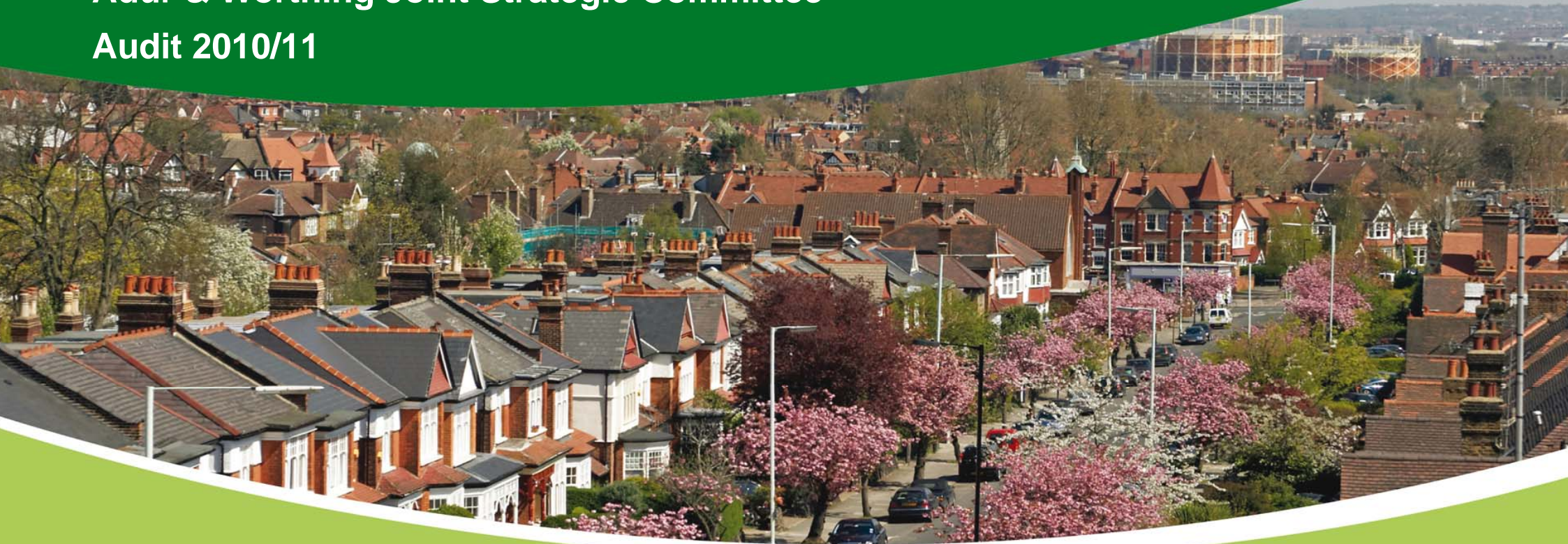


# Annual governance report

Adur & Worthing Joint Strategic Committee

Audit 2010/11



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## Traffic light explanation

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Audit opinion and financial statements

I plan to issue a qualified opinion on the financial statements by 30 September 2011. The qualification relates to the omission of some assets from the balance sheet which are used in the delivery of services.

The introduction of IFRS in 2010/11, and revised Audit Commission guidance on accounting for joint committees, required me to consider whether the Joint Strategic Committee is correctly accounting for the assets used in service delivery. While these assets are not owned by the Joint Strategic Committee, they should be recognised on its balance sheet as the economic benefit of their use needs to be reported to inform readers of the Joint Strategic Committee's statements.

My guidance was not received before the statements were prepared. I discussed the practicalities of amending the statements with your officers, and I understand the decision not to do so because the amendments would have taken considerable time to identify.

The financial statements were otherwise prepared to an appropriate standard. The implementation of the International Financial Reporting Standards (IFRS) was addressed competently and working papers have improved from last year.

## Value for money

I have assessed the way the Joint Strategic Committee delivers value for money. While I have made two recommendations for improvements, I have concluded that its arrangements are sound overall and an unqualified value for money conclusion can be issued.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Joint Strategic Committee during 2010/11.

