

AUDIT COMMISSION ACT 1998

Accounts, of the Audit Commission for Local Authorities and the National Health Service in England and Wales, prepared pursuant to paragraphs 11(1) and 11(2) of Schedule 1 to the Audit Commission Act 1998, for the year ended 31 October 1999, together with the Certificate and Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 592 of 1998-99.)

Presented pursuant to Audit Commission Act 1998 paragraphs 11(1) and 11(2), Sch. 1

Audit Commission for Local Authorities and the National Health Service in England and Wales Accounts 1998–99

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 12 JULY 2000

Presented to the National Assembly on 12 July 2000

Contents

	Page
Foreword	1
Statement on the System of Internal Financial Control	6
The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament and the Members of the National Assembly for Wales	8
Income and Expenditure Account	9
Balance Sheet	10
Cash Flow Statement	11
Notes to the Accounts	12
Accounts Direction	23
Schedule 1	25
Schedule 2	26

Foreword

Statement of Account prepared in a form directed by the Secretary of State, with the approval of the Treasury, in accordance with paragraphs 11(1) and 11(2) of Schedule 1 to the Audit Commission Act 1998.

The functions of the Secretary of State in relation to the Commission are exercised jointly by the Secretary of State for the Environment, Transport and the Regions, the Secretary of State for Wales or National Assembly for Wales (as appropriate) and the Secretary of State for Health.

Statutory Background

1. The Audit Commission for Local Authorities in England and Wales (the Commission) was established on 21 January 1983 by the Local Government Finance Act 1982. The Commission is a body corporate and began operations on 1 April 1983. On 1 October 1990 it assumed responsibility for the external audit of the National Health Service and its name was changed to the Audit Commission for Local Authorities and the National Health Service in England and Wales.

A consolidating Act, the Audit Commission Act 1998, was given Royal assent in June 1998.

The Commission's responsibilities were further extended by the Local Government Act 1999. Under this Act, auditors appointed by the Commission are to audit local authorities' Best Value Performance Plans (BVPPs) and the Commission will be responsible for inspecting authorities' compliance with the requirements of the Act.

2. Members of the Commission are usually appointed for a three year period by the Secretary of State.

3. The appointment of Controller of Audit (usually for a three year period) is approved by the Secretary of State.

<i>Chair</i>	<i>Contract end</i>
Mr C R E Brooke	30/11/1998
Dame Helena Shovelton DBE (from 17/12/1998)	30/11/2001
<i>Deputy Chair</i>	
Mr J D Orme FCA	31/10/2000
<i>Members</i>	
Mr R A Arthur	30/09/2002
Ms J Baddeley (from 1/9/1999)	31/14/2002
Dr J Carson	30/06/2001
Mr J R Foster OBE	31/10/2001
Mrs A Fresko	30/06/2002
Dame Deirdre Hine DBE	Resigned 30/09/1999
Ms K Jenkins	30/06/1999
Sir Peter Kemp FCA	30/06/1999
Ms R Lowe	30/06/2001
Professor S Richards	31/10/2000
Ms H Rowland	30/06/2001

*Contract end**Members*

Sir Peter Soulsby	31/10/2000
Mrs I Tarry CBE	31/10/2000
Sir Ron Watson CBE	31/10/2001
Sir David Williams CBE	31/10/2000
Mr B Wolfe (from 1/9/1999)	31/10/2002
Ms E Filkin (from 1/11/1999)	31/10/2002
Sir Graham Hart (from 1/11/1999)	31/10/2002

Controller of Audit

Mr A W Foster

The Commission's Duties

4. A summary of the main duties and powers laid upon the Commission under the Audit Commission Act 1998 (the 1998 Act) and the Local Government Act 1999 (the 1999 Act) are as set out below. For more detailed guidance, reference should be sought to the relevant section of the Acts.

Duties

	<i>1998 Act section</i>	<i>1999 Act section</i>
To appoint auditors	3	
To prepare and review the Code of Audit Practice and the Code of Practice for the audit of Best Value Performance Plans (BVPPs).	4	8
To set a scale or scales of fees for the audit of accounts, for the audit of BVPPs and for Best Value inspections.	7	8 and 12
On request of the body concerned, make arrangements for certifying claims in respect of grants, subsidies, or other such claims or returns received by an audited body.	28	
Undertake or promote comparative and other studies designed to enable it to make recommendations for improving economy, efficiency and effectiveness in the provision of services; and for improving financial and other management.	33	
Undertake or promote studies on the impact of the operation of any statutory provision, or any direction or guidance given by a minister of the crown, on economy, efficiency or effectiveness on the provision of services, or on the financial management of audited bodies (other than health service bodies).	34	
To direct relevant bodies to publish information that will facilitate comparisons between different relevant bodies; and between different financial years.	44	
If directed by the Secretary of State, to carry out an inspection of a specified best value authority's compliance.		10

Powers

To carry out an inspection of a best value authority's compliance with the requirements of Part 1 of the Act.	10
---	----

<i>Powers</i>	<i>1998 Act section</i>	<i>1999 Act section</i>
Direct an auditor to hold an extraordinary audit either if it appears to the Commission to be desirable; or, in other than in a health service body, at the request of a local government elector.	25	
With the consent of the Secretary of State, and with the agreement of the body, undertake the audit of the accounts of a body which appears to the Secretary of State to be connected with local government or the National Health Service; and is not a body subject to audit.	29	
On request from any audited body, to promote or undertake studies designed to improve economy, efficiency and effectiveness in the management or operation of the audited body.	35	
On request from specified educational bodies, to promote or undertake studies designed to improve economy, efficiency and effectiveness in the management or operations of specified educational bodies.	36	
On request from the Secretary of State, to aid in any study designed to improve economy, efficiency, effectiveness and quality of performance in the discharge of social services functions by local authorities.	37	
On request from the Secretary of State, to aid in any study designed to improve economy, efficiency, effectiveness and quality of performance in the discharge by local authorities of functions relating to the administration of housing benefit and council tax benefit.	38	
The Housing Corporation and the Commission may agree programmes of comparative studies designed to enable the Commission to make recommendations for improving economy, efficiency and effectiveness of registered social landlords.	40	
Require any audited body to provide specified information to the Commission required for the discharge of its functions.	48	

