

Annual Governance Report

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# Annual Governance Report

**Hastings Borough Council**

**Audit 2006/07**

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- any third party.

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## Purpose of this document

- 1 This report provides a summary of the work we have carried out during our audit of the financial statements for the year ended 31 March 2007, the conclusions we have reached and the recommendations we have made.
- 2 This report discharges our audit responsibilities to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) in particular, ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged with Governance', by reporting to the Council's Audit Committee (as those charged with governance) matters relating to the audit of the financial at the time they are considering the financial statements. We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 3 This report has been prepared for presentation to the audit committee on 25th September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan ; and
  - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion.
- 4 Our work during the year was performed in line with the plan that we presented to you on in May 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

## Key messages

- 5 Our work on the financial statements is substantially complete. We propose issuing an unqualified audit opinion on 28 September 2007 (a draft report is attached at Appendix 4).
- 6 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 7 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 28 September 2007 (a draft report is attached at Appendix 4).

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## Audit status

- 8 At the date of issue of this report our audit of the financial statements is substantially complete. We are still working on some aspects of our Use of Resources assessment and our work on Direction of Travel is scheduled to take place in early 2008 and will be reported in the annual audit and inspection letter. Work on the major grant claims is ongoing and we anticipate meeting the audit deadlines set by the issuing Departments. There are no issues of substance that would prevent us certifying that the audit is complete.
- 9 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for its assistance and co-operation.

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## Accounts and Statement on Internal Control

- 10 Our work on use of resources requires us to consider the size and number of adjustments to the accounts resulting from the audit. Our work in this area is still ongoing but our conclusion is that the accounts presented for audit were of a reasonable standard. We plan to publish our detailed report on use of resources in November.
- 11 In finalising the audit, auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 12 The letter needs to be tailored to specific circumstances for each audited body and auditors also need written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 13 The letter of representation should be considered and agreed formally by those charged with governance. Following agreement of the letter it should be signed by the section 151 officer and the chair of the audit committee and sent to us shortly before we sign the auditor's report. A draft letter for the Council to tailor is set out at Appendix 5.

## Unadjusted misstatements

- 14 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. Our quantitative measure of materiality for the audit was set at £1million. We also set a threshold below which we judge any errors to be trivial and do not formally request amendments to the accounts. This threshold was set at £100,000. We report any unadjusted errors over this threshold. There are no unadjusted misstatements for us to bring to the attention of members.

## Adjustments to the financial statements

15 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. The majority of the adjustments relate to values held in the fixed asset register. The reasons for the adjustments are explained more in the section on accounting policies below. A full analysis of all corrected misstatements is recorded at Appendix 7 but we provide an analysis of the most significant items below for your attention. It should be noted that, in aggregate, the misstatements adjusted by management have no impact on the Council Tax payer and do not change the balance on the General Fund. The net effect on the balance sheet is to increase the value of fixed assets and reduce the balance on Government Grants Deferred, in net terms increasing the Authority's net worth by £2,511,000.

- **Deferred Charges (£1,821,000)** - This related to home improvement grant expenditure funded by government grants. This expenditure was accounted for only on the balance sheet through the government grants deferred account and the capital financing account. The correct accounting treatment is to recognise the expenditure as a deferred charge in the income and expenditure account (analysed across service heads in both income and expenditure);
- **Tesco valuation (£885,000)** - This related to an increase in the valuation of land at a Tesco store during the year. The increase was not reflected in the fixed asset register. Fixed assets were therefore understated;
- **Turner painting (£250,000)** - During the year the Authority bought a Turner painting for £250,000. This was classified as 'Land and Buildings' in the fixed asset register and should more properly have been shown as a community asset;
- **CCTV equipment (£542,000)** - The Authority had been classifying its CCTV equipment as a community asset and therefore not providing for any depreciation. In our view CCTV equipment has a finite life and should have been shown under 'Vehicles, Plant & Equipment' and depreciated over its normal working life.



## Accounting practices

- 16 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

<b>Key issues</b>
<p><i>Fixed Asset Register</i></p> <p>The Authority's fixed asset register is spreadsheet based and has been in use for many years. Fixed asset additions have been added chronologically to the spreadsheet but this had led to some fragmentation of the information, especially where different parts of the same asset appear in different places in the spreadsheet. This makes identification of an individual asset difficult (for valuation and audit purposes) and can lead to errors when writing out assets for disposal. Following last year's audit, officers have cleaned up the asset register by removing 'old' information relating to assets no longer owned by the Authority and with a nil net book value, but more needs to be done. The majority of the adjustments to this year's accounts (summarised in appendix 6) relate to errors in accounting for fixed assets.</p> <p>Officers are currently considering an internal audit report which also concludes that improvements are needed to the Authority's fixed asset accounting systems.</p>
<p><i>Journal entries</i></p> <p>Our testing revealed that anyone in the finance section can raise a journal without it being subsequently checked or authorised by another person. Whilst we did not find any errors in the financial accounts relating to journal entries we had to extend our level of testing to compensate for the lack of control in this area. Officers have agreed to improve journal control within the finance section.</p>

- 17 Our recommendations on the fixed asset register and journal entries are included in the action plan at Appendix 1.