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## I ask you to confirm to me

### I ask the Joint Governance & Audit Committee to:

- note the adjustments made to the financial statements since they were approved by the Executive Head of Financial Services on 30 June 2011 which are set out at Appendix 2;
  - approve a letter of representation to me on behalf of the Joint Strategic Committee before I issue my audit report. A draft is attached at Appendix 3; and
  - note my recommendations in the action plan at Appendix 4.
-

# Financial statements

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**I will issue a qualified audit opinion on your statements. However, overall the quality of the draft financial statements, including the changes required because of IFRS, and the supporting working papers has improved from previous years.**

## **Opinion on the financial statements**

I will issue a qualified audit opinion because the Joint Strategic Committee's balance sheet does not include items of property, plant, equipment and software used in providing services to Adur District Council and Worthing Borough Council.

The introduction of IFRS in 2010/11, and revised Audit Commission guidance on accounting for joint committees, required me to consider whether the Joint Strategic Committee is correctly accounting for these assets. While these assets are not owned by the Joint Strategic Committee, they are used in providing services and should be recognised on its balance sheet as the economic benefit of the use of these assets needs to be reported to inform readers of the Joint Strategic Committee's statements.

While I told the Executive Head of Financial Services that guidance was expected as soon as I could, it was received too late for the statements to be corrected before 30 June 2011. I discussed the practicalities of amending the statements with your officers, and I understand the decision not to do so. The amendments would have taken considerable time to identify and correct within the financial statements. Officers have agreed to prepare the 2011/12 balance sheet on the revised basis.

Appendix 1 contains a copy of my draft audit report. This cannot be finalised at this time as I am working with officers to agree the financial impact of the qualification.

I have three outstanding items of work:

- testing of accruals;
- testing of credit notes; and
- a check on the financial statements in their final form to ensure the amendments agreed have been done.

## **Errors in the financial statements**

One error was found at audit and an amendment has been agreed with officers. This is shown at Appendix 2.

# Financial statements

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**The Joint Strategic Committee's financial statements and annual governance statement are important means by which it accounts for its stewardship of public funds. As Joint Governance & Audit Committee members you have final responsibility for its statements. It is important that you consider my findings before you adopt them.**

In planning my audit I identified one risk that I reported to the Joint Strategic Committee on 29 March 2011. This has been considered as part of my audit.

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## Key audit risk and my findings

Key audit risk	Finding
<p>The 2010/11 financial statements will be produced in accordance with IFRS. These statements will require amendment of both the 2009/10 opening and closing balances as well the development of revised accounting policies and inclusion of extensive additional disclosures.</p> <p>My assessment of progress so far has shown that it has been made in some areas, such as the review the treatment of complex transactions such as leases, but the Joint Strategic Committee's timetable has slipped overall.</p> <p>There is a risk that there will be insufficient officer capacity to produce complete and accurate statements and associated working papers by 30 June 2011.</p>	<p>The financial statements were approved by the Executive Head of Financial Services and provided to me on 30 June 2011 as planned.</p> <p>Officers have coped well with the challenge of IFRS implementation and the restatement of all areas affected by IFRS had been completed to a good standard overall.</p> <p>Supporting working papers were clear and officers were responsive to my queries.</p>

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# Financial statements

## Significant weaknesses in internal control

Under ISA (UK&I) 265 (communicating deficiencies in internal control to those charged with governance and management) I am required to report any significant deficiencies in any of your internal controls that I identify during the audit. I have identified one weakness in internal control that, although not significant, I report here for completeness.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

### Internal control issues and my findings

Description of weakness	Potential effect	Management action
<p><b>1. Review of in year journals</b></p> <p>In order to prevent accounting errors, senior finance officers review and approve a monthly log of in year journals posted to the general ledger. No record is kept of the in year journals selected for review, the reason for selection and the outcome.</p>	<p>An audit trail is not available to show the operation of an important management control.</p>	<p>The in year journals selected for review from the monthly log, the reason for selection and the outcome should be documented by senior finance officers.</p> <p><b>See recommendation 1</b></p>

# Financial statements

## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures and raise the following issue.

### Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<b>1. Presentation and disclosures in the financial statements</b> <p>I report the most significant changes made at audit below:</p> <ul style="list-style-type: none"><li>the front page of the statements were headed 'Adur &amp; Worthing Councils' and was changed to 'Adur &amp; Worthing Joint Strategic Committee';</li><li>the statements incorrectly included references to 'Council' which were changed to 'Committee';</li><li>the explanatory foreword needed tailoring to make it more applicable to the Joint Strategic Committee;</li><li>note 1 – accounting policies was amended to improve clarity;</li><li>note 10 – trading operations was extended to include a description of the trade refuse service;</li><li>note 13 – external audit costs was amended to show that there were no statutory inspections;</li><li>note 17 – financial instruments was extended to provide fuller information on trade receivables and trade and other payable; and</li><li>the glossary was tailored to the Joint Strategic Committee.</li></ul>	<p>With better review, most presentation and disclosure errors could be found and corrected saving time for officers and auditors.</p> <p><b>See recommendation 2</b></p>

# Financial statements

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## Other significant matters relevant to the reporting process

While the 2010/11 balance sheet was prepared in line with previous years, the impact of IFRS and late Audit Commission guidance resulted in the need for more entries for property, plant, equipment and software.

