

# **Adult Learning Inspectorate**

## **Annual Report & Accounts 2006-07**



ADULT LEARNING  
INSPECTORATE

# **Adult Learning Inspectorate**

## **Annual Report & Accounts 2006-07**

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*Learning and Skills Act 2000*

*Annual Report prepared and presented pursuant to section 59(5) of the Learning and Skills Act 2000, including Accounts prepared and presented pursuant to paragraph 14 of Schedule 6 of the Learning and Skills Act 2000, together with the Report of the Comptroller and Auditor General thereon.*

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## ANNUAL REPORT 2006-07

### Introduction

The Adult Learning Inspectorate (ALI) has completed its sixth and final year of operation since its launch in April 2001. In 2006-07, the ALI carried out more than 1,000 inspections of all types, contributing to a total of some 5,500 since it came into existence.

The adult learning sector has continued to show improvements in the quality of provision since last year. Work-based learning providers are continuing to build their expertise, with over half of the grades awarded this year being grade 1 or 2, compared with 38 per cent in 2005-06 and 17 per cent in 2001-02. This performance is set against a backcloth of a changing and shrinking contract regime. The quality of adult and community learning provision and learning and skills provision in prisons has also moved forward.

Complaints from providers were few, with just 12 in the year and none going to independent adjudication. The level of appreciation for the ALI's work among providers was maintained, shown by strongly positive responses to a post-inspection questionnaire. Great strides were made in areas that had previously caused concern, notably the level of preparation offered to providers before inspection and the helpfulness of office-based staff in dealing with queries.

The rigorous management of health and safety in the ALI was recognised externally in 2006-07. The organisation gained the Sword of Honour, the British Safety Council's highest accolade for health and safety management, as well as its Five Star award and the International Award for Excellence.

The ALI merged with the Office for Standards in Education, Children's Services and Skills on 1 April 2007 as part of the Government's rationalisation of inspectorates, as detailed in the Education and Inspections Bill which received royal assent on 8 November 2006. The Act has led to the statutory winding down of the ALI and the transfer of its work, assets and liabilities to the Office for Standards in Education, Children's Services and Skills. All of the ALI's sole remit work has become part of the Learning and Skills Directorate of the new Office for Standards in Education, Children's Services and Skills.

*Excalibur*, the ALI's resource that uses findings from inspection to support providers' quality improvement, transferred as follows:

- Information on inspection, including the *Inspection Toolkit* and *Preparing for Inspection* events, will continue to be provided by the Office for Standards in Education, Children's Services and Skills.
- Other *Excalibur* resources, including *Building Better Practice*, *Learner-Centred Self Assessment*, *Actions for Quality Improvement* and the ALI Quality Champions programme have been transferred to the Quality Improvement Agency.

The ALI's newspapers for the adult learning sector, *Talisman*, will continue. It will be produced and distributed by the Office for Standards in Education, Children's Services and Skills.

The ALI's national administration centre closed on 31 March 2007. All assets and liabilities transferred to the new Office for Standards in Education, Children's Services and Skills on 1 April 2007 and will be reported in its end of year results for 2007-08. A small wind-down team will remain in Coventry for three months to ensure completion of the smooth transition to the Office for Standards in Education, Children's Services and Skills.

## Management commentary 2006-07

### Background

The accounts cover the year from 1 April 2006 to 31 March 2007. They have been prepared in accordance with the direction of 25 May 2001, given by the Secretary of State for Education and Skills, and with the consent of the Treasury, in accordance with Schedule 6, paragraph 14 of the Learning and Skills Act 2000, and the Financial Memorandum of the ALI dated 10 February 2004.

The ALI is an executive Non-Departmental Public Body (NDPB) established under the terms of the Learning and Skills Act 2000. It was launched on 1 April 2001, working with the Department for Education and Skills (DfES) and the Department for Work and Pensions (DWP) as its main sponsors. The DfES sponsor team channels grant-in-aid funding:

- from the DfES to enable the ALI to inspect learning provision funded by grant or contract through the Learning and Skills Council (LSC)
- from the DWP to enable the ALI to inspect Jobcentre Plus programmes.

### Principal activities

The ALI's main functions are set out in the Learning and Skills Act 2000. Under this Act, the ALI has responsibility for the inspection of:

- further education for people aged 19 or over, which is funded by the LSC or a local education authority (LEA), including adult and community learning
- training provided wholly or partly on employers' premises for people aged over 16 years of age, which is wholly or partly funded by the LSC
- training funded (through Jobcentre Plus) under the Employment and Training Acts, including the New Deals
- training offered and funded by employers, at the invitation and expense of the employer.

The ALI inspects in line with the *Common Inspection Framework*, which was drawn up in partnership with the Office for Standards in Education, Children's Services and Skills and which applies (with variations to accommodate schools regulations) to all post-16 learning provision. The *Common Inspection Framework* was first published in February 2001 after public consultation. It was amended in 2004-05 and applied in revised form from 1 April 2005. It has statutory force under the Learning and Skills Act 2000 and cannot be amended without further public consultation and the consent of the Secretary of State for Education and Skills. The *Common Inspection Framework* has achieved consensual support across the learning and skills sector and enables comparison to be made between similar subjects delivered in differing settings, over time.

Additional duties for the ALI have been specified in the Secretary of State's remit letter and subsequent grant letters, to include inspection of **learndirect**, adult careers guidance **nextstep**, adult and community learning, and vocational provision overseas.

The ALI's remit for adults in further education colleges has inspected jointly with the Office for Standards in Education, Children's Services and Skills, which has a corresponding remit for the minority of learners aged between 14 and 18. The ALI also worked with the Office for Standards in Education, Children's Services and Skills on the inspection of teacher training and Joint Area Reviews. Many other inspections were conducted collaboratively, including those with Estyn (work-based learning provision which takes place in both England and Wales); with Her Majesty's Chief Inspector of Constabulary (training in the police service); and with inspectors in the armed forces.

All provision identified at initial inspection as inadequate was subject to a reinspection; support for providers deemed unsatisfactory was provided through the ALI's Provider Development Unit.

The ALI provided an agreed number of thematic or survey reports which guide policy formation for the DfES, the DWP and other departments of state. During 2006-07, the ALI produced nine survey reports for the DfES and the DWP; this figure includes one joint survey report by the ALI and Office for Standards in Education, Children's Services and Skills.

### **Financial results for 2006-07**

The income and expenditure account shows a retained deficit for 2006-07 of £23,283,000 compared with a deficit of £28,804,000 in 2005-06. The result takes into account costs of lease provisions – £2,003,000 – relating to the closure of Spring Place. After net adjustments of £2,000 for movements on capital grants this results in an increase of £23,283,000 in the negative balance on the general reserve to £4,516,000 at 31 March 2007 (31 March 2006, £3,993,000). It should be noted that positive or negative balances are the result of public sector accounting practices, rather than denoting the more familiar profit or loss. There has been a reduction of grant-in-aid compared with 2005-06 (total grant-in-aid received for 2006-07 was £21,728,000 compared with £25,830,000 in 2005-06). Of the total grant-in-aid received, £57,000 was used to fund capital expenditure (2005-06, £480,000) with the balance of £21,671,000 used to fund operating costs (2005-06, £25,350,000).

The ALI achieved £1,433,000 in other operating income (2005-06, £1,007,000). Most of this income (£998,000) was generated from commercial inspection activity, delivered on a full-cost recovery basis to other government departments and private sector employers. The business case for commissioned work was approved by the DfES and Treasury in January 2004.

Total operating costs, excluding exceptional costs, for 2006-07 were £22,737,000, a decrease of 14.9 per cent on 2005-06 (£26,720,000). Approximately 62.1 per cent of total operating expenditure was accounted for by staff costs. Inspection fees and charges decreased by 38.8 per cent to £2,895,000 (2005-06, £4,728,000), reflecting a smaller number of on-site inspection days delivered. Other costs fell by 16.1 per cent to £4,997,000 (2005-06, £5,954,000).

Overall operating expenditure has been contained during 2006-07, working within the 15 per cent efficiency gains required of the ALI over 2005-06. Steady downward pressure on costs has allowed the ALI to achieve the £5 million reduction in funding required by the DfES.

The year has been very successful in terms of financial management. The ALI's CODA Dream finance system has matured and brought additional efficiencies and functional benefits, including online expense claims for both full-time and associate inspectors. The ALI's register of fixed assets has continued to provide a very high level of accuracy, which will facilitate transfers of equipment to the new inspectorate.