Financial Provision

5. The Commission is charged by the 1998 Act (paragraph 8 of Schedule 1) with the duty so to manage its affairs that its income from fees and otherwise will, taking one year with another, be not less than its expenditure properly chargeable to its income and expenditure account. This applies separately to the different functional areas of work within the Commission.

The Commission aims to produce sufficient surpluses to meet its own working capital requirements, and to provide reserves against possible litigation. The Commission has a contingent liability as set out in note 20 to these accounts in respect of its indemnity to appointed auditors for costs incurred by them in connection with Court proceedings arising through their exercise of special legal functions. Any costs arising under the terms of the indemnity can be significant, although the timing can be unpredictable. The Commission's reserves are set out in note 13 of these accounts, and are:

	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>
Local Government	6,902	6,384
Health	4,110	4,113
	<u>11,012</u>	<u>10,497</u>

The Commission aims to pay all of its suppliers within a reasonable period of their invoice being received and in any case within 30 days. It is the policy of the Commission to make payments to all creditors promptly in accordance with the Confederation of British Industry Prompt Payment Code. At 31 October 1999 the average number of days that invoices were outstanding was 27 days (1998—17 days excluding costs relating to one major case of litigation which do not form part of the Commission's normal trade creditors).

Equal Opportunities and Employee Involvement

6. The policy of the Commission is to ensure that both current employees and applicants for employment are not discriminated against on the grounds of sex, marital status, race, creed, colour, ethnic origin, age, sexual orientation or personal disability. Formal consultations take place regularly with employees in a Joint Negotiating Committee, which also negotiates pay and conditions with management.

Annual Report and Accounts

7. In accordance with paragraph 11(1) of Schedule 1 to the 1998 Act the Secretaries of State for the Environment, Transport and the Regions and for Wales have directed the Commission to prepare a Statement of Account. This Accounts Direction is reproduced as an annex after these accounts. 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 and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Commission is required to:

- observe the Accounts Direction 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 financial statements;
- unless inappropriate, prepare the financial statements on the going concern basis;
- if material, prepare modified historic cost accounts. These have not been prepared as the required adjustments are immaterial to the Commission's accounts.

Under paragraph 11(4) of Schedule 1 to the 1998 Act, and further provided by the National Assembly for Wales (Transfer of Functions) Order 1999, the Comptroller and Auditor General is required to lay these accounts together with his report thereon before Parliament and the Welsh Assembly.

In accordance with paragraph 14(2) of Schedule 1 to the 1998 Act and further provided by the National Assembly for Wales (Transfer of Functions) Order 1999 the Commission's annual report on the discharge of its functions is being submitted to the

Secretary of State for the Environment, Transport and the Regions for laying before each House of Parliament and the National Assembly for Wales. The report incorporates a review of the past year and a preview of future developments and is presented together with these accounts.

The Department of the Environment, Transport and the Regions has designated the Controller of Audit as the Accounting Officer for the Commission. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum.

Corporate Governance

8. The Commission is committed to the highest standards of professionalism for all its operations and to compliance with the relevant aspects of the Code of Best Practice as published by the Cadbury Committee on the Financial Aspects of Corporate Governance in December 1992.

The Commission met 11 times in the year to deal with the business of the Commission. A list of the Commissioners can be found at the beginning of the Foreword to the Accounts. In addition to the regular Commission meetings, five Panels have been established to review and consider specific items. All Panel remits and memberships are regularly reviewed.

The membership of the Panels at 31 October 1999 was:

	<i>Commission Advisory</i>	<i>Audit</i>	<i>Purchasing and Quality Control</i>	<i>District Audit</i>	<i>Best Value and VFM</i>
Sir Ron Watson CBE	✓	✓		✓	
Mr J D Orme FCA	✓		✓		
Mr J R Foster OBE			✓		✓
Ms H Rowland			✓		✓
Mrs I Tarry CBE			✓		
Mrs A Fresko	✓			✓	✓
Mr R A Arthur				✓	✓
Ms R Lowe				✓	✓
Sir David Williams CBE					
Dame Helena Shovelton	✓				✓
Sir Peter Soulsby		✓		✓	✓
Professor S Richards					✓
Dr J Curson		✓			
Mr B Woolfe		✓			
<i>Panel Chairs</i>	Dame Helena Shovelton Note 1	Sir Ron Watson	Jeremy Orme	Adrienne Fresko	Dame Helena Shovelton

Note 1: This acts as the Commission's Remuneration Panel

Commission Advisory Panel

The Commission Advisory Panel comprises the Commission's Chair and the Chairs of each of the other Panels. It considers the main issues arising from the work of the other Panels and reports those considerations to the full Commission. It also ensures the remuneration policies reflect the Commission's needs and the market in which it operates. As part of these responsibilities, the Panel approves the Controller's and Directors' remuneration and approves specific cases of early or ill health retirements and severance agreements. It met eight times during the year.

