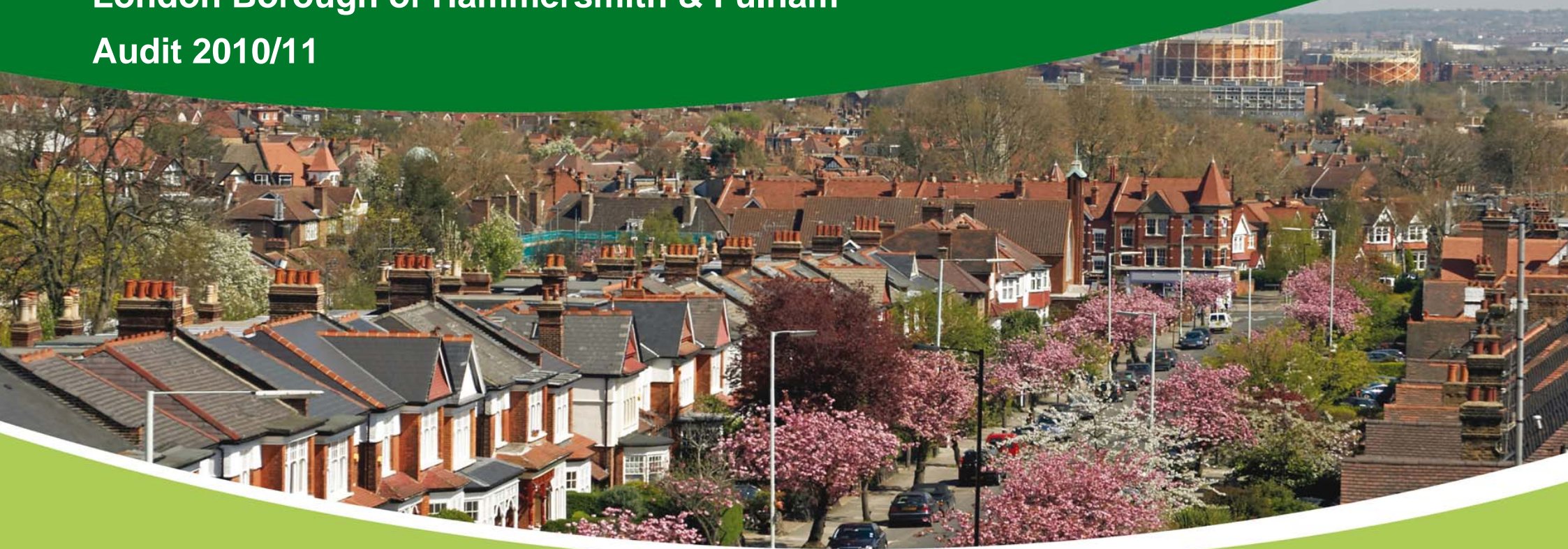


Annual governance report

London Borough of Hammersmith & Fulham

Audit 2010/11



Contents

- Key messages.....4**
 - Audit opinion and financial statements.....4
 - Value for money4
- Before I complete my audit.....5**
- Audit opinion and financial statements.....6**
 - Opinion on the financial statements6
 - Errors in the financial statements6
 - Audit risks and our findings6
 - Significant weaknesses in internal control.....8
- Value for money.....10**
- Appendix 1 – Draft audit report.....12**
 - Independent auditor’s report to the members of London Borough of Hammersmith & Fulham12
 - Opinion on the Authority accounting statements.....12
 - Opinion on the pension fund accounting statements13
 - Conclusion on Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources.....14
 - Certificate15
- Appendix 2 – Amendments to the draft financial statements16**

Appendix 3 – Draft letter of representation.....17
 London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2011.....17

Appendix 4 – Glossary.....20

Appendix 5 – Action Plan22

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Value for money

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Audit opinion and financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

Before I complete my audit

I confirm to you

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

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 identified one instance where the perception of a conflict of interest relating to a member of the audit team could arise. This related to the Audit Manager who previously employed as a contract worker someone who is now working for the Council finance team on a fixed term contract. Appropriate safeguards have been established to mitigate any perceived threat to my independence. These safeguards include my review of any working papers prepared by this person and the work of the Audit Manager. The Audit Manager dealt with the Corporate Services Accountancy Manager as the primary contact for the audit, as in previous years and other members of my team attended any meetings that were needed with the person in question.

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

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation, provided alongside this report, on behalf of the Council Trust before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 5).

