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statement of  
**responsibilities**

of local councils and  
their auditors



*This statement highlights the different responsibilities of local councils and their appointed auditors.*

## Introduction

1. The Audit Commission (the Commission) is responsible for appointing external auditors to parish, town and community councils and parish meetings (local councils) and determining their terms of appointment, as well as for preparing the *Code of Audit Practice* (the *Code*), which prescribes the way in which auditors are to carry out their functions. The current version of the *Code* came into effect on 1 April 2002.

2. The purpose of this statement is to assist local councils with annual income, or annual expenditure, of up to £500,000 and their auditors by summarising where – in the context of the usual conduct of an

audit – the different responsibilities of the local council and its auditor begin and end<sup>1</sup>. Throughout this statement, the term ‘local council’ covers both the council itself and any members or officers (including the chairman, clerk or responsible financial officer) acting on the council’s behalf. The term ‘auditor’ refers to the external auditor appointed by the Commission, as distinct from the internal auditor appointed by the local council.

3. The responsibilities of auditors are derived from statute (the Audit Commission Act 1998) and from the *Code*. Nothing in this statement is intended to limit or extend those responsibilities, or to affect in any

way the exercise of the special powers and duties of auditors referred to below in paragraph 23. In particular, local councils should note that, because auditors must not prejudice their independence of the audited body, it is not their role to act as financial or legal advisers or consultants to local councils to which they have been appointed auditors.

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<sup>1</sup> The responsibilities of local councils with annual income or expenditure in excess of £500,000 and their auditors are set out in the *Statement of Responsibilities of Auditors and Audited Bodies* (March 2000)

# Local councils' responsibilities

4. It is the responsibility of local councils 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. Local councils are required to prepare their accounts in accordance with their statutory responsibilities, and to maintain an adequate system of internal audit of their accounting records and control systems.

5. Each local council provides evidence that it has fulfilled these responsibilities by completing an annual return. A very short form of annual return is required from local councils that have undertaken no financial transactions during the year in question. For local councils that have undertaken financial transactions, the annual return comprises:

- section 1 – a statement of accounts, which is a summary of the accounts required by the Accounts and Audit Regulations 1996, as amended (the *Regulations*), supported by a brief explanation of significant variations from the preceding year and a bank reconciliation;

- section 2 – a statement of assurance from the members of the council;
- section 3 – for completion by the external auditor; and
- section 4 – a report by the council's internal auditor.

Local councils' responsibilities relating to sections 1, 2 and 4 of the annual return are now considered in turn.

## Section 1 – The statement of accounts

6. Local councils' published accounts are an essential means by which they account for their stewardship of the resources at their disposal and their financial performance in the use of those resources. It is the responsibility of each local council to:

- maintain proper accounting records; and
- prepare an annual statement of accounts that:
  - presents fairly the financial position of the local council and its receipts and payments or expenditure and income, as appropriate; and
  - is consistent with the underlying financial records.

## Section 2 – The statement of assurance

7. Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring both that public business is conducted in accordance with the law and with proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this accountability, local councils and their management (both councillors and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal.

8. For local councils, these arrangements include:

- maintaining an adequate system of internal control, including measures designed to prevent and detect fraud and corruption;
- taking reasonable steps to assure themselves that they have acted in accordance with their legal powers and with relevant standards and codes of practice;

- assessing the risks they face and taking appropriate steps to manage them;
  - appointing a competent, independent internal auditor;
  - considering and taking appropriate action on all matters raised in reports from both internal and external auditors; and
  - giving interested persons the opportunity to inspect the accounts and ask questions about the council's business, in accordance with the *Regulations*.
9. As part of its annual return, each local council is responsible for completing a statement of assurance:
- acknowledging the members' responsibility for the preparation of the accounts;
  - confirming that the accounts have been properly prepared and approved and that all relevant matters have been disclosed; and
  - providing assurance that the arrangements described above have been implemented.
10. Where a local council is unable to provide the necessary confirmation or assurance about any matter, it should take early action to address the weaknesses identified and disclose that action to the auditor.

## Section 4 – Internal audit

11. In addition to its responsibility for maintaining proper internal controls, each local council is required by the *Regulations* to maintain an adequate and effective system of internal audit. The internal auditor is expected to examine the system of internal control and to report any findings to the council. It is the local council's responsibility to ensure that the internal auditor prepares an annual report for inclusion in the annual return, and that it takes action to address any matters identified by the internal auditor.

# Auditors' responsibilities

## Conduct of the audit

12. The auditor is required to review the annual return and to give his or her opinion, reporting:

- whether the information contained in the return is in accordance with the Commission's requirements; and

- whether any matters have come to the auditor's attention giving cause for concern that relevant legislation and regulatory requirements have not been met.

13. In carrying out the audit, the auditor is responsible for:

- reviewing the local council's compliance with the requirements for the preparation of the annual return;
- carrying out a high-level analytical review of the financial and other information provided; and

- reviewing the information provided by way of evidence that the local council has maintained adequate systems of internal control and internal audit throughout the financial year.

