

SHG Agricultural Subsidy



A Value for Money “Fast-Track” Audit Report

FINAL v.1.0 - Audit Ref V44





June 2006

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Lead Auditor Contact Details	
	<p>Andy Bonner</p> <p> chief.auditor@sainthelena.gov.sh</p> <p> 2107</p> <p> Saint Helena Audit Service, Garden Hall, Castle Gardens, Saint Helena.</p>

EXECUTIVE SUMMARY & OVERALL AUDIT OPINION

Saint Helena Government is planning to distribute £36,620 during the 2006/07 financial year to successful applicants under the terms of its Agricultural Subsidy scheme. An audit review, undertaken in June 2006, assessed whether this use of public finances is likely to provide value for money.

Based upon work undertaken, and the findings in the body of this report, the overall audit opinion is shown below. The range of possible audit opinions is Good, Adequate and Inadequate. Definitions are provided within appendices to the main report.

FINAL AUDIT OPINION

Inadequate

Management arrangements are not considered to be adequately conducive to achieving maximum Value For Money.

Payment is not based upon any assessment of need, nor is there any stipulation of how recipients should spend the subsidy. The scheme has an inherent tendency to reward successful operations and neglect those that could benefit from temporary assistance. As a result there is no guarantee that the subsidy contributes to sustainable development and a risk that it uses public finances to provide financial support where it is not needed.

There has been a clear shift away from output related incentives and the subsidy is poorly aligned with Saint Helena's National Strategic Plan. Consequently, **continuing with the scheme in its current form presents a serious threat to ensuring value for money.**

Management have considered a total of 11 recommendations (6 of which have been classified high priority) and provided an action plan for implementation which is incorporated within Section 4 of this report. All recommendations are intended to improve the Value For Money framework. The most significant are;

- The justification to continue with an agricultural scheme is formally reviewed. (3.10)
- The emphasis of any continuing subsidy scheme becomes one of financial contribution to identified and tangible infrastructure improvement projects. (3.9 & 3.16)
- Subsidy rates to be set based upon prioritised need areas to target development of certain areas such as the local milk based products industry. (3.15)
- The current monitoring regime should be reduced by 50%. (3.26)
- Claimant record books should include confirmation of point of sale to allow verification that produce is reaching the formal economy. (3.22)
- Subsidy payment to be automated through the use of Bank Standing Orders. (3.27)
- Recipients confirm they will spend subsidy only on the unit for which it is given. (3.29)

Implementation of recommendations is the responsibility of Management. Progress will be monitored and reported on by the Audit Service on an ongoing basis.

1. INTRODUCTION

- 1.1 This Agricultural Subsidy review forms part of the overall 2006/07 'Value for Money' audit programme which was developed through a period of public consultation.
- 1.2 The current subsidy scheme took effect from April 2006 following endorsement from the Agricultural and Natural Resources Committee (ANRC). It is administered by the Farmers Support Section within the Agricultural and Natural Resources Department (ANRD).
- 1.3 Saint Helena Government (SHG) is now expected to make £36,620 available from the 2006/07 budget for payment to Farmers. Those who have been accepted under the scheme and continue to meet the required terms will receive monthly payment of £70, £105 or £165.
- 1.4 If this level of funding were to continue to 2009/10, it would take total expenditure under the scheme up to a total in the region of £150,000.
- 1.5 A copy of this report has been provided to members of the ANRC, the Acting Chief Secretary, Financial Secretary and Chief Agricultural and Natural Resources Officer. The executive summary will be provided to the Audit Committee and the Public Accounts Committee.
- 1.6 Copies are made available to the public in the Jamestown library, at the Audit Service Offices and through publication at www.audit.gov.sh.

2. RESOURCING & SCOPE

- 2.1 The agreed audit purpose was to assess whether the agricultural subsidy, and the framework that has

been designed to implement it, is conducive to ensuring that 'Value for Money' is being achieved from this use of public money.

- 2.2 The review was undertaken by Andy Bonner, Chief Auditor and Acting VFM Audit Manager, during June 2006.
- 2.3 The assistance given by all staff and third parties involved is acknowledged with appreciation. There were no limitations or constraints encountered with regard access to information. A listing of those involved is included at Appendix B to this report.

