

Annual governance report

Tamworth Borough Council

Audit 2010/11

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The Commission appoints auditors to Councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Ladies and Gentlemen

2010/11 Annual Governance Report

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Corporate Director Resources on 13 September 2011 and updated it as issues have been resolved.

The issue awaiting resolution as at 22 September 2011 is I await assurances from the auditor of the Staffordshire County Pension Fund.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 12);
- note the adjustments to the financial statements set out in this report (appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3).

Yours faithfully

John Gregory
District Auditor

22 September 2011

Key messages

This report summarises the findings from the 2010/11 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.

Table 1: **Key messages – financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Important weaknesses in internal control	No	N/A

Table 2: **Key messages – value for money**

Value for money		
Proper arrangements to secure value for money	Yes	10

Audit opinion

1 The accounts were prepared to a reasonable standard and I am proposing to issue an unqualified opinion on them, subject to resolution of outstanding queries.

Financial statements

2 A number of disclosure amendments have been made to the accounts as a result of the audit. None of these have impacted on the outturn reported, the net assets or movement in cash and cash equivalents. The most significant of these was to amend the content of the cash flow statement to ensure this was consistent with other areas of the accounts. Other amendments related to disclosure issues.

Value for money

3 The Council continues to have proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

4 The Council had already reviewed its spending in advance of the Comprehensive Spending Review (CSR). The Council's Medium Term Financial Strategy (MTFS) has been developed using risk and sensitivity analysis. There is constant challenge and scrutiny by members to ensure the MTFS will be delivered.

5 The main challenge facing the Council during the period covered by the Comprehensive Spending Review (CSR) is to meet the funding gap with planned use of reserves without detrimental impact on the range and quality of services provided.

Independence

6 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

7 I can confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The previous threat to independence and the related safeguard have expired.

Non-Audit Work

8 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

9 I ask the Audit and Governance Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 11);
- take note of the adjustments to the financial statements which are set out in this report (appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council 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

10 Subject to satisfactory clearance of outstanding matters 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.

11 The accounts were drafted to a reasonable standard. The Corporate Director Resources certified the accounts by the deadline of 30 June 2011; and the accounts were presented for audit on the agreed date of 4 July 2011.

Key areas of judgement and audit risk

12 In planning my audit I identified three specific risks that I have considered as part of my audit.

Table 3: **Key areas of judgement and audit risk**

Issue or risk	Finding
IFRS – The Council is implementing IFRS for the first time	I did not identify any material errors in my substantive testing of the restated 2008/09 and 2009/10 balances. Given the huge challenge that IFRS presented to the Council, the fact that disclosure amendments were mainly non-IFRS related is a commendable achievement.

Issue or risk	Finding
The Council has a joint waste management arrangement venture with Lichfield DC that needs appropriate disclosure.	The draft accounts did not include the note that I had agreed with officers. The revised accounts now include the note.
The Council had upgraded its Housing Rents system (Orchard) and I needed to assess the impact on the control environment.	I found that the upgrade affected functionality only and did not impact on the control environment.

Amendments to the financial statements

13 The Council made some amendments to enhance its disclosures or to correct a number of disclosure errors in the financial statements. Appendix 2 provides more details. The most significant of those were as follows.

