internal controls

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

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

- an organisational structure that supports clear lines of communication, monitoring, reporting and accountability;
- plans, objectives and priorities which take account of risk and are approved by the Commission Board;
- that the Commission Board decides the level of risk the Commission is prepared to accept;
- that the Executive Team oversees 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

The Commission reviews its risk management policy every year to ensure it reflects best practice and clarifies the Commission's appetite for risk. The risk management policy is approved by the Executive Team and Audit Committee on behalf of the Commission Board. The Commission has a low appetite for risk, except for stakeholder risk where appetite is medium. A medium risk appetite acknowledges that the Commission would be affected if risks materialised and recommends proportionate mitigating actions. While the Chairman and Controller maintain effective and constructive relationships with key stakeholders, the Commission cannot always influence external views and actions. The Commission Board considers it both pragmatic and practical to take a more proportionate approach, hence the 'medium' risk appetite. The Audit Committee has reviewed and agreed the Commission's risk appetite, and the Board's most recent formal review and approval of the Commission's risk appetite took place at the Board meeting of 14 March 2013.

The Executive Team and Audit Committee review significant corporate risks for completeness. The Audit Committee keeps the substance of, and compliance with, risk management under review. The Audit Committee can commission independent examinations of the Commission's risk management if necessary. The Commission has embedded risk management in the day-to-day management of its business. Members of the Executive Team consider and report on their own risks as part of the corporate performance reporting procedures.

In 2012/13, the Commission managed the following key risks:

- the Commission might not have the capacity to deliver both an unprecedented programme of change and its statutory audit work;
- the Commission may not be able to retain staff as closure draws nearer;
- outsourced support systems and IT for the smaller restructured Commission may not be fit-for-purpose;
- audit work could be of poor quality, and vulnerable to legal challenge;
- the Commission might not comply with Data Protection and Freedom of Information legislation, or government data security requirements, resulting in loss or inappropriate disclosure of data; and
- potential disruption to business continuity because of major incident, systems failure or supplier failure.

The Audit Committee also considered risks to the timely appointment of the new Controller, Chairman and Commissioners during the year, removing the risks from the risk register once the appointment processes were complete.

4.2 Financial management

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

The Commission Board considers the Commission's performance and progress against its medium-term financial plan.

From September 2012, the Executive Team has simplified and streamlined corporate performance reporting to reflect the Commission's core functions. The Commission's Executive Team and Board now use one unified report to review financial and non-financial performance against the Commission's objectives.

The Commission approves all spending before supply and from August 2012, it publishes details of individual spending over £250 on its website. Up to July 2012, the Commission published details of all spending over £500.

5. How we evaluate internal controls

5.1 The Audit Committee

The role of the Audit Committee is set out in section 3.4.

5.2 Internal audit

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

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

The Head of Assurance attends all Audit Committee meetings and has direct access to me and to the Chair of the Audit Committee. The Head of Assurance has a private session with the Audit Committee members at least every year. The most recent private session took place on 13 September 2012.

The Commission will outsource its internal audit services from July 2013.

5.3 External audit

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

A representative of the external auditor is invited to, and attends, all Audit Committee meetings and has direct access to me, to the Head of Assurance and to the Chair of the Audit Committee. The external auditor has a private session with the Audit Committee at least once a year. The last private session took place on 13 September 2012.

5.4 Quality review of audit work

The Commission has a well-developed, rigorous approach to reviewing the quality of the work of appointed auditors. Our 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 final year's work of the Commission's Audit Practice. We also commissioned the AQRT to carry out cyclical reviews of the firms' work for us.

The AQRT's work for the Commission covers the opinion on the financial statements and those aspects of audit work that are specific to the Commission's audit regime, including: Value for Money conclusions, Whole of Government Accounts returns and certification instructions. The AQRT also assesses the extent to which the firm-wide quality processes have been applied to the Commission's audits. Separately we carry out a programme of review and monitoring of audit suppliers' compliance with the Commission's regulatory requirements.

Up to September 2012, this review activity was overseen by the Commission's Director of Audit Policy and Regulation, who reported the findings to the Commission's Audit Committee. Now, the Associate Controller (Audit Compliance) oversees the Commission's audit compliance and quality regime and from November 2012, 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 are published.

Up to its closure on 31 October 2012, the Commission's in-house Audit Practice had in place a comprehensive quality framework, which met the standards set out in the International Standard on Quality Controls (ISQC) (UK and Ireland) 1, issued by the Auditing Practices Board. ISQC (UK and Ireland) 1 sets out standards and provides guidance about a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements.

Our arrangements go beyond ISQC (UK and Ireland) 1 to meet certain added requirements of the Commission's audit regime. The Commission's Audit Practice was subject to independent inspection by the AQRT, which will report its findings to the Commission's Board. The Board will also receive the results of the annual internal quality monitoring programme, in the Audit Practice's final annual quality report.

5.5 Information assurance

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

During 2012/13, we had an Information Assurance Framework in place to control and protect information held by the Commission. Under the Framework, Information Asset Owners (IAOs) take responsibility for all data held by the Commission, ensuring their data is held, transferred and disposed of securely. The IAOs also ensure we comply with the requirements of the Government Protected Information Scheme.

We have securely archived a large volume of data from the Commission’s Audit Practice, which closed on 31 October 2012. We have reviewed and streamlined our information governance policies and Information Assurance Framework to reflect the reduced scale of the Commission after the Audit Practice closed, without diluting the controls in place to protect our data to the required standards. We have wind down plans in place to dispose of, transfer or archive our remaining data as we move towards closure in March 2015.

The Commission had controls and systems in place during 2012/13, which ensured compliance with the Data Protection Act and Freedom of Information Act requirements, and ensured that information held by the Commission is held securely and accurately processed. We must report protected personal data-related incidents to the Information Commissioner’s Office. The Commission had no protected personal data security breaches during the year to 31 March 2013 that needed reporting to the Information Commissioner or to its sponsoring department, DCLG. During the year, the following incidents occurred:

Items stolen or lost	Number
Laptops	47
Personal digital assistants	0
Mobile and smart phones	1
Memory sticks	2
CDs/ DVDs	1

During 2012/13, the Commission arranged for the collection and disposal of 1,669 laptops and carried out a full reconciliation as part of this exercise. The external supplier, responsible for the maintenance, was unable to confirm the secure destruction of 40 laptops, which are part of the ‘47 stolen or lost items’ in the table above. The contractor had previously indicated to the Commission that the laptops had been stored securely. This matter was fully investigated by the supplier in consultation with the Head of Assurance. The contract with the supplier ended on 31 March 2013. This issue was reported to the police; to the Commission’s Audit Committee at its February 2013 meeting; and to the Board at its March 2013 meeting.

In accordance with Commission policy, users had been instructed to remove all data from the laptops before returning them to the external contractor. All 47 laptops were fully encrypted to the government required standards of FIPS 140-2, which provides proper security. All other items containing personal or confidential data were also fully encrypted. None of these losses put personal data at significant risk.

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

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

6. Review of effectiveness

As Accounting Officer, I assumed responsibility for reviewing the effectiveness of the Commission's internal controls on 1 September 2012. My review of the control framework is informed by the work of the internal auditors and the senior managers of the Commission, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

My assessment of the effectiveness of the Commission's system of internal controls also relies on:

- assurances from Eugene Sullivan, the Commission's Interim Chief Executive and Accounting Officer to 31 August 2012, on the effectiveness of the system of internal control up to that date; and
- assurances from the Executive Team on the effectiveness of the system of internal control from 1 September 2012.

Despite the significant contraction and restructuring of our business during the year, no significant control issues arose during 2012/13 that need reporting in the Governance Statement. The NAO has not raised any issues of significance in their management letter for 2012/13. The Commission has upheld internal controls during the year through risk management and other sources of assurance, including internal audit.

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

Marcine Waterman
Accounting Officer
24 June 2013

Annual accounts

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

I certify that I have audited the financial statements of the Audit Commission for Local Authorities and the National Health Service in England (the Commission) for the year ended 31 March 2013 under the Audit Commission Act 1998. These comprise the Statement of Income, the Statement of Comprehensive Income, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

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

Opinion on Regularity
In my opinion, in all material respects the expenditure and income 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 Commission's affairs as at 31 March 2013 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Audit Commission Act 1998 and Secretary of State directions issued thereunder.