## Key performance indicators

The ALI's business plan for 2006-07 included the following key performance indicators for inspection:

Activity	Target 2006-07	Actual 2006-07	Target 2005-06	Actual 2005-06
<i>Number of first inspections</i>	760	604	789	787
<i>Number of reinspections</i>	88	139	170	162
<i>Number of annual assessment visits</i>	330	268	0	237
<i>Number of surveys</i>	13	14	12	14
<i>Development inspections</i>	0	0	70	2
<i>Cost of each inspection day</i>	£1,162	£1,220	£1,035	£1,086
<i>Total number of inspection days delivered</i>	19,459	17,589	23,694	22,624
<i>Support service overheads as a percentage of turnover</i>	21.9%	21.5%	20.5%	20.2%

## Post-balance sheet events

The ALI's national administration centre ceased to operate as at 31 March 2007. A small team will remain in Coventry for three months to ensure completion of the smooth transition to the Office for Standards in Education, Children's Services and Skills.

## Fixed assets

During the year the ALI spent £6,000 (2005-06, £82,000) and £51,000 (2005-06, £398,000) on additions to intangible and tangible fixed assets, respectively.

Following the decision to merge the ALI with the Office for Standards in Education, Children's Services and Skills from 1 April 2007, a decision was made to close Spring Place. As a consequence the building refurbishment at Spring Place has a revised useful economic life to 31 March 2007, and Spring Place IT equipment (hardware) was considered to be impaired and has a revised economic life to 31 March 2007.

All other fixed assets have transferred to the Office for Standards in Education, Children's Services and Skills on 1 April 2007 at net book value.

The movements in intangible and tangible fixed assets are set out in notes 6 and 7 to the financial statements.

## Corporate governance

The ALI was overseen by a Board of nine members appointed by the Secretary of State for Education and Skills. The only executive member of the Board was the Chief Inspector of Adult Learning, David Sherlock CBE, who was also the Chief Executive and Accounting Officer. The Board's main responsibilities include:

- approval of the strategic direction of the ALI
- informing the Secretary of State of changes likely to affect the ALI's strategic direction
- ensuring compliance with statutory or administrative requirements for the use of public funds
- regular review of financial information on the management of the ALI
- demonstration of high standards of corporate governance
- establishment of an appropriate committee structure
- making arrangements for the annual appraisal of directors by committee chairs.

The Board met every quarter, with an additional meeting held each June to approve the Annual Report and Accounts (in total, the Board met six times in 2006-07). Formal meetings were attended by observers from the ALI's main stakeholders or partners: the DfES, Jobcentre Plus, the LSC and the Office for Standards in Education, Children's Services and Skills.

In 2006-07 the Board had two committees, each with formal terms of reference and chaired by a non-executive director. These committees were:

- Audit, Governance and Corporate Services
- Remuneration.

The Audit, Governance and Corporate Services Committee met seven times in 2006-07 and the Remuneration Committee met four times. The Audit, Governance and Corporate Services Committee is the only Board committee specifically required by the ALI's management statement. The committee's core role is to review the adequacy and effectiveness of the ALI's internal control systems and its arrangements for risk management, control and governance. The committee has four members, one of whom is a qualified accountant. All meetings of the committee are attended by the Chief Inspector, the Director of Organisational Development as Company Secretary, the Head of Finance, representatives from internal and external audit and the DfES. The committee assesses itself annually against the National Audit Office checklist to demonstrate its compliance with good practice.

The ALI merged with the Office for Standards in Education, Children's Services and Skills on 1 April 2007 as part of the Government's rationalisation of inspectorates, as detailed in the Education and Inspections Bill which received royal assent on 8 November 2006. All Board responsibilities transferred to the Office for Standards in Education, Children's Services and Skills on 1 April 2007.

The table overleaf provides details of Board and committee membership between 1 April 2006 and 31 March 2007.

Name	Date of Appointment	Date of Reappointment	Role	Committee Membership
Richard Handover	2 January 2002 to 31 December 2005	1 January 2006 to 31 December 2007*	Board Chair	Remuneration Committee (member)
David Sherlock CBE	2 August 2000	-	Board member Chief Inspector of Adult Learning	Audit, Governance & Corporate Services Committee (in attendance)
Philip Candy	1 April 2005 to 31 March 2009*	-	Board member	
Paulene Collins OBE	14 December 2000	1 January 2005 to 13 December 2007 *	Board member	Audit, Governance & Corporate Services Committee Remuneration Committee
David Croll	14 December 2000	14 December 2006 to 31 March 2007 *	Board member Diversity Champion	Remuneration Committee (Chair)
Peter McKee	20 September 2002 to 19 September 2006	20 September 2006 to 31 March 2007*	Board member Health & Safety Champion	Audit, Governance & Corporate Services Committee
Elaine Nicholls	1 April 2005 to 31 March 2009*	-	Board Member	Audit, Governance & Corporate Services Committee
Christopher Trinick	14 December 2000	15 December 2004 to 13 December 2007*	Board member Vice Chair	Audit, Governance & Corporate Services Committee (Chair) Remuneration Committee
Richard Wilson	1 April 2005 to 31 March 2008	-	Board member Excalibur Champion	

\*The normal period of tenure for Board members is four years. All Board member posts terminated on 31 March 2007.

The ALI maintains a record of declarations of interest made by Board members and employees. Details of related party transactions and connected bodies are given in note 21 to the financial statements.

The ALI complies with all the relevant Treasury requirements regarding corporate governance. It is committed to the principles of the Combined Code on Corporate Governance. In accordance with the Freedom of Information Act 2000, the ALI operates a publication scheme. This sets out details of what the ALI publishes, how the information can be reached and any charges which may be made. The information available includes minutes of formal meetings of the Board and its committees.

### **Equal opportunities and diversity**

The ALI is committed to equality of opportunity and diversity in all its activities. It inspects and grades equality of opportunity during each provider inspection. Diversity is promoted inside the organisation and externally through contributions to sector-wide and community initiatives. It is the policy of the ALI that nobody should be unfairly discriminated against directly or indirectly because of their ethnicity, national origin or nationality, gender, sexual orientation, marital status, religious beliefs, political affiliation, age, social class, disability, trades union membership, employment status or role as a carer. The ALI has a diversity strategy and a full range of supporting policies and procedures. All staff have received relevant information and training. The development of diversity is guided by a diversity steering group with broad staff representation and a designated 'champion' among Board members.

The ALI seeks to ensure that no job applicant or employee receives less favourable treatment, directly or indirectly, on the grounds of disability. The ALI is committed to meeting the full range of its obligations under the Disability Discrimination Act 2005 and has implemented robust staff monitoring procedures which cover all aspects of the employment process. Reasonable adjustments are made in relation to premises and working practices where required. Motorised doors are installed at Spring Place, adding to a full range of other measures intended to assist people with impaired mobility and those with sensory impairments.

### **Health and safety management**

The management of health and safety in the ALI is rigorous and the organisation achieved the highest accolade for health and safety management from the British Safety Council, only awarded to the top 40 organisations worldwide, namely the Sword of Honour, the British Safety Council's Five Star award for health and safety management and the International Award for Excellence in 2006-07. The management of risk and health and safety is an integral part of the organisation and particularly the inspection activity. Health and safety risks to the organisation are assessed and mitigation measures are implemented to reduce the identified risk.

The top risks to the ALI's staff, and particularly inspectors, include driving, personal safety, manual handling, and slips, trips and falls. All inspectors and inspection managers have been trained and externally examined in risk assessment to equip them for inspection activity. Risk assessments are a legal requirement and have been undertaken for all inspection and reinspection activities for several years now. Specific detail for each inspection complements the generic risk assessment and is returned electronically by the lead inspector to Spring Place for recording and analysis. All inspectors and office staff carry out risk assessments of their home-based workstations and office working environments every two years or when there has been a significant change.

### **Consultation with employees**

The ALI had a Joint Consultative Committee (JCC), which represented staff wishes in consultation with managers. A revised constitution was agreed in 2004-05, reflecting the new information and consultation regulations that came into force in April 2005. Staff representatives considered the impact of issues and represented employees under three categories:

- **Strategic:** changes that could affect all ALI staff, for example, management policy and procedure, remuneration and benefits
- **Operational:** changes that are likely to affect staff in only one department, for example, departmental workload and structure changes
- **Individual:** issues that affect specific individuals, for example particular welfare issues and disciplinary or grievance hearings.