3. FINDINGS & CONCLUSIONS

- 3.1 The main findings and conclusions are presented here and are based upon the agreed scope of the audit (2.1), the actual work undertaken and evidence gathered.
- 3.2 Those findings which have resulted in recommendations being made are presented in Section 4 of this report together with management response and action plans.
- 3.3 The overall audit opinion made is provided in the Executive Summary and in the interests of brevity is not repeated here.



Does the subsidy programme fit with overall SHG & ANRD strategy?

3.4 The stated purpose of the agricultural subsidy is “to provide financial support to agricultural production” and “to assist producers who are regularly producing and making a significant contribution to agricultural production”.

3.5 Implementation is through monthly payment to successful applicants who meet the basic scheme criteria;

Subsidy Qualification Criteria:

- Agricultural unit income under £8,000 per annum.
- Unit meets 1 of 15 categories based on size & produce type.
- Produce sold on the local market.
- Accept monthly ANRD visit to ensure unit operational and standards maintained.

3.6 Payment is not based upon any assessment of need, nor is there any stipulation of how the subsidy is to be spent. As a result there is no guarantee that the subsidy contributes to sustainable development and a risk that it provides financial support where it is not needed.

3.7 Compared with the scheme it replaced - where subsidy was paid based on quality, quantity and type of output - there has been a clear shift away from output related incentives. The effect of this is that the subsidy could actually be weakening the profit motive that encourages efficiency. It could also be artificially supporting operations that in reality are simply not viable.

3.8 The subsidy is therefore considered to be poorly aligned with St Helena’s National Strategic Plan which sets its overarching priority as a focus on long-term sustainable development – and

promotes “a shift to output and market related incentives” as a key initiative. Continuing with the scheme in its current form thus presents a serious threat to ensuring value for money.

3.9 It is acknowledged that the move away from output incentives was due to practical problems experienced with the previous scheme. A way forward, with sustainable development in mind, would then seem to be an emphasis on the identification and support (in whole or a part contribution) of capital expenditure on infrastructure improvement projects. This approach would be better aligned to overall SHG strategy and the ANRD mission statement “to foster self-sufficiency” – It would also require a less costly monitoring regime.
(See Recommendation 1)

3.10 It is understood that no formal review of the justification for the continuation of a subsidy scheme has taken place in recent years. This should be formally considered on a regular basis as cessation of the scheme could allow resources to be channelled to other areas of the Farmers Support Section - including the promotion of alternative avenues of assistance such as those provided by the Bank of Saint Helena and the Saint Helena Development Agency.
(See Recommendation 2)



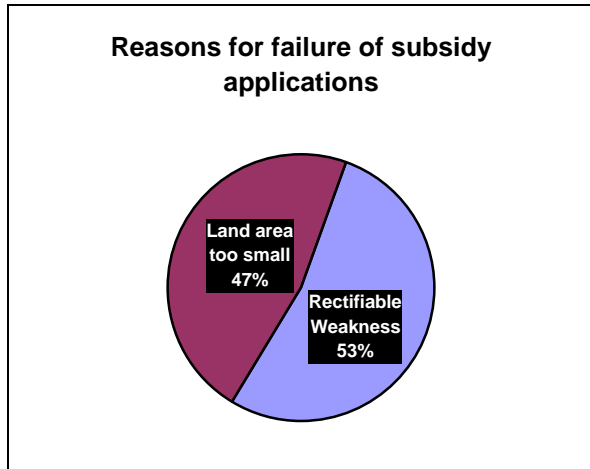
Is administration of the scheme operating as intended?

- 3.11 The Farmers Support Section is found to be successfully implementing the subsidy scheme. A total of 47 applications have been assessed – 22 of which have been correctly progressed through to ‘successful applicant’ status leading to completion of ‘Declaration of understanding’ forms and clearance for payment of subsidy.
- 3.12 The whole administration process is well documented - with decisions taken being clear, appropriately justified and transparent to the independent reviewer, which is a credit to the staff responsible.
- 3.13 The 22 claimants are now expected to receive monthly payments totalling £3,140 commencing in July. Assuming they all remain eligible – this will total full year expenditure of £28,260 against a total budget of £36,620. This equates to an apparent under-spend of £7,595 (adjusted for £765 paid as amounts due under prior subsidy schemes). It is understood however that these monies are expected to cover historic subsidy programme commitments under the terms of a drip irrigation water scheme (review of which was not included in the scope of this review).