Audit Panel

The Audit Panel, chaired by Sir Ron Watson, usually meets quarterly and met five times in the year. Its keys tasks are:

- To agree the internal audit programme for the forthcoming year, and receive the internal auditor's reports. It also monitors the performance of the internal auditors and the implementation of the audit recommendations.
- To receive the external auditor's management letter, and reports from Commission staff on the progress in implementing any major National Audit Office recommendation for change. Both internal and external auditors have direct access to the chair of the Audit Panel.
- To consider and report on the adequacy and accuracy of management accounts, information and controls.

Other Panels

The main objectives of the other 3 Panels are:

Purchasing and Quality Control recommends audit appointments, oversees the production of technical advice provided to auditors and ensures that the quality of their work meets the standards laid down by the Commission.

District Audit (DA), the in-house audit provider of the Commission, operates with a degree of autonomy within a regulatory framework. The District Audit Panel supervises and advises on the strategy and performance of DA and ensures that, where necessary, the full Commission considers relevant DA issues.

The Best Value and VFM Panel develops the Commission's VFM strategy and monitors VFM processes from the study selection to local delivery. It oversees the Commission's work in the development of comparative databases and is developing the Commission's approach to Best Value.

Year 2000

9. The Audit Commission took steps to ensure that the key business systems, including computers, software, and communications equipment, that it needed to trade continued to operate prior to, during and after 1 January 2000.

This assurance was obtained by a continual ongoing audit of all systems, with resource priority being given to business critical systems. All accounting systems were reviewed and were either replaced or fully tested with a view to replacement and integration prior to the new millennium if failures were found.

The total estimated Revenue cost of these plans amounted to £132k in the year excluding internal costs and software replacement.

Internal Financial Control

10. The Controller, Andrew Foster, has been nominated as the Commission's Accounting Officer and acknowledges his responsibilities for ensuring that an effective system of internal financial control is maintained and operated by the Commission. The Commission's system of internal control is designed to provide reasonable assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulation, administrative procedures including the segregation of duties, and various levels of delegation specified by HM Treasury, the Department of the Environment, Transport and the Regions and Members of the Audit Commission.

In particular it includes:

- comprehensive budgeting systems with an annual budget which is approved by the Members;
- setting targets to measure financial and other performance;
- regular reviews by the Members of monthly and annual financial reports which indicate financial performance against the forecasts;
- appropriate, defined capital investment control guidelines;
- as appropriate, formal project management disciplines.

The Audit Commission has internal auditors, whose work concentrates on key activities determined by an analysis of the areas of greatest risk. This work is to the standard as defined in the Government Internal Audit Manual, and in accordance with the annual internal audit plan approved by the Audit Panel. The internal auditors report to the Accounting Officer and to the Audit Panel on a regular basis and have direct access to the Chair and to the Members of the Audit Panel.

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit Panel, the executive directors within the Commission who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter.

Helena Shovelton

Chair

A W Foster

Controller of Audit

2 March 2000

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament and the Members of the National Assembly for Wales

I certify that I have audited the financial statements on pages 9 to 22 under the Audit Commission Act 1998 as extended by the National Assembly for Wales (Transfer of Functions) Order 1999. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 12.

Respective responsibilities of the Audit Commission, Controller of Audit and Auditor

As described on pages 4 and 5 of the Foreword to the accounts, the Audit Commission and the Controller of Audit are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Audit Commission and the Controller of Audit are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Audit Commission Act 1998 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 6 and 7 of the Foreword reflects the Commission's compliance with Treasury's guidance "Corporate Governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Audit Commission and the Controller of Audit in the preparation of the financial statements and of whether the accounting policies are appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Audit Commission at 31 October 1999 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Audit Commission Act 1998 and directions made thereunder by the Secretaries of State for the Environment, Transport and the Regions and for Wales; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

19 May 2000

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

Income and Expenditure Account for the year ended 31 October 1999

	Note	1999 £000	1998 £000
Operating income			
Gross fee income	2	104,589	101,983
Other operating income	3	7,007	3,173
		111,596	105,156
 Operating costs			
Staff and members' costs	4	58,669	54,928
Bought-in services	5	33,240	33,991
Other operating costs	6	18,652	15,931
Notional costs	1(xi)	645	625
		111,206	105,475
 Operating surplus/(deficit) including notional costs			
Add back notional costs	2	390	(319)
Net Interest receivable	1(xi)	645	625
Net costs arising from litigation	7	539	720
	8	(1,059)	(853)
Surplus for year		515	173

The notes that follow form part of these financial statements.

The movement on reserves is set out at note 13.

There were no recognised gains or losses other than the result for the year.

All of the results above are derived from continuing operations.

Balance Sheet at 31 October 1999

	Note	1999 £000	1998 £000
Fixed assets	10	<u>2,874</u>	<u>2,061</u>
Current assets			
Debtors and work in progress	11	20,629	15,838
Cash at bank and in hand		<u>6,807</u>	<u>9,219</u>
		27,436	25,057
Creditors: amounts falling due within one year			
Creditors and accrued charges	12	<u>19,298</u>	<u>16,621</u>
Net current assets		<u>8,138</u>	<u>8,436</u>
Total assets less current liabilities, being net assets		<u>11,012</u>	<u>10,497</u>
Reserves			
General Reserves	13	11,012	9,561
Litigation Reserve		—	936
		<u>11,012</u>	<u>10,497</u>

The notes that follow form part of these financial statements.