The JCC met regularly (at least quarterly) to discuss and deal with these matters.

## **Environmental policy**

During 2006-07 the ALI continued to implement its environmental policy by increasing the use of sustainable resources. Measures included:

- reducing paper consumption
- using stationery items made from recyclable materials, including paper, cups, bin bags and consumables such as hand towels
- increasing the proportion of waste recycled
- maximising the efficient use of energy and materials
- maintaining the carbon dioxide emissions levels at 180gsm/kg for the ALI cars
- the offsetting of all the ALI's carbon dioxide production from inspectors' cars through the provision of 1,000 trees at the National Memorial Arboretum in Staffordshire.

## **Payment of creditors**

The Late Payment of Commercial Debts (Interest) Act, which came into force on 1 November 1998, requires government bodies, in the absence of any agreement to the contrary, to pay suppliers within 30 days of the provision of goods or services, or the date on which the invoice was received. During the year ending 31 March 2007, 99 per cent (2005-06, 96 per cent) of all third party supplier invoices were paid within 30 days. This was a continuing improvement, reflecting measures to improve prompt payment. No claims for interest under the Act were received from associate inspectors during 2006-07 (2005-06, nil).

The ALI supports the Better Payment Practice Code by usually agreeing payment terms in advance when ordering goods and services; by setting out payment procedures on the purchase order; by settling invoices in accordance with any agreed contract terms or within 30 days, as required by law; and by informing suppliers of incorrect invoices promptly to encourage settlement.

## **Audit**

Paragraph 14 of schedule 6 of the Learning and Skills Act 2000 appoints the Comptroller and Auditor General as the ALI's external auditor. The National Audit Office (NAO), which carries out the audit on behalf of the Comptroller and Auditor General, charged £32,000 for the audit of the 2006-07 financial statements (2005-06, £31,000).

PricewaterhouseCoopers provided internal audit services at a cost for 2006-07 of £46,759 (2005-06 £56,642). They were appointed in 2002-03 by competitive tender for a three-year period to 31 March 2005. This contract was extended for a further two years to maintain continuity, in agreement with the DfES and NAO. The value of non-audit services provided to the ALI by PricewaterhouseCoopers in 2006-07 was £3,000 (2005-06 £nil).

## **Statement of disclosure of information to auditors**

As far as I am aware as Accounting Officer, there is no relevant audit information of which the ALI's auditors are unaware and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the ALI's auditors are aware of that information.

## **Remuneration report (unaudited section)**

The Financial Reporting Manual issued by the Treasury requires that the Annual Report & Accounts now includes a Remuneration Report containing certain specified information. This report is included below.

The Remuneration Committee comprises four board members and is chaired by the chair of the Organisational Development Committee, David Croll.

### **Business conducted in year**

The Remuneration Committee met four times during the year ended 31 March 2007 and agreed the bonuses of the Chief Inspector and other executive directors for 2006-07.

### **The Remuneration Committee's terms of reference**

The Remuneration Committee's terms of reference are to:

- make recommendations to the DfES on the total remuneration, pension and benefits package for the Chief Inspector including, where appropriate, bonuses and incentive payments
- determine the framework for the remuneration of executive directors (excluding assistant directors) in accordance with requirements specified by the DfES
- within the terms of the agreed framework, determine the total remuneration and benefits package for executive directors including, where appropriate, bonuses and incentive payments
- make recommendations to the DfES on the targets for any performance-related incentive scheme applicable to the Chief Inspector and to agree the targets applicable to executive directors
- within the constraints of the Principal Civil Service Pension Scheme, determine the policy and scope for pension arrangements for executive directors
- determine the standard form of contract for executive directors, in accordance with any requirements specified by the DfES
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the organisation and consistent with DfES guidance
- to agree the policy for authorising claims for expenses by the Chief Inspector and executive directors
- be exclusively responsible for establishing selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee
- report the proceedings of the committee to the Board and in the annual report.

### **Policy on Chief Inspector's remuneration**

The Chief Inspector's remuneration is renewed annually and, subject to full satisfactory performance, amended in the light of the Secretary of State's decision on the recommendations of the senior salaries review body. The Chief Inspector has a contract of employment, which commenced on 3 August 2000, in which details of his six months' notice period and termination payment are outlined.

## Policy on Executive Directors' remuneration

Executive Directors' remuneration is paid in accordance with the annual pay remit and agreed with the Remuneration Committee.

Directors receive performance pay in accordance with their bonus scheme arrangements, which are agreed as part of the annual pay remit. Directors have a Principal Statement that outlines details of their notice period and termination payments. They are members of the Principal Civil Service Pension Scheme, which provides details of the terms relating to severance for loss of office. There are no special arrangements for Directors normally to receive termination awards. All Executive Directors commenced with the ALI on or after 1 October 2000, and have between 3 and 6 months' notice period, depending on their individual contracts. Arrangements for termination awards are in line with the Civil Service Pension Scheme arrangements.

## Audited section of the Remuneration report - Emoluments of senior employees

### Salary and benefits in kind

	2006-07		2005-06	
	* Salary £000s	Benefits in kind £000s	Salary £000s	Benefits in kind £000s
David Sherlock CBE Chief Inspector	279	17.7	144	5.7
Denis McEnhill Director of Inspection	118	1.85	100	3.4
Nicky Perry Director of Inspection	126	14.2	101	4.7
Lisa Yeoman Director of Organisational Development	119	13.4	94	5.2

\* including termination awards

Termination awards made to executive directors were in line with the Civil Service Pension Scheme arrangements.

The termination award made to the Chief Inspector included compensation for loss of office and related benefits, equivalent to six months remuneration. This award is included in the figures above.

In line with termination awards to executive directors, and the Civil Service Pension Scheme arrangements, the Directors received payments equivalent to six months pay. The cost of these payments have been charged to the income and expenditure account, and offset with the release of the appropriate amount of the redundancy provision which was provided for in the prior year's Annual Report & Accounts.

No termination payments were made to the Chief Inspector or any Executive Directors during the previous financial year.

Emoluments include salary, performance pay, bonus, and allowances. Performance pay is calculated according to annual performance measured by the appraisal process. The figures exclude pension payments made to the Principal Civil Service Pension Scheme in accordance with the scheme as noted in accounting policies 1(v) on page 31.

Benefits in kind are the monetary value of a leased company car and medical benefits provided to staff in the course of their duties.

## Pension benefits

	2006-07	2005-06
	£000s	£000s
<b>David Sherlock CBE</b> <b>Chief Inspector</b>		
Real increase in pension at retirement	0 – 2.5	0 – 2.5
Real increase in lump sum at retirement	0 – 2.5	2.5 - 5
Total accrued pension at retirement	35 – 40	35 - 40
Lump sum at retirement	115 – 120	115 - 120
Cash equivalent transfer value	849	898
Real increase in cash equivalent transfer value at 31 March	(81)	36
<b>Denis McEnhill</b> <b>Director of Inspection</b>		
Real increase in pension at retirement	0 – 2.5	0 – 2.5
Real increase in lump sum at retirement	2.5 – 5.0	5 – 7.5
Total accrued pension at retirement	30 – 35	30 - 35
Lump sum at retirement	95 – 100	90 - 95
Cash equivalent transfer value	734	676
Real increase in cash equivalent transfer value at 31 March	33	51
<b>Nicky Perry</b> <b>Director of Inspection</b>		
Real increase in pension at retirement	0 – 2.5	0 – 2.5
Real increase in lump sum at retirement	2.5 – 5.0	5 – 7.5
Total accrued pension at retirement	25 – 30	20 - 25
Lump sum at retirement	75 – 80	65 - 70
Cash equivalent transfer value	556	509
Real increase in cash equivalent transfer value at 31 March	31	44
<b>Andrew Tyley</b> <b>Director of Finance</b> (resigned 31 January 2006)		
Real increase in pension at retirement	-	0 – 2.5
Real increase in lump sum at retirement	-	N/A
Total accrued pension at retirement	-	20 - 25
Lump sum at retirement	-	N/A
Cash equivalent transfer value	-	308
Real increase in cash equivalent transfer value at 31 March	-	23
<b>Lisa Yeoman</b> <b>Director of Organisational Development</b>		
Real increase in pension at retirement	0 – 2.5	0 – 2.5
Real increase in lump sum at retirement	2.5 – 5.0	5 – 7.5
Total accrued pension at retirement	30 – 35	25 - 30
Lump sum at retirement	90 – 95	80 - 85
Cash equivalent transfer value	570	531
Real increase in cash equivalent transfer value at 31 March	27	41

The pension details include the cash equivalent transfer value (CETV) accrued at the end of the reporting period. The CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. CETVs are calculated within the guidelines and framework prescribed by the scheme actuary.

