

Annual Governance Report

September 2007



Annual Governance Report

Chorley 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 members/non-executive directors or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Copies of this report

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Contents

Purpose of this document	4
Key messages	5
Audit status	6
Accounts and Governance Assurance Statement	7
Unadjusted misstatements	7
Adjustments to the financial statements	7
Accounting practices	8
Systems of internal control	8
Use of resources	9
Work performed	9
Use of resources assessment	9
Data quality work	9
Best value performance plan	9
Audit fee update	10
Appendix 1 – Action plan	11
Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity	12
Appendix 3 – Audit reports issued	13
Appendix 4 – Proposed auditor’s report	14
Appendix 5 – Management representation letter	18
Appendix 6 – Summary of adjusted misstatements	20
Appendix 7 – Value for money conclusion	25

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 27 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 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 Audit Committee on 22 June 2006. 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, although there are still a few outstanding issues to be resolved. Should any further matters arise in concluding our work that need to be reported, we will raise them with the Audit Committee on 27 September 2007. We propose issuing an unqualified audit opinion on 28 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Governance Assurance Statement (GAS) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing a unqualified conclusion on the use of resources on 28 September 2007 (a draft report is attached at Appendix 4).

Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete and we are currently concluding our audit of the accounts.
- 10 We would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

Accounts and Governance Assurance Statement

- 11 Our work on the financial statements is substantially complete and we are currently concluding our audit.
- 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 control 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 no unadjusted misstatements for us to bring to the attention of members.

Adjustments to the financial statements

- 16 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. Preparation the 2006/07 financial statements was particularly complex due to the changes to the '*Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice*' (SORP) and the impact on the accounting entries relating to the large scale voluntary transfer (LSVT). Whilst the Council have accounted for the majority of these changes correctly, understandably some material amendments have been necessary because of:
 - complex accounting entries required because of LSVT;
 - the impact of the 2006 SORP; and
 - further guidance on accounting for the repayment of debt in relation to former Council dwellings becoming available after the financial statements were approved by the Audit Committee in June.

- 17 A full list of the amendments to the income and expenditure account and balance sheet are recorded at Appendix 6. Whilst these amendments have created a significant deficit on the income and expenditure account, there is no impact on the General Fund Balance. The amendments have also affected the figures in the statement of total recognised gains and losses and some of the notes to the core financial statements.

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. Overall, there was a good level of compliance with the disclosure requirements of the 2006 SORP, although amendments have been made to explain the changes to the 2006 SORP, including changes to accounting policies.
- 19 As well as further complicating the preparation of the financial statements as a result of changes to the SORP, the stock transfer diverted the Council's resources away from the final accounts closedown process. The Council appointed an Interim Deputy Director of Finance in 2007 to manage this process and increase departmental capacity. Unfortunately, this did not materialise. This reduction in available resources meant that officers were not able to adhere to the closedown timetable or implement planned improvements to the closedown process. Officers are aware of the need to ensure that sufficient resources are in place for future years.
- 20 Our audit was also affected with:
- some working papers specified in our working paper requirements checklist not being available at the start of the audit;
 - delays in providing some of these working papers and dealing with audit queries and further requests for information; and
 - delays in agreeing amendments to the financial statements.

Recommendations

R1 Ensure sufficient resources are in place to adhere to the agreed closedown plan.

Systems of internal control

- 21 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 22 We have also reviewed whether the GAS 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.

Use of resources

Work performed

- 23 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.
- 24 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

Use of resources assessment

- 25 We are currently finalising our use of resources assessment and will report our findings to the relevant officers.

Data quality work

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

Best value performance plan

- 27 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

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

Table 1

	Plan 2006/07 (£)	Actual 2006/07 (£)
Financial statements and governance assurance statement	41,536	47,536
Use of Resources	59,340	59,340
Total Audit Fees	100,876	106,876
Inspection work	4,204	4,204
Total audit and inspection fee	105,080	111,080
Grants certification work	27,400	27,400 (estimate)

- 29 The analysis above shows that our audit fee has increased from the amounts included in the audit and inspection plan. This was primarily due to additional work we had to undertake to address the risks of misstatement from the complex accounting entries required because of LSVT and the impact of the 2006 SORP (see paragraph 16 above). The extent of the extra work required could not have been foreseen when we initially issued our plan.

Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated implementation date
8	R1 Ensure sufficient resources are in place to adhere to the agreed closedown plan.	3	Director of Finance			

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

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.

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	31 March 2006	22 June 2006	Audit Committee
BVPP report	31 December 2006	18 December 2006	Management
Data quality report	February 2007	29 March 2007	Audit Committee
Use of resources report	March 2007	29 March 2007	Audit Committee
Annual governance report (ISA 260)	September 2007	27 September 2007	Audit Committee
Opinion on financial statements	September 2007	27 September 2007	Audit Committee
VFM conclusion	September 2007	27 September 2007	Audit Committee
Final accounts memorandum	October 2007	Yet to be issued	Director of Finance
Ethical governance	October 2006	Yet to be issued	Director of Customer, Democratic and Legal Services
Annual audit letter including direction of travel	December 2007	Yet to be issued	Audit Committee

Appendix 4 – Proposed auditor’s report

Independent auditor’s report to the Members of Chorley Borough Council

Opinion on the financial statements

I have audited the financial statements of Chorley 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 Statement of Total Recognised Gains and Losses, the Balance Sheet, 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 Chorley 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 governance assurance statement 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 governance assurance statement 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 content of the Explanatory Foreword. 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.

