

Audit plan

Cheshire East Borough Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

2 I will keep my risk assessment up to date as the audit progresses. If there are changes to my risk assessment or future changes to the audit fee, I will amend the plan and present the changes to a future Audit and Governance Committee meeting.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

4 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Joint Working

5 My main objective as your appointed auditor is to plan and carry out an efficient audit that meets the requirements of the Code. I recognise that to achieve this objective, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and be flexible enough to manage developments as they arise. In support of these aims, I have issued a joint working protocol to the Borough Treasurer which reflects my commitment to promote productive joint working between my audit team and your finance team.

Fee for the audit

The fee for the audit is £397,500, as indicated in my letter of 23 April 2010.

6 The Audit Commission 2010/11 scale fee for the Council is £364,300. The fee proposed for 2010/11 is 9 per cent above the scale fee. This is within the normal level of variation specified by the Commission and represents a 1.1 per cent reduction from the 2009/10 fee.

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is similar to that for 2009/10;
- good quality, accurate working papers and clear audit trail are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2011.

8 Where these assumptions are not met, I will be required to undertake additional work. This is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Borough Treasurer. I will issue supplements to the plan to record any revisions to the risk and the impact on the fee. Further information on the fee basis is set out in Appendix 1.

9 My original fee letter stated that the Audit Commission planned to subsidise the cost of auditing the transition to reporting under International Financial Reporting Standards (IFRS) in 2010/11 and a refund was issued to the Council of £22,297.

10 In August 2010, the Commission wrote to all audited bodies about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed until December 2010.

11 The Commission has now been able to clarify a number of funding issues with the Government and has issued its consultation paper on future audit fees. The proposal includes a rebate of 3.5 per cent of 2010/11 scale fee for single-tier councils, which would equate to £12,750 for Cheshire East Council. The proposed rebate reflects the reduction in work require following the cessation of Comprehensive Area Assessment.

12 As a result of the changes noted above, the revised audit fee for 2010/11 is £362,453 after rebates totalling £35,047.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

13 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

14 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

15 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Changes to Auditing Standards

16 My audit of the financial statements is governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

17 In 2009 the auditing professional completed a comprehensive project to improve the clarity of all the ISAs. One of the main objectives of this was to promote greater consistency of application between auditors. The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. These changes have been set out in a separate report to this Committee.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
Restatement of financial statements in compliance with International Financial Reporting standards (IFRS).	This is a significant risk. I will review the Council's restated opening balances for compliance with IFRS focussing on non-current asset valuation and componentisation, identification and accounting for leases, employee benefits and group accounting. I will also review the Council's revised accounting policies as part of this work.
In year financial pressures and the impact on reserves increases the risk of financial misreporting which could impact on the true and fair presentation of the accounts.	This is a significant risk. I will undertake extended testing on income and expenditure for under and over-statement respectively. I will review material journals for unusual transactions. I will review accounting treatments against the Council's stated accounting policies. I would review the financial out-turn for the year against the Council's MTFP and planned use of reserves.
Implementation of the new Revenues and benefits system during the year.	This is a significant risk. I will review the work carried out by Internal Audit to check that standing and transactional data is migrated to the new system completely and accurately and consider whether any additional testing is required.
Upgrade of the Oracle General Ledger.	This is a significant risk. I will review the work carried out by Internal Audit and assess how the upgrade affects the Council's financial reporting arrangements and capabilities.

Other issues

18 At this stage, I have identified a number of other issues that may have an impact on the Council's financial statements. These include:

- Waste Private Finance Initiative;
- Identification of related party transactions;

- Accounts close down and capacity; and
- Revaluations of fixed assets.

I will keep these areas under review and update my risk assessment as the audit progresses. I will report any changes to my risk assessment to the Audit & Governance Committee.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

19 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

20 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where testing could be carried out early.

- Review of accounting policies (as part of our work on the IFRS restatement).
- Investments – ownership.
- Year-end feeder system reconciliations.
- Fixed asset valuations.
- Material accounting estimates.
- Material journals.
- Overhead apportionment and BVACOP analysis.

Where I identify other possible early testing, I will discuss it with officers.

21 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- Controls testing of agreed financial system controls.
- Revenues and Benefits data migration testing on accuracy and completeness of standing and transactional data transfers to new system.
- Review of Oracle upgrade.
- Head of Internal Audit's Opinion to inform my review of the Council Annual Governance Statement.

22 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors and experts in the following areas.

- External auditors of Cheshire West & Chester Council for corroboration of design and controls over shared services financial systems.
- External Auditor of Cheshire Pension Fund.
- PWC assessment of the pension fund actuary's approach and assumptions used in valuing pension fund assets and liabilities.
- Gerald Eve for property valuation indices.