There were no employer contributions to the partnership pension account for either the Chief Inspector or Executive Directors during the year.

The pensions benefits figures for the Chief Inspector that have been produced by DWP have been amended this year to compensate for prior years corrections, resulting in a negative real increase in cash equivalent transfer value at 31 March 2007.

## Statement of the responsibilities of the ALI and the Accounting Officer

Under schedule 6, paragraph 14 of the Learning and Skills Act 2000, the ALI is required to prepare a statement of accounts in a form and on a basis determined by the Secretary of State for Education and Skills, with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the ALI's state of affairs at the year-end and of its income, expenditure and cash flows for the financial year just ended.

In preparing the accounts the ALI is required to:

- observe the accounts direction issued by the Secretary of State for Education and Skills, 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 departure from these in the financial statements
- prepare financial statements on the going concern basis, which assumes that the inspectorate's activities will continue in operational existence for the foreseeable future. All assets and liabilities have transferred to the Office for Standards in Education, Children's Services and Skills on 1 April 2007 and will be reported in their end of year results for 2007-08.

The Accounting Officer for the DfES, the Permanent Secretary, has designated the Chief Inspector of Adult Learning as Accounting Officer for the ALI until 31 March 2007. The Chief Inspector of Adult Learning is responsible for the proper management of the ALI's resources and staff; for ensuring high standards of corporate governance; and for ensuring that government guidance on regularity, propriety and value for money was complied with until 31 March 2007

The ALI merged with the Office for Standards in Education, Children's Services and Skills on 1 April 2007 as part of the Government's rationalisation of inspectorates, as detailed in the Education and Inspections Bill which received royal assent on 8 November 2006. The Accounting Officer designated to sign off the final ALI Accounts is the Permanent Secretary, DfES.

The Act led to the statutory winding down of the ALI and the transfer of its work with effect from 1 April 2007 to the Office for Standards in Education, Children's Services and Skills.

All assets and liabilities transferred to the new Office for Standards in Education, Children's Services and Skills on 1 April 2007.

The Accounting Officer is responsible for:

- advising the ALI Board on the proper discharge of its responsibilities in accordance with statute and its Financial Memorandum
- ensuring the efficient, economic and effective management of the ALI's resources, including cash, liquid assets, capital assets and equipment and personnel
- ensuring that the ALI keeps proper accounts and other records in relation to the accounts
- signing the final statement of accounts and sending copies of the statement to the Secretary of State for Education and Skills and the Comptroller and Auditor General no later than the end of August following the financial year to which the statements relate

- observing the guidance in *Government Accounting: A Guide on Accounting and Financial Procedures for the Use of Government Departments* and all other guidance on the responsibilities of accounting officers that the Treasury, or the Cabinet Office, may issue from time to time.

David Bell  
Permanent Secretary  
Department for Education and Skills

29 June 2007

## **STATEMENT ON INTERNAL CONTROL**

The following Statement on Internal Control was originally agreed and signed by David Sherlock on 30 March 2007, in his role as Accounting Officer for the Adult Learning Inspectorate. Due to the transfer of ALI's functions to Ofsted from 1 April 2007 responsibility for endorsing this Statement on Internal Control, within these final audited accounts, now falls to David Bell in his role as Principal Accounting Officer for DfES.

### **SCOPE OF RESPONSIBILITY**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the ALI's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*. I am also accountable to the Board for maintaining effective systems for identifying, evaluating and managing the principal risks of the ALI. The Board's role is to determine the ALI's risk management culture, an appropriate risk appetite and level of exposure, and for approving major decisions which affect the organisation's risk profile. It also has responsibility for monitoring the management of corporate risks, for satisfying itself that divisional risks are being actively managed and annually reviewing the ALI's approach to risk management.

The ALI's relationships with its sponsor departments (the DfES and the DWP) are maintained through regular meetings with the sponsor teams and periodic meetings with ministers. The DfES and the DWP both have observer status on the ALI Board.

### **THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

The system of internal control is designed to manage risk to a reasonable level, rather than eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance. The system of internal control is designed to identify and prioritise the risks to the achievement of ALI policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently. The system of internal control has been operative for the year ended 31 March 2007. It accords with Treasury guidance.

### **CAPACITY TO HANDLE RISK**

The ALI has given priority to the implementation of a comprehensive risk management system. It is a routine concern for all staff. The priority given to risk management is reflected in the Corporate Plan for 2006-07 and it is given extensive coverage in the business plan. All ALI staff have received risk management training and they have access to the risk register, both in hard copy and online. Risk management systems have been refined during the year to accommodate new risks as they emerge, and to reflect more accurately an assessment of likelihood, financial and reputational impact. In addition, a formal process has been followed through which each director signs off the management of those divisional risks for which they are responsible.

### **THE RISK AND CONTROL FRAMEWORK**

Risk identification and assessment is an integral part of ALI business planning, with risks aligned to each corporate and divisional objective for the year ahead. The process of risk assessment is led by the executive team, with widespread consultation and review by managers prior to consideration by the Board.

The process for recording risks is highly structured and based on a powerful database designed specifically for this purpose. The business plan includes an assessment of mitigation factors for corporate risks and makes clear links at divisional level to divisional objectives and deliverables.

Our work on risk management over the past few years has shown that the ALI has a robust system for reporting on risk management through the divisional management teams. In this way, those held responsible for managing and monitoring risks submit regular reports on activity and any changes to the risk profile. New risks which are identified during the year are added to the risk register.

Monthly divisional meetings report to the executive team on management of risks, to the Audit Committee and to the Board itself. Each risk is assessed either as 'green' (no issues or actions outstanding), 'amber' (active monitoring required) or 'red' (positive action required to manage risk).

The risk reporting system first introduced in April 2003 has proved effective in maintaining a high level of awareness of risk management at all levels of the ALI. It has contributed to a steady reduction in the number of red and amber risks during 2006-07. Stakeholder involvement is provided by representation from the ALI's sponsor departments (the DfES and the DWP) the LSC and Office for Standards in Education, Children's Services and Skills at Board meetings.

The risk and control framework applied by the ALI is considered to be an example of best practice in the sector.

## **REVIEW OF EFFECTIVENESS**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of our internal auditors and of ALI managers who have responsibility for the internal control framework. I also take careful account of comments made by the external and internal auditors in their Management Letter and other reports. I have been advised on the implications of the result of my review by the Board, and the audit, governance and corporate services committee. As an integral part of this, the Board has fully supported the transition to the new inspectorate in a positive way.

I have ensured that there are plans to address weaknesses and secure continuous improvement of the system. I believe that the ALI's system of risk management is more robust and more fully developed than those normally found in the public services and the private sector.

### **The effectiveness of the systems of internal control has been maintained by:**

- regular monitoring of key performance indicators and the status of corporate risks by the Board
- review and approval by the Board of key policies which underpin internal control systems
- regular monitoring of divisional risks by divisional management teams, the executive team, with oversight of the status of all divisional risks by the audit, governance and corporate services committee
- scrutiny of all internal and external audit reports by the audit, governance and corporate services committee, supported by follow-up reports on the management response to control weaknesses
- approval of the Head of Internal Audit's annual report
- maintenance of an effective quality assurance system supported by an annual programme of quality audits and a range of documented policies and procedures

- continuity of external standards such as Investors in People (IiP) and Investors in Excellence (IiE).

## **SIGNIFICANT INTERNAL CONTROL PROBLEMS**

My review confirms the strength of internal controls and that no significant breaches in them have occurred in 2006-07.

However, the transition arrangements to the new Office for Standards in Education, Children's Services and Skills, necessarily transferring responsibility for strategic decisions away from the ALI, has created an external risk that liabilities may have been imposed on the ALI.

The ALI has managed and minimised these external risks so far as it is able and I can conclude that the risk management process has been robust throughout the year.