Is the subsidy designed and operating in the most effective way?

- 3.14 The subsidy scheme has been designed such that 15 different categories of agricultural operation stand to benefit. Payment levels have been set based on the anticipated cost of operation for each category.
- 3.15 It may be possible to make the policy more effective with a more sophisticated approach to setting subsidy rates – by basing them upon prioritised need, the financial benefits can be directed to areas of output that St Helena would benefit from the most – Currently, for example, the local market is considered to be short on rabbit meat, honey, and Island sourced milk products – as such it would be logical to target higher subsidies and / or a higher % of the overall distribution to these particular areas.
(See Recommendation 3)
- 3.16 An analysis of the reasons why applicants were unsuccessful in receiving a subsidy (see chart on page 7) shows that over half were due to what can be classified as ‘rectifiable weaknesses’ in what were up and running operations – such as poor housing for livestock which could be improved with a capital injection. In practice then, the scheme can be seen to be rewarding already successful operations – and neglecting those that could be developed. This further supports the view that if the subsidy, or a part of it, could be targeted to the correction of identified weaknesses, there would be more tangible progress towards sustainable development and increased levels of production.
(See Recommendation 1)

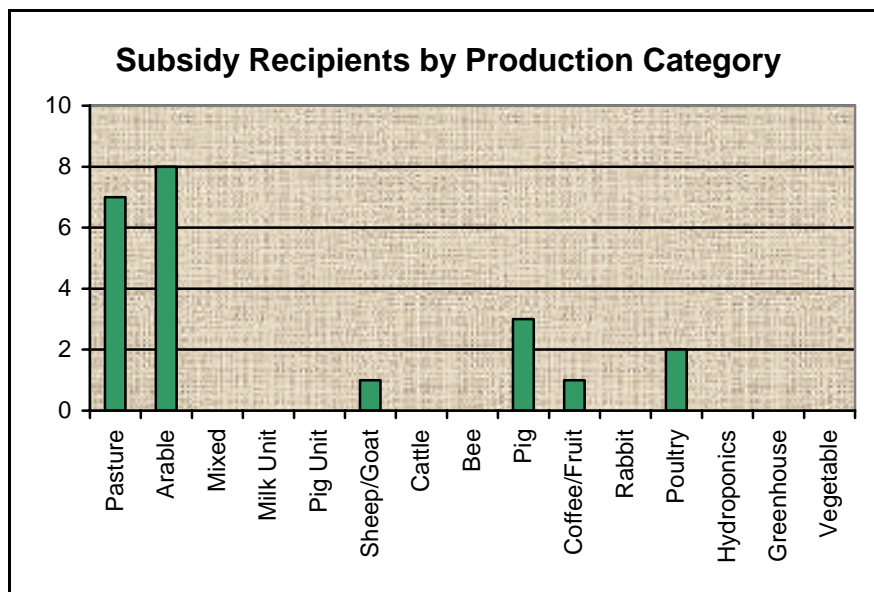


3.17 Due to the inherent tendency of the scheme to reward already successful operations and failure to identify and support 'areas of need', it could be argued that withdrawal of the scheme in its current form would be unlikely in itself to cause a material fall in output or to threaten the viability of successful applicants.

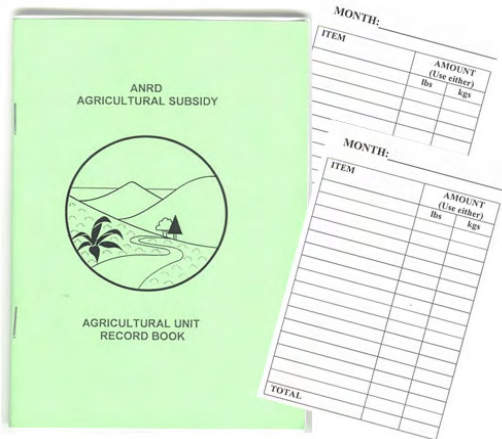
3.18 Applications to the scheme were halted after receipt of 47 application forms on the basis that this was likely to mean that the scheme was already oversubscribed.

