

Annual Governance Report

September 2007



Annual Governance Report

Northumbria Police Authority

Audit 2006-2007

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

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

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

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

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

Status of our reports

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

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

Copies of this report

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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance, in this case, the full Authority, 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 & 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 1.
- 4 This report has been prepared for presentation to the meeting of the Authority on 19 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 the adjustments made to the financial statements and significant qualitative aspects of financial reporting.
- 5 Our work during the year was performed in line with the plan that was agreed in April 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2.

Key messages

- 6 Our work on the financial statements is substantially complete. We propose issuing an unqualified audit opinion on 24 September 2007 (a draft report is attached at Appendix 3).
- 7 In our view, the financial statements of the pension fund do present fairly the financial transactions of the pension fund.
- 8 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 9 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 24 September 2007 (a draft report is also included in Appendix 3).

Audit status

- 10 At the date of issue of this report our detailed audit is substantially complete.
- 11 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

Accounts and Statement on Internal Control

- 12 Our work on the financial statements is substantially complete. Working papers were once again of a high standard. The Authority complied with the new requirements contained in CIPFA's Statement of Recommended Practice (SORP) 2006. A small number of issues did arise from the audit and these have been discussed with officers and appropriate action agreed.
- 13 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.
- 14 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.
- 15 The final draft of the letter of representation has been attached as Appendix 4.

Unadjusted misstatements

- 16 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

- 17 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded in full at Appendix 5 but we provide an explanation of the most significant item below for your attention.
- 18 Members will recall that when the financial statements were approved on 27 June 2007, officers advised of issues that had arisen because the Statutory Instrument enacting the requirement for a Police Pension Fund Account had not been laid before Parliament. The required legislative basis is now in place. However, the Statutory Instrument required that the Home Office Pensions Top Up Grant should be receivable by the Police Authority whereas the accounting guidance issued by CIPFA indicated that it was to be credited directly to the Police Pension Fund Account. This has led to amendments to the financial statements, although Members should note that the amendments have a neutral overall effect on the income and expenditure account.

- 19 In addition, a number of amendments have been made to the notes in the financial statements to correct minor errors or clarify disclosures that are contained in the statements.

Accounting practices

- 20 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.
- 21 The Authority operates pooled banking and investment arrangements with Gateshead Council. One consequence of these arrangements is that the interest received by the Authority on its investments has to be based on an estimate of cash flows for the Authority. We review the basis for the cash flow estimates as part of the audit, and we raised with officers a discrepancy in the estimated cash flows. When this was followed up by officers, a revised calculation was prepared which showed that the Authority had been underpaid £150k of investment interest. This amount is not material to the financial statements and they have consequently not been amended. However, officers have agreed that the additional £150k will be paid to the Authority in 2007/08.
- 22 Separation of the Authority's banking and investments from Gateshead Council would avoid the need for this estimation process and we understand that officers are appraising this along with a number of other options, and that proposals are expected to be brought before Members of the Authority before the end of the year.
- 23 The Authority has an accounting policy that accumulated depreciation is maintained when an asset has been re-valued. Whilst the SORP appears inconsistent on treatment, we have suggested that this policy be reconsidered, and that accumulated depreciation be written off when assets are re-valued, so that the net book value of the asset agrees to the re-valued amount. Officers have agreed to review the accounting policy and make any necessary changes in next year's financial statements.
- 24 In future, when the Authority approves its financial statements in June, the statements presented for consideration should be signed by the Treasurer, and following approval by the Committee, the Chair of the meeting should add a certificate to the statements confirming that they were approved at the meeting. This is to comply fully with the requirements of the Accounts and Audit Regulations 2006. Officers have agreed to ensure that the required process is followed in future years.

Systems of internal control

- 25 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.

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

Use of resources

Work performed

- 28 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 included the following elements:
- Police use of resources assessment;
 - data quality work; and
 - the best value performance plan.
- 29 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 6.

Police use of resources assessment

- 30 We have provided officers with an interim report following our assessment against four of the five Police Use of Resources Evaluation (PURE) themes. We will finalise our report when we conclude our work on the final theme of financial reporting in October 2007 and we have agreed an action plan with officers. Based on our current assessment, the Authority has sound arrangements in place and there are several examples of notable practice.

Data quality work

- 31 We finalised our report on data quality in May 2007. We concluded that there are proper arrangements in place for ensuring data quality. Management arrangements for ensuring data quality are good, and there are proper systems and arrangements in place for accurate reporting of published performance indicators.

Best value performance plan

- 32 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in December 2006. No recommendations were made to the Authority or the Secretary of State.