David Bell  
Permanent Secretary  
Department for Education and Skills

29 June 2007

## **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 Adult Learning Inspectorate for the year ended 31 March 2007 under the Learning and Skills Act 2000. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses 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 Inspectorate, Accounting Officer and auditor

The Inspectorate and the Permanent Head of the Department for Education and Skills as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Learning and Skills Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the responsibilities of the Adult Learning Inspectorate and the Accounting Officer.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Learning and Skills Act 2000 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Introduction and the Management Commentary, is consistent with the financial statements. I also report 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.

In addition, I report to you if the Inspectorate has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects the Inspectorate's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of Inspectorate's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Inspectorate and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Inspectorate'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

### Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Learning and Skills Act 2000 and directions made thereunder by HM Treasury, of the state of Inspectorate's affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Learning and Skills Act 2000 and HM Treasury directions made thereunder; and
- information given within the Annual Report, which comprises the Introduction and Management Commentary, is consistent with the financial statements.

### Audit Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Emphasis of matter – the abolition of the Inspectorate

In forming my opinions on the financial statements, which are not qualified, I have considered the adequacy of disclosures made in Note 24 to the financial statements concerning the abolition of the Inspectorate, the dissipation of its assets and liabilities and the preparation of the financial statements on a going concern basis. In accordance with the Government Financial Reporting Manual these transfers of functions, property and staff to Ofsted represent machinery of government changes, and are therefore continuing operations and the financial statements have been prepared on a going concern basis.

Report

I have no observations to make on these financial statements.

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

**Date: 2 July 2007**

## Income and expenditure account for the year ended 31 March 2007

	Notes	2006-07 £000s	Restated 2005-06 £000s
<b>Income</b>			
Operating income	2	1,433	1,007
		<b>1,433</b>	<b>1,007</b>
<b>Expenditure</b>			
Staff costs	3	14,117	15,314
Inspection fees and expenses	4a	2,895	4,728
Other costs	4b	4,997	5,954
Depreciation	6 & 7	690	691
Exceptional depreciation	6 & 7	57	403
Loss on asset revaluation	6 & 7	32	27
Notional cost of capital	1viii	6	6
Exceptional costs	11	1,920	2,687
		<b>24,714</b>	<b>29,810</b>
<b>Operating deficit</b>		(23,281)	(28,803)
Loss on sale of fixed assets		(8)	(7)
Reversal of notional cost capital		6	6
<b>Deficit for the year</b>	14	<b>(23,283)</b>	<b>(28,804)</b>

All activities are classed as continuing on the basis that the inspectorate's activities will continue in operational existence for the foreseeable future following the creation of the new inspectorate.

The notes on pages 29 to 43 form part of these accounts.

**Statement of total recognised gains and losses for the year ended 31 March 2007**

		2006-07 £000s	Restated 2005-06 £000s
	<b>Notes</b>		
Deficit for the year		<b>(23,283)</b>	<b>(28,804)</b>
Revaluation of fixed assets taken to reserve	7	83	60
Revaluation of depreciation taken to reserve	7	(81)	(2)
<b>Total recognised gains and losses for the year</b>		<b>(23,281)</b>	<b>(28,746)</b>

The notes on pages 29 to 43 form part of these accounts.

## Balance sheet as at 31 March 2007

	Notes	31 March 2007 £000s	Restated 31 March 2006 £000s
<b>Fixed assets</b>			
Intangible assets	6	54	140
Tangible assets	7	247	892
<b>Current assets</b>			
Debtors	8	436	866
Cash at bank and in hand	9	560	275
		996	1,141
<b>Creditors</b>			
Amounts falling due within one year	10	(2,251)	(2,345)
<b>Net current liabilities</b>			
		(1,255)	(1,204)
Total assets less current liabilities			
		(954)	(172)
Long term creditor	11	-	(102)
Provisions for liabilities and charges	12	(3,560)	(2,687)
<b>Total assets less total liabilities</b>			
		<b>(4,514)</b>	<b>(2,961)</b>
<b>Financed by:</b>			
Revaluation reserve	13	2	50
General reserve	14	(4,516)	(3,011)
		<b>(4,514)</b>	<b>(2,961)</b>

The notes on pages 29 to 43 form part of these accounts

The accounts have been prepared on the going concern basis which assumes that the inspectorate's activities will continue in operational existence for the foreseeable future (note 1(i)).

All assets and liabilities have transferred to the Office for Standards in Education, Children's Services and Skills on 1 April 2007.

David Bell  
Permanent Secretary  
Department for Education and Skills

29 June 2007

## Cash flow statement for the year ended 31 March 2007

	Notes	2006-07 £000s	2005-06 £000s
Other net cash receipts/(payments)		1,566	(185)
Cash paid to and on behalf of employees		(13,210)	(15,796)
Other cash payments		(9,485)	(10,269)
Payments against provisions		(272)	(51)
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities		(21,401)	(26,301)
Capital expenditure:			
Payments to acquire intangible assets		(6)	(82)
Payments to acquire fixed assets		(39)	(390)
Receipts from sale of fixed assets		3	-
		<hr/>	<hr/>
Net cash outflow before financing		(21,443)	(26,773)
Financing:			
Grant-in-aid received from the DfES		21,728	25,350
Grant-in-aid applied for purchase of intangible fixed assets	7	-	82
Grant-in-aid applied for purchase of tangible fixed assets	7	-	398
		<hr/>	<hr/>
<b>Net cash inflow/(outflow) after financing</b>		<b>285</b>	<b>(943)</b>
		<hr/>	<hr/>
<b>Increase/(decrease) in cash during the period</b>		<b>285</b>	<b>(943)</b>
		<hr/>	<hr/>

The notes on pages 29 to 43 form part of these accounts

## Notes to the financial statements

### Note 1. Statement of accounting policies

#### *i) Basis of preparation*

The accounts are drawn up in accordance with the *Accounts Direction* dated 25 May 2001 given by the Secretary of State for Education and Skills, in accordance with the *Financial Reporting Manual* and the Learning and Skills Act 2000, Schedule 6, paragraph 14, and the Financial Memorandum between the Secretary of State and the ALI dated 10 February 2004, copies of which may be obtained from the ALI or the DfES.

The accounts are prepared under the modified historical cost convention and in accordance with the accounting disclosure requirements of the Treasury and the Companies Act 1985 (as amended by the Companies Act 1989), and accounting standards issued or adopted by the Accounting Standards Board, with the exception of the requirement contained in FRS3 for the inclusion of a note showing historical cost profits and losses. The particular accounting policies adopted by the ALI are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

The accounts have also been prepared on the going concern basis which assumes that the inspectorate's activities will continue in operational existence for the foreseeable future. The ability of the activities to continue in operational existence is based on the Education and Inspections Bill which received Royal Assent on 8 November 2006. The Act has led to the statutory wind down of the ALI and the transfer of its work with effect from 1 April 2007 to the Office for Standards in Education, Children's Services and Skills (Ofsted).

#### *ii) Grant- in- aid from the DfES*

### Change of accounting policy

With effect from the 2006-07 reporting period the FReM requires Non-Departmental Public Bodies to account for grants-in-aid received for revenue and capital purposes as financing because it is regarded as a contribution from a controlling party which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the certified 2005-06 accounts and the impact of the change on the results of the current year is shown below. Note there is no impact on the net liability position of the ALI as a result of this change in policy.

£000's	At 31 March 2006 (as previously stated)	Impact of adopting the new policy	At 31 March 2006 (re-stated)
Retained deficit for 2006-07	(2,333)	(26,471)	(28,804)
General reserve	(3,993)	982	(3,011)
Government capital grant reserve	1,032	(1,032)	0
Revaluation reserve	0	50	50

£000's	At 31 March 2007 (without applying the new policy)	Impact of adopting the new policy	At 31 March 2007 (applying the new policy)
Retained deficit for 2006-07	(833)	(22,450)	(23,283)
General Reserve	(4,731)	215	(4,516)
Government capital grant reserve	301	(301)	0
Revaluation reserve	0	2	2

Grants received to meet the cost of acquiring or constructing specific assets (rather than assets in general) which are capitalised, is reflected in the government capital grants reserve account.

Treasury guidelines on the issue of grant-in-aid preclude an NDPB retaining more funds than are required for its immediate needs. Treasury accounting rules also preclude the accruing of any grant-in-aid receivable to cover liabilities that are payable in the next accounting period. As a result, the grant-in-aid paid in any year may contribute to a surplus or deficit of income over expenditure as appropriate. Any surplus or deficit will be taken into account in the funding of the following year's grant-in-aid.