3.19 There was justification for this approach with the number of successful applicants being consistent with budgetary provision - considering any more would have added to the costs of administration. However, the approach can also be seen as having been to the detriment of spreading subsidy benefit more evenly across the categories of production identified. In effect, those quickest with their applications were rewarded rather than the full diversity of operations in existence – limiting the ability of the subsidy to meet its written purpose of best ensuring that “*various types of farming benefit*”.

3.20 The table below analyses subsidy recipients by category type. It shows that only 40% (6 from 15) of the scheme categories received benefit – and further analysis reveals 79% of the value of total subsidy payments is going to just 13% of the categories (2 out of 15). Whilst there is nothing to say an even spread is desirable, it is a fair assumption in the absence of any policy prioritising a particular area.



- 3.21 ‘Success’ of the subsidy scheme is monitored with a ANRD Business Plan performance indicator measuring “% of budget used”. This could be improved by finding a measure of how well the money is used – after all spending money is not in itself hard. At its simplest this could be % of production categories (or prioritised need areas if these were to exist) supported by the subsidy. Alternatively, it could be the % rise in output from subsidy-supported units – measured through the monitoring books that are in operation (although this does not give proof that the subsidy was the reason, it is an indication).
(See Recommendation 4)



- 3.22 Making produce available on the local market is a condition of the scheme. The policy says that this “can be determined by record books” in operation. These books currently show the quantity that is produced – but not its final destination. Summarising points of sale would facilitate verification of scheme compliance and provide an assurance that produce is finding its way to the formal economy.
(See Recommendation 5)



Is the cost of administering the subsidy kept to an appropriate minimum?

- 3.23 The cost of administering the scheme is primarily that of staff time involved in the initial assessment of applications and then the ongoing monitoring and payment processing costs.
- 3.24 Scheme administration and monitoring has been simplified when compared with prior schemes – whilst this has not led to direct cost savings, it has allowed work effort to be redistributed and refocused to demonstrate a more effective approach.
- 3.25 The initial assessment of applications for the new scheme is judged to have been undertaken efficiently at minimum cost.
- 3.26 With regard ongoing monitoring, the current intention is to visit all claimants every month – Whilst this seems justified in the very early stages of the scheme, reduced coverage would be more cost-effective going forward. By visiting claimants just once in every two-month period, the monitoring programme can be cut by 50% without materially compromising its objectives. This is calculated as providing savings of up to £2,000 p.a. on wage costs together with an uncosted element of fuel / vehicle mileage savings.
(See Recommendation 6)
- 3.27 Automating subsidy payment through the use of Bank of Saint Helena (BOSH) Standing Orders would eliminate inefficiencies in the payment process. Currently, monthly paperwork is completed to authorise ANRD accounts staff to issue payment to claimants when they visit to collect it. Automated payments would significantly reduce this administration time, and remove the need for farmers to visit ANRD for payment. Standing

Orders can be easily terminated in the event of a farmer failing a monitoring assessment and the requirement for claimants to have a BOSH account is not considered to be a threat to the viability of the scheme.

(See Recommendation 7)

Do subsidy recipients sign appropriate agreements?

3.28 Prior to receiving subsidy payments, successful applicants complete a 'declaration of understanding'. This document was developed with input from the Legal, Lands & Planning Department and is found to contain all of the expected basic elements.

3.29 There are however 4 significant weaknesses in the declaration form which should be addressed;

- It should be clearly stated that the subsidy is to be spent only within the agricultural category for which it has been received.
(See Recommendation 8)
- The declaration should include a statement that the annual income of the agricultural unit is under £8,000 as required by the policy.
(See Recommendation 8)
- The onus should be placed on the individual to "communicate promptly" any change in circumstances which would warrant cessation / reassessment of subsidy payment.
(See Recommendation 8)
- There should be a firmer stance on non-compliance with a statement that the individual may be liable to repay funds received if in default.
(See Recommendation 8)

Other considerations....