Audit opinion and financial statements

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

Opinion on the financial statements

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 report. The following work is not yet complete:

- Cash flow statement;
- Collection fund; and
- Government Grants.

Errors in the financial statements

The Council has adjusted for all non-trivial errors identified in the audit. Appendix 2 summarises the gross amount of these adjustments.

Audit risks and our findings

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Audit risks and our findings

Audit risk	Finding
2010/11 is the first year that accounts are prepared in accordance with International Financial Reporting Standards.	<p>I have tested the restated accounts, including comparators. My work has focused on the main changes from moving to International Financial Reporting Standards:</p> <ul style="list-style-type: none">■ Disclosure requirements.■ Accounting for components of Property, Plant and Equipment.■ Non-current assets held for sale.■ Leases.■ Government Grants.■ Segmental Reporting.■ Investment properties.■ Short term accumulated absences.■ Group accounts. <p>Findings from this work are set out in other parts of this report.</p>
The Council have a new income receipting system. Auditing standards require auditors to gain an understanding of information systems relevant to financial reporting.	I have documented and walked through the new system to gain an understanding, as required by International Standard on Auditing 315.
The Council does not prepare group accounts as they are not judged as material to the user.	I have re-considered the Council's argument for not preparing group accounts and am not minded to challenge it.
The valuation methodology for Council dwellings had changed in 2010/11 as the discount factor for London used to calculate the balance sheet value has changed from 37 per cent to 25 per cent.	The Council has agreed to include an additional disclosure note on the reduction in value of Council dwellings to aid users' understanding of the accounts.
The factor for uplifting pensions has changed from RPI to CPI. This should significantly reduce pensions liabilities.	The Council has agreed to include an additional disclosure note on the changed method of calculating pension liabilities to aid users' understanding of the accounts.
Our interim audit identified that the accounts payable and payroll reconciliations could be strengthened.	I have reviewed the relevant system reconciliations and confirmed they are now fully reconciled.

Significant weaknesses in internal control

I am only required to report on weaknesses I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control. I did not identify any weaknesses that would have a material impact on the financial statements. The following matters represent opportunities to improve control.

Valuation of Property, Plant and Equipment

The introduction of International Financial Reporting Standards has resulted in more complex guidance concerning when re-valuations of assets are required. During our audit we identified some assets where the valuation had not been undertaken as required, though we do not view the impact as material to the accounts. If valuations are not undertaken when required it could lead to material misstatement in Property, Plant and Equipment.

Fixed Asset Register

During the audit we identified one asset with a value of £2.7 million which had been disposed of but still appeared on the fixed asset register. We are satisfied that this is an isolated error. If the fixed asset register is not maintained accurately it could lead to material misstatement of the balance sheet, particularly given the large value of Property, Plant and Equipment.

School bank accounts

Controls concerning bank accounts require strengthening. The bank confirmed four bank accounts that were in existence but which had been excluded from the balance sheet. The bank accounts did not contain a large amount (approximately £26,000). Strong controls are required over school bank accounts to ensure the balance sheet is complete and to deter fraud.

Partnership working with the PCT

Note 40 to the accounts discloses the Council's partnership arrangement for Learning Disabilities. During the year the arrangement was changed from a pooled budget to lead commissioning, with the Council leading on the commissioning of services on behalf of the PCT. However, the contract with the PCT has not been revised and at the time of the audit had not been signed. This leaves the Council at risk of meeting an overspend should the PCT refuse to reimburse services commissioned.

Recommendations

- R1** Establish a comprehensive procedure note outlining when all assets require revaluation.
-
- R2** Review procedures for maintaining the fixed asset register to ensure it is accurate.
-
- R3** Review procedures for the management of bank accounts to ensure the Council has a complete list of the accounts that should appear on the Council balance sheet.
-
- R4** Revise the contract with the PCT for Learning Disabilities Services and ensure it is signed by both parties.
-

Quality of your financial statements

The accounts presented to audit by the statutory deadline of 30 June 2011 required some re-working during the audit. In particular, work on leases had not been reflected in the accounts, and the Movement in Reserves Statement, Government Grants notes and Cash Flow Statement were not provided until late in the audit. The change from preparing accounts under IFRS to UK GAAP was a factor in this delay, but it is important that in future years arrangements are in place to ensure the draft accounts provided to audit by 30 June are complete.