Emphasis of matter paragraph reflecting going concern uncertainty

Without qualifying my opinion, I draw attention to the disclosures made in note 1 to the financial statements concerning the application of the going concern principle in light of the announcement of the disbanding of the Commission. This is subject to legislation and there is, therefore, material uncertainty over the Commission's ability to continue to operate in its current legal form.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

25 June 2013

Statement of Income

for the year to March 2013

	Note	Page	Year to 31 March 2013 £000	Year to 31 March 2012 Restated £000
Continuing operations				
Operating income	2			
Audit fee income	2.1	71	**113,882**	154,122
Grant income	2.2	71	**0**	11,900
Other operating income	2.3	71	**2,291**	1,607
Total operating income	2.4	72	**116,173**	167,629
Operating costs	3			
Staff and Commissioner costs	3.1	76	**29,891**	83,918
Bought-in services	3.2	78	**52,490**	42,756
Other operating costs	3.3	79	**12,330**	27,612
Total operating costs			**94,711**	154,286
Surplus from continuing operations before tax	4	80	**21,462**	13,343
Corporation tax	10.3	94	**181**	149
Surplus from continuing operations after tax			**21,281**	13,194
Discontinued operations				
Total operating costs	5	81	**0**	1,167
Deficit from discontinued operations	5	81	**0**	(1,167)
Total operating surplus			**21,281**	12,027
Financing income				
Net investment return	6	81	**780**	627
Net interest on pension scheme assets	7.12	88	**(5,087)**	(3,103)
Surplus for the financial period			**16,974**	9,551

The notes on pages 66 to 105 form part of these accounts.

Statement of Comprehensive Income

for the year to March 2013

	Note	Page	Year to 31 March 2013 £000	Year to 31 March 2012 Restated £000
Surplus for the financial year (from the Statement of Income)		61	**16,974**	9,551
Other income				
Actuarial losses relating to the pension scheme	7.13	88	**(13,568)**	(46,454)
Total other income for the year			**(13,568)**	(46,454)
Total comprehensive surplus/ (deficit) for the year			**3,406**	(36,903)

The notes on pages 66 to 105 form part of these accounts.

Statement of Financial Position

as at March 2013

	Note	Page	As at 31 March 2013 £000	As at 31 March 2012 £000
Non-current assets	8			
Intangible assets	8.1	90	**0**	123
Plant and equipment	8.2	91	**274**	1,501
Long-term financial assets	8.3	92	**1,949**	2,577
Total non-current assets			**2,223**	4,201
Current assets	9			
Trade receivables	9.1	92	**8,118**	9,519
Accrued trade income	9.2	93	**1,154**	1,207
Other receivables	9.3	93	**5,871**	4,294
Short-term financial assets	9.4	93	**15,000**	46,900
Cash and cash equivalents	9.4	93	**8,361**	13,809
Total current assets			**38,504**	75,729
Total assets			**40,727**	79,930
Current liabilities	10			
Trade and other payables	10.1	94	**4,079**	8,349
Deferred income	10.2	94	**5,277**	34,766
Corporation tax	10.3	94	**181**	149
Current provisions	11	95	**5,159**	16,957
Total current liabilities			**14,696**	60,221
Total assets less current liabilities			**26,031**	19,709
Non-current liabilities				
Non-current provisions	11	95	**7,885**	11,671
Net pension liability	7.8	86	**115,501**	108,799
Total non-current liabilities			**123,386**	120,470
Assets less liabilities			**(97,355)**	(100,761)
Financed by:				
Local government	12.1	96	**13,912**	5,717
Health	12.2	97	**4,234**	2,321
Retained earnings			**18,146**	8,038
Pension reserve	12.3	97	**(115,501)**	(108,799)
Total taxpayers' equity			**(97,355)**	(100,761)

The notes on pages 66 to 105 form part of these accounts.

Marcine Waterman
Accounting Officer
24 June 2013

Statement of Cash Flows

for the year to March 2013

	Note	Page	Year to 31 March 2013 £000	Year to 31 March 2012 £000
Operating surplus			**21,281**	12,027
Adjustments for:				
Pensions	3.1	76	**(11,953)**	(7,008)
Depreciation	3.3	79	**1,097**	1,717
Amortisation	3.3	79	**122**	416
Loss on disposal of intangible assets	8.1	90	**1**	95
Loss on disposal of plant and equipment	8.2	91	**222**	1,602
Decrease in receivables and accrued trade income	13	98	**505**	7,921
(Decrease)/ increase in payables and provisions	14	98	**(49,343)**	11,085
Corporation tax charge	10.3	94	**181**	149
Cash from operating activities			**(37,887)**	28,004
Corporation tax paid			**(149)**	0
Net cash from operating activities			**(38,036)**	28,004
Cash flows from investing activities				
Payments to acquire short-term financial assets	9.4	93	**(15,000)**	(46,900)
Repayments on maturity of short-term financial assets	9.4	93	**46,900**	13,000
Interest received	6	81	**780**	627
Purchase of plant and equipment	8.2	91	**(92)**	0
Proceeds from sale of non-current assets	8.2	91	**0**	14
Net cash from investing activities			**32,588**	(33,259)
Net decrease in cash and cash equivalents			**(5,448)**	(5,255)
Cash and cash equivalents at the beginning of the year			**13,809**	19,064
Cash and cash equivalents at the year end	9.4	93	**8,361**	13,809

The notes on pages 66 to 105 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year to March 2013

	Pension Reserve	Retained Earnings	Total
	£000	£000	£000
Balance at 31 March 2011	(66,250)	2,392	(63,858)
Total comprehensive (loss)/ income	(42,549)	5,646	(36,903)
Balance at 31 March 2012	(108,799)	8,038	(100,761)
Total comprehensive (loss)/ income	(6,702)	10,108	3,406
Balance at 31 March 2013	**(115,501)**	**18,146**	**(97,355)**

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

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

Note 1: Accounting conventions and policies

General accounting conventions and policies

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

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

- revaluation of non-current assets to their value to the business by reference to their current costs, in a form directed by the Secretary of State for Communities and Local Government , with the approval of HM Treasury, under paragraph 11 (1) of Schedule 1 to the Audit Commission Act 1998;
- valuation of the pension scheme assets at fair value and liabilities at present value in line with International Accounting Standard (IAS) 19; and
- valuation of financial instruments at fair value (Note 1.16).

1.3 Going concern
In August 2010, the government announced its intention to disband the Commission. Parliament will need to pass the legislation necessary to close the Commission. The timing remains uncertain, but we are working on the assumption, set out in the Local Audit and Accountability Bill, that we will close in March 2015.

In November 2012, our Executive Team reviewed the appropriateness of preparing the 2012/13 financial statements on a going concern basis. As a result of discussions with DCLG officials, the Executive Team concluded that it was unlikely that the relevant legislation would be in place and operational in time to affect financial reporting and disclosures for 2012/13. Our strong expectation is that the Commission will continue for at least one year after the approval of the financial statements. Following an Audit Committee recommendation in December 2012, the Board approved this approach. Following the publication of the Local Audit and Accountability Bill in May 2013, the Audit Committee and Board have concluded that it still remains fitting for us to prepare our 2012/13 accounts on a going concern basis because:

- it is unlikely that the legislation to close the Commission will be in place and operational within the next 12 months; and
- the Bill refers to our functions, assets and liabilities transferring to another body that will be responsible for managing the ongoing contracts.

The Executive Team has also considered our status as a going concern because of the implications of the pension reserve deficit of £115.5 million shown in the Statement of Financial Position at 31 March 2013. The pension reserve is in deficit because the valuation of pension liabilities in the annual actuarial report at 31 March 2013 exceeded the valuation of pension assets at that date. Our retained earnings at 31 March 2013 were not enough to cover the pension reserve deficit had all pension liabilities been payable at that date.

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

1.4 Recent changes to Accounting Standards affecting the preparation of accounts

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

In June 2012, the EU approved revisions to IAS 19. The updated standard has several revisions and reduced choices in valuation methods and accounting treatments. We have adopted the revised IAS 19 early, in our March 2013 accounts, because the impact of the changes is minimal. The main impact for us is the rate at which we will calculate our return on assets. Previously we used individual rates per investment class, as permitted under IAS 19. This recognises the return of each individual class of asset. Going forward, under the revised IAS 19, we must use the same rate (the discount rate) as we apply to our liabilities. As this rate is usually lower, the return on assets will decrease.

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

1.5 Prior-period adjustments

We have restated our 2011/12 pensions figures because we adopted the revised IAS 19 accounting standard in 2012/13.

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

1.6 Segmental reporting

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

1.7 Value added tax

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

1.8 Income recognition

We credit operating income, whether generated by direct government grant, fees from authorities or otherwise, to the year of account in which the work is done, or costs incurred. Note 1.20 explains how we ascertain the stage of completion in order to recognise our income.

1.9 Income arising from litigation

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

1.10 Rebates

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

1.11 Discontinued operations

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

Accounting conventions and policies relating to the Statement of Financial Position

1.12 Intangible assets

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

1.13 Plant and equipment

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

1.14 Amortisation and depreciation

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

We have set the expected useful life of each category of asset as follows:

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

1.15 Accrued income

We value accrued trade income at estimated realisable value.

1.16 Financial Instruments

The fair value of the Commission's financial instruments approximate to their book values at 31 March 2013 and 2012. We use the following criteria to assess the fair value of financial instruments.

