

# Annual governance report

West Lancashire Borough Council

Audit 2011/12



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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.**

## **Financial statements**

As at 11 September 2012 I expect to issue an unqualified audit opinion.

The accounts presented for audit were prepared to a good standard and were supported by good quality working papers. I have identified only minor adjustments to the accounts. There are no unadjusted differences.

## **Value for money (VFM)**

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources in two areas:

- Securing financial resilience; and
- Securing economy, efficiency and effectiveness.

# 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.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

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

- take note of the adjustments to the financial statements included in this report;
- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the recommendation (page 9).

# 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 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.

## **Uncorrected errors**

I have not identified any unadjusted differences:

## **Corrected errors**

I have identified some minor classification and disclosure errors during the course of my audit. However, none of these were significant and there are none that I need to draw to your attention.

## **Significant risks and my findings**

I reported to you in my 1 February 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 1:

## Risks and findings

Risk	Finding
<p><b>Housing Rents system</b></p> <p>In April 2011 the Council implemented a new housing rents system (QL). The transfer of data onto a new system is a high risk area because incorrect or incomplete data migration may lead to material error.</p>	<p>I have reviewed the controls operating in the new housing rents system. I have reviewed and relied upon the detailed testing undertaken by your internal auditors. I have not identified any errors or control weaknesses as a result of my work which would impact on the accounts..</p>
<p><b>Property, plant and equipment (PPE)</b></p> <p>The Council has PPE assets valued at £190.800m. The Authority is required to value PPE assets in specific ways:</p> <ul style="list-style-type: none"> <li>■ Social housing at social housing existing use value; and</li> <li>■ Other PPE at fair value (with some exceptions)</li> </ul> <p>There is a risk that the valuation reported in the financial statements will be materially misstated because of the large values involved and the degree of estimation and subjectivity in the valuation process.</p>	<p>I have reviewed the valuation of assets during 2011/12 and undertaken detailed testing in accordance with our audit approach. I have not identified any significant issues that I need to draw to your attention.</p>
<p><b>Valuation of housing stock within the HRA</b></p> <p>During our 2010/11 audit we identified errors in the consistency of valuation of housing stock within the housing revenue account which resulted in a material adjustment to the financial statements.</p>	<p>I undertook a specific review and detailed testing of the work the Council has undertaken to correct errors in housing stock valuation arising in 2010/11. The accounts include a prior period adjustment to correct the valuation errors identified previously.</p>
<p><b>Valuation of pensions liabilities</b></p> <p>The Council accounts for a pensions liability reflecting the extent to which the present value of pension liabilities exceeds the fair value of assets. At 31 March 2011 this was valued at £37.23m and therefore has a significant impact on the net worth of the Authority as reflected in the balance sheet. This liability is assessed by the pension scheme actuaries and this estimate involves a high degree of subjectivity. Minor changes in the assumptions used can have a material impact on the financial statements.</p>	<p>I have reviewed the pension adjustments included in the Council's financial statements. This has included assurances from the pension scheme auditors and a review of information sent to the pension scheme. There are no issues that I need to draw to your attention.</p>
<p><b>One Connect Limited</b></p> <p>West Lancashire Borough Council has a service level agreement with</p>	<p>During my interim and final audit visit I have continued to have appropriate access to officers and information in order to</p>

## Risk

Lancashire County Council to provide services including council tax, revenue and benefits, IT. From October 2011 Lancashire County Council has outsourced these services to a joint venture, One Connect Ltd. I will consider these arrangements during my interim audit visit to ensure that governance arrangements and access to records and officers remain appropriate.

### **Self-financing of the housing revenue account**

From 28 March 2012 the Council will no longer be subject to housing subsidy arrangements. A payment of £89million will be made to the Department of Communities and Local Government (DCLG) in lieu of future subsidy and the HRA will then be self-financing. The Council will keep all future rental income within the HRA to spend locally on its housing properties. The Council will arrange borrowings to fund the payment to the DCLG and this will be shown on the balance sheet at 31 March 2012. I will review these transactions and correspondence from DCLG and the loan provider to ensure that the accounting treatment is correct.

## Finding

progress my audit work efficiently. However, during this period, all One Connect Ltd services remained within the Council offices. With effect from September 2012 staff have moved to their new premises and I will continue to review this matter as work on housing benefits and other grant claims are completed.

I undertook specific audit work on these transactions as part of my audit work and there are no matters I need to draw to your attention.

## Significant weaknesses in internal control

It is the responsibility of the Authority 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 Authority 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 Authority 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 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.

During the course of my audit I have not identified any weaknesses in internal control that I need to draw to your attention.

## 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.
- Other audit matters of governance interest

There are two matters I wish to bring to your attention:

### Related party transactions

All members complete a declaration of interests each year. During 2011/12 the Council also introduced a similar declaration requirement for heads of service. However, there is scope to improve the process for these management declarations to ensure that all relevant business and other interests are identified. The Code requires all key management personnel to complete a declaration and it defines "key management" as "*persons having the authority and responsibility for planning, directing and controlling the activities of the authority including the oversight of these activities*". The Council should now review its management structure to ensure "key management" are identified as this could vary between departments. The relevant managers should then complete a declaration of interests.