3.30 The subsidy application form includes a statement that applicants "are not eligible if income exceeds a bracket of £8,000 per annum". Without making it clear that this level relates only to income derived from the agricultural unit in question, there could be a misunderstanding that this is 'total personal income' which could lead to what would be valid applications not being made.

(See Recommendation 9)

3.31 Communication of the scheme includes coverage on SHG's web-site at www.sainthelena.gov.sh/government/Anrd-Farmer_Support_subsidies.htm. Information on this page is in need of update with the scheme being described as "expected to become available later this financial year".

(See Recommendation 10)

3.32 Providing an on-line copy of the subsidy would also be simple and effective, removing the need for on-line enquirers to contact the Farmers Support Section directly.

(See Recommendation 11)



4. RECOMMENDATIONS & MANAGEMENT ACTION PLAN

Recommendation 1	The emphasis of the agricultural subsidy should become one of financial contributions to identified and tangible infrastructure improvement projects. (Awarded to reflect the priorities that are set with identified need areas – see Rec 3) <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.9 and 3.16)</i>		
	Priority: (H/M/L)	HIGH	Implementation Timeframe: Within 12 Months
Management Response	General Comments:		
	<i>Agreed in principle. A formal review of the current subsidy scheme will be held to review options and agree the desired and practical way forward.</i>		
	Officer responsible for Implementation:		
	<i>Agriculture & Natural Resources Committee</i>		
	Implementation expected complete by: (Month & Year)		
<i>Formal Review to be undertaken by December 2006 – where an action plan will be developed.</i>			
Recommendation 2	The justification to continue with an agricultural subsidy scheme should be formally reviewed by ANR Committee on an annual basis. <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.10)</i>		
	Priority: (H/M/L)	HIGH	Implementation Timeframe: Within 12 Months
Management Response	General Comments:		
	<i>Agreed – This will be taken annually and consider the case for both expansion and reduction of the scheme in force at the time.</i>		
	Officer responsible for Implementation:		
	<i>Agriculture & Natural Resources Committee</i>		
	Implementation expected complete by: (Month & Year)		
<i>N/A - Ongoing</i>			
Recommendation 3	Subsidy rates should be revised and set to reflect and reward areas of prioritised need for support. <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.15)</i>		
	Priority: (H/M/L)	HIGH	Implementation Timeframe: Within 12 Months
Management Response	General Comments:		
	<i>Agreed in principle. A formal review of the current subsidy scheme will be held to review options and agree the desired and practical way forward.</i>		
	Officer responsible for Implementation:		
	<i>Agriculture & Natural Resources Committee</i>		
	Implementation expected complete by: (Month & Year)		
<i>Formal Review to be undertaken by December 2006 – where an action plan will be developed.</i>			

Recommendation 4	The performance indicator for “Subsidy Success” should be developed from measuring how much money is being spent to how well that money is being spent. <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.21)</i>
	Priority: (H/M/L) MEDIUM Implementation Timeframe: Within 2 Months
Management Response	General Comments: <i>It is unlikely that a suitable indicator can be developed for the current scheme without the requirement for increased monitoring and hence cost – It is considered more cost-effective to delay the identification of a new performance indicator pending the decision to change the nature of the scheme (as per Recommendations 1 – 3).</i>
	Officer responsible for Implementation: <i>Senior Agricultural Assistant (Farmers Support)</i>
	Implementation expected complete by: (Month & Year)
	<i>Indicator identified ahead of 2007/08 subsidy year.</i>
Recommendation 5	Claimant record books should show the point of sale of all produce. <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.22)</i>
	Priority: (H/M/L) HIGH Implementation Timeframe: Within 2 Months
Management Response	General Comments: <i>A system will be implemented to ensure this information is received from subsidy recipients – and kept for information, review and possible verification to ensure scheme compliance.</i>
	Officer responsible for Implementation: <i>Senior Agricultural Assistant (Farmers Support)</i>
	Implementation expected complete by: (Month & Year)
	<i>By end August 2006</i>
Recommendation 6	The monitoring regime of the current scheme should be reduced by 50% with visits to claimant premises once in every 2-month period. <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.26)</i>
	Priority: (H/M/L) MEDIUM Implementation Timeframe: Within 3 Months
Management Response	General Comments: <i>It is now the intention, following an initial period of monthly visits, to scale back site visit monitoring to once in every 2-month period.</i>
	Officer responsible for Implementation: <i>Senior Agricultural Assistant (Farmers Support)</i>
	Implementation expected complete by: (Month & Year)
	<i>By October 2006</i>