- Long-term receivables – discounted cash flows at the investment interest rates.
- Long-term receivables – we will convert any payments received in foreign currency at the rate of exchange, on the receipt date.
- Trade and other receivables and deferred income – discounted cash flows at prevailing interest rates or at their nominal amount less impairment losses if due in less than 12 months.
- Trade and other payables – their nominal amount.
- Short-term financial assets, cash and cash equivalents – approximate to their book values because of their short maturity period. We define cash equivalents as investments of up to one month's duration.

With the exception of the Landsbanki deposit, the Commission's policy is that no trading in financial instruments will be undertaken and that all deposits will be made in Pounds Sterling. The Landsbanki deposit is held in Icelandic Krona and is revalued at each Statement of Financial Position date.

1.17 Doubtful and irrecoverable debt

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

1.18 Operating leases

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

1.19 Dilapidation provisions

We provide for dilapidation costs for our property leases. We discount the provision for future dilapidations for leased property to current value. The real rates used are (1.8) per cent for cash flows expected between 0 and 5 years (2011/12: 2.2 per cent), and (1.0) per cent for cash flows expected over 5 and up to 10 years (2011/12: 2.2 per cent).

1.20 Accounting estimates

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

- Provisions (Note 11)
  - We estimate provisions for redundancies in line with our standard terms and conditions of employment.
  - We base our estimates for onerous lease provisions on assumptions about anticipated void periods and possible incentives needed to sublet or dispose of a property. These assumptions are based on our assessment of current market conditions using surveyors' market reports.
  - We estimate dilapidation provisions based on an assessment of likely dilapidation costs when we plan to vacate a property. We base this assessment on the external surveyor's report specific to an individual property, or on an average cost per square foot based on external surveyors' reports for similar properties.
- Provision for irrecoverable and doubtful debt (Note 9.1)
  - Subject to review of each debt, we provide for debts between six and 12 months old at 50 per cent and debts older than 12 months at 100 per cent.
- Accrued trade income (Note 9.2) and deferred income (Note 10.2)
  - We value accrued and deferred income at estimated realisable value. To establish the stage of completion, we assess service performed against total service to be performed. This proportion of services completed to date is applied to the total audit fee to calculate the estimated realisable value. Using this method we calculate the accrued and deferred income we should recognise at the Statement of Financial Position date. Where the value of services completed is greater than the amount invoiced we disclose accrued income. Where the value of services completed is less than the amount invoiced we disclose deferred income.
- Non-current assets (Note 8)
  - We review non-current assets each year for impairment, in line with accounting standards.

Accounting conventions and policies relating to the Audit Commission Pension Scheme

1.21 Pension scheme costs

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

1.22 Recognition of actuarial gains and losses

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

Note 2: Operating income

2.1 Audit fee income

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

	Year to 31 March 2013	Year to 31 March 2012
	£000	**£000**
Local government		
Audit fee income including rebates	**86,615**	103,624
Less rebates to local government bodies	**(9,075)**	(2,862)
Audit fee income	**77,540**	100,762
Health		
Audit fee income including rebates	**39,361**	54,382
Less rebates to health bodies	**(3,019)**	(1,022)
Audit fee income	**36,342**	53,360
Total audit fee income from continuing operations	**113,882**	154,122

2.2 Grant income

This note provides analysis of grant income received from DCLG as shown in the Statement of Income. The Commission received grant in 2011/12 to cover redundancy payments made in the year and the table below reflects the split of these payments by sector.

	Year to 31 March 2013	Year to 31 March 2012
	£000	**£000**
Local government	**0**	8,514
Health	**0**	3,386
Total grant income	**0**	11,900

2.3 Other operating income

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

	Year to 31 March 2013	Year to 31 March 2012
	£000	**£000**
Staff seconded out to other organisations	**290**	259
Rental income received	**1,005**	897
Costs charged to the pension scheme	**240**	260
Sundry income	**756**	191
Total other operating income	**2,291**	1,607

2.4 Segmental analysis

a. Analysis by sector

Two government departments sponsor the Commission - DCLG and the DH. The Commission keeps 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 2013**	**Year to 31 March 2012 restated**
	Note	**£000**	**£000**
Operating income	4	**116,173**	167,629
Net investment return	6	**780**	627
Total income for the year		**116,953**	168,256

Table 2: Analysis of total income (shown in Table 1) between local government and health	**Year to 31 March 2013**	**Year to 31 March 2012 restated**
	£000	**£000**
Local government income	**79,666**	110,739
Health income	**37,287**	57,517
Total income for the year (as in Table 1)	**116,953**	168,256

Table 3: Analysis of the total expenditure for the year shown in the Statement of Income		**Year to 31 March 2013**	**Year to 31 March 2012**
	Note	**£000**	**£000**
Operating costs – continuing	4	**94,711**	154,286
Operating costs – discontinued	5	**0**	1,167
Corporation tax	10.3	**181**	149
Net interest on pension scheme assets	7.12	**5,087**	3,103
Total expenditure for the year		**99,979**	158,705

Table 4: Analysis of expenditure (shown in Table 3) between local government and health	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Local government – continuing	**66,775**	104,128
Local government – discontinued	**0**	1,167
Total local government expenditure	**66,775**	105,295
Total health expenditure	**33,204**	53,410
Total expenditure for the year (as in Table 3)	**99,979**	158,705

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

Table 5		Year to 31 March 2013	Year to 31 March 2012
		£000	£000
Income	Audit fees – net of rebates – continuing	**77,540**	100,762
	Grant continuing	**0**	8,514
	Other operating and finance income	**2,126**	1,463
	Total income (as in Table 2)	**79,666**	110,739
Expenditure	Continuing	**66,775**	104,128
	Discontinued	**0**	1,167
	Total expenditure (as in Table 4)	**66,775**	105,295
Surplus for the year		**12,891**	5,444

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

Table 6		Year to 31 March 2013	Year to 31 March 2012
		£000	£000
Income	Audit fee net of rebates – continuing	**36,342**	53,360
	Grant	**0**	3,386
	Other operating and finance income – continuing	**945**	771
	Total income (as in Table 2)	**37,287**	57,517
Expenditure	**Total expenditure** (as in Table 4)	**33,204**	53,410
Surplus for the year		**4,083**	4,107

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

The tables following 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 2013	Year to 31 March 2012
	£000	£000
Audits undertaken by the Commission	**41,778**	69,969
Audits undertaken by private accountancy firms	**35,762**	30,793
Grant income	**0**	8,514
Other operating income and IAS 19 adjustments	**2,126**	1,463
Total income (as in Table 5)	**79,666**	110,739

Health	**Year to 31 March 2013**	**Year to 31 March 2012**
	£000	**£000**
Audits undertaken by the Commission	**19,861**	38,152
Audits undertaken by private accountancy firms	**16,481**	15,208
Grant income	**0**	3,386
Other operating income and IAS 19 adjustments	**945**	771
Total income (as in Table 6)	**37,287**	57,517

c. Analysis of disclosable activity

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

- Section 28: certifying claims or returns made by an authority. The Commission received income for this work of £13,620,000 (2011/12: £16,985,000).
- Section 29: additional audits undertaken with the consent of the Secretary of State. The Commission did no work of this type in 2012/13 or 2011/12.
- Section 36: studies designed to improve economy, efficiency and effectiveness, undertaken at the request of specified educational bodies. The Commission did no work of this type in 2012/13 or 2011/12.

The Local Government and Public Involvement in Health Act 2007 (Schedule 2A, paragraph 9) extended powers granted to the Commission under section 35 of the Audit Commission Act 1998. The Commission has the statutory power to carry out advice and assistance work. The Commission received income for this work of £110,000 (2011/12: £1,065,000).

Note 3: Operating costs

3.1 Staff and Commissioner costs

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

Staff and Commissioner costs	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Staff salaries [1] [2]	**29,801**	68,408
Commissioners' remuneration	**160**	227
Social Security costs	**2,902**	5,005
Pension costs [1] [3]	**(4,880)**	6,327
Cost of lease cars	**1,681**	3,351
Subscriptions and other benefits	**227**	600
Total staff and Commissioner costs	**29,891**	83,918

[1] The staff salaries and pension costs figures include redundancy costs of £819,000 (2011/12: £19,923,000).

[2] The staff salaries cost includes a payment of £1,115,000 to Audit Practice employees for completion of transition and closedown activities.

[3] The pensions cost figure includes a credit of £11,953,000 (2011/12: £7,008,000). This credit is primarily because of a reduction in the future expected cost of the pension scheme, as a result of the significant reduction in members during the year.

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

Staff numbers	Year to 31 March 2013	Year to 31 March 2012
Audit Practice [1]	**429**	855
Central directorates	**204**	289
Secondees	**4**	2
Average number of staff employed in the year	**637**	1,146
In post at the year end	**139**	1,017

[1] The Audit Practice closed on 31 October 2012 and the majority of staff transferred to the firms appointed to carry out the audit work.