23 I also plan to rely on the work of management's experts in the following areas.

- District Valuer for valuations of Council property.
- Daniel & Hulme for valuations of Council property.
- Cheshire Pension Fund actuary.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

24 The value for money conclusion is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the PCT is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the PCT secures economy, efficiency and effectiveness – focusing on whether the PCT is prioritising its resources within tighter budgets and improving productivity and efficiency.

25 As part of my audit planning I have undertaken an initial risk assessment drawing on the information I gathered last year in undertaking my value for money assessment of the Council. The Council set itself an ambitious savings target for 2010/11 and is experiencing additional in year financial pressures in some service areas. Officers are also currently working through the impact of the Government's Comprehensive Spending Review on the Council's financial plans. My audit team will be looking for evidence that the Council has appropriate arrangements in place to identify and monitor delivery of its planned savings and efficiencies. My team will also review the Council's medium term financial planning arrangements and progress in securing financial stability over the medium term.

26 My ongoing risk assessment will be kept up-to-date in a number of ways including regular discussions with senior management, Councillors and through review of Board papers and minutes. In undertaking these processes my audit team will be looking for evidence that the Council continues to have appropriate arrangements in place for:

- reviewing and updating the medium-term financial plan; and
- reviewing and monitoring the achievement of agreed savings targets.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

27 The key stages in producing and auditing the financial statements are in Table 2. A detailed timeline is included at Appendix 2.

28 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers and clear audit trails.

29 During the post statements site visit, the audit team will meet with Jo Wilcox weekly to review the status of all audit queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Present Audit Plan to Audit & Governance Committee	25 January 2011
Control and early substantive testing	January to April 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	July 2011
Post statements progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Judith Tench District Auditor	j-tench@audit-commission.gov.uk 0844 798 3556	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Andrea Castling Audit Manager	a-castling@audit-commission.gov.uk 0844 798 3557	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Ivan Parkhill Team Leader	i-parkhill@audit-commission.gov.uk 0844 798 3552	Coordinates work of team on site. Key point of contact for corporate accountant and finance team.

Independence and objectivity

30 I am not aware of any relationships that may affect the independence and objectivity of the audit team, which I am required by auditing and ethical standards to communicate to you.

31 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

32 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

33 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, who will look into any complaint promptly and to do what he can to resolve the position.

Mr Westwood can be contacted at the Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ.

(c-westwood@audit-commission.gov.uk)

34 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

35 My team will discuss and agree reports with the right officers before issuing them to the Audit & Governance Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Audit Plan	January 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements & VFM conclusion	September 2011
Final accounts memorandum	October 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is no higher than that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements by 1 July 2010;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Detailed audit timeline

The following table sets out a high level timeline for delivery of key elements of the opinion audit. Discussions are in underway to agree responsibilities for completing various elements of audit testing set out below. While detailed work may be carried out by other parties - I retain overall responsibility for delivery of the audit opinion. I reserve the right to carry out further testing if the quality of the work carried out by those parties does not meet relevant professional standards or if the results of testing indicate that further testing is required. I will report progress in delivering the plan to the Audit & Governance Committee on a regular basis.

Table 5: **Proposed Opinion Audit Timeline**

Timing of audit work

Audit Work Stream	Delivery Date	Responsibility
Corroboration of material financial systems and controls - operated at Cheshire East Council/Shared Services	January/February 2011	Cheshire East External Audit Team/ Cheshire West & Chester External Audit Team
Testing of controls over financial systems - at Cheshire East Council/Shared Services	February/April 2011	Internal audit teams at Cheshire East & Cheshire West & Chester (TBC) External Audit Team at Cheshire West
Review of IFRS restated balances	February 2011	Cheshire East External Audit Team
Early Substantive Testing	February/June 2011	Cheshire East External Audit Team
Post Statements Audit	July/September 2011	Cheshire East External Audit Team

Appendix 3 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit & Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 4 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	DA	Quarterly	General update plus: <ul style="list-style-type: none">■ March - audit plan;■ July - accounts progress; and■ September - annual governance report
Borough Treasurer	DA and AM	6 weekly	General update plus: <ul style="list-style-type: none">■ March - audit plan;■ July - accounts progress; and■ September - annual governance report.
Head of Finance	AM and TL	Bi-monthly	Update on audit issues
Corporate Finance lead	TL	Weekly (during post statements)	Update on progress in clearing audit queries
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none">■ Audit Plan;■ Annual governance report; and■ other issues as appropriate.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;

- use of video and telephone conferencing for meetings as appropriate;
and
- reducing travel.

Appendix 5 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with 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, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other 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, which contain basic principles and essential procedures with which auditors are required to 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.

Commission (the)

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

Directors

Members of the executive board who are collectively and individually responsible for the overall direction and control of the audited body.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

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 in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

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 in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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



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