These accounts reflect liabilities that have been incurred as a consequence of the decision to close Spring Place in preparation for the merger with Office for Standards in Education, Children's Services and Skills and costs will be funded through grant-in-aid. These accounts are therefore prepared on a going concern basis for 2006-07.

The Inspectorate confirms that government grants received from both the DfES and the DWP have been used only for their approved purposes.

### *iii) Value Added Tax*

The ALI engages in the provision of inspection activities, which are VAT exempt, and inspection-related consultancy work, which is classed as taxable supplies. For inspection related consultancy work, the inspectorate is a VAT registered entity, and raises VAT-inclusive sales invoices.

VAT costs are included in each expenditure category and are not identified separately in the accounts.

### *iv) Staff Bonus Payments*

The ALI has charged to the accounts, and paid, the staff bonuses for 2006-07, prior to the winding up of the organisation. The bonus payments are based on the results of the appraisal process.

### *v) Pension costs*

All employees of the ALI (other than those on casual contracts) are entitled to be members of the Principal Civil Service Pension Scheme (PCSPS). The conditions of the Superannuation Acts 1965 and 1972, and subsequent amendments, apply to the employees of the ALI. Costs of the ALI's contributions are charged to the Income and Expenditure Account in the year in which they are incurred. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Contributions are paid to the PCSPS at rates determined from time to time by the Government Actuary and advised by the Treasury.

*vi) Operating leases*

Rentals payable in respect of operating leases are charged on a straight-line basis to the Income and Expenditure account over the lease term, even if the payments are not made on that basis.

*vii) Fixed assets and depreciation*

Following the decision to merge the ALI with Office for Standards in Education, Children's Services and Skills from 1 April 2007, the decision was made to close Spring Place. As a consequence the building refurbishment at Spring Place has a revised useful economic life to 31 March 2007.

Expenditure on the acquisition of tangible and intangible assets is capitalised where these costs exceed £2,500 or where an asset forms part of a larger group that in total is more than £2,500.

Depreciation is provided on intangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

- IT software licences - 3 years.

Depreciation is also provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

- Spring Place refurbishment – to 31 March 2007
- office furniture – 3 years
- office equipment – 3 years
- Spring Place IT equipment (hardware and software) – 3 years or to 31 March 2007, whichever is the shortest.
- Inspector home furniture and IT equipment – 3 years.

ICT equipment held by ALI office staff considered to be impaired as a consequence of the merger with Office for Standards in Education, Children's Services and Skills has a revised economic life to 31 March 2007.

All other fixed assets will transfer to Office for Standards in Education, Children's Services and Skills on 1 April 2007 at net book value.

Depreciation is calculated on a monthly basis and is charged from the month of acquisition. No depreciation is charged in the month of disposal.

*viii) Notional costs*

Following the Financial Reporting Manual, which requires NDPBs to disclose the full cost of their activities, the ALI has included charges for the notional cost of capital.

The Income and Expenditure Account result for the year is arrived at after charging a notional cost of capital calculated at 3.5 per cent (2005-06, 3.5 per cent) of total assets, less current liabilities.

## Note 2. Analysis of operating income

	2006-07	2005-06
	£000s	£000s
Income from commercial inspection activities	998	906
Cost recovery of ALI staff working with partners	311	83
Income from nominee conferences/other	124	18
	<b>1,433</b>	<b>1,007</b>

In 2006-07 the ALI continued commissioned inspection activity, carrying out work for government departments and private UK companies on a cost-recovery basis. Significant contracts were delivered for, among others, the Ministry of Defence, LSC and QIA.

	UK	UK	Overseas	Overseas	Total	Total
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
	£000s	£000s	£000s	£000s	£000s	£000s
Commercial income	980	906	18	0	998	906
Inspector fees and salaries	401	437	6	0	407	437
Travel and subsistence	64	69	3	0	67	69
Overheads	411	342	8	0	419	342
Capital charge	31	20	1	0	32	20
Total costs	907	868	18	0	925	868
<b>Surplus</b>	<b>73</b>	<b>38</b>	<b>0</b>	<b>0</b>	<b>73</b>	<b>38</b>

This analysis conforms to The Treasury's *The Fees and Charges Guide* and is not intended to comply with SSAP25, *Segmental Reporting*.

## Note 3. Employees

### (a) Employee costs

The total costs of employees (including the Chief Inspector) of the ALI and temporary agency staff during the period to 31 March 2007, were:

	2006-07	2005-06
	£000s	£000s
Salaries and wages	10,820	11,798
Social security costs	1,097	1,179
Pension costs	2,192	2,215
Temporary agency staff	8	122
<b>Total costs of employees</b>	<b>14,117</b>	<b>15,314</b>
Recoveries of costs of secondees to partners	(299)	(81)
<b>Net costs of employees</b>	<b>13,818</b>	<b>15,233</b>

These costs exclude fees paid to associate inspectors who are not employees of the ALI.

As noted in 3(b) below, a number of ALI employees were seconded to partners during the year. The total costs of employees shown above include costs of £299,000 (2005-06, £81,000) subsequently recovered from partners in respect of salaries, NI and pension contributions. This income is also shown in note 2 above and the remaining income covers other non-payroll expenses incurred on behalf of the partners.

Further to note 1(iv) of the accounting policies the ALI has paid £510,000 for the 2006-07 staff bonus, which appears on the salaries and wages line.

As also noted in 3(b) there were no people seconded from partners in industry. There are no costs incurred during the year, (2005-06, £99,000). Prior year costs are included in the staff costs in 3(a) above.

*(b) Employee numbers*

The average number of employees during the year expressed as full-time equivalents was:

	<b>2006-07</b>	<b>2005-06</b>
	<b>No.</b>	<b>No.</b>
Directors and Assistant Directors	5	7
Inspection managers	11	13
Inspectors	101	108
PDU advisers	6	5
<i>Excalibur</i>	8	15
Inspection support	27	30
Office support	59	61
Secondments from partners in industry	0	2
<b>Total average number of employees</b>	<b>217</b>	<b>241</b>

In addition to these employees, an average of one (2005-06, one) inspector was seconded to partner organisations.

Included in the above staff numbers are four (2005-06, four) full-time equivalent (FTE) staff on short-term contracts. Their salaries are included in the table in 3(a).

As well as normal operating variations, the totals are influenced by variations in the number of positions filled by temporary staff or consultants.

**Note 4a. Inspection costs**

	<b>2006-07</b>	<b>2005-06</b>
	<b>£000s</b>	<b>£000s</b>
Fees paid to associate inspectors	1,405	2,607
NIC paid on fees paid to associates	167	311
Inspection expenses	1,323	1,810
<b>Total inspection costs</b>	<b>2,895</b>	<b>4,728</b>

#### Note 4b. Other costs

	2006-07	2005-06
	£000s	£000s
Board members' emoluments	10	10
Travel, subsistence & hospitality		
Board	21	23
Employees	928	889
Courses, conference, venues	889	950
Office supplies and services	609	754
Telephones and ICT	487	880
Premises and equipment	764	640
Recruitment and advertising	2	30
Other professional charges	418	436
Charges for vehicle and equipment leases	357	521
Consultancy fees	355	642
Staff welfare and relocation		146
	121	
External auditors' remuneration	34	31
Bank charges	2	2
<b>Total other costs</b>	<b>4,997</b>	<b>5,954</b>

#### Note 5. Board members' emoluments

##### *(a) Total emoluments received by Board members*

The total emoluments, including non-consolidated bonus received by the Chair and Chief Inspector in the year to 31 March 2007, excluding out of pocket expenses, were £289,620 (2005-06, £176,947). Board members other than the Chair and Chief Inspector were neither paid nor were entitled to any emoluments.

##### *(b) Emoluments of the Chair*

Richard Handover, Chair, has received £10,248 (2005-06 £10,044) in the year to 31 March 2007. The Chair receives no bonuses or taxable benefits, and no pension contributions are payable on his behalf.

##### *(c) Emoluments of other Board members*

Details of the emoluments of the Chair are set out above. Details of non-taxable travel and subsistence payments made to Board members are shown in note 4b on other costs.

A total of eight members (2005-06, nine) submitted claims for non-taxable travel and subsistence payments during the year. These amounted to £13,000 (2005-06, £18,000) in total. The balance of expenditure shown in note 4b relates to expenditure where payments were made directly to suppliers for goods or services to enable members to carry out their duties.