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 the year they are charged to the Statement of Income. These costs are calculated in line with the Audit Commission's terms and conditions of employment. We included redundancy costs and provisions for all staff apart from those who transferred to the firms and those who are expected to remain within the residual Commission in the March 2011/12 figures.

Exit package costs 2012/13

Exit package cost bands	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	0	3	3
£10,001 – £25,000	0	2	2
£25,001 – £50,000	0	2	2
Total number of exit packages	0	7	7
Total cost £000	0	134	134

Exit package costs 2011/12

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

3.2 Bought-in services

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

Cost of bought-in services	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Payments to private-sector audit firms	**45,837**	36,340
Research and other consultancy costs	**1**	62
Audit contractors	**6,652**	6,354
Total	**52,490**	42,756

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

Contractors employed	Year to March 2013	Year to March 2012
Contractors – average number in the year	**96**	122
Contractors – number engaged at the year end	**12**	81

3.3 Other operating costs

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

Other operating costs		Year to 31 March 2013 £000	Year to 31 March 2012 £000
Accommodation	– rent and lease costs [1]	**2,493**	9,053
	– other costs [1]	**2,375**	6,309
Supplies and services [1]		**3,479**	4,619
Depreciation		**1,097**	1,717
Amortisation		**122**	416
Impairment		**0**	785
Loss on disposal of non-current assets		**223**	912
Travel and subsistence	– staff	**732**	1,540
	– Commissioners	**2**	4
Recruitment and relocation		**8**	74
Training		**327**	679
Support contractor costs		**627**	329
Audit fee		**74**	74
Professional fees [1]		**660**	1,066
Publications		**39**	44
Debts provided for		**72**	(9)
Total operating costs		**12,330**	27,612

[1] Included within operating costs are net credits for onerous lease provision releases of £1,455,000 (2011/12: net costs of £8,393,000). These are spread across rent and lease costs (£838,000), other accommodation costs (£509,000), supplies and services (£68,000) and professional fees (£40,000).

Note 4: Continuing operations

This note provides more details of the income and expenditure for our continuing audit and other operations shown in the Statement of Income. The expenditure for continuing operations to March 2012 excludes operating costs that were directly and wholly attributed to the Comprehensive Area Assessment and inspection work the Commission stopped doing in 2010. Corporate and support services continue to reduce in size as we implement restructuring plans.

Continuing operations	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Operating income		
Audit fee income	**125,976**	158,006
Less rebates	**(12,094)**	(3,884)
Total audit fee income	**113,882**	154,122
Grant	**0**	11,900
Other operating income	**2,291**	1,607
Total operating income	**116,173**	167,629
Operating costs		
Staff and Commissioners' costs	**42,496**	72,370
Redundancy costs	**819**	19,923
Holiday pay accrual movement	**(1,471)**	(1,367)
IAS 19 (Employee Benefits) for pension contributions	**(11,953)**	(7,008)
Total staff and Commissioners' costs	**29,891**	83,918
Bought-in services	**52,490**	42,756
Other operating costs	**12,330**	27,612
Total operating costs	**94,711**	154,286
Operating surplus for continuing operations	**21,462**	13,343

Note 5: Discontinued operations

This note provides details of the income and expenditure for the Commission's discontinued Comprehensive Area Assessment and inspection operations shown in the Statement of Income. Discontinued operating costs only include other operating costs that are directly and wholly attributable to the Comprehensive Area Assessment and inspection work the Commission stopped doing in 2010. Some residual costs continued last year as staff served out their notice.

Discontinued operations	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Operating income		
Operating income	**0**	0
Operating costs		
Staff salaries	**0**	250
Social Security costs	**0**	22
Pension costs	**0**	53
Other benefits	**0**	5
Lease cost of cars	**0**	21
Other operating costs	**0**	0
VAT payment	**0**	816
Total operating costs	**0**	1,167
Operating deficit	**0**	(1,167)

Note 6: Net investment return

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

Net investment return	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Interest receivable	**119**	88
Release of impairment of cash deposits	**661**	539
Net investment return	**780**	627

Note 7: Audit Commission Pension Scheme

7.1 Outline of the Audit Commission Pension Scheme

The Audit Commission has a self-administered occupational pension scheme, open to all permanent employees and employees who are on a fixed-term contract of two years or more. It is a defined benefit scheme partly funded by contributions from members based on 7 per cent on average of pensionable salaries, unless they participate in the salary sacrifice scheme (the Smart Pensions Scheme). No contributions are payable by those members who participate in the Smart Pension arrangement, but the Commission pays an additional 7 per cent (on average) of those members' pensionable salaries into the scheme on their behalf. There is a reduction in contractual salaries of the corresponding amount for staff participating in Smart Pensions, so there is no additional cost to the Commission.

The scheme is a Registered Pension Scheme under the provisions of Schedule 36 of the Finance Act 2004. The provision of the 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.

7.2 Financial overview of the Audit Commission Pension Scheme

With effect from 1 April 2012, the Audit Commission has adopted the updated IAS19 revised 2011 standard (IAS19). In the notes that follow, the figures for the year to 31 March 2012 are restated for comparison purposes.

During the year, the net pension liability for the Audit Commission Pension Scheme (ACPS) has increased from £108.8 million to £115.5 million. This is because of an increase in the value of the scheme's liabilities. An increase in liabilities is a position common across many companies in the UK and comes as a result of decreases in corporate bond yields. Some of the increase is offset by better than expected investment returns over the year.

IAS19 requires the Commission to discount future benefits for scheme members, the scheme's liabilities, to current day values. The discount rate used is based on the yield available on high-quality corporate bonds. These yields decreased by around 0.5 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. In addition, there are further increases in the scheme's liabilities due to market expectations for price inflation increasing by around 0.1 per cent, which increases the expected level of future benefits from the scheme.

At 31 March 2013, the scheme's assets were invested in a portfolio that consisted primarily of diversified growth funds (DGF), along with some liability driven investment (LDI) funds aiming to reflect around 50 per cent of the change in the scheme's liabilities. The assets have improved in value over the year, primarily due to the return on the LDI assets reflecting the marked increase in the liabilities, and the good performance of the DGFs.

Most of the increase in the value of the scheme's liabilities of £96.0 million is offset by an increase in the fair value of the scheme's assets of £89.3 million.

7.3 Relationship between the reporting entity and the trustees

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

7.4 Future funding obligations in relation to defined benefit schemes

The most recent triennial actuarial valuation based on 31 March 2011 figures was signed on 20 August 2012. Valuation assumptions used by the pension scheme are different to those used in the Commission's accounts, because we report under different accounting regulations. As a result these valuations will differ.

Following the 2011 valuation, the Commission's contributions remained at 17.0 per cent of pensionable salaries (24.0 per cent on average for members participating in the Smart Pensions Scheme) until 31 March 2012 when they were increased to 17.5 per cent of pensionable salaries (24.5 per cent on average for members participating in Smart Pensions). On 1 April 2013, the contributions into the scheme increased to 18.5 per cent of pensionable salaries (25.5 per cent on average for members participating in the Smart Pensions Scheme).

The Commission's contributions amounted to £13.7 million in the twelve month period to 31 March 2013 (2011/12: £13.4 million). The expected contribution to the scheme for the next financial year is £1.6 million.

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

7.5 How the liabilities arising from defined benefit schemes are measured

The Audit Commission provides retirement benefits to some former, and approximately 93 per cent of current, employees through a defined benefit scheme. The level of retirement benefit is principally based on salary earned in the last year of employment.

The liabilities of the scheme are measured by discounting the best estimate of future cash flows to be paid out in the scheme using the projected unit method. This amount is reflected in the deficit in the Statement of Financial Position. The projected unit method is an accrued benefits valuation method in which the scheme's 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's liabilities at the Statement of Financial Position date rather than continuing to fund ongoing 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 £567 million.

7.6 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 2013. We also comply with IAS 19 (Employee Benefits) in setting these assumptions, which are set out in the following table.

Principal assumptions	2013	2012	2011	2010	2009
	% pa	% pa	% pa	% pa	% pa
Rate of inflation	**3.55**	3.45	3.65	3.80	3.30
Rate of salary increase	**3.55** [1]	4.10 [1]	4.30 [1]	4.45	3.95
Discount rate for liabilities	**4.50**	5.00	5.55	5.60	6.60
Rate of increase of pensions in payment	**3.55**	3.45	3.65	3.80	3.30
Rate of increase of deferred pensions	**3.55**	3.45	3.65	3.80	3.30

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

The post-retirement mortality table used in 2013 is as follows: a proportion (82 per cent for male members; 102 per cent for female pensioners; 97 per cent for female non-pensioner members) of the SAPS Year of Birth tables, with allowance for future improvements in line with the CMI 2011 projections, with a long term rate of improvement of 1.5 per cent per annum from 2006 (the long cohort projections are used between 2002 and 2006). In the 2011 IAS19 calculations, the mortality assumption was the PA00 Year of Birth tables with allowance for long cohort improvements with a one per cent per annum improvement underpin from 2000.

