

# Annual governance report

Oldham Metropolitan Borough Council

Audit 2011/12

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Agenda Item 6



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## **Audit opinion**

I expect to complete my audit of the financial statements on 25 June 2012 when the financial statements are due to be approved by the Audit Committee.

Subject to the completion of final audit tasks I plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Financial statements**

The draft financial statements were signed by the Borough Treasurer on 3 May 2012 and submitted for audit on 4 May 2012, a very commendable achievement.

The financial statements submitted for audit were of very good quality and were supported by a well planned closedown process and comprehensive working papers. My audit progressed well, with finance staff and internal audit staff assisting my auditors to ensure the work was completed quickly.

We have not identified any material misstatements in the financial statements. With the exception of a few non-trivial amendments to the notes supporting the main financial statements my audit testing identified mainly errors of a narrative or trivial nature. The adjustments to the accounts are detailed in Appendix 2.

## Value for money (VFM)

### Focus on the criteria for 2011/12

I assessed your arrangements to secure economy efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission:

- Securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- Securing economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resource within tighter budgets and improving productivity and efficiency.

I have completed my assessment and I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my report.

### Certificate

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the Council's Whole of Government Accounts (WGA) consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

I expect to complete the outstanding work and issue my audit opinion by 25 June 2012. I plan to issue my certificate on completion of the WGA work by 31 August 2012.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 3), on behalf of the Council before I issue my opinion and conclusion.

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of final audit tasks, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. Final audit tasks at 20 June 2012 include:

- review of final version of financial statements; and
- final review of post balance sheet events together with the letter of representation, as at the date of the Audit Committee on 25 June 2012

## **Uncorrected errors**

At 20 June 2012 there are no non-trivial errors which management have declined to adjust.

## **Corrected errors**

My work did not identify any material errors in the financial statements. A small number of non-trivial classification and disclosure errors were identified and management agreed to correct these. Appendix 2 provides a summary of the more significant items. In addition to these there have been a number of editing changes to enhance the narrative and disclosure of some notes and correct typographical errors.

## Significant risks and my findings

I reported to you in my January 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. I report to you my findings against each of these risks in Table 1 below.

Table 1: Risks and findings

Risk	Finding
<p><b>Payroll</b></p> <p>In February 2011 the Council's payroll function was transferred to its strategic partner. Following the transfer a significant weakness in the segregation of duties was identified by Internal Audit. This weakness has continued into 2011/12.</p>	<p>In liaison with Internal Audit, substantive testing has been carried out on payroll transactions. This testing has not identified any significant issues to bring to your attention.</p>
<p><b>Valuation of Shares in Manchester Airport</b></p> <p>The Authority holds a material investment in the form of shares in Manchester Airport (unquoted equity investment).</p> <p>It is important to reflect an accurate valuation based on an appropriate method in the 2011/12 accounts.</p>	<p>I have reviewed the Council's expert financial advice on appropriate valuation and method and sought management assurance through the Letter of Representation at Appendix 4. There are no further issues to bring to your attention.</p>
<p><b>PFI Schemes</b></p> <p>Two material PFI scheme contracts have been signed in 2011/12:</p> <ul style="list-style-type: none"> <li>■ Housing scheme (PFI 4)</li> <li>■ Street lighting</li> </ul> <p>Transactions for PFI schemes are complex and inherently risky.</p>	<p>I have tested that the disclosures in the financial statements are consistent with the financial models.</p> <p>There are no material entries relating to these schemes in the financial statements for 2011/12.</p>
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Oldham this is likely to include your Gallery Oldham Art Collection as the most material assets.</p>	<p>I examined the management controls you have in place to recognise and value heritage assets. I also carried out testing to check that the Authority has accounted for heritage assets in accordance with FRS 30 and that the Code and financial statements are materially correct.</p> <p>There are no significant issues to bring to your attention.</p>

## **Important weaknesses in internal control**

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I am only required to report weaknesses in internal control I have identified during the audit that are relevant to preparing the financial statements.

I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

In the significant risks set out on the previous page I reported the weakness relating to the lack of segregation of duties within the payroll function. As referred to in the Annual Governance Statement, the Council is already aware of this control weakness and is working with its service provider partner to improve this control.

## **Other matters**

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

I have no matters I wish to report.

## **Whole of Government Accounts**

In addition to my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 19 June 2012, the Whole of Government Accounts return has not yet been received. However, I expect to receive the return shortly after the completion of the audit of the financial statements. I plan to complete my report on the return by 31 August 2012.

# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my January 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: Value for money conclusion criteria and my findings

Criteria	Risk	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council faced significant pressures from the reduction in public sector funding and increasing service pressures. I therefore reviewed the arrangements the Council had in place to:</p> <ul style="list-style-type: none"> <li>■ deliver the 2011/12 budgeted savings;</li> <li>■ set a balanced budget for 2012/13; and</li> <li>■ achieve a balanced medium term financial plan.</li> </ul>	<p>The Council succeeded in delivering the substantial savings required as a result of the Local Government Spending review, achieving savings of £41 million in 2011/12.</p> <p>The Council has an approved balanced budget in place for 2012/13, with plans in place to achieve the £24.5m of savings required.</p> <p>The Council continues to hold an appropriate level of reserves.</p> <p>The Council has a medium term financial strategy in place setting out the savings required for 2013/14 to 2015/16. Whilst the savings required are significantly less than the two previous years, they do remain a challenge.</p>

Criteria	Risk	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council acknowledges that it is becoming increasingly challenging to make savings in future years by progressively reducing existing budgets. It therefore reviewed the Council's arrangements for identifying priorities and opportunities and monitoring the delivery and impact on services.</p>	<p>The Council has taken a strategic approach to reducing expenditure. It has challenged all directorates and departments to find savings.</p> <p>The Council reviews its performance effectively to identify and monitor:</p> <ul style="list-style-type: none"> <li>■ improvement impact of service developments; and</li> <li>■ potential adverse impact of budget reductions.</li> </ul> <p>The Council is also addressing the risk relating to the transfer of adequate budgets for public health, by actively engaging with the Primary Care Trust to enable it to perform a due diligence review.</p>

# Fees

## I reported my planned audit fee in the January 2012 Audit Plan.

I aim to complete the audit within the planned fee. I will inform you of my final fee when the outstanding work is complete.

Table 3: Fees

	Planned fee 2011/12	Expected fee 2011/12
Audit	£319,500	TBA
Claims and returns	£65,000	TBA
Non-audit work	-	-
<b>Total</b>	<b>£384,500</b>	<b>TBA</b>

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF OLDHAM METROPOLITAN BOROUGH COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Oldham Metropolitan Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Oldham Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Borough Treasurer and auditor

As explained more fully in the Statement of the Borough Treasurer’s Responsibilities, the Borough Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of

significant accounting estimates made by the Borough Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Oldham Metropolitan Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Council and the auditor**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements. I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Oldham Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

### **Delay in certification of completion of the audit**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Mark Heap

District Auditor

Aspinall House, Aspinall Close, Middlebrook, Horwich, Bolton BL6 6QQ

June 2012

# Appendix 2 – Corrected errors

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I identified the following errors during the audit which management have addressed in the revised financial statements.

## **HCA Grant funded expenditure on refurbishment of Social Housing**

Grant Funded Expenditure of £1.6 Million on the refurbishment of Social Housing transferred to First Choice Housing Oldham had originally been treated as an impairment. However, the properties no longer belonged to the Council. The expenditure has now been recognised as Revenue Funding of Capital under Statute (REFCUS) rather than Impairment, and also corrected through the Movement in Reserves Statement.

## **Note 20 - Categorisation of debtors**

The Council's Retaining Wall Grant debtor had been miscategorised within the debtors note, resulting in an overstatement of 'Other Local Authorities' by £2.1 million and a corresponding understatement of 'Other entities and individuals'.

## **Note 56 - Additional Disclosure of Residents' Monies**

Monies held on behalf of residents that cannot administer their own affairs are held in the Council's bank account. These are reflected within both cash and short-term creditor balances.

As these are significant balances, amounting to £3.2 million, these have now been disclosed at Note 56 as monies held on behalf of third parties.

In addition to these there have been a number of editing changes to enhance the narrative and disclosures of some notes and correct typographical errors.

# Appendix 3 – Draft letter of management representation

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Mr M Heap  
District Auditor  
Audit Commission  
Aspinall House  
Aspinall Close  
Middlebrook  
Horwich  
Bolton  
BL6 6QQ

## Oldham MBC - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Chief Officers of Oldham Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of

the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. Oldham Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

### **Specific representations**

#### **Valuation of shares in Manchester Airport**

I confirm that following the receipt of appropriate professional advice on the method of valuation of the Council's shares in Manchester International Airport, my view is that the shares should be recorded in the Council's financial statement at historical cost, as alternative valuations have proven to be unreliable.

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Signed on behalf of Oldham Metropolitan Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 25 June 2012.

Signed

Name

Position

Date

# Appendix 4 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

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

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

### **Significance**

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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**0844 798 7070**

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- any director/member or officer in their individual capacity; or
- any third party.