Helena Shovelton
Chair

A W Foster
Controller of Audit

2 March 2000

Cash Flow Statement for the year ended 31 October 1999

	Note	1999 £000	1998 £000
Net cash outflow from operating activities	14	<u>(1,291)</u>	<u>(1,172)</u>
Returns on investments and servicing of finance			
Interest received		<u>539</u>	<u>720</u>
Net cash inflow from returns on investments and servicing of finance		<u>539</u>	<u>720</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		<u>(1,660)</u>	<u>(885)</u>
Net cash outflow from investing activities		<u>(1,660)</u>	<u>(885)</u>
Decrease in cash	15	<u>(2,412)</u>	<u>(1,337)</u>

Notes to the Accounts

Accounting Conventions and Policies

- 1(i)** The accounts are prepared under the historical cost convention in a form directed by the Secretary of State, with the approval of HM Treasury, under paragraph 11(1) of Schedule 1 to the 1998 Act.
- (ii)** The accounts meet the requirements of the Companies Act 1985, without limiting the information given, and applicable accounting standards so far as those requirements are appropriate.
- (iii)** Local Government and NHS expenditure has been directly attributed where possible to the relevant activity; where this has not been possible, common expenditure has been attributed to each activity on an hours worked basis.
- (iv)** Operating lease rentals are charged on a straight line basis over the lease term.
- (v)** Gross fee income and other operating income are based on the value of chargeable work exclusive of VAT.
- (vi)** Fee income is credited to the year of account in which the work is done regardless of the year of account under audit, and includes the estimated realisable value of work in progress at 31 October 1999.
- (vii)** Other income is credited in the year in which it is earned. In the period up to 31 March 2000, the Commission will be in receipt of a grant to cover the preparatory costs to undertake the additional responsibilities under the Local Government Act 1999. The proportion of this grant due by 31 October 1999 is included within other operating income in these accounts.
- (viii)** The net costs arising from litigation are not treated as part of the Commission's operating result, but shown separately on the Income and Expenditure Account.
- (ix)** Depreciation is provided on all fixed assets calculated to write off the cost, less estimated residual value, of each asset in equal annual instalments over its expected useful life as follows:
- | | |
|------------------------|----------|
| Furniture and Fittings | 10 years |
| Computer Equipment | 3 years |
| Office Equipment | 5 years |
- Individual desk top computers are written off in year of purchase.
- (x)** The Commission provides a defined benefit pension scheme for its employees, the costs of which are charged to the Income and Expenditure Account.
- (xi)** Notional Cost of Capital is calculated in accordance with Treasury Guidance and charged to Other Operating Costs. As with the financial period ended 31 October 1998 the Notional Cost is added back to the operating result. This cost has been attributed to Local Government and NHS expenditure on the basis of reserves within each activity.

**Income and expenditure 2
analysis**

		31 October		31 October	
		1999	1999	1998	1998
		£000	£000	£000	£000
Local Government					
Income					
District Audit	Audit		37,343		36,370
District Audit	Section 28		11,634		8,739
Private Firms	Audit		13,469		14,280
Private Firms	Section 28		2,888		3,301
			65,334		62,690
Costs					
District Audit	Audit	33,304		31,949	
District Audit	Section 28	8,200		7,377	
Private Firms	Audit	12,210		12,909	
Private Firms	Section 28	2,619	56,333	3,022	55,257
Surplus on audit			9,001		7,433
Cost of Notional Interest			394		381
Net direct Cost of Studies			2,864		2,513
Net direct Cost of Inspections			776		37
Net direct Cost of Commission Directorates			4,099		4,477
Total			868		25
National Health Service					
Income					
District Audit	Audit		27,056		26,036
Private Firms	Audit		12,199		13,257
			39,255		39,293
Costs					
District Audit	Audit	23,370		22,141	
Private Firms	Audit	10,929	34,299	11,871	34,012
Surplus on audit			4,956		5,281
Cost of Notional Interest			251		244
Net direct cost of Studies			2,394		2,275
Net direct cost of Commission Directorates			2,789		3,106
Total			(478)		(344)

Work under Section 28 consists principally of the certification of grant claims as described in the Foreword to the Accounts at paragraph 4 (iii).

Income and expenditure analysis 2 **Included in the above analysis for Local Government is the following separately funded work**

(continued)

This year the Commission undertook joint work with the Social Services Inspectorate (Section 37) and the Housing Corporation (Sections 40, 41, 42). The Commission also undertook joint inspection of Local Education Authorities with OFSTED (Section 41, Education Act 1997). This work is undertaken on a self funding basis.

		1999 £000	1998 £000
Direct Cost of Studies			
Housing Corporation			
(Sections 40, 41, 42)	Income	86	115
	Costs	111	118
		<u>(25)</u>	<u>(3)</u>
Direct Cost of Inspections			
i. Joint Reviews of Social Services			
(Section 37)	Income	1,201	675
	Costs	1,265	712
		<u>(64)</u>	<u>(37)</u>
ii. OFSTED			
(Section 41, Education Act 1997)	Income	592	—
	Costs	558	—
		<u>34</u>	<u>—</u>
Direct Cost Of Commission Directorates			
Best Value			
	Income	1,890	—
	Costs	1,890	—
		<u>—</u>	<u>—</u>

Other operating income	3	1999 £000	1998 £000
Legal costs reimbursed		481	377
Publications and Conferences		1,060	1,319
Inspections		1,793	675
DETR grant for Best Value initiative (see note below)		1,890	—
National fraud initiative		816	—
Secondments and sundry income		967	802
		<u>7,007</u>	<u>3,173</u>

Under the Local Government Act 1999, the Commission has responsibilities as described in paragraph 1 of the Foreword. The preparatory cost for this work is being met directly by the Department of the Environment, Transport and the Regions (Class III, Vote 4) for the period up to 31 March 2000.