- The detail contained in the Cash Flow statement was corrected to agree to other areas of the accounts.
- The Council had already disclosed the impact of the change in the estimating basis of pension liabilities (£7m) separately in note 5 to the Comprehensive Income and Expenditure Statement (CIES). Following an update to technical guidance, it has agreed to separately disclose this item as exceptional on the face of the CIES and also to disclose the Housing Revenue Account (HRA) share of this as an exceptional item on that statement. This will accord with best practice.
- The Council has also agreed to disclose the impact of the change in the vacant possession discount factor for Council Dwellings (£55.3m) as an exceptional item on the HRA and CIES. This will also accord with best practice and reflects the fact that an update to technical guidance was issued after the accounts were drafted.
- The Council has updated the Explanatory Foreword to report the above two items.
- The Related Parties Note was updated to disclose the joint waste management arrangement with Lichfield DC.
- There are immaterial uncertainties concerning the valuation of 3 assets; and of one finance lease. As these represent uncertainties rather than definite errors and are immaterial I did not ask management to make any amendment. Management has agreed to review the valuations and to make any amendments necessary when preparing the 2011/12 accounts.
- The 2009/10 cash flow statement contains an immaterial balancing figure of £43k. I have not asked management to investigate further as this represents less than 1 per cent of the cash balance at the end of 2009/10. As this is represents an uncertainty rather than a definite error, and is not material, I did not ask management to make any amendment. The 2010/11 cash flow statement balances.

Quality of your financial statements

14 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

15 Table 4 contains the issues I want to raise with you. None of these issues are of major concern and prevent me issuing an unqualified opinion.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
All signed valuation certificates and reports should be provided at the start of the audit.	The delay in receiving the signed certificates meant that the related audit work could not be completed until late in the audit process.
The Council has not applied the requirements of IAS 16 in relation to component accounting for its housing stock because the impact has been assessed as not material. This relates to the annual depreciation charge on housing stock.	A working paper was provided demonstrating that the increase in the annual depreciation charge (£76 per property or £350k for the whole stock) was not material. I am satisfied that the Council's approach and assumptions made are reasonable. I am also satisfied that this estimated impact is significantly lower than the materiality level of £1.966m. Therefore I am satisfied that no adjustment is required to the accounts.

Recommendation

R1 The Council should ensure that all signed valuation and impairment reports are provided at the beginning of the audit.

R2 The Council should annually review whether the application of component accounting would make a material difference to the estimated depreciation charge in the accounts.

Letter of representation

16 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Value for money

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

17 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of two areas is set out below.

Table 5: **Value for money conclusion criterion**

Criterion	Finding
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience.	<p>The financial position of the Council has benefitted from a prudent approach to spending in 2010/11 and in previous years.</p> <p>Prior to the Comprehensive Spending Review, the Council had already developed a detailed budget to enable savings to be delivered. The savings identified were very close to those required as a result of the CSR.</p> <p>To ensure the savings can be achieved, the Council plans to use £3.5m of reserves. The challenge in the future is to ensure that the plan can be delivered and to maintain reserves their minimum level of £0.5m. I will monitor progress in 2011/12 and consider the impact on my VFM conclusion for that year.</p>

Criterion	Finding
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>There is strong leadership from Cabinet and Senior Management.</p> <p>The Council has a good track record of organisational change and delivering savings.</p> <p>The Council has developed its budget over the CSR period with no envisaged impact on the range and quality of services provided.</p> <p>I will monitor progress in 2011/12.</p>

18 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

19 However, it is important that the Council scrutinises performance to ensure the savings plan can be delivered with the planned use of reserves with no impact on services provided to the public of Tamworth, whilst achieving a sustainable underlying financial position.

Recommendation
<p>R3 The Council should continue vigorous monitoring and scrutiny of its financial position to ensure the savings plan can be delivered with the planned use of reserves; and that there is no impact on the quality and range of services provided.</p>

Appendix 1 Draft independent auditor's report to Members of Tamworth Borough Council

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TAMWORTH BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Tamworth Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Tamworth 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 Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources Responsibilities, the Corporate Director Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report (to be published as part of the October 2011 'Talkback' publication) to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Tamworth Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report (to be published as part of the October 2011 'Talkback' publication) for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority 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.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority 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 Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

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 2010, as to whether the Authority 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 Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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 Authority 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 2010, I am satisfied that, in all significant respects, Tamworth Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Tamworth Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Gregory
District Auditor

Audit Commission
1st Floor, No.1 Friarsgate, 1011 Stratford Road, Shirley, Solihull, West
Midlands, B90 4BN

X September 2011

Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 6:

Amendment/Issue	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value			Account entry and value
1. The content of the cash flow statement has been amended to be consistent with other entries in the accounts.	n/a	n/a	n/a	n/a
2. The face of the CIES and the HRA now disclose the impact of the change in pension indexation and the impact of the change in the Social Housing factor as exceptional items.	n/a	n/a	n/a	n/a
3. The Council has updated its Explanatory Foreword to disclose the exceptional items so the reader is aware.	n/a	n/a	n/a	n/a

Amendment/Issue	Comprehensive income and expenditure statement		Balance sheet	
4. The Related Parties note has been updated to show the transactions with Lichfield DC relating to the joint waste management arrangement.	n/a	n/a	n/a	n/a
5. Notes 15a; 15d; 15e; 17; 18; and 20 now show the comparatives as at 1 April 2009 (IFRS requirement)	n/a	n/a	n/a	n/a
6. The Foreword to the accounts has had a table added showing the CIES and balance sheet summary of changes. This amplifies the impact of IFRS.	n/a	n/a	n/a	n/a
7. Note 12a (i) now shows that the expected useful life of Council Houses is 50 years. This was a typing error.	n/a	n/a	n/a	n/a
8. Note 27 now shows the comparative figures in the reconciliation to subjective analysis and in the reconciliation to the surplus/deficit on the provision of services.	n/a	n/a	n/a	n/a
9. The Explanatory Foreword now contains reference to the impact of the change in pension indexation. This accords with best practice.	n/a	n/a	n/a	n/a

Amendment/Issue	Comprehensive income and expenditure statement		Balance sheet	
10. Note 4 has been updated to disclose impact of estimation uncertainties related to property, plant and equipment	n/a	n/a	n/a	n/a
<p>11. A comparison between the asset values recorded in the asset register at 31 March 2011 and the Council's valuation report at the same date have identified the following difference:</p> <p>Land and Buildings</p> <p>Phillip Dix Centre £63k (Asset Register £356,864 – Valuer's report £293,700). This is immaterial and will be amended in 2011/12.</p>				
<p>12. The valuation report included a number of Community Assets. The most significant asset valued was Asset 098 Parks and Open Spaces. The valuation resulted in a revaluation loss of £99k which represented the value of additions during 2010/11. In addition a review of the asset register identified that asset 394030225-B Castle and Museum had been revalued upwards by £50k during 2010/11.</p>				

Amendment/Issue	Comprehensive income and expenditure statement		Balance sheet	
<p>This asset however is not included within the valuer's report and it is unclear where the revised valuation has come from. Both of the movements are not in line with expectations as the Council's accounting policy states that Community Assets are carried at depreciated historical cost. The Council has confirmed that its Accounting Policy is correct. This is an immaterial issue which shall be resolved in 2011/12.</p>				
<p>14. Fifteen minor changes have been made in the notes to correct issues I identified relating to additions and internal consistency.</p>	n/a	n/a	n/a	n/a
<p>15. Fourteen minor changes to the notes have been made to correct text errors or to ensure the figures disclosed agree to underlying records.</p>	n/a	n/a	n/a	n/a

Appendix 3 Draft letter of representation

To: John Gregory
District Auditor
Audit Commission,
1st Floor, No.1 Friarsgate,
1011 Stratford Road, Shirley,
Solihull, West Midlands,
B90 4BN

Tamworth Borough Council – Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Tamworth Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for 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

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

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 entity's financial statements communicated by employees, former employees, analysts, regulators or others; and the results of our assessment of the risk that 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 Council. The 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.

The Council has no onerous contracts.

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.

Icelandic Bank Investments

Management to provide specific written representations regarding the basis for managements estimation, including legal or professional advice on recoverability.

Related party transactions

I confirm that I have disclosed the identity of Tamworth Borough Council 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 requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Tamworth Borough Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on [date]

Signed

Name

Position

Date

Appendix 4 Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control.

These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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



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