Signed:

Mike Thomas

Audit Commission, Aspinall House, Aspinall Close, Middlebrook, 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, Chorley 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 18 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.

Signed: **Mike Thomas**

Audit Commission, Aspinall House, Aspinall Close, Middlebrook, Bolton,
BL6 6QQ

September 2007

Appendix 5 – Management representation letter

September 2007

Mr Mike Thomas
District Auditor
Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Bolton BL6 6QQ

Dear Mr Thomas

Chorley Borough Council - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Chorley 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.

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.

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.

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 disclosed in the financial statements.

Contingent assets and liabilities

There are no other contingent assets and 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 discussed 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, 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 Council 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.

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;
- 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 of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed:

Name:

Position:

Date:

Appendix 6 – Summary of adjusted misstatements

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	
Description of Misstatement	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Statement of movement on Housing Revenue Account (HRA) Balance	Exclude the overhanging debt grant from the calculation of the HRA balance, as required by statute.	-	-	8,593	-
HRA - exceptional item	Include the overhanging debt grant in the HRA.	-	8,593	-	-
HRA - depreciation and impairment	Recognise the reduction in value of council dwellings due to the consumption of economic benefits following large scale voluntary transfer (LSVT) in the HRA.	58,335	-	-	-
Statement of movement on HRA balance	Exclude impairment of council dwellings from the calculation of the HRA balance, as required by statute.	-	-	-	58,335

		Income and Expenditure Account		Balance Sheet	
Description of Misstatement	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Tangible fixed assets - disposals	Account for the reduction in value of council dwellings following LSVT due to the consumption of economic benefits and due to the change in method of valuation in the tangible fixed assets balance.	-	-	117,348	-
Tangible fixed assets - revaluation	As above.	-	-	-	59,013
Tangible fixed assets - impairment	As above.	-	-	-	58,335
Capital financing account (CFA) - impairment	Account for the reduction in value of council dwellings following LSVT due to the consumption of economic benefits and due to the change in method of valuation in the Fixed asset restatement account (FARA) and CFA.	-	-	58,335	-
FARA - revaluation of fixed assets	As above.	-	-	59,013	-
FARA - disposals of fixed assets	As above.	-	-	-	117,348

		Income and Expenditure Account		Balance Sheet	
Developers' contributions unapplied - expenditure	Reflect gross position of capital expenditure financed from developers' contributions.	-	-	1,352	-
Developers' contributions unapplied - income	As above	-	-	-	1,352
Usable capital receipts reserve - capital receipts applied in capital financing during year	Reflect gross position of administrative costs of and incidental to the LSVT financed from capital receipts.	-	-	2,173	-
Usable capital receipts reserve - capital receipts during year from sales of assets	As above.	-	-	-	2,173
Income and expenditure (I&E) account - net cost of services (NCOS) income	Account for funding of administrative costs of and incidental to the LSVT in the Statement of movement on General Fund Balance, rather than the I&E account.	2,173	-	-	-
Statement of movement on General Fund Balance	As above.	-	-	-	2,173

		Income and Expenditure Account		Balance Sheet	
Description of Misstatement	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Tangible fixed assets - additions	Account for capital expenditure deemed not to increase the value of the related asset.	-	-	821	-
Tangible fixed assets - revaluations	As above.	-	-	-	821
Tangible fixed assets - revaluations	Reflect increase in value of TFAs not revalued within the last five years.	-	-	750	-
FARA - revaluation of fixed assets	As above.	-	-	-	750
I&E account - NCOS expenditure	Reflect repayment of monies received from Adactus in relation to LSVT.	650	-	-	-
I&E account - NCOS income	As above.	-	650	-	-
HRA account - amortisation of premiums and discounts	Account for the full value of premiums and discounts on the redemption of debt repaid as part of LSVT in the HRA.	287	-	-	-
Statement of movement on HRA balance	As above.	-	-	-	287

		Income and Expenditure Account		Balance Sheet	
Sundry creditors	Amend classification of commuted sums	-	-	459	-
Receipts in advance	As above.	-	-	-	459
Statement of movement on General Fund Balance	To account for the excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy in 2005/06.	-	-	888	-
I&E account - NCOS	As above.	-	888	-	-
Statement of movement on General Fund Balance	To account for gain on disposal of Council assets in I&E account.	2,247	-	-	-
I&E account - gain on the disposal of fixed assets	As above.	-	-	-	2,247
Statement of movement on General Fund Balance	To account for gain on disposal of Council assets in I&E account for 2005/06.	3,143	-	-	-
I&E account - gain on the disposal of fixed assets	As above.	-	-	-	3,143

Appendix 7 – 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	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

Code criteria	Description	Associated UoR KLoE	VFM conclusion
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