The assets to be included in the balance sheet are those used by the Joint Strategic Committee for delivering services. Ownership is not an issue where a body obtains economic benefits from their use. The primary reason for this treatment is to inform readers of the statements.

My initial discussions with the Executive Head of Financial Services made her aware of some forthcoming guidance but I was not able to give her a definitive view before the statements had been prepared.

I recognised the lateness of the guidance and understood the decision not to amend the statements because of the time needed to do so. This has led to a qualification of my audit report. I would like to thank your officers for their time and support in providing information to allow me to quantify the approximate value of the omitted assets. Your officers have agreed to prepare the 2011/12 statements including the additional balance sheet items.

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 5 contains a draft letter of representation for your approval before being signed by the Chair of the Joint Governance & Audit Committee and the Executive Head of Financial Services.

# Value for money

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**I am required to conclude whether the Joint Strategic Committee put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the criteria specified by the Audit Commission. My conclusions are set out below.

The Joint Strategic Committee's value for money conclusion is linked to those for Adur District Council and Worthing Borough Council because its purpose is to deliver the shared priorities of the Councils, it is managed by a joint senior officer team and its members come from both Councils.

More services have been added to the Joint Strategic Committee's operations in 2010/11, including building control and technical services. It continues to provide some support services to the Councils that do not fall into its remit. The Joint Strategic Committee's activities are fully funded by the Councils based on a formal agreement, which is reviewed annually as additional services are introduced.

I intend to issue an unqualified conclusion stating that the Joint Strategic Committee had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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## Value for money criteria and my findings

Criterion	Findings
1. Financial planning and financial health	<p>Medium term financial plans, which are linked to the shared priorities of Adur and Worthing, are updated and reported to members regularly. Members are also given early reports on the next year's budget outlook.</p> <p>Annual budgets continue to be prepared on a robust basis. In year monitoring information, which sets out the main variances, is regular and is considered formally by members.</p>

Criterion	Findings
<b>2. Understanding costs and achieving efficiencies</b>	<p>The purpose of the Joint Strategic Committee was to achieve savings through the sharing of Adur's and Worthing's services. More services have been added each year and those for 2010/11 included building control and technical services. Since 2007, savings of over £2.3 million have been made. The savings quoted are net of associated costs such as redundancy.</p> <p>The creation of the Joint Strategic Committee shows a commitment to identifying long term savings. In assessing future savings proposals there is consideration of the costs of achieving those savings beforehand (e.g. redundancy costs). It can demonstrate a good track record of delivering savings over more than a year and is well placed to be able to do so into the future.</p> <p>There is evidence that the Joint Strategic Committee continues to review its services to ensure they still offer good value for money.</p>
<b>3. Financial reporting</b>	<p>The 2010/11 audit showed that IFRS implementation was completed appropriately and improvements have been made to working papers since last year. The statements were prepared and signed by 30 June 2011 in line with expectations.</p> <p>While the audit opinion has been qualified, which arose because of a late change to guidance, there were no other material errors. Your officers have agreed to produce statements on a revised basis in 2011/12.</p> <p>With the change in responsibility for approval of the statements, the Joint Governance &amp; Audit Committee will need to receive information on the Joint Strategic Committee's financial performance so that it can fulfil its responsibilities properly. Recommendation 3 refers to this and is set out at Appendix 4.</p> <p>The financial statements are available to the public through both Adur's and Worthing's websites as is the annual audit letter.</p>

Criterion	Findings
<b>4. Risk management and internal control</b>	<p>The Joint Strategic Committee has received risk management updates in 2010/11 and these have been considered formally. However, Internal Audit has found a number of improvements that should be made to ensure that members are given the most up to date information on risks. Recommendation 4 refers to this and is set out at Appendix 4.</p> <p>While there are some opportunities to improve internal controls, there are none that are considered so significant to impact on the value for money conclusion.</p>