Staff and commission members' costs	4	1999 £000	1998 £000
(i) Staff costs			
Salaries		43,324	40,456
Social Security costs		4,011	3,331
Other pension costs - <i>see Note 17</i>		4,950	5,377
Lease cost of cars		3,396	2,977
Other travel and subsistence costs		2,848	2,648
		<u>58,529</u>	<u>54,789</u>
		1999 £000	1998 £000
(ii) Commissioners' costs			
Salaries		112	108
Social Security costs		7	6
Travel and subsistence costs		21	25
		<u>140</u>	<u>139</u>
(iii) The average monthly number of staff employed during the period was as follows:			
		1999	1998
District Audit			
—audit staff		951	880
—audit trainees		109	106
—support staff		156	136
Commission Directorates		254	218
Secondees		10	9
		<u>1,480</u>	<u>1,349</u>
In post at 31st October		<u>1,600</u>	<u>1,403</u>
(iv) The average number of senior staff during the period whose total taxable emoluments exceeded £40,000 was as follows:			
		1999	1998
£ 40,001 – £ 50,000		191.3	139.8
£ 50,001 – £ 60,000		74.6	64.1
£ 60,001 – £ 70,000		45.5	31.9
£ 70,001 – £ 80,000		16.9	14.0
£ 80,001 – £ 90,000		8.1	5.0
£ 90,001 – £100,000		5.2	2.0
£100,001 – £110,000		<u>2.1</u>	<u>1.0</u>

- (v) The total remuneration of the Controller of Audit, including taxable benefits, amounted to:

	1999 £	1998 £
Mr A W Foster		
Salary	134,519	131,084
Performance related pay	29,993	28,977
Benefits in kind	6,371	6,015
	<u>170,883</u>	<u>166,076</u>

The Controller of Audit is an ordinary member of the Audit Commission's Pension Scheme. Under the rules of this scheme, the Commission made a contribution of £10,990 being 12.3% of his salary and performance related pay up to the statutory ceiling of £90,600 for 1999/2000 fiscal year. (1998 contribution was £13,140 against a statutory ceiling of £87,600 for 1998-1999 fiscal year). The Commission makes no other contribution to any other pension scheme that the Controller may or may not have.

The Controller of Audit is eligible to receive performance related pay. This is assessed annually by the Commission against predetermined targets, and is paid annually in arrears.

The figure shown for Benefits in Kind primarily relates to the provision of a car. The Benefit in Kind is calculated on the assumption that he will continue to undertake between 2,500 and 18,499 business miles in the 1999-2000 tax year.

- (vi) The average number of Commissioners during the period whose annual rate of salary fell within the following bands was as follows:

	1999	1998
£ 0 – £ 5,000	3.7	2.5
£ 5,001 – £10,000	11.1	12.9
£10,001 – £15,000	—	—
£20,001 – £25,000	—	1.0
£25,001 – £30,000	<u>1.0</u>	<u>—</u>

- (vii) The actual salary of the Chair, who was the highest paid Commissioner, amounted to:

	£	£
Mr C R E Brooke	1,753	20,845
Dame Helena Shovelton	<u>28,764</u>	<u>—</u>

Bought-in services	5	1999 £000	1998 £000
Commission Directorates			
Audit fees to private firms		25,758	27,801
Assistance with studies		845	733
Assistance with Inspections		421	—
		<u>27,024</u>	<u>28,534</u>
District Audit			
Contract audit assistance		6,216	5,457
		<u>33,240</u>	<u>33,991</u>

Other operating costs	6	1999	1998
		£000	£000
Accommodation			
—rent		1,696	1,509
—other costs		1,098	1,110
Supplies and services		6,568	5,861
Recruitment and transfers		1,665	817
Training		1,551	1,368
Depreciation (net of insurance receipts)		566	420
Audit fee		62	45
Professional fees		1,260	554
Publications		804	639
Other operating costs		3,382	3,608
		<u>18,652</u>	<u>15,931</u>

Net interest receivable	7	1999	1998
		£000	£000
Interest receivable		539	720
Interest payable		—	—
		<u>539</u>	<u>720</u>

Net costs arising from litigation	8	1999	1998
		£000	£000
Litigation services		1,059	853
		<u>1,059</u>	<u>853</u>

The majority of these costs relate to legal costs incurred by the auditor in the appeal against his determination of the Westminster Designated Sales Objections. The case was determined by the Divisional Court in December 1997, and by the Court of Appeal in May 1999. The Divisional Court's judgment included an award of costs against the auditor which have been paid. Certain aspects of the Court of Appeal judgment are subject to further appeal to the House of Lords.

Additional costs may fall to be borne by the Commission in these proceedings. Although the amounts involved are likely to be substantial, there is not a sufficient basis on which a reasonable estimate can currently be made. See Note 20.

Taxation	9	The Commission is exempt from income tax and corporation tax by virtue of Section 519 of the Income and Corporation Taxes Act 1988, and from capital gains tax by virtue of Section 271 of the Taxation of Chargeable Gains Act 1992.
-----------------	----------	---

Fixed assets	10	Furniture	Computer	Office	Total
		and Fittings £000	Equipment £000	Equipment £000	
Cost					
	At 1 November 1998	2,361	866	750	3,977
	Purchases	994	290	95	1,379
	At 31 October 1999	<u>3,355</u>	<u>1,156</u>	<u>845</u>	<u>5,356</u>
Depreciation					
	At 1 November 1998	1,083	329	504	1,916
	Provided in period	228	251	87	566
	At 31 October 1999	<u>1,311</u>	<u>580</u>	<u>591</u>	<u>2,482</u>
Net book value					
	At 31 October 1999	<u>2,044</u>	<u>576</u>	<u>254</u>	<u>2,874</u>
	At 31 October 1998	<u>1,278</u>	<u>537</u>	<u>246</u>	<u>2,061</u>

Debtors and work in progress	11	1999	1998
		£000	£000
Fee debtors and work in progress			
	—Local Government	10,482	10,077
	—National Health Service	4,790	3,075
	Prepaid pension costs	—	210
	Other debtors and prepayments	5,357	2,476
		<u>20,629</u>	<u>15,838</u>

Work in-progress is valued at its estimated realisable value.