Audit fee update

- 33 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 Audit fees

	Plan 2006/07	Actual 2006/07
Accounts and Statement on Internal Control	60,500	60,500
Use of Resources	25,500	25,500
PURE fee	0	8,000
WGA fee	0	2,500
Total Audit Fees	86,000	96,500
Grants certification work	0	0
Other work	0	0

- 34 The fee set out in the original Audit Plan for 2006/07 did not include the fee for the Police Use of Resources Evaluation (PURE) or for work required on the Whole of Government Accounts (WGA) return, because at that time the fees that would be charged were still subject to consultation. The fact that there would be additional fees to be specified at a later date was set out in the plan. The expected fees for this work were reported in the Audit Plan for 2007/08 and have recently been confirmed with the Treasurer.

Appendix 1 – The Audit Commission’s requirements in respect of independence and objectivity

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

Appendix 2 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	April 2006	April 2006	Authority
Opinion audit plan	July 2007	July 2007	Treasurer
Annual governance report	September 2007	September 2007	Authority
Opinion on financial statements	September 2007	September 2007	Authority
VFM conclusion	September 2007	September 2007	Authority
Police use of resources (PURE) conclusion	October 2007	Planned for October 2007	Authority
Final accounts report	October 2007	Planned for October 2007	Treasurer
BVPP report	December 2006	December 2006	Authority
Data quality report	May 2007	May 2007	Authority
Annual audit letter	November 2007	Planned for November 2007	Authority

Appendix 3 – Proposed auditor’s report

Independent auditor’s report to the Members of Northumbria Police Authority

Opinion on the financial statements

I have audited the financial statements and the police pension fund accounting statements of Northumbria Police Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to Northumbria Police Authority 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 Treasurer and auditor

The Treasurer’s responsibilities for preparing the financial statements, including the police pension fund accounting 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 and the police pension fund accounting 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 and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Basis of audit opinion

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

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

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and
- The police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the police pension fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

24 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 police 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 police authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Northumbria Police Authority 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 20 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.

Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

24 September 2007

Appendix 4 – Management representation letter

To: Lynne Snowball, District Auditor

Northumbria Police Authority - 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 Northumbria Police Authority, the following representations given to you in connection with your audit of the Authority'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 give a true and fair view and for making accurate representations to you. I acknowledge my responsibilities under the relevant statutory authorities to prepare the Authority's accounts in accordance with proper practices as defined in relevant legislation or guidance.

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

Specific representations:

- A fair basis is used for the cash flow estimates that calculate materially correct figures for investment interest due to the Authority under the pooled arrangements for cash and investments with Gateshead Council.
- Systems are in place to ensure that the Authority holds the title to all fixed assets disclosed in the financial statements.
- The Authority has not received any equal pay claims and there is no need for a contingent liability to be disclosed in respect of this.

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 Authority 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 where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

There are no contingent liabilities to be disclosed in the financial statements. In particular:

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

Law, regulations, 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 Authority.

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

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

Assets

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

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

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;

- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

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

We have no plans or intentions that will result in any excess or obsolete stock and no stock is stated at an amount in excess of net realisable value.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of Northumbria Police Authority.

Signed

Name	Derek Coates
Position	Treasurer
Date	19th September 2007

Appendix 5 – Summary of adjusted misstatements

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

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Description of Misstatement					
Dr Net Operating Expenditure - Contributions to Police Pension Fund	The SORP 2006 indicated an accounting treatment for the Home Office Pensions Top Up Grant which was not in accordance with the Statutory Instrument enacting the requirement. The grant now needs to be treated as receivable by the Police Fund rather than the Pension Fund. These adjustments ensure the accounts are in line with the statutory requirements.	9,718			
Cr Non Specific Government Grants - Home Office Pensions Top Up Grant	As above		9,718		
Net Effect		Neutral effect on the Income & Expenditure Account			

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		Income and Expenditure Account		Balance Sheet	
Dr Debtors	The SORP 2006 indicated an accounting treatment for the Home Office Pensions Top Up Grant which was not in accordance with the Statutory Instrument enacting the requirement. The grant now needs to be treated as receivable by the Police Fund rather than the Pension Fund. These adjustments ensure the accounts are in line with the statutory requirements.			1,214	
Cr Short Term Investments	As above				1,214
Dr Other Funds - Police Retention of Crime Related Funds	This relates to police retention of crime related funds. These are held on trust and should be excluded from the balance sheet. They are then disclosed in a note to the accounts. This adjustment removes these funds from the balance sheet.			1,287	
Cr Short Term Investments	As above				1,287

Appendix 6 – 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. The assessment is marked adequate or not adequate.

Code Criteria	Description	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	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.	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.	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.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	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.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequate

Code Criteria	Description	VFM Conclusion
11	The body has put in place arrangements for the management of its asset base.	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.	Adequate