

# Audit plan

Thurrock Council

Audit 2011/12



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# Introduction

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**This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.**

## **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 you.

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.

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Account

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I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

## Materiality

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

## Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- 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 Authority's information systems.

## Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
<p><b>Quality of the accounts</b></p> <p>The Council has a history of producing poor quality accounts with inadequate supporting working papers. My opinion for 2010/11 was severely delayed as a result, with the opinion only issued on 20 April 2012. I also issued recommendations under s11 of the Audit Commission Act 1998 in relation to the accounts production process. The Council has agreed an action plan in response to my recommendations.</p>	<p>I will evaluate your response to my section 11 recommendations and the arrangements for improving the quality of the 2011/12 accounts, in particular the introduction of management checking of the accounts and working papers. I will review the accounts produced for audit in summer 2012 and the supporting working papers and highlight to those charged with governance my preliminary views on their adequacy.</p>
<p><b>Financial misreporting</b></p> <p>The Council is facing ongoing significant financial pressures, with decreases in grant income from central government of 28 per cent over the next four years. The uncommitted general fund balance was only £5.1 million at 31 March 2011 compared with the £7 million level considered desirable by the Director of Finance and Corporate Governance. This increases the risk of financial misreporting to avoid the general fund balance reducing further.</p>	<p>I will review management controls to ensure income and expenditure are posted to the right year and substantively test income and expenditure in both 2011/12 and 2012/13 to ensure it is accounted for in the right year. I will target my substantive testing for the 2011/12 financial statements on expenditure wrongly excluded from the 2011/12 accounts and income wrongly included within them. I will also target my testing to look for missing spending, creditors and provisions and overstated income and debtors. I will also test additions to capital expenditure to ensure they are capital in nature and should not have been charged to revenue.</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>The Authority is required to value PPE at fair value (with some exceptions, in particular for council housing which is valued at existing use value for social housing). There is a risk that the valuations reported in the financial statements will be materially misstated due to the history of problems with valuation of PPE at Thurrock, the change in valuer during 2011/12 and the change in status of schools as more become academies.</p>	<p>I will review the Authority's controls over establishing estimates, including arrangements for instructing your valuer and controls over the information provided to the valuer.</p> <p>I will complete procedures to enable me to place reliance on the work of your valuer.</p> <p>I will undertake tests of detail on valuations and associated depreciation calculations</p>

## Risk

### **Major debt transactions – refinancing**

The Council rescheduled £84 million of debt during 2010/11, moving away from long term fixed rate PWLB debt to very short term variable rate market debt. At some point the Council will move back to longer term fixed rate debt, when the market conditions change. If this happens before I give my opinion on the financial statements, a post balance sheet event disclosure will be required.

As a result of the magnitude and complexity of these transactions there is a risk that the disclosure will be materially misstated.

### **Changes to the general ledger system**

A new chart of accounts and enhanced reporting features are being introduced to the Oracle system. These went live at the end of March 2012, with the 2011/12 accounts being closed down using the new chart of accounts. The Council will need to ensure that all codes are correctly mapped across in the new chart and all data migrates across accurately and completely, that the new chart produces accounts that are compliant with the Code. There is a risk that data will not be correctly transferred and could delay the accounts production.

### **Closure of Thurrock Thames Gateway Development Corporation (TTGDC)**

All functions, assets and liabilities of the TTGDC transferred to the Council on 31 March 2012. I consider that this is a combination of public sector bodies, so the Code will require merger accounting to apply. This means the Council will need to account for all the transactions of the TTGDC in 2011/12 as if they had always been part of the Council (adjusted to the Council's accounting policies). The 2010/11 comparators will also have to be restated as if the merger had also happened for that

## Audit response

I will evaluate the management controls you have in place to manage the risks relating to your refinancing transactions. I will also undertake testing to check that the financial statements are materially stated fairly and post balance sheet events are disclosed appropriately.

I will review management oversight of the work on checking that opening balances in the new ledger agree to closing balances in old ledger.

I will undertake test of detail on the operation of new ledger and on the migration of financial information from the old ledger to the new ledger. I expect to rely on internal audit's testing in this area.

Review of management oversight by due diligence arrangements to establish all assets, liabilities and transactions to transfer.