Debts not due within one year included in the above figures:

Payments to the Commission's pension scheme (Note 17)	—	210
Included in other debtors and prepayments:		
—housing relocation scheme:		
advances to staff	21	30

Creditors and accrued charges	12	1999	1998
		£000	£000
	Trade creditors	2,684	1,419
	Other creditors including Taxation and Social Security	2,563	2,115
	Holiday pay	1,359	1,161
	Accruals and deferred income	12,692	11,926
		<u>19,298</u>	<u>16,621</u>

Reserves	13	1999			1998		
		LG £000	NHS £000	Totals £000	LG £000	NHS £000	Totals £000
Capital Reserve							
Carried forward		1,580	2,154	3,734	1,580	2,154	3,734
Revenue Reserves							
Brought forward		3,868	1,959	5,827	3,811	1,843	5,654
Surplus for year		518	(3)	515	57	116	173
Transfer from Litigation Reserve		936	—	936	—	—	—
Carried forward		5,322	1,956	7,278	3,868	1,959	5,827
Total General Reserves		6,902	4,110	11,012	5,448	4,113	9,561
Litigation Reserve							
Brought forward		936	—	936	936	—	936
Transfer to Revenue Reserves		(936)	—	(936)	—	—	—
Carried Forward		—	—	—	936	—	936
Total Reserves		6,902	4,110	11,012	6,384	4,113	10,497

Key: LG — Local Government
 NHS — National Health Service

The Litigation Reserve has been amalgamated back with Local Government general reserves in line with Financial Reporting Standard 12.

Reconciliation of surplus/ (deficit) for year to net outflow from operating activities	14	1999	1998
		£000	£000
Operating surplus/(deficit)		390	(319)
Notional costs		645	625
Net costs of litigation		(1,059)	(853)
Depreciation		566	420
(Increase)/reduction in debtors and work in progress		(4,791)	(975)
Increase/(Decrease) in creditors		2,958	(70)
		(1,291)	(1,172)

Reconciliation of net cash outflow to movement in net funds	15		1999	1998
			£000	£000
		Decrease in cash	<u>(2,412)</u>	<u>(1,337)</u>
		Change in net funds	(2,412)	(1,337)
		Net funds at 1 November 1998	<u>9,219</u>	<u>10,556</u>
		Net funds at 31 October 1999	<u>6,807</u>	<u>9,219</u>

Analysis of changes in net funds	16		At 1 November	Cash	At 31 October
			1998	Flows	1999
			£000	£000	£000
		Cash at bank and in hand	<u>9,219</u>	<u>(2,412)</u>	<u>6,807</u>

Pension scheme **17** The Commission has established a trustee-administered 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 funded by contributions from members (6% of pensionable salaries) and the balance of cost by the Commission (1999: 12.3% of pensionable salaries). The Commission's contribution in the period amounted to £4,950,000 (1998 - £5,377,000).

Actuarial valuations are conducted annually and the latest was carried out as at 31 March 1999 using the Projected Unit Method of valuation.

The market value of the net assets of the scheme at 31 March 1999 was £248.9m (31 March 1998, £227.4m) which on the actuarially assessed value provided cover of 104.1% of the benefits that had accrued to members after allowing for expected future increases in earnings. The principal financial assumptions, used by the actuary and quoted in real terms relative to price inflation, were:

Real rate of interest	2.83% pa
Real rate of salary escalation	1.42% pa
Real rate of dividend growth	(1.18%)pa

Operating results for the 18 last five years	12 months	12 months	7 months	12 months	12 months
	to 31 October 1999 £000	to 31 October 1998 £000	to 31 October 1997 £000	to 31 March 1997 £000	to 31 March 1996 £000
Total	111,596	105,156	57,574	91,945	92,395
Operating income	110,561	104,850	58,236	93,175	92,509
Operating costs	645	625	418	820	—
Notional costs	390	(319)	(1,080)	(2,050)	(114)
Add back:					
Notional Costs	645	625	418	820	—
Net interest receivable	539	720	365	251	236
(Net costs) recoveries arising from litigation	(1,059)	(853)	(2,440)	(206)	(83)
Surplus/(deficit)	515	173	(2,737)	(1,185)	39

Financial commitments 19 There are revenue commitments at 31 October 1999 in respect of non-cancellable car leases which expire:

	1999 £000	1998 £000
Within one year	360	458
Within one to five years	2,311	1,902
	2,671	2,360
District Audit	2,376	2,111
Commission Directorates	295	249

There were annual commitments as at 31 October 1999 to pay rentals under lease agreements which expire:

	1999 £000	1999 Number of Properties	1998 £000	1998 Number of Properties
within one year (District Audit)	326	33	316	35
within one year (Commission Directorates)	13	1	13	1
from one to five years (District Audit)	282	11	119	8
from one to five years (Commission Directorates)	440	1	—	—
over five years (District Audit)	636	15	528	13
over five years (Commission Directorates)	711	3	624	2
	2,408	64	1,600	59

The majority of leases of buildings are subject to rent reviews.

Contingent liabilities 20 The Commission indemnifies appointed auditors against costs incurred by them in connection with Court proceedings arising through their exercise of special legal functions. In addition, costs may be awarded against auditors in such proceedings which fall to be borne by the Commission under the terms of the indemnity. Amounts incurred in any one year, as a result of this indemnity, depend upon the progress of individual cases and cannot, therefore, be predicted nor quantified until they crystallise.