# Appendix 1 – Draft audit report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADUR AND WORTHING JOINT STRATEGIC COMMITTEE

### **Opinion on the Joint Strategic Committee's accounting statements**

I have audited the accounting statements of Adur and Worthing Joint Strategic Committee for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Adur and Worthing Joint Strategic Committee in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Joint Strategic Committee's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Joint Strategic Committee's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Joint Strategic Committee; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Basis for qualified opinion on accounting statements**

The Joint Strategic Committee has not recognised within its Balance Sheet Property, Plant and Equipment (PPE). In my opinion the recognition criteria for PPE, as set out in Chapter 4 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010, have been met for assets with a value at 31 March 2011 of at least £x [TO BE CONFIRMED].

As the Joint Strategic Committee has not recognised these assets, it has, consequently, not identified how they have been financed. I am unable to obtain sufficient appropriate audit evidence to satisfy myself regarding the appropriate accounting treatment of the financing of those assets using other audit procedures.

### **Qualified opinion on accounting statements**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the accounting statements:

- give a true and fair view of the state of Adur and Worthing Joint Strategic Committee's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Conclusion on Joint Strategic Committee's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Joint Strategic Committee's responsibilities**

The Joint Strategic Committee 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 review regularly the adequacy and effectiveness of these arrangements.

## **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Joint Strategic Committee has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Joint Strategic Committee has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Joint Strategic Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the criteria for other local government bodies published by the Audit Commission in October 2010.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Joint Strategic Committee had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Adur and Worthing Joint Strategic Committee put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

## **Certificate**

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

Helen Thompson  
Officer of the Audit Commission  
Suite 2 - Ground Floor, Bicentennial Building, Chichester, West Sussex, PO19 8EZ

*[Date]*

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and your officers have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 9 – Amounts reported for resource allocation decisions	Government grants and contributions was included as (£490 000). The correct amount was (£425,000)	Nil	Nil	Nil	Nil

# Appendix 3 – Letter of representation

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**To:**

Helen Thompson  
District Auditor  
Audit Commission  
Bicentennial House  
Southern Gate  
Chichester  
West Sussex PO19 8EZ

**Adur & Worthing Joint Strategic Committee - audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other members of Adur & Worthing Joint Strategic Committee and officers responsible for administering the Committee, the following representations given to you in connection with your audit of the Committee's financial statements for the year ended 31 March 2011.

**Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with International Financial Reporting Standards as adopted for the local government in the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Committee, for the completeness of the information provided to you, and for making accurate representations to you.

## Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

*[Optional - These misstatements have been discussed with members of the Joint Governance and Audit Committee and the reasons for not correcting these items are as follows:...]*

*[Optional – If there are no uncorrected misstatements this section can be deleted]*

## Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Committee have been properly reflected and recorded in the financial statements.

## Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Committee has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Committee's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the financial reporting framework.

### **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

### **Signed on behalf of Adur & Worthing Joint Strategic Committee**

I confirm that the this letter has been discussed and agreed by members of the Joint Governance and Audit Committee on [date].

[Signature]

Councillor Rod Hotton

Chair of the Joint Governance & Audit Committee

(Date)

Sarah Gobey

Executive Head of Financial Services

(Date)

# Appendix 4 – Action plan

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I make recommendations based on the findings of my audit work. Implementing them will:

- improve your overall internal control environment;
- ensure that accounting policies and practices support the production of robust financial statements; and,
- strengthen arrangements to secure value for money.

Page No.	Recommendation	Responsibility	Agreed	Comments	Date
7	<b>Recommendation 1</b>  The in year journals selected for review from the monthly log, the reason for selection and the outcome should be documented by senior finance officers.				October 2011
8	<b>Recommendation 2</b>  With better review, most presentation and disclosure errors could be found and corrected saving time for officers and auditors.				June 2012

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11    **Recommendation 3**

October 2011

With the change in responsibility for approval of the Joint Strategic Committee's statements, the Joint Governance & Audit Committee will need to receive information on the Joint Strategic Committee's financial performance so that it can fulfil its responsibilities properly.

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12    **Recommendation 4**

October 2011

Risk management arrangements should be improved by taking action on internal audit's findings (July 2011).

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# Appendix 5 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that confirms I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion.

I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. I cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people; and
- managing risks and maintaining a sound system of internal control.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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**0844 798 7070**

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