Recommendation

- R5** Ensure closedown arrangements are in place to provide a complete set of financial statements to external audit by the end of June 2012.
-

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 details the draft letter of representation.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience.	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.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	<p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p> <p>The Council has approved ambitious proposals for sharing services, premises and management capacity in partnership with the Royal Borough of Kensington & Chelsea and City of Westminster Council. I have reviewed initial proposals and there is no impact on my 2010/11 conclusion. The effectiveness of the proposals will be reviewed further as part of the 2011/12 conclusion in the context of:</p> <ul style="list-style-type: none">■ short and medium-term financial planning (including savings projections) and supporting budgetary processes;

Criterion**Findings**

- the methodology for the attribution of costs and savings; and
 - governance arrangements to support the joint management of services.
-

Appendix 1 – Draft audit report

Independent auditor's report to the members of London Borough of Hammersmith & Fulham

Opinion on the Authority accounting statements

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

This report is made solely to the members of London Borough of Hammersmith & Fulham 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 Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword 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 accounting statements

In my opinion the accounting statements:

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

Opinion on other matters

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

Matters on which I report by exception

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

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hammersmith & Fulham 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 Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

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

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of London Borough of Hammersmith & Fulham and Hammersmith & Fulham Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor

Audit Commission, 1st Floor, Millbank Tower, London, SW1P 4HQ

September 2011

Appendix 2 – Amendments to the draft financial statements

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

	Amendments	
	Dr £000s	Cr £000s
The total value of adjustments made to the primary statements.	21,135	21,135
<p>The biggest single amendment was a £5 million adjustment to account for leases. There was also a £3 million adjustment as the disposal of an asset was not accounted for correctly and £3 million adjustment in relation to the pension liability where income was coded to expenditure. The total value of adjustments is inflated by the fact that a number of the adjustments made impact the statements in a number of places.</p>		

In addition, a number of statements and notes were significantly revised from the draft accounts provided to audit, including:

- Cash flow statement;
- Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations;
- Note 14 (iv) Revaluation;
- Note 14 (v): Capital Commitments;
- Note 18: Leases;
- Note 26: Financial Instruments;
- Note 36: Grant Income; and
- Note 43: Transition to IFRS.

Appendix 3 – Draft letter of representation

To:

Jon Hayes, District Auditor

1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Hammersmith & Fulham, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Pension Fund 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

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

Irregularities

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

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

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

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

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 London Borough of Hammersmith & Fulham related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

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

Signed on behalf of London Borough of Hammersmith & Fulham

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

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual governance statement

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

Audit closure certificate

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

Audit opinion

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

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

Opinion

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

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

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

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

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

Weaknesses in internal control

A weakness in internal control exists when:

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

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

Value for money conclusion

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

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

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

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

Appendix 5 – Action Plan

Recommendations

Recommendation 1

Establish a comprehensive procedure note outlining when all assets require revaluation.

Responsibility Head of Corporate Accountancy & Capital

Priority Medium

Date September 2011

Comments Procedure note will be drafted and passed to Audit Commission and Valuation Services for comment/action by the end of this month.

Recommendation 2

Review procedures for maintaining the fixed asset register to ensure it is accurate.

Responsibility Capital Finance Manager

Priority Medium

Date December 2011

Comments Work has already begun with Valuation Services to review the fixed assets register against the Valuers' CAMSYS records. This will be completed and an amended procedure note drawn up before the end of the calendar year

Recommendation 3

Review procedures for the management of bank accounts to ensure the Council has a complete list of the accounts that should appear on the Council balance sheet.

Responsibility	Assistant Director (Business Support)
Priority	High
Date	September 2011
Comments	Procedure for ensuring all Bank Accounts activity and balances are attributed to the financial accounts has been put in place.

Recommendation 4

Revise the contract with the PCT for Learning Disabilities Services and ensure it is signed by both parties.

Responsibility	Assistant Director Resources (Community Services Department)
Priority	High
Date	September 2011
Comments	Signed agreement will be in place.

Recommendation 5

Ensure closedown arrangements are in place to provide a complete set of financial statements to external audit by the end of June 2012.

Responsibility	Head of Corporate Accountancy & Capital
Priority	High
Date	February 2012
Comments	The problems this year were to a large part caused by the major changes to the accounts completion process caused by the move to IFRS. New manager with extensive experience in producing accounting statements will be in post from October 2011. Lessons learned from this year will also be incorporated into improved procedures. Lastly as there are relatively few changes to the accounting code compared to those faced in 2010/11 there will be less in the way of technical challenges.

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