## Systems of internal control

- 18 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. We are also required to provide a summary of any significant issues identified during the audit which have not been covered elsewhere, including:
- where we suspect or detect fraud;
  - non-compliance with legislative or regulatory requirements and related authorities.

We have not identified any material weaknesses in these areas.

- 19 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 20 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

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## Use of resources

### Work performed

- 21 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
  - data quality work; and
  - the best value performance plan.
- 22 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

### Use of resources assessment

- 23 We are currently finalising our report arising from our use of resources assessment. When finalised, we will discuss this with the relevant officers.

### Data quality work

- 24 We are currently finalising our data quality review and will report our findings to the relevant officers.

### Best value performance plan

- 25 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

- 26 We reported our fee proposals as part of the Audit Plan for 2006/07. As at the time of drafting this report, we are still working on the audit and cannot therefore conclude on the final fee to be charged compared with the planned audit fee. The planned fee of £83,263 was set at 25% (or £28,000) below the Audit Commission's mid-point on the understanding that no problems would be encountered during the audit. Issues around the verification of fixed assets and the new disclosure requirements of the 2006 SORP have taken longer to resolve than planned and we propose to raise an additional fee of £14,000 to cover the extra costs incurred. We shall write further to members charged with governance if the actual fee differs significantly from this proposed change to the planned fee.
- 27 The outturn on inspection fees will be reported in the annual audit and inspection letter.

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## Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
9	Improve fixed asset accounting systems for financial reporting.	3	Brian Haydon	Yes		End December 2007
9	Improve control over journal entries within the finance section.	3	Brian Haydon	Yes		End October 2007

## Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

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## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	May 2006	May 2006	Hastings Borough Council
Annual governance report	September 2007	September 2007	Audit Committee
Opinion on financial statements	September 2007	September 2007	Hastings Borough Council
Value for money conclusion	September 2007	September 2007	Hastings Borough Council
Use of resources assessments	March 2007 and November 2007	March 2007	Hastings Borough Council
Final accounts memorandum	October 2007		Management
BVPP report	December 2006	December 2006	Hastings Borough Council
Annual audit letter	March 2008		Hastings Borough Council

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# Appendix 4 – Independent auditor’s report to the Members of Hastings Borough Council

## Opinion on the financial statements

I have audited the financial statements of Hastings Borough Council for the year ended 31st March 2007 under the Audit Commission Act 1998, which comprise the Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Hastings Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA’s guidance ‘The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003’ issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures



I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Forward. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

Darren Wells, District Auditor  
Audit Commission, 1st Floor Rear, 16 South Park, Sevenoaks Kent. TN13 1AN

Date

## **Conclusion on 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006. I am satisfied that, in all significant respects, Hastings Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

## Best Value Performance Plan

I issued my statutory report on the audit of the authority’s best value performance plan for the financial year 2006/07 in December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells, District Auditor  
Audit Commission, 1st Floor Rear, 16 South Park, Sevenoaks, Kent. TN13 1AN

Date

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## Appendix 5 – Management representation letter

Darren Wells, District Auditor

Audit Commission, 1st Floor Rear, 16 South Park, Sevenoaks Kent. TN13 1AN

### **Hastings Borough Council - Audit for the year ended 31st March 2007**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Hastings Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

#### **Specific representations**

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

There are no material adjustments required to the carrying value of fixed assets, as a result of impairment reviews carried out under FRS 11, or other revaluation exercises, other than those which have been properly recorded and disclosed in the financial statements.

All material donated assets have been properly recorded and disclosed in the financial statements.

#### **Supporting records**

All the accounting records have 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 accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

#### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

## **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

## **Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

## **Post balance sheet events**

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Hastings Borough Council

Signed

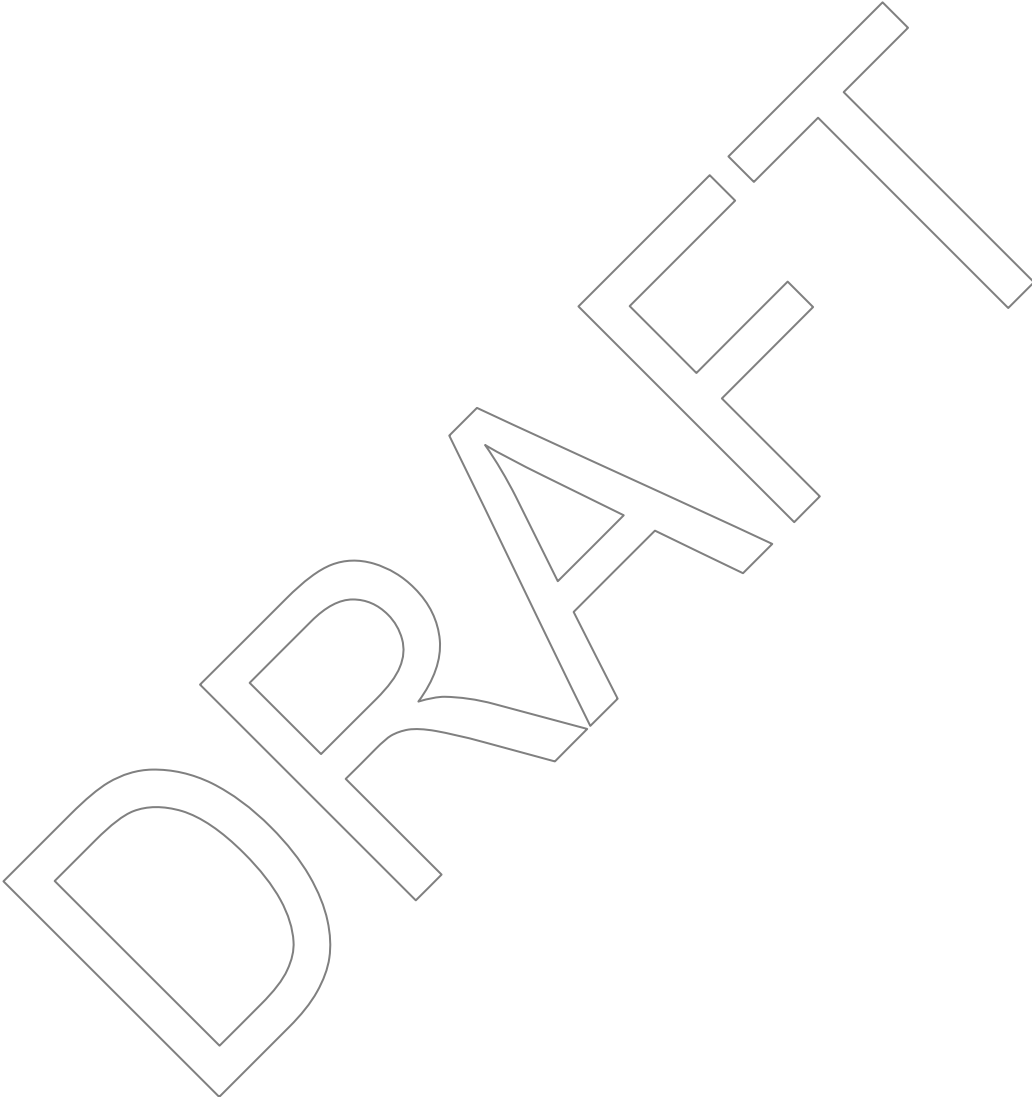
Name

Position – Section 151 Officer

Date

Signed on behalf of those charged with governance at Hastings Borough Council  
Signed

Name  
Position  
Date



## Appendix 6 – Summary of adjusted misstatements

- 1 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Description of Misstatement					
<b>Capital Financing Account</b>	Incorrect treatment of deferred charges	1,821	1,821		1,821
	Depreciation of CCTV			165	
	Other sundry items			71	
<b>Fixed Asset Restatement Account</b>	Omission of Tesco revaluation				885
	Omission of other valuation adjustments				60
	Other sundry items			19	
<b>Total</b>				<b>255</b>	<b>2,766</b>
<b>Effect on net worth</b>				<b>2,511</b>	
<b>Land and Buildings</b>	Misclassification of Turner painting				250
	Misclassification of CCTV				153
	Omission of valuation adjustments			19	
	Depreciation	1			
	Other sundry items				19
<b>Community Assets</b>	Misclassification of Turner painting			250	
	Misclassification of CCTV				554

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		Income and Expenditure Account		Balance Sheet	
<b>Vehicles Plant &amp; Equipment</b>	Misclassification of CCTV			542	
	Depreciation	165			
	Loss on assets written off	174			
	Misclassification of IT hardware			143	
<b>Investment Properties</b>	Omission of Tesco valuation			885	
	Omission of other valuation adjustments			40	
<b>Intangible Assets</b>	Misclassification of IT hardware				143
	Omission of depreciation on Agresso software	70			70
<b>Government Grants Deferred</b>	Incorrect treatment of deferred charges			1,821	
<b>Collection Fund</b>	Decrease in bad debt provision		90	90	
	Payments to the pool	90			90
<b>Statement on Movement of General Fund Balances</b>	Omission of depreciation		236		
	Loss on assets written off		174		
<b>Total</b>		<b>2,321</b>	<b>2,321</b>	<b>3,790</b>	<b>1,279</b>
<b>Effect on Net Worth</b>		<b>Nil</b>	<b>Nil</b>		<b>2,511</b>

These changes have no impact on the Council Tax payer and do not change the balance on the General Fund. The overall impact on net worth is an increase of £2,511,000.

Some of these adjustments also change the analysis of movements in the Statement of Recognised Gains and Losses which will change in total by the movement in net worth of £2,511,000.



Note 37 to the core financial statements 'Revenue activities net cash flow' required amendments to the 2005/2006 comparative figures to reflect changes in the 2006 SORP.

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## Appendix 7 – Value for money conclusion

- 2 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources.
- 3 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate

<b>Code Criteria</b>	<b>Description</b>	<b>Associated UoR KLoE</b>	<b>VFM Conclusion</b>
7	The body has put in place arrangements to manage and improve value for money.	5.2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Adequate

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