Life expectancy on retirement at 60 years	2013	2012
Retiring today		
Males	**29 years**	29 years
Females	**30 years**	32 years
Retiring in 20 years		
Males	**32 years**	31 years
Females	**33 years**	34 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 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 2013. This is the same method 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 [1]	Increase by 0.5%	Increase by 10%
Rate of salary growth	Increase by 0.5%	Less than 1%
Rate of mortality	Mortality table rated down by one year	Increase by 3%

[1] The sensitivity to the inflation assumption change includes corresponding changes to the deferment increases and future pension increases assumptions.

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

At March 2013, the scheme's assets were invested in a portfolio that consisted primarily of DGFs. The fair value of the scheme's assets as a percentage of total scheme's assets are set out below.

All DGF and LDI assets are invested in pooled funds with quoted prices in an active market.

Fair value of the scheme assets

Financial instrument	2013	2012
DGFs	**82%**	86%
LDIs	**18%**	14%
Cash	**0%**	0%

The scheme does not hold any investments in instruments issued by the Commission or hold any assets that are property occupied by, or other assets used by, the Commission. The Commission works 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 majority of the growth portfolio is held in DGFs, in order to reduce funding level volatility while targeting a similar investment return to equities. On 31 March 2013, the scheme entered into derivative contracts which provide exposure to £70.0 million worth of global equities.

Following a review by the trustees, management of the scheme's LDI portfolio was transferred to a new investment manager in March 2013. As at 31 March 2013, the portfolio was still being restructured. Once this has been completed, cash and gilts will be held within an LDI portfolio backing the scheme's liability hedge.

As at 31 March 2013, approximately 18 per cent of the scheme's assets were invested in LDI with approximately 82 per cent invested in growth assets. The actual asset proportions vary from time to time depending on market movements. DGF units are liquidated as necessary to provide a prudent level of liquidity necessary to meet the collateral obligations of the LDI portfolio.

7.8 Net pension liability

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

Net pension liability	Note	31 March 2013 £000	31 March 2012 (restated) £000
Operating net pension liability		**(108,799)**	(66,250)
Movement in fair values of scheme assets	7.10	**89,276**	62,505
Movement in present value of scheme liabilities	7.9	**(95,978)**	(105,054)
Closing net pension liability		**(115,501)**	(108,799)

7.9 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 7.8 above.

Reconciliation of present value of liabilities	Note	Year to 31 March 2013 £000	Year to 31 March 2012 (restated) £000
Operating present value of defined benefit liability		**833,483**	728,429
Current service cost	7.11	**8,557**	13,089
Interest cost	7.12	**41,009**	39,570
Employee contributions		**33**	71
Changes in demographic assumptions underlying scheme liabilities	7.13	**(9,290)**	13,200
Changes in financial assumptions underlying scheme liabilities	7.13	**104,822**	55,757
Experience (losses)/ gains arising on the scheme liabilities	7.13	**(14,521)**	14,278
Benefits paid		**(26,614)**	(23,708)
Past service cost (includes curtailment)	7.11	**(8,018)**	(7,203)
Gains on settlements		**0**	0
Closing defined benefit liability		**929,461**	833,483

Over the year to 31 March 2013, a number of members left the scheme as part of ongoing redundancy exercises by the Commission. Also, at 31 March 2013, there are a number of members who are expected to leave the scheme over the year to 31 March 2014, with reasonable certainty, for the same reason.

This creates a reduction in the defined benefit liability as the members lose the link to their salary on their deferred benefits. This amount is to be treated as a past service cost. All of these leavers, both actual and expected, have been allowed for in the calculation of the past service cost as at 31 March 2013.

Over the year to 31 March 2013, a number of members retired as a result of redundancy on enhanced terms. Also, as at 31 March 2013, a number of members were reasonably certain to retire with enhanced benefits as a result of redundancy over the year to 31 March 2014. The enhanced terms given to these members has increased the defined benefit liability. These have also been treated as a past service cost.

7.10 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 7.8.

Fair value of scheme assets		**Year to 31 March 2013**	**Year to 31 March 2012 (restated)**
	Note	**£000**	**£000**
Opening fair value of scheme assets		**724,684**	662,179
Interest income on scheme assets	7.12	**35,922**	36,467
Actuarial gains	7.13	**67,443**	36,781
Contributions by employer		**13,707**	13,389
Contributions by employees		**33**	71
Benefits paid		**(26,614)**	(23,708)
Expenses		**(1,215)**	(495)
Closing fair value of scheme assets		**813,960**	724,684

7.11 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 by using IAS19.

Operating charge for the pension scheme	Note	Year to 31 March 2013 £000	Year to 31 March 2012 (restated) £000
Current service costs	7.9	**8,557**	13,089
Past service costs (includes gain on curtailment)	7.9	**(8,018)**	(7,203)
Gains on settlements		**0**	0
Expenses		**1,215**	495
Total operating charge		**1,754**	6,381

7.12 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 2013 £000	Year to 31 March 2012 (restated) £000
Interest Iincome on scheme assets	**35,922**	36,467
Interest cost	**(41,009)**	(39,570)
Net interest on pension scheme assets	**(5,087)**	(3,103)

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

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

Actuarial movements recognised in the Statement of Comprehensive Income	Note	Year to 31 March 2013 £000	Year to 31 March 2012 (restated) £000
Opening amount recognised		**(96,107)**	(49,653)
Actual return less interest income on scheme assets	7.10	**67,443**	36,781
Experience gains / (losses) arising on the scheme liabilities	7.9	**14,521**	(14,278)
Changes in demographic assumptions underlying scheme liabilities	7.9	**9,290**	(13,200)
Changes in financial assumptions underlying scheme liabilities	7.9	**(104,822)**	(55,757)
Closing amount recognised		**(109,675)**	(96,107)

The net loss on actuarial movements in the year is £13,568,000 (2011/12: £46,454,000).

Note 8: Non-current assets

8.1 Intangible assets

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

	£000
Cost	
At 1 April 2012	1,443
Purchases	0
Disposals	(1,424)
At 31 March 2013	**19**
Amortisation	
At 1 April 2012	1,320
Provided in year	122
Disposals	(1,423)
At 31 March 2013	**19**
Net book value	
At 31 March 2013	**0**
Cost	
Purchases	0
Disposals	(286)
At 31 March 2012	**1,443**
Amortisation	
At 1 April 2011	1,095
Provided in year	416
Disposals	(191)
At 31 March 2012	**1,320**
Net book value	
At 31 March 2012	**123**

The loss on disposal for the year is £1,000 (2011/12: £95,000). This is made up of the cost of assets disposed of £1,424,000 less depreciation to date £1,423,000.

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

8.2 Plant and equipment

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

	Furniture and fittings	Computer equipment	Office equipment	Total
	£000	£000	£000	£000
Cost				
At 1 April 2012	5,932	1,498	23	7,453
Purchases	0	92	0	92
Disposals	(3,626)	(151)	(16)	(3,793)
At 31 March 2013	**2,306**	**1,439**	**7**	**3,752**
Depreciation				
At 1 April 2012	4,619	1,314	19	5,952
Provided in year	915	179	3	1,097
Disposals	(3,407)	(149)	(15)	(3,571)
At 31 March 2013	**2,127**	**1,344**	**7**	**3,478**
Net book value				
At 31 March 2013	**179**	**95**	**0**	**274**
Cost				
At 1 April 2011	10,649	1,596	37	12,282
Purchases	0	0	0	0
Impairment losses	(1,859)	0	(4)	(1,863)
Disposals	(2,858)	(98)	(10)	(2,966)
At 31 March 2012	**5,932**	**1,498**	**23**	**7,453**
Depreciation				
At 1st April 2011	6,375	1,050	23	7,448
Provided in year	1,349	362	6	1,717
Impairment losses	(1,076)	0	(2)	(1,078)
Disposals	(2,029)	(98)	(8)	(2,135)
At 31 March 2012	**4,619**	**1,314**	**19**	**5,952**
Net book value				
At 31 March 2012	**1,313**	**184**	**4**	**1,501**

The loss on disposal for the year is £222,000 (2011/12: £1,602,000 including impairments of £785,000 and disposal proceeds of £14,000), made up of the cost of assets disposed of £3,793,000 less the depreciation to date of £3,571,000. This related to further vacated space under the Commission's programme for reducing office accommodation costs.