During the year to 31 March 2007, no monies were paid to third parties on behalf of

Board members (2005-06, £nil) in respect of their services.

#### Note 6. Intangible fixed assets

<b>Cost or valuation</b>	<b>IT software licences £000s</b>
At 1 April 2006	320
Additions	6
Revaluation	(17)
As at 31 March 2007	<u>309</u>
<b>Depreciation</b>	
At 1 April 2006	180
Charge for the year	86
Revaluation	(11)
As at 31 March 2007	<u>255</u>
<b>Net book value at 31 March 2007</b>	<u>54</u>
<b>Net book value at 31 March 2006</b>	<u>140</u>

#### Note 7. Tangible fixed assets

<b>Cost or valuation</b>	<b>ICT £000s</b>	<b>Furniture £000s</b>	<b>Refurbishment £000s</b>	<b>Total £000s</b>
At 1 April 2006	1,759	543	1,277	3,579
Additions	48	3	-	51
Disposals	(227)	-	-	(227)
Revaluation - to income and expenditure	(58)	-	-	(58)
- to government capital grants reserve	-	2	81	83
As at 31 March 2007	<u>1,522</u>	<u>548</u>	<u>1,358</u>	<u>3,428</u>
<b>Depreciation</b>				
At 1 April 2006	1,196	472	1,019	2,687
Charge for the year	364	38	259	661
Eliminated on disposals	(216)	-	-	(216)
Revaluation - to income and expenditure	(32)	-	-	(32)
- to government capital - grants reserve	-	1	80	81
As at 31 March 2007	<u>1,312</u>	<u>511</u>	<u>1,358</u>	<u>3,181</u>
<b>Net book value at 31 March 2007</b>	<u>210</u>	<u>37</u>	<u>-</u>	<u>247</u>
<b>Net book value at 31 March 2006</b>	<u>563</u>	<u>71</u>	<u>258</u>	<u>892</u>

Following a decision in the 2005-06 financial year to close Spring Place on 31 March 2007, a change in the economic life has been made for Spring Place refurbishment costs to that date.

Spring Place IT equipment (hardware) considered to be impaired as a consequence of the merger with Office for Standards in Education, Children's Services and Skills has a revised economic life to 31 March 2007.

All other fixed assets have an economic life per accounting policy note 1(vii).

Building refurbishment costs, office equipment/furniture and ICT hardware and software costs were revalued by comparing average indices for the year of purchase with those for the financial year. Indices were drawn from the Office for National Statistics publication *Price Index Numbers for Current Cost Accounting (MM17)*.

**Note 8. Debtors: amounts falling due within one year**

	<b>31 March 2007 £000s</b>	<b>31 March 2006 £000s</b>
Trade debtors	68	302
Accrued income	-	1
Other debtors	227	147
Prepayments	141	416
<b>Total debtors: amounts falling due within one year</b>	<b>436</b>	<b>866</b>

**Note 9. Cash balances**

	<b>31 March 2007 £000s</b>	<b>31 March 2006 £000s</b>
<b>Total cash held in the Paymaster General's account as at 31 March 2007</b>	<b>560</b>	<b>275</b>

**Note 10. Creditors: amounts falling due within one year**

	<b>31 March 2007 £000s</b>	<b>31 March 2006 £000s</b>
Trade creditors	-	596
VAT creditor	1	14
Income tax and social security creditor/pension	1,681	435
Other creditors	-	43
Rent creditor	-	34
Accruals and deferred income	569	1,223
<b>Total creditors: amounts falling due within one year</b>	<b>2,251</b>	<b>2,345</b>

## Note 11. Long term creditor

	<b>31 March 2007 £000s</b>	<b>31 March 2006 £000s</b>
Creditor due within one year	-	34
Long term creditor	-	102
<b>Total creditor in respect of rent</b>	<b>-</b>	<b>136</b>

## Note 12. Provisions for liabilities and charges

	31 March 2007			31 March 2006		
	Redundancy	Restructuring	Total	Redundancy	Legal Claims	Total
	£000's	£000's	£000's	£000's	£000's	£000's
1 April 2006	2,687		2,687		53	53
Utilisation of provision	(272)		(272)		(51)	(51)
Provision release	(877)		(877)		(2)	(2)
Provision increase	19	2,003	2,022	2,687		2,687
31 March 2007	1,557	2,003	3,560	2,687	-	2,687

A provision amounting to £1,557,000 has been included to recognise the compulsory redundancies which will be incurred as a consequence of the closure of Spring Place, the ALI's national administration centre.

Premises and equipment includes the estimated cost of £2.0m associated with sub letting the remaining lease of eleven years for Spring Place after 31 March 2007. The ALI took advice from King Sturges, a property management agent, when arriving at this valuation.

## Note 13. Revaluation reserve

	<b>31 March 2007 £000s</b>	<b>31 March 2006 £000s</b>
Balance at 1 April 2006	50	113
Revaluation increase during year	83	60
Depreciation release current year	(81)	(2)
Release to general reserve	(50)	(121)
Balance as at 31 March 2007	<b>2</b>	<b>50</b>

#### Note 14. General reserve: reconciliation in movement of government funds

	<b>31 March 2007 £000s</b>	<b>Restated 31 March 2006 £000s</b>
Balance at 1 April	(3,011)	(158)
Grant-in-aid	21,728	25,830
Retained deficit for the year	(23,283)	(28,804)
Released from revaluation reserve	50	121
<b>Retained deficit for the year</b>	<b>(4,516)</b>	<b>(3,011)</b>

In accordance with new HM Treasury rules, Grant-in-aid has to be shown as a direct transfer to general reserves, for this year, and the comparative year.

#### Note 15. Leases and hire purchase agreements

At 31 March 2007, the ALI had the following commitments to make payments within the next 12 months for operating leases:

	<b>31 March 2007 £000s</b>	<b>31 March 2006 £000s</b>
<b>Land and buildings</b>		
Operating leases which expire:		
After more than five years	364	364
<b>Other operating leases</b>		
Operating leases which expire:		
Within one year	46	192
Between one and five years	386	190

On 1 April 2007 all leases were transferred to the Office for Standards in Education, Children's Services and Skills.

#### Note 16. Financial commitments at the end of the period

Commitments under operating leases are set out in note 15 above.

At 31 March 2007 the ALI had £nil (2005-06, £nil) capital commitments.

#### Note 17. Statement of losses and special payments

The ALI had delegated authority, under the terms of its Financial Memorandum with the DfES signed on 10 February 2004, to write off individual losses up to a value of £5,000, subject to an annual limit of £25,000. The ALI also has the delegated authority to make individual ex-gratia payments up to a value of £10,000, subject to an annual limit of £50,000. Above these levels the ALI must seek approval from the DfES to write off losses and to make ex-gratia payments.

There were nil losses (2005-06, £nil) requiring approval from the DfES.

## Note 18. Reconciliation of operating deficit to movements in net funds

	2006-07 £000s	2005-06 £000s
Operating deficit for the period	(23,283)	(28,804)
Add:		
Depreciation on intangible fixed assets	86	100
Depreciation on tangible fixed assets	661	994
Loss on revaluation of assets	32	27
Notional cost of capital	-	6
Decrease/(increase) in debtors	430	(129)
Increase in creditors	779	1,547
Decrease in long-term creditors	(102)	(34)
Receipts from sale of fixed assets	3	-
Loss on asset disposals	8	-
GIA receipts to reserves	21,671	25,350
<b>Net cash inflow /(outflow)</b>	<b>285</b>	<b>(943)</b>

### Reconciliation of net cash flow to movement in net funds

Net funds at 1 April 2006	275	1,218
Net funds at 31 March 2007	560	275
	<b>285</b>	<b>(943)</b>

## Note 19. Pensions

The PCSPS is an unfunded multi-employer defined benefit scheme, but the ALI is unable to identify its share of the underlying assets and liabilities. The scheme actuary last valued the scheme at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

From 1 October 2002, employees may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good-quality 'money purchase' stakeholder-based arrangement with a significant employer contribution (partnership pension account).

### *Classic scheme*

Benefits accrue at the rate of 1/80<sup>th</sup> of pensionable pay for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

### *Premium scheme*

Benefits accrue at the rate of  $1/60^{\text{th}}$  of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of  $3/80^{\text{ths}}$  of final pensionable earnings for each year of service, or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of  $3/8^{\text{ths}}$  of the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them from undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

### *Classic plus scheme*

This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

Pensions payable under Classic, Premium and Classic plus are increased in line with the Retail Prices Index.