Related party transactions 21 During the year, no Commission member, member of the key management staff or other related party has undertaken any material transaction with the Commission.

**Department of the Environment, Transport and the Regions
Welsh Office, Yswyddfa Gymreig**

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

Accounts Direction

The Secretary of State for the Environment, Transport and the Regions and the Secretary of State for Wales, in the exercise of their powers under paragraphs 11(1) of Schedule 1 to the Audit Commission Act 1998 (the 1998 Act), and of all other powers enabling them in that behalf, and with the approval of the Treasury, hereby makes the following Direction.

1. The statement of accounts which it is the duty of the Audit Commission for Local Authorities and the National Health Service in England and Wales (hereinafter referred to as “the Commission”) to prepare shall comprise:

- a. a foreword;
- b. an income and expenditure account;
- c. a balance sheet;
- d. a cash flow statement and
- e. a statement of total recognised gains and losses

including such notes as may be necessary for the purposes referred to in the following paragraphs.

2. The statement of accounts referred to above shall give a true and fair view of the income and expenditure and cash flows for the financial period, and the state of affairs as at the end of the financial period.

3. Subject to this requirement, the statement of accounts shall be prepared in accordance with:

- a. generally accepted accounting practice in the United Kingdom (UK GAAP);
- b. the disclosure and accounting requirements contained in “The Fees and Charges Guide” (in particular those relating to the need for appropriate segmental information for services or forms of service provided) and in other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
- c. the accounting and disclosure requirements given in “Government Accounting” and in “Executive NDPBs: Annual Reports and Accounts guidance”, as amended or augmented from time to time,

insofar as these are appropriate to the Commission and are in force for the financial period for which the statement of accounts is to be prepared.

4. Amplification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.

5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:

- a. fixed assets at their value to the business by reference to current costs; and
 - b. stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.
6. The statement of accounts mentioned in paragraph 1 above shall be submitted to the Secretaries of State no later than 31 March each year.
7. A copy of the Accounts Direction shall be reproduced as an annex to the statement of accounts.

Signed on behalf of
the Secretary of State for the Environment, Transport and the Regions

P Rowsell
A Senior Civil Servant
In the Department of the Environment, Transport and the Regions
Date 6 January 1999

Signed on behalf of
The Secretary of State for Wales

I R Miller
Local Government Policy and Finance Division Welsh Office
Date 7 January 1999

Schedule 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT

Companies Act

1. The disclosure exemptions permitted by the Companies Act 1985 shall not apply to the Commission unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, the information relating to the Commission shall be contained in the **foreword**.
3. When preparing its **income and expenditure account**, the Commission shall have regard to the profit and loss account format 1 or 2 prescribed in Schedule 4 to the Companies Act.
4. When preparing its **balance sheet** the Commission shall adopt format 1 as prescribed in Schedule 4 to the Companies Act 1985, and that format shall be applied in such a manner that the items set out in paragraph 3 of Schedule 2 to this Direction shall be separately disclosed. Items A to G in Format 1 shall be presented so as to show the total of those items separately from the totals of items H to K.
5. The foreword and balance sheet shall be signed and dated by the Accounting Officer.

Schedule 2

ADDITIONAL DISCLOSURE REQUIREMENTS

1. **The foreword shall, *inter alia*:**
 - a. state that the accounts have been prepared in a form directed by the Secretary of State with the approval of the Treasury in accordance with paragraph 11(1) of Schedule 1 to the Audit Commission Act 1998;
 - b. include a brief history of the Commission and its statutory background;
 - c. include a statement on corporate governance, similar to the statement required by the London Stock Exchange on compliance with the Code of Best Practice contained in the report by the Committee on The Financial Aspects of Corporate Governance, but adapted for the different circumstances applying to the Commission. However, the Commission need not confirm that there has been an annual review of the effectiveness of internal financial control, nor state that its business is a going concern;
 - d. include a statement on compliance with the CBI code for creditors and their calculation in accordance with SI 571/97.
2. The income and expenditure account shall, *inter alia*, show, where applicable:
 - a. the cost of bought-in services, disclosing separately—
 - (i) audit fees;
 - (ii) amounts paid in relation to studies under sections 33, 34, 35, 36, 37, 38, 40 and 42 of the 1998 Act; and
 - (iii) legal expenses.
 - b. interest on loans made by the Secretaries of State;
 - c. surplus or deficit.

In this paragraph “bought-in services” means services undertaken other than by officers of the Commission.
3. In preparing its balance sheet the Commission shall include under item K (capital and reserves) and disclose separately in respect of the bodies to which paragraph (g) of Schedule 2 of the 1998 Act relates under the heading “Capital Reserve”—
 - (a) loans made by the Secretary of State under paragraph 9 of Schedule 1 to the 1998 Act;
 - (b) the value of the assets gifted to the Commission, if material.
4. The notes to the statement of accounts shall include:
 - a. amounts attributable to:
 - (i) work carried out by the Commission’s staff and private audit firms, this information may be shown either in amounts or as a percentage but whichever method is adopted shall be applied consistently;