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

8.3 Long-term financial assets

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

	31 March 2013	31 March 2012
	£000	**£000**
Heritable Bank	**0**	275
Landsbanki Islands hf	**1,949**	2,302
Total long-term financial assets	**1,949**	2,577

Note 9: Current assets

9.1 Trade receivables

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

	31 March 2013	31 March 2012
	£000	**£000**
Local government	**5,522**	6,244
Health	**2,596**	3,275
Total trade receivables	**8,118**	9,519

Less than 3 per cent of the total trade receivables balance shown in the table above is over six months old. The total trade receivables balance shown above includes movements in the provision for irrecoverable and doubtful debts. These are netted against the appropriate debtor. The table below shows the movements in the provision included in total trade receivables.

	Year to 31 March 2013	Year to 31 March 2012
	£000	**£000**
Opening provision	**2**	22
Net provision released in the year	**(2)**	(22)
Provision made in the year	**73**	2
Closing provision	**73**	2

9.2 Accrued trade income

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

	31 March 2013	31 March 2012
	£000	£000
Local government	**786**	795
Health	**368**	412
Total accrued trade income	**1,154**	1,207

9.3 Other receivables

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

	31 March 2013	31 March 2012
	£000	£000
Accommodation prepayments	**914**	1,303
Leased car prepayments	**226**	824
Icelandic bank receivables	**987**	1,119
VAT	**2,484**	0
Other debtors and prepayments	**1,260**	1,048
Total other receivables	**5,871**	4,294

9.4 Short-term financial assets, cash and cash equivalents

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

	31 March 2013	31 March 2012
	£000	£000
Short-term financial assets	**15,000**	46,900
Cash and cash equivalents	**8,361**	13,809
Total short-term financial assets, cash and cash equivalents	**23,361**	60,709
Short-term financial assets (1 month and above)		
– maturing 3+ months	**15,000**	33,900
– maturing in 1-3 months	**0**	13,000
Total short-term financial assets	**15,000**	46,900

Note 10: Current liabilities

10.1 Trade and other payables

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

	31 March 2013	31 March 2012
Trade payables	**1,516**	118
Taxation and Social Security	**103**	1,885
VAT	**0**	3,049
Accrual for holiday entitlement not yet taken	**168**	1,640
Accruals	**2,292**	1,657
Total trade and other payables	**4,079**	8,349

10.2 Deferred income

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

	31 March 2013	31 March 2012
Local Government	**3,597**	24,676
Health	**1,680**	10,090
Total deferred income	**5,277**	34,766

Deferred income has decreased as fees have reduced and because we billed for work undertaken by the Audit Practice monthly. Following the outsourcing of audit contracts, all invoicing is billed quarterly.

10.3 Corporation tax

If the Commission makes a trading profit for the year, it will be offset by trading losses brought forward from previous years. As a result we do not expect a corporation tax liability on trading profits for the year. The Commission is currently liable for corporation tax on non-trading interest earned and Icelandic bank impairment credits during the year.

	Year to 31 March 2013	Year to 31 March 2012
	£000	£000
Interest receivable	**119**	88
Release of impairment of cash deposits	**664**	537
Total taxable income	**783**	625
Corporation tax payable	**181**	149

Note 11: Provisions

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

	Redundancy costs	Dilapidations	Onerous leases	Other	31 March 2013
Opening balance	16,555	2,384	9,522	167	**28,628**
Provision in year	564	519	1,380	82	**2,545**
Utilised in the year	(14,391)	(195)	(1,827)	(42)	**(16,455)**
Released in year	(167)	(379)	(1,007)	(121)	**(1,674)**
Closing balance	**2,561**	**2,329**	**8,068**	**86**	**13,044**

Analysis of expected timing of discounted flows

	Redundancy costs	Dilapidations	Onerous leases	Other	31 March 2013
Due within one year or less	2,379	58	2,636	86	**5,159**
Due after more than one year	182	2,271	5,432	0	**7,885**
Total	**2,561**	**2,329**	**8,068**	**86**	**13,044**

Onerous leases: The provisions are based on expected void and disposal cost estimates provided by our external property advisers. While our provisions reflect best estimates provided by our advisers, there is no certainty that property disposals will occur in line with these assumptions. Changes may arise in the future because of market conditions, which affect how long a property will remain vacant and the incentive required to dispose of it.

The sensitivity analysis below shows the impact of changes in the assumptions in relation to void period by decreasing or increasing the period by one year.

	Increase/ (decrease) in provision	Calculated provision
	£000	£000
No change	**0**	7,587
+ 12 months	**672**	8,259
- 12 months	**(672)**	6,915

Note 12: Taxpayers' equity

12.1 Retained earnings for local government activities

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

	Note	Year to 31 March 2013 £000	Year to 31 March 2012 Restated £000
Brought forward		**5,717**	2,920
Surplus for year	2.4 (Table 5)	**12,891**	5,444
Net movement to the pension scheme reserve		**(4,696)**	(2,647)
Local government retained earnings		**13,912**	5,717

12.2 Retained earnings for health activities

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

	Note	Year to 31 March 2013 £000	Year to 31 March 2012 restated £000
Brought forward		**2,321**	(528)
Surplus for year	2.4 (Table 6)	**4,083**	4,107
Net movement to the pension scheme reserve		**(2,170)**	(1,258)
Health retained earnings		**4,234**	2,321

12.3 Pension reserve

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

	Year to 31 March 2013 £000	Year to 31 March 2012 restated £000
Brought forward	**(108,799)**	(66,250)
Total operating credit	**(6,841)**	(9,484)
Cash payments to the scheme	**13,707**	13,389
Movement in the year from the Statement of Comprehensive Income	**(13,568)**	(46,454)
Pension reserve	**(115,501)**	(108,799)

Note 13: Movement in receivables and accrued trade income

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

		Cash flow	31 March 2013	31 March 2012
	Note	£000	£000	£000
Long-term financial assets	8.3	**628**	1,949	2,577
Trade receivables	9.1	**1,401**	8,118	9,519
Accrued trade income	9.2	**53**	1,154	1,207
Other receivables	9.3	**(1,577)**	5,871	4,294
Total receivables and accrued trade income		**505**	17,092	17,597

Note 14: Movement in payables and provisions

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

		Cash flow	31 March 2013	31 March 2012
	Note	£000	£000	£000
Trade and other payables	10.1	**(4,270)**	4,079	8,349
Deferred income	10.2	**(29,489)**	5,277	34,766
Provisions	11	**(15,584)**	13,044	28,628
Total payables and provisions		**(49,343)**	22,400	71,743

Note 15: Financ36.0ial instruments

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

The main risks arising from these financial instruments are liquidity, interest rate and credit risks.

The Board reviews and agrees policies for managing these risks and they are summarised below:

- **Liquidity risk:** we make short-term cash investments in line with our treasury management strategy. We hold between £5 million and £10 million of cash in an overnight or instant access account with our banker. The longest dated cash investment at 31 March 2013 matures on 20 September 2013.
- **Credit risk:** cash investments are permitted with the HM Treasury's Debt Management Office or, if unavailable, with named counterparties that have a short-term credit rating equal to P-1 (Moody) and A-1+ (Standard & Poor's). The Commission only invested with the Debt Management Office during 2012/13.
- **Interest rate risk:** in the event the Commission makes a cash investment with an organisation other than the Debt Management Office, it would maintain a mixture of fixed and variable rate deposits.

The Commission regularly reviewed its treasury management policy and management of credit risk during 2012/13.

At 31 March 2013, the Commission held two deposits totalling £22 million with the Debt Management Office in addition to two amounts owed by Landsbanki and Heritable Bank.

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

Heritable Bank

The initial deposit of £5.0 million held with Heritable Bank earned £87,000 interest at its crystallisation date. We complete our annual impairment review on our Heritable asset in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). In line with this guidance we currently expect to receive 88 per cent of the Heritable Bank balance, and the annual impairment review has resulted in a credit of £37,000 to the Statement of Income. As at March 2013, we have received £3.9 million of the initial deposit and interest earned. The final payment is expected during 2014.

Landsbanki

Our initial deposit of £5.0 million held with Landsbanki earned £265,000 interest at its crystallisation date. On 28 October 2011 we received confirmation of our priority creditor status and therefore expect to recover the full deposit and interest. As at March 2013 we have received £2.5 million of the initial deposit and interest earned.

The amount owed by Landsbanki was converted from British Sterling (GBP) into Icelandic Krona (ISK) at the rate applicable on the date of bankruptcy, 22 April 2009 (191.08 ISK/£), by the Landsbanki Winding Up Board upon submission of the Commission's claim. The Commission follows accounting standards and revalues this asset at each Statement of Financial Position date by applying current exchange rates to the value of the investment. This has resulted in an exchange gain of £399,000 this year. This forms part of the total impairment credit of £624,000.

