

Annual Governance Report

September 2007



Annual Governance Report

Barrow-in-Furness Borough Council

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Copies of this report

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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom and Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 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.
- 4 This report has been prepared for presentation to the Audit Committee on 26 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to Overview and Scrutiny Committee (Corporate Services) on 17 January 2007. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

Key messages

- 6 Our work on the financial statements is substantially complete. We propose issuing an unqualified audit opinion on 26 September 2007 as outlined in draft at Appendix 4.
- 7 In our view, the draft Statement on Internal Control (SIC) has not been prepared in accordance with proper practice specified by CIPFA. However, the proposed amendments to the SIC following our audit are consistent with the findings from our overall audit and is now more consistent with the disclosure requirements as set out in the Statement of Recommended Practice (SoRP).
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources will be completed shortly. Subject to completion of the rest of our work on this element of the audit, we propose issuing an unqualified conclusion on the use of resources on 26 September 2007 as outlined in draft at Appendix 4.

Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete.
- 10 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 the Authority's assistance and co-operation.

Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete.
- 12 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 controls to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 5.

Unadjusted misstatements

- 15 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. There are two unadjusted misstatements for us to bring to the attention of members. A summary of unadjusted misstatements is attached at Appendix 6 for the information.
- 16 We invite you to consider whether the financial statements should be amended for the unadjusted misstatements identified at Appendix 6. Should you choose not to amend the financial statements, in accordance with ISA (UK&I) 260 we request that you extend the representation letter to explain why. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates. This is covered in the letter of representation as shown in Appendix 5.

Adjustments to the financial statements

- 17 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. These are recorded in full at Appendix 7 but we provide detail on the most significant item below for your attention:
- amounts set aside against an adverse settlement for benefit subsidy of £692,108 were classified as a provision rather than as a creditor.

Accounting practices

- 18 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.
- Benefit subsidy income is prudently estimated by allowing 2 per cent discount for non receipt of income because of a prior history of software extraction problems. The Council should review annually the percentage prudence discount in light of experience in closing the benefit subsidy claim.
 - Whilst accounting correctly for the liabilities where reasonable estimates can be made for claims for exposure to asbestos, there is an undeterminable liability for those claims where no reasonable estimate can be made. Where no reasonable estimate can be made the details should be set out under a contingent liability note.
 - To ensure full compliance with FRS 8 on related party transactions it is important that all material funding streams not disclosed separately elsewhere in the accounts, for example housing market renewal, are listed under this disclosure note.

Recommendations

R1 Review annually the percentage prudence discount in light of experience in closing the benefit subsidy claim

R2 Refine the systems for recording claims against the Council for exposure to asbestos to identify where a reasonable estimate of the liability can be made. Where no reliable estimate can be made ensure a contingent liability is disclosed.

Systems of internal control

- 19 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 20 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.
- 21 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.
- 22 The SIC was not prepared in accordance with the CIPFA Guidance published in April 2004 '*The Statement on Internal Control in Local Government: Meeting the requirements of the Accounts and Audit Regulations 2003*'. In essence this guidance suggests using your risk management arrangements to gather assurances and evidence to support the SIC. The most significant failing concerned lack of any details disclosing in the SIC actions taken or proposed to deal with significant internal control issues. The Authority has now included a 'significant internal control issues' section, to improve compliance with the SoRP, based on internal and external audit findings.

<i>Recommendation</i>
<i>R3 Develop risk management arrangements to fully inform the Statement on Internal Control and establish evidence gathering processes in line with good practice.</i>

Use of resources

Work performed

- 23** The Code requires us to reach a conclusion as to whether we are satisfied that the Authority 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 Authority's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission.
- 24** 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. These are shown at Appendix 7, along with our initial conclusions as to the effectiveness of each of the criteria.
- 25** Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources will be completed shortly. However, subject to finalisation of outstanding issues, at this stage we are anticipating issuing an unqualified value for money conclusion at the same time that we issue the opinion on the Authority's financial statements (a draft report is attached at Appendix 4).
- 26** Our work to support our conclusion also included the following elements:
- data quality work; and
 - the best value performance plan review.

Use of resources assessment

- 27** 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

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

Best value performance plan

- 29** 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

- 30 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

	Plan 2006/07	Actual 2006/07
Financial statements and Statement on Internal Control	67,700	
Use of resources	34,500	34,500
Total audit fees	102,200	
Total inspection fee	4,300	4,300
Total audit and inspection fees	106,500	
Relationship management	4,300	4,300
Grants certification work	38,000	38,000
Total fees	148,800	

- 31 The analysis above shows that our audit fee has been contained within the totals you have already agreed.

Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
	R1 Review annually, the percentage prudence discount applied to housing benefits income in light of experience in closing the benefit subsidy claim.	H	Borough Treasurer	Yes	The current Percentage of 2 per cent will be reviewed at the year end to reflect the latest actual information. This will be reflected in the accounting policy.	March 2008
	R2 Refine the systems for recording claims against the Council for exposure to asbestos to identify where a reasonable estimate of the liability can be made. Where no reliable estimate can be made ensure a contingent liability is disclosed.	H	Borough Treasurer	Yes	Relevant information will be compiled to facilitate regular management reporting.	December 2007

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
	R3 Develop risk management arrangements and evidence gathering processes in line with best practice to fully inform the Statement on Internal Control.	H	Director of Corporate Services	Yes	Audit Commission workshops will highlight risk management issues to senior managers and members. This will facilitate full compliance with the Statement on Internal Control requirements.	Workshops November 2007 SIC April 2008

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.

Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan*	September 2006	September 2006	Director Finance
BVPP opinion and PI audit memorandum	December 2006	December 2006	Chief Executive
Your business at risk	November 2006	September 2007	Audit Committee /IT Manager
Use of resources assessment	December 2007	To follow	Chief Executive / Borough Treasurer
Report on financial statements to those charged with governance (ISA 260)	September 2007	September 2007	Audit Committee
Opinion on financial statements	September 2007	September 2007	Audit Committee
VFM conclusion	September 2007	September 2007	Audit Committee
Final accounts memorandum	September 2007	To follow	Borough Treasurer
Annual audit and inspection letter (including direction of travel assessment)	December 2007	To follow	Audit Committee

Appendix 4 – Proposed auditor's report

Independent auditor's report to the Members of Barrow Borough Council

Opinion on the financial statements

I have audited the financial statements of Barrow Borough Council for the year ended 31 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 Housing Revenue Account, 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 Barrow Bough 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.

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.

Mark Heap
District Auditor
Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ
September 2007

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, Barrow 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 on 19 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.

Mark Heap
District Auditor
Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton
BL6 6QQ

September 2007

Appendix 5 – Management representation letter

To Mark Heap
District Auditor
Audit Commission
Aspinall House
Aspinall Close
Middlebrook
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BL6 6QQ

Barrow 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 Barrow Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

I confirm that I believe that there are no material uncorrected errors or misstatements contained in the financial statements, either individually or in aggregate.

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.

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 Members meetings, have been made available to you.

Group entities

I confirm that there is no requirement to produce Group Accounts for Barrow Borough Council as the Council has no significant material interest in any other body.

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; and
- 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, contractual arrangements 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.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

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 the Audit Committee at the 20 June 2007 meeting, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Equal pay and pay review

The Council has not received any claims for equal pay and there are no claims pending. A pay review process has been initiated by the Council which is expected to be completed by early 2008.

Legionella court ruling

On the 31 July 2006 the court made its ruling about the Legionella outbreak.

The Council was fined £125,000 for breaching Health and Safety regulations and ordered to pay prosecution costs of £90,000.

The Council has taken steps to ensure that its internal procedures for Health and Safety have been appropriately reviewed and strengthened to avoid the possibility of a similar occurrence in the future.

Unadjusted items

There are two immaterial items that were identified during the audit that remain unadjusted in the accounts. These relate to accrued housing repair payments and the cost of the audit fees. These items will be accounted for in the 2007/08 financial year and fully accrued at the end of that year to bring the treatment in line with our accounting policies.

Signed on behalf of Barrow Borough Council

M Saleh
Borough Treasurer
September 2007

Chair of Audit Committee
September 2007

Appendix 6 – Summary of unadjusted misstatements

- 1 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. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

		Income and Expenditure Account		Balance sheet	
Unadjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Description of misstatement					
Income and Expenditure Account	Omission of audit creditors	74			74
		Housing revenue account		Balance sheet	
Housing revenue account	Omission of housing repair creditors	130			130

Appendix 7 – 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					
Benefit subsidy provision	Amounts set aside against an adverse settlement for benefit subsidy of £692,108 were classified as a provision rather than as a creditor			692	692
Note 14 Officers emoluments	Inclusion of A McAdam				
Note 18 Related parties	Inclusion of Housing Market Renewal receipts and other material grants.				

Appendix 8 – Value for money conclusion

- 1 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.
- 2 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	UoR score	VFM conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	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	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	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	N/A	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	2	Adequate

Code criteria	Description	Associated UoR KLoE	UoR score	VFM conclusion
6	The body has put in place arrangements to manage its significant business risks.	4.1	2	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	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	2	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	2	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	2	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	2	Adequate