**14.** Auditors of local councils with an annual income, or annual expenditure, of between £100,001 and £500,000 are required to consider the adequacy of the local council's systems of internal control by reviewing and, where appropriate, examining evidence that is relevant to those systems. It is for the auditor to determine, on a risk basis, what evidence is required. In addition, auditors of local councils with either an annual income, or annual expenditure, of up to £100,000 will carry out this additional work on a selective basis each year at a small number of local councils.

**15.** Where auditors identify a need for further evidence in relation to any relevant matter, they may undertake additional testing. This may involve examining selected transactions and balances on a test basis and assessing the significant estimates and judgements made by the audited body in preparing the

statement of accounts. In carrying out their responsibilities, auditors may wish to obtain representations from members or officers, orally or in writing, on important matters.

### Reporting the audit

**16.** Promptly after the conclusion of the audit, the auditor will provide the local council with:

- a certificate that the audit of the annual return has been completed in accordance with the Audit Commission's requirements;
- an opinion on the information contained in the annual return;
- where appropriate, a report dealing with matters that the auditor considers to be in the public interest; and
- where appropriate, oral and/or written reports or memoranda to members and/or officers on the results of, or matters arising from, specific aspects of the auditor's work.

**17.** Matters raised by auditors will be drawn from those that come to their attention during the audit. The audit cannot, however, be relied upon to detect all errors, weaknesses or opportunities for

improvements in management arrangements that might exist. In particular:

- auditors do not perform detailed tests of transactions to the extent that would be necessary to disclose all unlawful transactions that may have occurred or might occur, and the audit process should not be relied upon to disclose such matters;
- it is not auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice; and
- the auditor's opinion is based on the limited procedures summarised in paragraph 13 and the level of assurance given is lower than would be provided by an audit undertaken in accordance with the Statements of Auditing Standards issued by the Auditing Practices Board.

18. When considering the action to be taken on audit reports, local councils should bear in mind the scope of the audit and the responsibilities of auditors, as set out in the *Code* and as further explained in this statement. Local councils should assess the wider implications of auditors' conclusions and recommendations before deciding what action to take, if any.

19. Although the auditor's certificate and opinion and any reports arising from the audit may be addressed to councillors or officers of the audited body, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to councillors or officers in their individual capacities or to third parties, other than in the exercise of their special powers and duties.

### Ad hoc requests for auditors' views

20. Auditors have no responsibility for advising local councils and enquiries on audit or accounting matters should normally be addressed in the first instance to one of the national bodies such as the National Association of Local Councils (NALC) or the Society of

Local Council Clerks (SLCC). Local councils should take account of the guidance provided by NALC and SLCC in *Governance and Accountability in Local Councils in England and Wales: a Practitioner's Guide*, published in March 2002.

21. However, there may be occasions when, in addition to any advice that they may have received from NALC or SLCC or from their own legal or professional advisers, local councils 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 will be 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 local council;
- are not financial or legal advisers to a local council; and
- may not act in any way that might restrict their ability to exercise the special powers conferred upon them by statute.

22. In response to such requests, auditors can be expected to offer only an indication as to whether anything in the information available to them at the time of forming a view is likely to cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors to such a request 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 local council to decide whether to embark on any transaction.

### Special powers and duties

23. Auditors have special powers and duties under the Audit Commission Act 1998. The exercise of these powers and duties is governed by Schedule 1 to the *Code*. 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 local council concerned.

## Grant claims and returns

24. The responsibility for ensuring the completion, accuracy and completeness of grant claims and returns lies with the local council concerned. Grant-paying bodies may require independent examination as a condition of their acceptance of claims or returns. In such circumstances, the Commission agrees with the grant-paying bodies the tests required and these are set out in instructions to the appointed auditors. Auditors, acting as agents of the Commission, perform the prescribed tests set out in these instructions in examining grant claims and returns.

## The Public Interest Disclosure Act 1998

25. The Public Interest Disclosure Act 1998 allows employees with concerns about a range of issues of public concern to disclose information to a 'prescribed person' if they are unable or unwilling to make such disclosures internally. In discharging its role as a prescribed person under the Act, the Commission may call upon auditors to act as agents of the Commission in carrying out specific investigations into matters arising from qualifying disclosures.

## Audit fees

26. At the conclusion of the audit, auditors will, acting as agents of the Commission, bill local councils for the costs of the audit in accordance with a fee scale determined by the Commission. In circumstances where additional audit work is necessary, including audit work dealing with electors' questions and objections, auditors will bill local councils for that additional work, using hourly fee rates approved by the Commission. The same hourly fee rates will be used as the basis for additional work undertaken in responding to ad hoc requests (paragraph 22) and examining grant claims and returns (paragraph 24).

Audit Commission

1 Vincent Square, London SW1P 2PN

Telephone: 020 7828 1212 Fax: 020 7976 6187

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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