The Council should also provide managers with guidance regarding declarations of interests. In particular, to remind them to declare interests relating to close family members as well as themselves.

#### Recommendation

**R1** The Council should review its management structure to identify all "key management personnel" as defined by the Code of Practice. These managers should complete a declaration of interests annually. Managers should be given clear guidance to ensure that their declaration is complete and includes interests of close family members.

### Municipal mutual insurance costs

The Council currently recognises a contingent liability for costs relating to the municipal mutual insurance company. The company ceased operating in September 1992 but local authorities are liable for potential insurance costs, under an agreed scheme of arrangements, once the assets of the company have been fully utilised. As at 28 March 2012, a court ruling against the company has made it more likely that the liability for councils will



crystallise. Latest correspondence between the company and the Council indicate the liability could be around £870,000. The Council maintains an insurance reserve which would be utilised to fund any costs that become payable

The Council has not made a provision for this liability as they do not feel the timing or likelihood of making the payment is yet clear. I recognise that this is an area of management judgement and I have asked for a specific representation on this matter in the letter of representation (appendix 2).

### **Correspondence from members of the public**

During the period I have received four items of correspondence from members of the public about the Council. I have considered the matters raised and responded appropriately. There are no matters that I need to draw to your attention arising from this correspondence.

To date, I have not made any additional charge to the Council for the extra work required to investigate and respond to the concerns raised. However, these queries can take considerable time and resource to address and it may be necessary to levy a fee for future queries.

### **Whole of Government Accounts**

Alongside 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 11 September 2012 I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 25 September 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 1 February 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.

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	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>Nationally, local government continues to operate in a challenging financial environment. West Lancs Borough Council has identified savings requirements of £1.25m in 2013/14 and £1.3m in 2014/15.</p> <p>However, the leadership team continues to take appropriate action to maintain a stable and sustainable financial position. The medium term financial plan identifies the challenges and articulates a cohesive response. The Council's recent track record, achieving favourable variances against budget in 2010/11 and 2011/12 indicates that the savings plans and strategies have been proportionate and reasonable.</p> <p>The Council has a strong financial standing, with a good level of general fund reserves including £5million of corporate reserves at 31 March 2012 which can be used to manage budget shortfalls. However, the medium term financial plan and underlying service reviews indicate that the Council is not complacent and continues to seek sustainable long term solutions.</p> <p>The self-financing of the HRA has required the Council to take on £88million of debt in 2011/12, having previously been debt free. The loan arrangements in place are favourable and the council should benefit from this in the next few years, releasing additional funds to improve the Borough's housing stock.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p>	<p>The Council continue to maintain arrangements to achieve value for money. The MTFP articulates clear strategic priorities, underpinned by appropriate public consultation. Spending reductions have focussed</p>

## Criteria

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Findings

on efficiency savings and opportunities for shared services in order to minimise the impact on front line services. The One Connect Ltd contract has commenced during 2011/12 and is expected to deliver savings over the life of the contract. Other shared services opportunities are being actively pursued as well as shared procurement arrangements, such as the Matrix agency contract which has reduced agency fees for temporary staff recruitment during 2012.

The Council is also seeking further savings through effective resource management, including effective use of its property portfolio, its fees and charges strategy and deployment of human resources.

The major service review for 2013/14 is currently out for public consultation. The Council is seeking to make significant savings in the next two years and is clear that this will start to impact on the level and nature of some frontline services. However, the commitment to appropriate consultation and a clear understanding of strategic priorities should assist the Council in focussing diminishing resources on core areas of importance.

# Fees

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**I reported my planned audit fee in the 1 February 2012 Audit Plan.**

I will complete the audit within the planned fee of £95,713.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF WEST LANCASHIRE BOROUGH COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of West Lancashire 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 West Lancashire 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 financial 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 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 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 West Lancashire 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 for the financial year for which the financial statements are prepared is consistent with the financial 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 Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

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

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.

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.

### **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 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 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 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 2011, I am satisfied that, in all significant respects, West Lancashire 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.

### **Certificate**

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

### **Karen Murray**

Engagement Lead, Audit Commission, 2nd Floor Aspinall House, Aspinall Close, Middlebrook, Bolton BL6 6QQ

# Appendix 2 – Draft letter of management representation

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## West Lancashire Borough Council - Audit for the 2011/12 financial year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of West Lancashire Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for 2011/12. All representations cover the Council's accounts included within the financial statements.

### ***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 so that they 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 authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements.

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.

I confirm for material estimates:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- their completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to accounting estimates this is disclosed within the financial statements.

### ***Related party transactions***

I confirm that I have disclosed the identity of West Lancashire Borough 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 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.

### ***Municipal Mutual Insurance liability***

I confirm that I have reviewed the accounting treatment used for potential Municipal Mutual Insurance costs and that it is my opinion that it continues to be appropriate to treat this issue as a contingent liability given the ongoing uncertainty regarding the value, timing and likelihood of making any payments.

I confirm that this letter was discussed and agreed by the Audit and Governance Committee on 25 September 2012.

Signed on behalf of West Lancashire Borough Council.

Name	Marc Taylor
Position	Borough Treasurer
Date	25 September 2012

# Appendix 3 – 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 and conclusion.

## **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.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

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

