

# Annual governance report

Bromsgrove District 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 18 September I expect to issue an unqualified audit opinion.

The accounts were prepared and authorised in line with requirements and I expect the accounts to be audited and approved by the statutory deadline of 30 September. Overall the accounts were well prepared and no material amendments were necessary. This year the accounts have been prepared using an excel workbook format which has helped the preparers of the accounts and has provided a good mechanism for ensuring that there is internal consistency in the accounts.

## 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 2011/12 the Council relied less on balances than planned and overall achieved the level of savings it had forecast. General fund balances are relatively healthy and well above the minimum level set by the Executive Director Finance and Corporate Resources. The Council has recognised in its medium term financial plan that large savings need to be made over the next few years. It will be a considerable challenge to maintain or improve services whilst making these savings.

The medium term financial plan depends on the programme of 'shared services' and 'transformation' to deliver large savings. Due to the nature of the radical approach being taken, there are risks of non delivery and savings from transformation are difficult to specify in advance. Therefore elements of the savings plan are currently unsupported. The Council's arrangements for managing the risk and for reporting delivery of savings need to be more detailed and robust.

In view of the current levels of balances and because the Council is removing recurring savings from its base budget, I consider that the Council is financially resilient for the foreseeable future. It is fundamentally challenging how it operates and is establishing processes to secure economy efficiency and effectiveness.

## **Certificate**

I expect to complete the outstanding work and report my findings to management by 26 September. I plan to issue my certificate by 28 September.

# 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 Ethical Standard 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any new 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 Council during 2011/12.

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

- approve the letter of representation (appendix 2), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 3).

# Financial statements

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**The Council's financial statements and annual governance statement are important means by which the Council 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.

The audit trail for shared services was difficult and thus this has resulted in some delay in completion of our work in this area. I expect to complete this work shortly.

## **Uncorrected errors**

There are no material uncorrected errors in the accounts.

## **Corrected errors**

There were no errors that resulted in a change in the out turn position of the Council. Amendments were made to several disclosure notes to improve the accuracy and quality of information provided. One amendment was made to the face of the Comprehensive Income and Expenditure Statement in relation to the prior year to improve the consistency of reporting between years.

## **Significant risks and my findings**

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

Table 1: Risks and findings

Risk	Finding
<p>Final accounts format: The council changed the way it gets the final accounts information from the financial ledger into the financial statements</p>	<p>I reviewed this process and concluded that it actually improved the accuracy of the accounts because validation checks had been built into the accounts production process, thus reducing problems around internal consistency of the financial statements.</p>
<p>Shared services: I considered that the increased use of shared services presented a risk around allocating and accounting for the costs between organisations. A joint management team and close working between the councils heightens the need for transparency in the process.</p>	<p>The process for recording shared services is very complex. Different processes operate within a single shared service arrangement with individual decisions being made on whether a cost is to be shared or not, down to very small items. This resulted in a complicated audit trail from the accounts to the supporting evidence. Also the way that the costs are accounted for make it difficult to evidence that they have been apportioned in line with members' expectations and the accounting requirements. The audit of this area therefore took longer than planned. In our testing we did not identify any invoices that were raised in error. There is scope to simplify the process and reduce the number of invoices either through an annual service level agreement encompassing all the costs of the service or by streamlining current processes.</p>
<p>Heritage Assets</p>	<p>I considered the councils process for identifying heritage assets. I consider that the disclosure in the accounts is appropriate.</p>

## Significant 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 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.

I did not identify any significant weakness in internal controls.

## 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 Council'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

Table 2: **Other matters**

Issue	Finding
Risk Management Arrangements	The Councils risk management arrangements are not comprehensive, other than for shared services it is not clear how members are managing risk. Shared services and the financial position are key risks for the Council and these risks are being managed through the shared services board and routine budget reporting. We have previously reported that the Council had good risk management arrangements and internal audit used to take a key role. Officers have recognised that risk management arrangements have deteriorated this year and that there is a need to introduce improved arrangements for identifying and escalating risks to 'those charged with governance'.
Internal audit	In the first half of the year Internal audit had difficulty delivering its work and this situation was closely monitored by the Audit Committee. With the agreement of the Committee revisions were made to the audit plan to focus the remaining time on financial systems work. Internal audit made considerable progress for the rest of the year enabling the internal audit opinion to be issued to support the Annual Governance Statement. Management should continue to monitor the scope and delivery of internal audit work in 2012/13.



## Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. Changes in their requirements this year have meant that our work on the WGA return has been relatively limited. I have no matters to report.