Recommendation 7	Subsidy payments should be made with Standing Orders established at the Bank of Saint Helena. <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.27)</i>	Priority: (H/M/L)	HIGH	Implementation Timeframe:	Within 3 Months
	Management Response	General Comments: <i>With the current size and infancy of the scheme, there is an unknown frequency of likely payment changes at present – as a result this recommendation is not considered practical to implement at this stage. It will be kept under review as a possibility as the scheme develops.</i>			
	Officer responsible for Implementation:	N/A			
	Implementation expected complete by: (Month & Year)	N/A			
Recommendation 8	In signing the “Declaration of Understanding”, claimants should be signing to text that clearly states that; <ul style="list-style-type: none">• They will spend the subsidy only within the agricultural unit for which it has been received.• The annual income of the agricultural unit in question is under £8,000• They will communicate promptly any change in circumstance that would warrant cessation or reassessment of payment.• They may be liable to repay funds received if in default of the policy <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.29)</i>	Priority: (H/M/L)	HIGH	Implementation Timeframe:	Within 2 Months
	Management Response	General Comments: <i>Agreed in principle – and this will be taken forward with input sought from the Attorney General’s Office.</i>			
	Officer responsible for Implementation:	<i>Chief Agriculture & Natural Resources Officer</i>			
	Implementation expected complete by: (Month & Year)	<i>Contact with the Attorney General within 2 months</i>			
Recommendation 9	The subsidy application form should make clear that the £8,000 eligibility level is based upon income from the agricultural unit in question, and not total income of the applicant. <i>(For Audit Finding on which this is based, refer to Main Report, Section 3.30)</i>	Priority: (H/M/L)	MEDIUM	Implementation Timeframe:	Within 2 Months
	Management Response	General Comments: <i>The form will be amended in the event that it is used for any additional applications under the scheme.</i>			
	Officer responsible for Implementation:	<i>Senior Agricultural Assistant (Farmers Support)</i>			
	Implementation expected complete by: (Month & Year)	<i>By end August 2006</i>			

Recommendation 10	Details of the scheme as presented on the Saint Helena Government web-site should be updated and kept under regular review to ensure that information provided is always current.		
	<i>(For Audit Finding on which this is based, refer to Main Report, Section 3.31)</i>		
	Priority: (H/M/L)	LOW	Implementation Timeframe: Within 1 Month
Management Response	General Comments:		
	<i>Revised information has already been sent to the Web Manager for publication. On an ongoing basis, ANRD respond to the Web Manager's requests for information review and update.</i>		
	Officer responsible for Implementation:		
	<i>SHG Web Site Manager</i>		
	Implementation expected complete by: (Month & Year)		
<i>By end July</i>			
Recommendation 11	A copy of the subsidy scheme should be made available for viewing and download on the Saint Helena Government web-site.		
	<i>(For Audit Finding on which this is based, refer to Main Report, Section 3.29)</i>		
	Priority: (H/M/L)	LOW	Implementation Timeframe: Within 1 Month
Management Response	General Comments:		
	<i>Agreed – A copy of the policy will be provided to the Web Manager for publication so that it is accessible direct from the subsidy scheme page.</i>		
	Officer responsible for Implementation:		
	<i>Chief Agriculture & Natural Resources Officer</i>		
	Implementation expected complete by: (Month & Year)		
<i>By end July</i>			

APPENDIX A

INITIAL ASSIGNMENT PLAN

Prepared by: Chief Auditor Agreed with: Acting Chief Secretary, Head of Department A&NRD

ASSIGNMENT:	Agricultural Subsidy Review
AUDIT DAYS:	15
TIME CODE:	V44
START DATE:	May 23rd
TARGET END DATE:	June 30th

INTRODUCTION / OBJECTIVE

The 2006/07 Value For Money Audit Plan includes 50 days allocated to provide specific targeted VFM reviews within the Agriculture & Natural Resources Department.

