
Appendix 2 – Statement of responsibilities of auditors and of audited small bodies

General Introduction

- 1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice (*the Code*), which prescribes the way in which auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. Schedule 1 to the Local Government Code sets out the approach to be adopted for the audit of small bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and paragraph 7(3) of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits of small bodies and so supports the *Code*.
- 2 This statement serves as the formal terms of engagement between the Audit Commission's appointed auditors and small audited bodies¹. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members and senior officers of the body.
- 3 The *Code* recognises the different needs of small audited bodies. The Commission has set the threshold for small audited bodies at £1 million to harmonise the accounting and audit requirements for small audited bodies with those in the Accounts and Audit Regulations 2003 (as amended). Small audited bodies have the same responsibilities as principal authorities in relation to governance and accountability although the regulatory approach has been tailored to their needs.
- 4 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the *Code*. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence of the audited body, the role of the appointed auditor does not include providing financial or legal advice or consultancy to the audited body.
- 5 Auditors may wish to refer to this statement in audit planning documents, reports and other audit outputs.

¹ This statement covers the audits of small audited bodies which section 2(1) of the Accounts and Audit Regulations 2003 (as amended) refers to as 'smaller relevant bodies' and defines as those 'whose gross income or expenditure (whichever is the higher) for the year concerned is, or for either of the two immediately preceding years was, less than £1 million.'

Introduction to responsibilities

- 6 Those responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 7 It is the responsibility of the small audited body to put in place proper arrangements to ensure the proper conduct of their financial affairs, and to monitor the adequacy and effectiveness of those arrangements in practice. They are also required to report on their arrangements in their annual governance statement.
- 8 It is the responsibility of the small audited body to ensure that proper arrangements are in place, but certain individuals also have specific responsibilities. Local authorities have designated statutory officers, each of whom has a specific role in relation to accountability and control. For local authorities these include:
 - the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
 - the monitoring officer who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration, and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
 - an officer with the responsibility for the proper administration of the audited bodies financial affairs.
- 9 Small audited bodies will have a chief executive officer, often known as the Clerk, and a Responsible Finance Officer. The Clerk is the equivalent of the head of paid service and will advise the body about any actual or potential breaches of the law or any maladministration, and ensure that procedures for recording and reporting key decisions are operating effectively. The Responsible Finance Officer is the equivalent of the finance officer. In some small audited bodies, the role of Clerk and Responsible Finance Officer may be combined, although a separation of these two key roles is always desirable.
- 10 In carrying out their work on the annual return, auditors will:
 - plan and manage the audit in a timely, professional and efficient manner;
 - plan to complete work within agreed deadlines;
 - maintain close liaison with the audited body; and
 - provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.
- 11 In meeting their responsibilities, auditors may wish to obtain representations from management, both orally and in writing, on specific aspects of the audit.
- 12 The following paragraphs summarise the specific responsibilities of auditors and of small audited bodies in relation to the responsibilities of auditors described in the *Code*.

Responsibilities in relation to the accounting statements

- 13** The accounting statements comprise the annual income and expenditure account, statement of balances or record of receipts and payments that a small body is required to prepare in accordance with, and in the form specified in, any annual return required by proper practices in relation to accounts. They are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The annual return is provided by the Audit Commission.
- 14** It is the responsibility of the small audited body to prepare and publish and provide the auditor with, the accounting statements prepared for the financial year, together with such additional information and explanation as is necessary to provide sufficient evidence that they have maintained adequate systems of internal control and internal audit throughout the financial year.
- 15** The audited body is also responsible for preparing and publishing with its accounting statements a statement on internal control.¹¹
- 16** Auditors should undertake an examination of the annual return, which combines the accounting statements and the annual governance statement and give their opinion in the form of a limited assurance statement.
- 17** Auditors meet their responsibility by:
- reviewing compliance with the requirements for the preparation of the accounts;
 - carrying out a high-level analytical review of financial and other information provided to the auditor; and
 - reviewing such additional information and explanation as is necessary to provide sufficient evidence that the audited body has maintained an adequate system of internal control and internal audit throughout the financial year.
- 18** When the auditor has completed the examination of the accounts and additional information and explanation provided, the auditor gives an opinion on the accounting statements and certifies the completion of the audit.
- 19** Auditors provide assurance in the form of an opinion whether, on the basis of their review, the accounts and other information provided are in accordance with the specified requirements and that no matters have come to their attention giving cause for concern that relevant legislative and regulatory requirements have not been met.
- 20** In carrying out their audit of the accounting statements, auditors will have regard to the concept of materiality.
- 21** Auditors plan and perform their audit on the basis of their assessment of risk. Where necessary, auditors may examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the accounting statements.

¹¹ Small bodies prepare an Annual Governance Statement which includes a Statement on Internal Control. Regulation 4 (4) of the Accounts and Audit Regulations 2003, as amended, requires that a statement on Internal Control is included with a small body's accounts.

- 22** Auditors may evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the accounting statements. However, they do not provide assurance to audited bodies on the operational effectiveness of specific systems and controls or their wider system of internal control. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.
- 23** Auditors review whether the annual governance statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the accounting statements.
- 24** Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.
- 25** Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

Specific powers and duties of Auditors

26 Auditors have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and electors' rights.

27 Auditors must:

- consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of an audit, which they judge should be considered by the audited body or brought to public attention (section 8 of the Act); and
- give electors the opportunity to raise questions about a small body's accounts, and consider and decide upon objections received from electors in relation to the accounts (sections 15 and 16 of the Act).

28 Auditors may decide:

- that the audited body should consider formally, and respond to in public, recommendations made in an audit report (section 11(3) of the Act);
- to apply to the Court for a declaration that an item of account is unlawful or to issue an advisory notice (sections 17 and 19A of the Act) if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body; and
- to apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 24 of the Act).

29 Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

Reporting the results of audit work

30 Auditors provide:

- written reports to officers and, where appropriate, to members on the results of, or matters arising from, specific aspects of auditors' work;
- an audit report including the auditor's opinion on the accounting statements and the statement of internal control; and
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements.

31 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report dealing with any matter that the auditor considers needs to be raised in the public interest under section 8 of the Act; and
- any recommendations under section 11(3) of the Act.

- 32** Audit reports are addressed to officers or members of the audited body, as appropriate. Auditors do not have responsibilities to officers or members in their individual capacities (other than observing the rules of natural justice in the exercise of auditors' specific powers and duties in relation to electors' rights) or to third parties that choose to place reliance upon the reports from auditors.
- 33** When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors will be drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.

Ad hoc requests for auditors' views

- 34** There may be occasions when audited bodies will seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are as helpful as possible, but are precluded from giving a definite view in any case because auditors:
- must not prejudice their independence by being involved in the decision-making processes of the audited body;
 - are not financial or legal advisers to the audited body; and
 - may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.
- 35** In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

Grant claims and returns

- 36** Auditors may be required by the Commission to carry out work to support certification of grants or returns. Auditors carry out this work on an agency basis on behalf of the Commission. A separate statement of responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors covering this work can be found at www.audit-commission.gov.uk.

Access to information

- 37** Auditors have wide ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or voluntary sectors. Auditors may also require a person holding or accountable for any relevant document to give them such information and explanation as they consider necessary.
- 38** There are strict restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation, although they are subject to the Environmental Information Regulations 2004. Audited bodies wishing to disclose information obtained from an auditor, which is subject to a statutory restriction on its disclosure, must seek the auditor's consent to that disclosure.
- 39** Auditors protect the integrity of data relating to audited bodies and individuals either received or obtained during the audit. They ensure that data are held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.