# Value for money

**I am required to conclude whether the Council 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 February 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 Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **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>Last year I highlighted that the medium term financial plan contained gaps in funding that had yet to be adequately addressed.</p> <p>The MTFP includes significant savings. Much of the saving is to be made through extending shared services and from transformation. There is a risk that these savings will not be made within the necessary timescale. I planned to review the arrangements that the council had in place to manage these savings.</p>	<p>Overall the Council has delivered the savings that it planned for 2011/12. The level of balances remains healthy. There was less reliance on balances than budgeted and thus the general fund balance has increased this year. Large savings have been made in 2011/12. These factors contribute to our conclusion that the council has financial resilience in the short term.</p> <p>There remain gaps in the MTFP, mainly around transformation where savings are aspirational. Our review of housing benefits transformation</p>

**Criteria****Risk****Findings**

has highlighted that the council has not formally identified any savings from the project to date. This indicates that there is ongoing risk around reliance on transformation as a source of savings within the MTFP.

In a challenging financial position it is crucial that there are clear and accurate financial reports. It is also important that there is particular emphasis on savings plans and delivery to enable management to manage the risk. Whilst there is reporting around savings from shared services, other reports to council do not contain enough detail around savings plans or progress in delivery. This is a key risk for the council and therefore should be improved.

Routine financial reports should be improved to clearly show changes from the original budget and why. Together with more accurate profiling, this should enable 'those charged with governance' to clearly understand and manage the risk.

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**2. Securing economy efficiency and effectiveness**

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

I undertook a risk assessment of the council based on our understanding gained from previous audits and our discussions with you. We concluded that the council had already demonstrated adequate arrangements in many areas. I felt that a key risk for the council was the current transformation programme. I agreed with

The Council has demonstrated its commitment to achieving cost reductions and improving efficiency through its shared services and transformation programmes. The Council is actively seeking to make savings by removing duplicated posts and processes that do not add value, thus improving efficiency and productivity.

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**Criteria**

tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

**Risk**

you that I would consider the benefits transformation project as an example to consider how well the council is managing the review process, implementing recommendations, measuring success and considering the impact on performance.

**Findings**

The benefits transformation project started really well. Some benefits officers were transferred to the Hub to provide expert support to customers. It was generally accepted that this had improved both performance and customer experience. I have not seen any formal review of the success of the project or reports on changes in performance arising from the review. I concluded that the project had delivered some operational benefits but the management and reporting of outcomes needs to be stronger.

# Fees

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

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)	Variance
Audit	106,676*	106,676	0
Claims and returns [delete if not applicable]	22,000	22,000**	0
Non-audit work	0	0	0
<b>Total</b>	<b>128,676</b>	<b>128,676</b>	<b>0</b>

\*The audit Commission has rebated the fee by 7% reducing the fee to £98,142.

\*\*The fee will depend on the amount of additional testing required on the Housing benefits claim. This work is currently ongoing.

# Appendix 1 – Draft independent auditor's report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BROMSGROVE DISTRICT COUNCIL

### Opinion on the Council financial statements

I have audited the financial statements of Bromsgrove District 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 Bromsgrove District 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 Chief Financial Officer<sup>i</sup> and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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

<sup>i</sup> Amend to reflect the title used

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 Chief Financial Officer; 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 Bromsgrove District 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, *Bromsgrove District 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.

Elizabeth Cave

District Auditor



# Appendix 2 – Draft letter of management representation

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## **Bromsgrove District Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Bromsgrove District Council, the following representations given to you in connection with your audit of the Authority'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 Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

### **Supporting records**

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

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

### **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 the financial statements may be materially misstated as a result of fraud.

### **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 Authority'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.

Signed on behalf of Bromsgrove District Council

I confirm that this letter has been discussed and agreed by the Cabinet on 26 September 2012.

Signed:

Name Jayne Pickering

Position: Executive Director of Finance and Corporate Resources

Date: 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 (ES)**

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.

**LASAAC: Local Authority (Scotland) Accounts advisory Committee**

## **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.

# Appendix 4 – Action plan

## Recommendations

### Recommendation 1

Shared Services: the council should review the way it accounts for shared services in order to simplify the process.

<b>Responsibility</b>	Executive Director of Finance and Corporate Resources
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<b>Priority</b>	High
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<b>Date</b>	
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<b>Comments</b>	
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## Recommendations

### Recommendation 2

Risk Management Arrangements: more robust risk management arrangements should be put in place. This should include a corporate risk register highlighting risks and mitigating actions

<b>Responsibility</b>	Executive Director of Finance and Corporate Resources
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<b>Priority</b>	High
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<b>Date</b>	
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<b>Comments</b>	
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### Recommendation 3

Internal Audit: The scope and delivery of internal work should continue to be monitored.

<b>Responsibility</b>	Executive Director of Finance and Corporate Resources
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<b>Priority</b>	Medium
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**Date**

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**Comments**

**Recommendation 4**

Financial reporting: the transparency of financial reporting should be improved, in particular detail around savings and in year monitoring of the delivery of these.

**Responsibility** Executive Director of Finance and Corporate Resources

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**Priority** High

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**Date**

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**Comments**

**Recommendation 5**

Housing benefits transformation: the Council should formally review the progress of the transformation review and consider the next steps to bring the review to a close

**Responsibility** Executive Director of Finance and Corporate Resources

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**Priority** Medium

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**Date**

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**Comments**

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