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

Exchange rate	205.00	186.75	175.00
Impact on amount chargeable to the Statement of Income	£80,000 decrease	£399,000 increase	£761,000 increase

Note 16: Operating results for the last four years

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

	Year to 31 March 2013	Year to 31 March 2012	Year to 31 March 2011	Year to 31 March 2010
	£000	£000	£000	£000
Operating income	**116,173**	167,629	183,462	213,098
Operating costs	**(94,892)**	(155,602)	(209,519)	(221,037)
Operating surplus/ (deficit)	**21,281**	12,027	(26,057)	(7,939)

Note 17: Commitments under leases

17.1 Future minimum lease payments for non-cancellable operating leases for properties
The note below shows future minimum lease payments for the Commission's property leases at March 2013.

	31 March 2013	31 March 2012
	£000	£000
Due within one year of March 2013	**2,091**	3,141
Due up to five years after March 2013	**3,871**	5,342
Due more than five years after March 2013	**2,940**	3,734
Total future minimum payments for non-cancellable operating leases for properties	**8,902**	12,217

The Commission spent £3,134,000 (2011/12: £3,128,000) on operating lease payments for property in the year to March 2013.

Some of our contractual commitments relating to lease payments are provided for in our accounts. As we contract in size we are providing for lease and associated costs where we will vacate property before the lease ends (Note 11). We will disclose our unprovided exposure as a contingent liability (Note 18.2) at March 2013.

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

The note below shows future minimum lease payments for the Commission's cars at March 2013. The Commission stopped its car scheme from 31 March 2013.

	31 March 2013	31 March 2012
	£000	£000
Due within one year of March 2013	**0**	980
Due up to five years after March 2013	**0**	0
Total future minimum payments for non-cancellable operating leases for cars	**0**	980

The Commission spent £974,000 (2011/12: £1,895,000) on operating lease payments for cars in the year to March 2013.

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

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

	31 March 2013	31 March 2012
	£000	£000
Due within one year of March 2013	**0**	914
Due up to five years after March 2013	**730**	456
Due over five years after March 2013	**318**	0
Total future rent receivable from non-cancellable operating leases for sublet property	**1,048**	1,370

The Commission received £1,005,000 (2011/12: £897,000) rental income from property sublets in the year to March 2013.

Note 18: Contingent liabilities

18.1 Litigation

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

18.2 Onerous leases

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

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

Property	Lease end	Provision in our accounts	Additional exposure
		£000	£000
Bristol	January 2013	3,835	5,622
Leicester Rivermead [1]	September 2022	0	2,815

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

18.3 Millbank service charge costs

Under the terms of its property leases for office space in Millbank, the Audit Commission has a liability for building service charges. These charges are apportioned across all tenants within Millbank and paid quarterly based on estimated expenditure provided by the landlord. Under the terms of the leases, the landlord should provide annual expenditure statements after the year end to reconcile actual expenditure with the on-account payments. No audited statements have been received from 2007 onwards. The Commission has been pursuing annual reconciliations of audited expenditure since this date and has issued a Part 18 Notice under the Civil Procedure Rules to demand this information. At present it is unknown whether the annual reconciliations will result in a demand for additional sums due, or refunds of on-account overpayments. Our estimate of the maximum exposure to the Commission is £0.1 million.

Note 19: Related party transactions

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

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

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

Commissioners

Dr Jennifer Dixon is a director of the Nuffield Trust. During the period until 31 December 2012 when Jennifer's appointment as a Commissioner ended, transactions for services provided by the Commission to the Trust were less than £5,000 (2011/12 full year: £78,522).

Councillor Stephen Houghton is a member of Barnsley Metropolitan Borough Council. During the period until 30 April 2012 when Stephen's appointment as a Commissioner ended, transactions for services provided by the Commission to the council amounted to £21,966 (2011/12 full year: £426,717). Stephen was a peer of the Local Government Improvement and Development Agency, and there were no transactions with the agency in the period until his appointment ended (2011/12 full year: £18,000). There were no balances due from these entities at 31 March 2013.

Councillor Robert Light is a member of Kirklees Council. During the year transactions for services provided by the Commission to the council amounted to £167,020 (2011/12 period from 15 September 2011 when Robert's appointment as a Commissioner started to 31 March 2012: £280,368). The balance due to the Commission at 31 March 2013 was £2,000.

Sir David Williams is a member of Richmond upon Thames Council. During the period until 31 December 2012 when David's appointment as a Commissioner ended, transactions for services provided by the Commission to the council amounted to £133,846 (2011/12 period from 6 July 2011 when David's appointment as a Commissioner started to 31 March 2012: £219,640). There was no balance due to the Commission at 31 March 2013.

Councillor Robert Anderson is an elected Member and Leader of Slough Borough Council. During the period from 13 June 2012 when Robert's appointment started, transactions for services provided by the Commission amounted to £44,280. The balance due to the Commission at 31 March 2013 was £39,639.

Management team

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

Other related parties

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

During the year, amounts invoiced to DCLG for services provided by the Commission to, or on behalf of DCLG, or received in grant income from DCLG, amounted to nil (2011/12: £11.9 million). During the year we were invoiced by DCLG for £275,032 for services received by the Commission (2011/12: £117,736). There was no balance due to or from DCLG at 31 March 2013.

There were no transactions with DH during the year.

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

Note 20: Losses and special payments

The Commission has constructive losses of £2,228,000 (2011/12: £2,961,000).

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

Decisions to immediately stop inspection activities, privatise the work of the Audit Practice from November 2012, and to restructure the Audit Commission to a much smaller organisation from September 2012, have resulted in a significant reduction in the size of the Commission's business and its workforce. One outcome of the decision to close the Audit Commission is that we have surplus property. Where possible we have exercised lease break or expiry clauses in line with the government property spending controls. However, we have incurred constructive losses in excess of £250,000 as a result of mothballing and disposal of properties during the year. The total of these property-related losses is £2,228,000 (2011/12: £2,548,000).

Losses in relation to mothballed properties arise when we are not yet able to end the leases and we incur unavoidable costs for these vacant properties that provide no more value to the business. These costs totalled £1,738,000. We also incurred £271,000 in surrender costs to terminate leases before their end (2011/12 total costs: £1,727,000 including £630,000 relating to the disposal of our Leicester office). In addition, we have fully depreciated the associated furniture, fixtures, fittings and equipment assets within further space which has become surplus to requirement during the year. These costs totalled £219,000 (2011/12: £821,000).

The Commission did not make any special payments during the year (2011/12: nil).

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

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

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

Appendix 1: Accounts direction

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

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

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

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

insofar as these requirements are appropriate to the Commission and are in force for the year for which the financial statements are prepared, and except where agreed otherwise with the Secretaries of State and the Treasury, in which case the exception shall be described in the notes to the financial statements.

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

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

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

5 This direction replaces all previously issued directions.

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

Julie Carney
An officer in the Department for Communities and Local Government
Date 31 March 2011

Signed by authority of the Secretary of State for Health

Stephen Mitchell
An officer in the Department of Health
Date 31 March 2011

Schedule 1

Additional disclosure requirements

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

1 The income and expenditure account or the notes thereto

a. The following income:

- fees; and
- other income.

b. The following expenditure:

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

2 The notes to the financial statements

a. For each of the following categories of business, an analysis of income between that generated from work carried out by the Commission and that generated from work carried out by private accountancy firms:

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

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

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

c. For each of the following categories of business, a statement showing the opening income and expenditure reserve, income and expenditure for the year and the closing income and expenditure reserve.

- Local Government authorities; and
- Health Service authorities.

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

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

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

f. * Particulars, as required by the accounting standard on related party disclosures, of material transactions during the year and outstanding balances at the year end (other than those arising from a contract of service or of employment with the Commission), between the Commission and a party that, at any time during the year, was a related party. For this purpose, notwithstanding anything in the accounting standard, the following assumptions shall be made:

- transactions and balances of £5,000 and below are not material;
- the following are related parties:
  - subsidiary and associate companies of the Commission;
  - pensions funds for the benefit of employees of the Commission or its subsidiary companies (although there is no requirement to disclose details of contributions to such funds);
  - board members and key managers of the Commission;
  - members of the close family of board members and key managers;
  - companies in which a board member or a key manager is a director;
  - partnerships and joint ventures in which a board member or a key manager is a partner or venturer;
  - trusts, friendly societies and industrial and provident societies in which a board member or a key manager is a trustee or committee member;
  - companies, and subsidiaries of companies, in which a board member or a key manager has a controlling interest;
  - settlements in which a board member or a key manager is a settlor or beneficiary;
  - companies, and subsidiaries of companies, in which a member of the close family of a board member or of a key manager has a controlling interest;
  - partnerships and joint ventures in which a member of the close family of a board member or of a key manager is a partner or venturer;
  - settlements in which a member of the close family of a board member or of a key manager is a settlor or beneficiary; and
  - 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 £250,000, with separate disclosure and particulars of any individual amounts in excess of £250,000. Disclosure shall also be made of any loss or special payment of £250,000 and below if it is considered material in the context of the Commission's operations.