Tests of detail, including sample checking of assets and liabilities transferred, and of income and expenditure included and changes to 2010/11 comparators. I would expect to place some reliance for this on the work of the National Audit Office as the auditors to TTGDC.

## Risk

year. The assets and liabilities will transfer at the TTGDC's carrying value, and will then need to be revalued, if necessary, to be on the same basis as the Council's assets and liabilities.

## Audit response

### **Housing repairs contract with Morrisons**

Walk through of the housing repairs system had identified that many controls have lapsed due to problems with the provision of relevant information. The backlog means many controls, such as inspections of work completed and tenant satisfaction surveys for repairs, are not being carried out. Performance information also suggests works are being delayed, for example the void relet period has increased significantly. The Council pays 1/12 of the contract sum each month, instead of paying for work actually completed. There is therefore a risk that work is not being completed (or not being done to the correct standard), that the Council is paying the wrong amounts, that the amounts are misclassified between different types of works and also that items are being charged to the wrong financial year.

We will undertake substantive testing of all housing repairs expenditure for the year. This will need to involve post-inspection of work completed to ensure that it has actually been completed and is of the correct quality standard. If possible, I will seek to rely on testing completed by either Internal Audit or client housing officers to gain this assurance, but will need to re-perform a sample of their work to ensure I can rely on it.

## Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors, in particular in relation to pension figures and TTGDC figures;
- reliance on the work of experts, in particular the Council's Valuer and the actuary for the pension fund; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	General ledger Payroll Accounts Payable	General Ledger Payroll Accounts payable TTGDC transfer			Investments and loans at 31 March 2011 Accounts receivable system (to address control weakness) Monitoring of Section 11 action plan
June visit	Changes to general ledger system	TTGDC transfer Instructions to valuer	NAO for TTGDC figures		Housing benefits Journals Cut off for income and expenditure HRA debt changes Monitoring Section 11 action plan
Final visit July to Sept		Management review of accounts Controls over refinancing debt	Essex CC Pension Fund auditor (for pensions liabilities and assets)	Pensions liabilities and assets – Essex CC Pension Fund actuary and our own consulting actuary Valuation of property, plant	All material accounts balances and amounts Year-end feeder system reconciliations Additions to capital



	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
				and equipment – Council valuer and our own consulting valuer	expenditure to ensure not revenue Housing repairs expenditure

I have agreed with you a schedule of working papers required to support the entries in the accounting statements.

### Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office. Due to the significant problems with the 2010/11 accounts which resulted in the delay in the completion of the audit, my audit of the 2011/12 WGA return has not yet been completed as at May 2012. The Authority should ensure that the work on the WGA submission is completed alongside the completion of the Council's main financial statements in order to ensure that the 2011/12 audit can be completed on a timely basis. This is particularly important in light of the appointment of a new external audit provider for the 2012/13 audit.

# Value for money

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## I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

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

### Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

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Table 3: **Significant risks**

Risk	Audit response	Audit output
Medium term financial planning does not continue to develop to meet the Council's needs.	I will review the Council's response to the recommendations on financial planning I made in my 2010/11 annual governance report and assess: <ul style="list-style-type: none"><li>■ Updated medium term financial plan</li><li>■ 2011/12 budget monitoring and reporting</li><li>■ 2012/13 budget setting arrangements</li></ul>	I will report my findings in my annual governance report for 2011/12 in September 2012.

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Risk	Audit response	Audit output
<p>Reporting to members on major debt and financing decisions was inadequate in 2010/11 and there is a risk this is not improved for the ongoing decisions to be taken on when to move back to longer term debt and also the decisions on the new HRA debt being taken on in March 2012. The TTGDC closure may also bring more debt onto the Council's balance sheet.</p>	<p>I will assess the clarity of reporting the debt profile on an ongoing basis and also the clarity of reporting to members on the new HRA debt and the TTGDC debt and how they feed into the treasury management strategy</p>	<p>I will report my findings in my annual governance report for 2011/12 in September 2012.</p>
<p>The Council does not prepare sufficiently for the new responsibilities that will transfer to it in 2012/13 with the closure of the TTGDC.</p>	<p>I will assess the preparations made by the Council for taking on these new responsibilities.</p>	<p>I will report my findings in my annual governance report for 2011/12 in September 2012.</p>
<p>I qualified the value for money conclusion for 2010/11 as the Council only adopted its strategic asset management plan at the end of the year. The increase in land assets being transferred to the Council with the closure of the TTGDC will make asset planning even more important.</p>	<p>I will assess the actions taken by the Council to develop and update the strategic asset management plan during 2011/12.</p>	<p>I will report my findings in my annual governance report for 2011/12 in September 2012.</p>
<p>With the ongoing budget pressures, there is a risk that previously good performance reporting arrangements do not continue.</p>	<p>I will examine cost and performance reporting to confirm it is ongoing and compare the Council's performance on key priority areas to the national picture.</p>	<p>I will report my findings in my annual governance report for 2011/12 in September 2012.</p>

# Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	March to June 2012	Interim audit report
Opinion: receipt of accounts and supporting working papers	30 June 2012	
Opinion: substantive testing	July to September 2012	Opinion on the accounts
Value for money review	February to August 2012	Annual Governance Report
Present Annual Governance Report at the Audit Committee	September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

# The audit team

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The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Debbie Hanson District Auditor	d-hanson@audit-commission.gov.uk 0844 798 5816	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Wendy Borgartz Audit Manager	w-borgartz@audit-commission.gov.uk 0844 798 3009	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Kalwant Rai Team Leader	<a href="mailto:k-rai@audit-commission.gov.uk">k-rai@audit-commission.gov.uk</a> 0844 798 2543	Responsible for day-to-day supervision of the audit team. Key point of contact for the Head of Corporate Finance.

# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## Quality of service

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 – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

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).

# Fees

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**The fee for the audit is £295,380, as set out in my letter of 6 April 2011. Further risks around the TTGDC closure and changes to the general ledger system have been identified since 6 April, but if the section 11 action plan produces the improvements expected in the accounts I should not need to increase the audit fee for these additional risks.**

## **The audit fee**

The Audit Commission has set a scale audit fee of £295,380 which represents a 10 per cent reduction on the baseline audit fee for 2010/11 (excluding the additional fee levied for 2010/11 due to the poor quality accounts).

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I had not identified significant differences from 2010/11 at the date my fee letter was issued in April 2011 and therefore set the 2011/12 fee at the scale fee. Although, subsequently there were significant problems with the 2010/11 accounts that resulted in additional fee being charged, I have set my 2011/12 fee on the basis that the Section 11 plan will address these weaknesses. Since I issued my 2011/12 fee letter, additional risks have been identified in relation to the closure of the TTGDC and changes to the general ledger system. I have not at present made any change to my

planned fee for 2011/12 to reflect these risks, and the additional audit work that will result from them, on the basis that the Section 11 plan will result in further improvements in the accounts processes compared to previous years, resulting in a reduction in the audit work required. If however the accounts do not improve as expected, I will need to revisit the fee with a view to increasing it. I will only do this following discussion with the Director of Finance and Corporate Services and Chief Executive.

## Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Finance and Corporate Services and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take:

- reduce the level of manual adjustments to the trial balance to produce the financial statements – the general ledger upgrade is intended to do this
- improve the quality of the accounts and supporting working papers produced – the Section 11 action plan is designed to address this and the working papers provided to support the restated 2010/11 accounts provided in March 2012 were much improved in a number of areas.
- improve the adequacy of financial controls over journals, the accounts receivable system and the integrated adult social care system.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.



Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£295,380	£383,200	(£82,820)
Certification of claims and returns	£70,000	£69,971	£29
Non-audit work	£0	£0	£0
<b>Total</b>	<b>£365,380</b>	<b>£453,171</b>	<b>(£82,791)</b>

# Appendix 1 – Independence and objectivity

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Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*

# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11, except for the changes I have identified above. For example:
  - internal controls are operating effectively;
  - I secure the co-operation of other auditors;
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
  - reasonable quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
  - other information requested within agreed timescales;
  - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

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

# Appendix 3 – Glossary

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## **Accounting 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.

## **Annual Audit Letter**

Report 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 accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

## **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

## **Commission (the)**

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

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Group accounts**

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

## **Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting 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 accounting 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 accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting 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 accounting 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 accounting statements.

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