- (ii) audits of accounts required to be audited in accordance with the 1998 Act (“mandatory audits”);
 - (iii) studies undertaken under sections 33 and 34 of the 1998 Act (“value for money and other studies”), and
 - (iv) work undertaken under sections 28, 29, 35, 36, 37, 38, 40 and 42 of the 1998 Act (“work on request”);
- b. an analysis of the income and expenditure account to show the financial results of the Commission’s activities separately identifying gross fee income from total operating costs, being the sum of the cost of bought-in services, staff costs and other operating charges and interest charged on borrowing from the National Loans Fund, if applicable, showing separately the income and expenditure in relation to its functions in respect of the bodies to which paragraph (g) of Schedule 2 to the 1998 Act relates (health authorities etc.), social services functions (paragraphs 8(2) of Schedule 1 to the 1998 Act refers) and such other functions as the Secretary of State may by legislation prescribe;
 - c. a statement of the original cost of fixed assets held at the end of the year, associated depreciation, additions and disposals;
 - d. an analysis of cash at bank and in hand showing separately the amount of short-term deposits of surplus funds and the total of other amounts;
 - e. an analysis of creditors—amounts falling due within one year separately identifying, *inter alia*, the amount of bank overdraft;
 - f. an analysis of the movements of provisions for doubtful debts and losses under guarantee;
 - g. an analysis of any guarantee or indemnity issued and outstanding, if applicable;
 - h. a statement of the nature of the pension scheme and how it is funded. Details of the Controller’s pension arrangements should be provided, stating
 - (i) whether he is an ordinary member of the Commission’s Pension Scheme;
 - (ii) whether any enhanced or special terms apply;
 - (iii) whether he has an individual pension arrangement (including a personal pension) and
 - (iv) the value of the employer’s contribution as a percentage of salary. The figure may be a notional value in the case of unfunded pension scheme e.g. where the Controller is a Civil Servant.

The information relating to the Controller may either be shown under this pension note or as part of the information required to be shown under sub-paragraph 4(m) of this Schedule;

- i. a summary of all losses and special payments during the period, being transactions of a type which Parliament cannot be supposed to have contemplated, with a total de minimus limit of £25,000 or a lower amount if considered material;
- j. a statement of the number of employees during the period, other than members, whose emoluments, excluding pension contributions, fell in each bracket of a scale of multiples of £10,000 starting at £40,000; the figures should be adjusted pro rata for a period less than 12 months;

- k. a statement of the emoluments of the Chairman (excluding pension contributions), the highest paid member, if not the Chairman and the Controller (including pension contributions), during the period, with separate disclosure where more than one person occupied these offices during the period. For this purpose, salary, fees, bonuses and other benefits, including any amount paid as an incentive to take up the appointment and performance related elements of emoluments shall each be separately shown and the basis on which performance is measured shall be explained;
- l. a statement of the total emoluments of members during the period, including salaries, fees, performance related pay, if any, pension contributions, compensation payments, and estimated money value of non-cash benefits;
- m. a statement of the number of other members during the period whose emoluments, excluding pension contributions, fell in each bracket of a scale in multiples of £5,000 starting at nil;
- n. a statement of the average number of persons employed in the period including part-time employees, excluding non-executive board members, analysed by category of employment e.g. administration, marketing, production;
For the purpose of this note and for the analysis of employees' salary band (see sub paragraph 4(j) above), outward secondments should be excluded but inward secondments included;
- o. a note on the length of each members' and the Controller's contract with the Commission together with details of any arrangements for compensation for redundancy or premature loss of office;
- p. an analysis of members' and employees' costs (excluding members' remuneration) showing separately:
 - (i) wages and salaries, including performance pay, payable for the period to employees;
 - (ii) employers' contributions to superannuation fund;
 - (iii) other social security costs, and other pension costs, incurred by the Commission in relation to members and employees;
- q. particulars of any transaction, arrangement or contract entered into in which a member, an executive, a higher paid employee, or a person connected with them, at any time during the period, had a direct or indirect financial interest exceeding £1,000 (including transactions at arm's length); a higher paid employee means a person who is covered by sub-paragraph 4(j) of this schedule;
- r. a statement of the total expenses in respect of members and employees respectively, expenses being reimbursements and expenditure in respect of travelling, subsistence and hospitality;
- s. an analysis of borrowings separately identifying the amount borrowed from the Secretary of State and from other lenders; details of the rate of interest payable on the amounts and the maturity dates of the loans; and
- t. details of any key corporate financial targets set by the Secretary of State together with the performance achieved.

Cyhoeddwyd gan The Stationery Office Limited

ac mae ar gael oddi wrth:

The Stationery Office

(Archebion post, ffôn a ffacs yn unig)
PO Box 29, Norwich NR3 1GN
Ymholiadau cyffredinol 0870 600 55 22
Archebwch drwy'r Llinell Ffôn Seneddol *Lo-Call* 0845 7 023474
Archebion ffacs 0870 600 5533
book.orders@theso.co.uk
<http://www.ukstate.com>

Siopau Llyfrau The Stationery Office

Siop Llyfrau y Llyfrfa Oriol
18-19 Heol Fawr, Caerdydd CF1 2BZ
029 2039 5548 Ffacs 029 2038 43 47
123 Kingsway, Llundain WC2B 6PQ
020 7242 6393 Ffacs 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
0121 236 9696 Ffacs 0121 236 9699
33 Wine Street, Bryste BS1 2BQ
0117 9264306 Ffacs 0117 9294515
9-21 Princess Street, Manceinion M60 8AS
0161 834 7201 Ffacs 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Ffacs 0289 023 5401
71 Lothian Road, Caeredin EH3 9AZ
0870 606 5566 Ffacs 0870 606 5588

Y Siop Llyfrau Seneddol

12 Bridge Street, Parliament Square
Llundain SW1A 2JX
Archebion ffôn 020 7219 3890
Ymholiadau cyffredinol 020 7219 3890
Archebion ffacs 020 7219 3866

Asiantau Achrededig
(gweler Yellow Pages)

a thrwy lyfrewerthwyr da

ISBN 0 10 000000 0