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

Appendix 2: Sustainability report

Summary of performance

The Commission is committed to improving its environmental performance and reducing the environmental impact of its work. Overall we have made good progress against the Sustainable Operations on the Government Estate (SOGE) targets and more recently the Greening Government initiative. We have exceeded our targets and have achieved an overall reduction of 3,126 tonnes in carbon dioxide equivalent (CO_2e) emissions, equating to a reduction of 68 per cent since 2008.

Since we first started monitoring sustainability in 2007/08, we have reduced business travel miles by 78 per cent, travel costs by 81 per cent and increased energy efficiency, reducing our CO_2e emissions by 66 per cent. The transfer of our Audit Practice on 1 November 2012 resulted in a reduction of over 680 FTEs, most of whom would have undertaken regular business travel. However, even before the transfer, business miles had reduced by 5.4 million against 2007/08 levels, mainly due to ICT investment such as video conferencing.

The outsourcing of the Audit Practice also allowed us to close offices that were surplus to requirements so, of the 25 offices at the beginning of the year, 20 were closed by 31 March 2013. However during this period, offices would have been under-utilised, which would adversely impact on energy consumption per FTE, although energy and water consumption have fallen in absolute terms as offices have closed.

There have been volume increases in waste during the year, as the Commission prepares for closedown. The most significant increase has been in recycled furniture disposal, up 130 tonnes, and confidential paper waste, up 50 tonnes.

We will continue to work towards achieving the government sustainability targets and minimising non-recycled waste until our closedown activities are completed.

Performance summary 2012/13

Area	Actual performance	Normalised performance per full-time equivalent (FTE)
Carbon dioxide equivalent emissions (tonnes CO_2e)	1,442	2
Total energy consumption (kWh)	1,816,521	3,144
Total energy expenditure (£)	164,949	285
Total recycled waste (tonnes)	291.6 [1]	-
Water consumption (m3)	1,868.6	3
Water expenditure (£)	4,342	8

[1] All recycled waste excluding recycled IT equipment.

Greenhouse gas emissions

Energy consumption

We have made significant efforts to reduce the amount of energy consumed by our buildings, including tighter controls on heating; passive infrared (PIR) lighting; and the installation of automatic meter readers.

By 2012/13, these measures had helped us achieve a 43 per cent reduction in CO_2 emissions, which exceeded our internal target of a 20 per cent reduction by 2015. We also saw a small increase in emissions from 0.9 to 1.4 CO_2e tonnes per FTE, as staff numbers reduced quickly but lease obligations prevented us from reducing office space at the same pace. Any surplus space has been mothballed pending disposal, reducing costs and emissions.

The total saving across all utilities (gas, electricity and water) from 2008/09 to 2012/13 was £165,757. While energy costs rose in 2012/13, consumption continued to fall by 23 per cent as offices closed.

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

Energy consumption (Scope 2[1])	2012/13	2011/12	2010/11	2009/10	2008/09
Non-financial indicators (kWh)					
Gas consumption (kWh)	353,498	432,022	966,114	1,060,489	1,097,157
Electricity consumption (kWh)	1,461,154	1,934,927	3,284,840	3,335,337	3,882,885
Total energy emissions (CO_2e tonnes)	816	1,064	1,596	1,636	1,878
Emissions per FTE (CO_2e tonnes)	1.1	0.9	0.9	0.8	1.1
Financial Indicators (£000)					
Total energy costs	**161**	**125**	**227**	**247**	**299**

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

Travel

The Commission has introduced several initiatives to reduce employee business travel, and associated emissions. These initiatives have included encouraging staff to choose fleet vehicles with emissions below 130g/km; introducing hybrid vehicles to the fleet; extending video conferencing facilities across all offices; introducing green travel plans at key sites; and eliminating unnecessary meetings to cut travel and costs. As staff numbers decrease, cars have been reallocated, so no new cars were added to the fleet in the last year.

Since 2008/09, these measures have helped the Commission reduce its CO_2e travel-related emissions by 73 per cent, exceeding the government's target of a 34 per cent reduction by 2020. Reduced staff numbers following the outsourcing of the Audit Practice has significantly contributed to the reduction of 1.6 million business road miles from 2011/12.

Over the last five years our total business miles have reduced by 77 per cent. Our public transport miles have also reduced by 90 per cent and road miles by 71 per cent. Total business travel expenditure has reduced by 83 per cent over the last five years to 31 March 2013. The total saving in travel costs from 2008/9 to 2012/13 is £2.2 million.

Travel (Scope 3[1])		2012/13	2011/12	2010/11	2009/10	2008/09
Non-financial indicators (CO_2e tonnes)	Air Travel	0.69	3	8	12	20
	Rail Air travel	29	98	204	282	304
	Road travel	596	1,234	1,585	2,041	2,025
	Total emissions	626	1,335	1,797	2,335	2,349
	Emissions per FTE	1.1	1.1	1.0	1.2	1.2
Financial indicators (£m)	Total travel costs	0.5	1.1	1.6	2.3	2.7

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

Waste

We have improved recycling facilities in our major offices in recent years by:

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

From 2008/9 to 2012/13, we increased the amount of waste we recycled per FTE by 93 per cent. Over the last three years, our paper recycling has increased by 508 per cent and over the last year our furniture disposals have increased by 130 tonnes as offices closed: almost all surplus furniture has been sold, re-used or recycled.

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

Non-financial indicators (tonnes)	Cups and cans	27.8	11.2	42.0	69.8	55.1
	Furniture	159.2	29.7	31.5	21.1	No data
	Paper – confidential waste	76.7	26.1	12.6	15.2	14.0
	Paper – disposal of records	27.9	21.6	16.8	11.6	No data
	Total	291.6	88.6	102.9	117.7	69.1
	Tonnes per FTE	0.51	0.072	0.057	0.059	0.035
Financial indicators (£000)	Total costs	72	71	91	79	43

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

Disposal of Computer Equipment

Before the announcement of the Audit Commission's closure, we operated a computer renewals system of three-yearly for laptops and five-yearly for desktops. In partnership with our external supplier Tier 1, we have made arrangements for the secure and ethical disposal of IT equipment, which covers collection, security, re-use and environmental disposal.

Seventy-five per cent of the environmental cost of a PC is expended in manufacture, with only 25 per cent incurred during its operational life. Our disposal strategy focuses on re-use, to maximise the positive environmental impact. Re-using equipment also provides business income from sales, which has generated £230,000 since 2008/9.

In 2012/13, 71 per cent of disposals were resold or donated to other organisations. The remainder were recycled with less than 1 per cent going to landfill.

Computer Equipment	2012/13	2011/12	2010/11	2009/10	2008/09
Number of items Collected	1,700	2,751	1,755	1,239	2,075
Number of items Donated	8	209	18	19	25
Number of items for Recycling	394	525	471	371	438
Number of Peripheral items not scrapped	81	114	56	37	217
Number of items for Sale	1200	1901	1210	812	1366
Income Generated	£12,769	£56,719	£49,212	£34,248	£77,060

Use of finite resources

Water

Our SOGE target is to reduce our 2004/05 levels of water consumption by 25 per cent by 2020. Plans to achieve this target, which were in place before the announcement of the Commission's closure, included:

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

These measures helped us to achieve a cubic metre reduction of 33 per cent per FTE over the three years to April 2011. Further progress was impeded due to the need for increased water flushing in our mothballed offices to prevent Legionella. Water costs had reduced by 60 per cent over the four years to 31 March 2012 (See table below). There has been a further reduction of 1323 m3 in consumption in 2012/13 as offices were disposed of. Consumption per FTE has remained broadly consistent as staff numbers have also reduced during the year.

Water consumption (Scope 2 [1])		2012/13	2011/12	2010/11	2009/10	2008/09
Non-financial indicators (m3)	Water consumption	1,868	3,191	4,355	6,252	7,556
	Water consumption per FTE	3.2	2.6	2.5	3.1	3.9
Financial indicators (£000)	Total water costs	4.3	12.6	14.9	17.8	31.7

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

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

Biodiversity

The Audit Commission has not undertaken any biodiversity projects.

Sustainable procurement

All products and services bought have some impact on the environment and on people and communities. Our sustainable procurement approach has focused on recognising and mitigating these impacts at various stages of the procurement process, where it is proportionate and cost-effective to do so. However in 2012/13 the emphasis for Procurement has been in assisting in the closedown processes.

These are:

- Ensuring continuing compliance with procurement regulations.
- Terminating contracts where the activity or service is no longer required.
- Extending existing contracts to align the contract end date with either the date when the service is no longer required or closedown.

Governance

Our sustainability governance arrangements are monitored and discussed monthly by our Estates team.

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*The Commission will be moving to another Crown Estate property later in 2013, updated details will be available in due course from our website at www.audit-commission.gov.uk

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