### *Partnership pension account*

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute, but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25 per cent of the fund as a lump sum.

From 1 April 2004, employers' contributions were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands up to 30 September 2003. From 1 October 2003 contributions were payable at the rates appropriate to each employee's membership of the four new schemes described above. From 1 April 2006 pension contributions were between 17.1 per cent and 25.5 per cent dependent on salary band. For 2006-07 total employers' contributions of £2,192,000 (2005-06, £2,215,000) were payable to the PCSPS in respect of all schemes in operation during the year.

### **Pension aggregation**

Employees who have left the pension scheme and wish to rejoin have the option of keeping the two periods of service separate, or can choose to join the two periods of service together. Option choices can be made up until retirement.

## **Retirement age**

Employment with the ALI will terminate at the end of the month in which employees reach the age of 65, or 40 years' pensionable service provided employees have reached 60 years of age. If the employee or the ALI wish their employment to continue beyond this date, their continued employment will be subject to business need, medical and risk assessment, and the terms of the pension scheme.

One (2005-06, one) employee has not joined the PCSPS. No payments have been made on their behalf into any other pension scheme. All other employees are members of one of the four schemes (Classic, Premium, Classic plus and partnership pension account) described above.

## **Note 20. Contingent liabilities**

A number of contingent liabilities have arisen through the abolition of the Adult Learning Inspectorate. The contingent liabilities include a claim brought by the former Inspectorate's employees for alleged failure to properly consult them on the decision to close the national administration centre on 31 March 2007. The case, which is being defended by Ofsted, is due to be considered by the Employment Appeals Tribunal to decide whether an Employment Tribunal has any jurisdiction to hear the case.

## **Note 21. Related party transactions and connected bodies**

The ALI is sponsored by the DfES and the DWP, which are regarded as related parties.

The ALI also had various material transactions with the LSC, QIA and DfES Vocational Reform division, of which the DfES is regarded as the parent department. These transactions relate to inspections carried out during the normal course of business, and recharge of secondment charges.

During the year, the ALI had similar material transactions with the following public bodies:

the Ministry of Defence, the Office for Standards in Education, Children's Services and Skills, and the Public Carriage Office.

The following Board members had related party transactions, in that they held appointments with organisations which were directly or indirectly related to providers where the ALI carried out inspections or reinspections in the normal course of business:

### **Philip Candy,**

- National Director, Education Training and Development (ETD), NHS Connecting for Health

### **Professor Paulene Collins OBE**

- Director of Quality Assurance, College of Law (retired 17 January 2007)
- Member, West Midlands Probation Board
- Member, Local Learning and Skills Council (Shropshire)
- Chair, NHS Continuing Care

### **David Croll**

- Principal and Chief Executive, Derby College
- Board member, Derby & Derbyshire Economic Partnership
- Derby College engaged ALI in 2006 to look at the College's QA systems

**Richard Handover, Chair, Adult Learning Inspectorate**

- Interim Chair of Strategy Board (to September 2006), Office for Standards in Education, Children's Services and Skills
- Board Member, Royal Mail Group
- Board Member, Nationwide Building Society
- Trustee, Kids Company

**Peter McKee, Chief Executive Officer**

- Chief Executive Officer and Director, TRL Technology Ltd
- Governor, Stanmore College
- Director, Farnborough Aerospace Consortium

**Elaine Nicholls**

- No declarations made

**David Sherlock CBE**

- Chief Inspector, Adult Learning Inspectorate
- Monthly Columnist, Times Education Supplement
- Board and Audit member, Qualifications and Curriculum Authority
- President, National Institute for Adult Community Education

**Chris Trinick, Chief Executive, Lancashire County Council**

- Chief Executive of Lancashire County Council
- As part of Lancashire Adult Learning – run the Lancashire Adult Learning and Work Steps through Adult and Community Services Directorate.
- Interim Member of Office for Standards in Education, Children's Services and Skills Strategy board to November 2006
- Formally appointed as Office for Standards in Education, Children's Services and Skills Board Member November 2006 and Chair Designate of Audit Committee.

**Richard Wilson**

- Director of Communications, Royal Academy of Engineering
- Member Conservative Party – Present on List of Approved Candidates (politically active)
- Non Executive Director of Improve, a Sector Skills Council
  
- Member Institute of Directors and Chartered Management Institute
- Member of Edexcel's Qualifications Committee

No other Board member, key manager or other related party had been involved in any material transactions with the ALI during the year ended 31 March 2007.

**Note 22. Key financial targets**

The *Accounts Direction* requires that the notes to the accounts include details of the key corporate financial targets set by the minister, together with the performance achieved. The ALI's annual business plan is submitted to the minister for approval and includes a range of financial targets as part of the key performance indicators.

The cost per inspection day in 2006-07 was £1,211 (2005-06, £ 1,086) against a target of £1,162 (2005-06, £ 1,035). The actual costs are 4.2 per cent above target, due to higher fixed and outplacement costs offsetting the proportional saving in direct inspection costs.

### **Note 23. Financial instruments (FRS13)**

The ALI has no borrowings and relies primarily on departmental grants for its cash requirements. It is therefore not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling. It is not exposed to interest rate risk or currency risk.

### **Note 24. Post balance sheet Events**

#### Abolition of the Inspectorate

Section 134 of the Education and Inspections Act 2006 provided for the abolition of the Adult Learning Inspectorate on 31 March 2007. Under Schedule 15 of 2006 Act the Secretary of State has made Staff and Property and Continuity of Functions Transfer Schemes to transfer the inspection functions and staff of the Adult Learning Inspectorate and its residual assets and liabilities to Ofsted with effect from 1 April 2007. Certain resources associated with the Adult Learning Inspectorate's good practice database have transferred to the Quality Improvement Agency. In accordance with the Government Financial Reporting Manual these transfers of functions, property and staff to Ofsted represent machinery of government changes, and are therefore continuing operations and the financial statements have been prepared on a going concern basis.

The Adult Learning Inspectorate's national administration centre in Coventry closed for business on 31 March 2007. A small wind down team remained in place to manage the formal close down, disposal of assets and produce the Inspectorate's final Annual Report and Accounts.

Some £2.06m exceptional expenses arising from the abolition of the Adult Learning Inspectorate are reported in the income and expenditure account for 2006-07 and associated notes. These expenses are for net obligations to the leaseholder of the national administration office in respect of the remaining life of the lease (£2.0m) and £0.06m for the write down in values of assets which are not being transferred to Ofsted or have no continuing use beyond 31 March 2007.

Some £1.38m net book value of assets and £5.81m liabilities are reported in the balance sheet at 31 March 2007 and associated notes. All of the asset balances were transferred to Ofsted on 1 April 2007 and comprise: Information Technology Equipment (£0.21m); Intangibles (£0.05m) Furniture (£0.04m); Cash held at Paymaster (£0.56m) and Debtors (£0.52m). The following liabilities were also transferred to Ofsted on 1 April 2007: Creditors (£2.25m) and Provisions for liabilities and charges (£3.56m). A number of contingent liabilities have arisen through the abolition of the Adult Learning Inspectorate and these are reported in Note 20 to the financial statements.

Of the Adult Learning Inspectorate's 233 staff in post at 1 April 2006, 157 have transferred to Ofsted, 13 took some form of voluntary severance, 20 resigned and 43 were made redundant.

Authorised for issue

The financial statements were authorised for issue on 11 July 2007 by David Bell (Accounting Officer).

## Glossary of terms

ALI	Adult Learning Inspectorate
CETV	Cash equivalent transfer value
CSCI	Commission for Social Care Inspection
DfES	Department for Education and Skills
DWP	Department for Work and Pensions
FRS	Financial Reporting Standard
FTE	Full time equivalent
ICT	Information and communications technology
liE	Investors in Excellence
liP	Investors in People
JCC	Joint Consultative Committee
LSC	Learning and Skills Council
NAO	National Audit Office
NDPB	Non-departmental Public Body
OFSSECs	Office for Standards in Education, Children's Services and Skills
OLSU	Offenders Learning and Skills Unit
PCSPS	Principal Civil Service Pension Scheme
PDU	Provider Development Unit
QIA	Quality Improvement Agency
SSAP	Statement of standard accounting practice
VAT	Value Added Tax

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