This assignment, using 15 of these days, has been identified in consultation with the Head of Department, Mr. Darren Duncan and Acting Chief Secretary, Mrs. Ethel Yon, as an appropriate area for review with potential VFM implications.

The aim will be to provide an overall opinion on "value for money" issues relating to the agricultural subsidy scheme – having consideration to economy, efficiency and effectiveness. The budget set aside for annual subsidies for the years 2006/07 to 2009/10 is approximately £36,600 per annum.

AUDIT APPROACH

Work programmes will be structured to assess;

- Does the subsidy programme fit with overall ANRD & SHG strategy?
- Is practical implementation of the scheme likely to ensure its purpose is fulfilled?
- Have eligibility criteria and payment levels been set appropriately?
- Is assessment and monitoring of scheme participants at both application and review stages working as intended and sufficient to ensure payments are made only in bona fide cases and put to appropriate use?
- Is the cost of administering and monitoring the subsidy kept to an appropriate minimum?
- Are agreements made between ANRD & Applicants appropriate?

The main point of initial contact will be Senior Agricultural Assistant (Farmers Support), Mr Peter Constantine – who operationally is in charge of assessing applications and monitoring the scheme.

PERSONNEL, ROLES & TIME ALLOCATION

Andy Bonner (Acting VFM Manager)	Initial Programme Design, Fieldwork (including delegation and co-ordination as required), Draft Report & File Review.	8 days
Assistant Auditor Input where required	Work programme to be allocated	7 days
TOTAL DAYS:		15 Days

EXTERNAL REPORTING

A single report will be produced for the Acting Chief Secretary, Head of Department (ANRD) and Chair of the ANR Committee for discussion before the final report is produced and made available for wider distribution both within SHG (including the Audit Committee or equivalent body undertaking this function) and to the general public.

APPENDIX B

LIST OF PERSONNEL CONSULTED

The assistance given to the Saint Helena Audit Service by all those listed below during the course of the audit is acknowledged with appreciation.

NAME	ROLE / JOB TITLE
<i>Councillor Stedson Francis</i>	<i>Chair, Agricultural & Natural Resources Committee</i>
<i>Councillor Brian Isaac</i>	<i>Member, Agricultural & Natural Resources Committee</i>
<i>Councillor Anthony Leo</i>	<i>Member, Agricultural & Natural Resources Committee</i>
<i>Councillor Victor Lines</i>	<i>Member, Agricultural & Natural Resources Committee</i>
<i>Mrs Ethel Yon</i>	<i>Acting Chief Secretary, SHG</i>
<i>Mr Darren Duncan</i>	<i>Chief Agriculture & Natural Resources Officer, SHG</i>
<i>Mr Peter Constantine</i>	<i>Senior Agricultural Assistant (Farmers Support), SHG</i>
<i>Ms Gaylene Henry</i>	<i>Agricultural Assistant (Farmers Support), SHG</i>
<i>Mr Tony Green</i>	<i>Managing Director, St Helena Development Agency</i>
<i>Miss Andrea Timm</i>	<i>Agricultural Development Officer, SHG</i>

APPENDIX C

AUDIT OPINION DEFINITIONS

Every VFM audit concludes with an overall opinion based upon individual opinions that are applied to each of the review areas identified as part of the scope of the audit. The possible range of opinions, together with an explanation of their meaning follows;

<i>Value For Money Opinion</i>	
Good	Management arrangements are conducive to achieving Value For Money and only minor enhancements, if any, can be identified.
Adequate	Management arrangements are generally conducive to achieving Value For Money – but further important enhancements could be made.
Inadequate	Management arrangements are not considered to be adequately conducive to achieving maximum Value For Money.