THE COMPTROLLER & AUDITOR GENERAL'S PROGRAMME 2008-2010

CONSULTATION DOCUMENT
ANNEX ~ ASSESSMENT OF FINANCIAL MANAGEMENT

31 OCTOBER 2008

INTRODUCTION

1. The purpose of this annex is to set out the criteria which it is proposed should be used as the basis for the proposed annual assessment of the quality of the States' financial management arrangements. The proposal is described in the Comptroller & Auditor General's Consultation Document on a programme of work for 2008-2010.

2. The criteria are grouped in a series of sections as follows:

   (1) How good are the States' financial accounting and reporting arrangements? (section one).

   (2) How well do the States plan and manage their finances? (section two).

   (3) How well do the States safeguard their financial standing? (section three).

   (4) How well does the internal control environment enable the States to manage their significant business risks? (section four).

   (5) How well do the States achieve good value for money? (section five).

3. In a number of cases, the sections are further divided into subsidiary questions.

4. For each question, the criteria in each section are divided into three groups which broadly indicate different levels of sophistication and effectiveness: the first group being the most basic level of performance and the third being the highest.

5. The criteria are intended to indicate the benchmarks against which the States' performance will be assessed using information gathered from the conduct of the external audit of the States' annual financial statements, the reports of the States' Internal Audit Department and specially commissioned reviews.

SECTION ONE ~ HOW GOOD ARE THE STATES' FINANCIAL ACCOUNTING AND REPORTING ARRANGEMENTS?

Question One: Do the States produce annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers?

Criteria Group One

(1) The States' accounts are compiled in accordance with legal and professional requirements, legal timetables and the States' agreed accounting policies.

(2) The auditors received auditable accounts, including a complete set of financial statements, disclosures and notes, in accordance with the agreed timetable.

(3) The accounts submitted for audit presented the required information fairly but contained several non-trivial errors.

(4) Comprehensive working papers supporting the financial statements were provided at the start of the audit to the standard specified by the auditors.

(5) Guidance provided to staff of final accounts closedown procedures were adhered to.

(6) The States ensured that appropriate knowledgeable and skilled staff were available to deal with the auditors' queries to substantiate Assertions and to explain items of account.

(7) The auditors gave an unqualified opinion.

Criteria Group Two

(1) All the criteria listed in Group One together with the following additions:

(2) The accounts submitted for audit presented the required information fairly and contained only a small number of non-trivial errors.

(3) All additional requests for information made by the auditors were answered promptly and within the agreed deadlines.

(4) The accounts submitted for approval were accompanied by an explanatory paper which provided interpretation of the accounts and highlighted key issues for decision.

(5) The accounts were submitted to robust scrutiny before approval.

Criteria Group Three

(1) All the criteria listed in Group One and Two together with the following additions:

(2) The accounts submitted for audit presented fairly and contained only errors which were clearly trivial.

(3) The quality of the accounts submitted for audit and the related working papers was exemplary.

Question Two: Do the States promote external accountability?

Criteria Group One

(1) The States publish their accounts and make them readily available to the population of the Island.

(2) The agenda, reports and minutes of the States and of committees and panels are made available to the public on a timely basis.

Criteria Group Two

(1) All of the criteria listed in Group One.

(2) The States are able to demonstrate that they consider the needs of a range of stakeholders in deciding whether to publish an annual report.

(3) the most recently published annual accounts are available on the States website.

Criteria Group Three

(1) The States publish an annual report or a similar document which incorporates summary accounts and an explanation of key financial information/technical terms designed to be understood by members of the public.

(2) The annual report and summary accounts are available in a variety of formats designed to meet user needs.

SECTION TWO ~ HOW WELL DO THE STATES PLAN AND MANAGE THEIR FINANCES?

Question One: How well based are the States' medium term strategy, budgets and capital programme and are they designed to deliver the States' strategic priorities?

Criteria Group One

(1) The States have put in place a medium term financial strategy which is linked to its key strategic objectives and takes account of both local improvement priorities and national priorities.

(2) The medium term financial strategy models income and expenditure over a minimum of three years, and is reviewed and updated at least annually.

(3) A comprehensive and balanced revenue budget has been set, based on realistic project projections about pay, inflation and known service and capital development plans.

(4) The financing of expenditure is transparently explained in budget summaries and reports.

(5) Budgets are revised annually in the light of recent consequences of the previous year's out-turn and are linked to the medium term financial strategy.

(6) An affordable capital programme has been agreed and the current future funding of this is built into revenue planning.

(7) Budget holders are involved in the budgets heading process.

(8) Budgets are subject to review by senior officers and members.

(9) Each capital and revenue budget is assigned to the individual manager best able to use and control it.

(10) The Council undertakes cash flow monitoring which is used to inform short and long term investment decisions.

(11) The budget reported to members of the States includes a positive assurance statement about the robustness of estimates made for the purpose of the budget.

(12) Prudential indicators are applied in assessing the affordability of capital projects.

Criteria Group Two

(1) All of the criteria listed in Group One with the following additions:

(2) Business planning is integrated with financial planning.

(3) The corporate business plan drives the medium term financial strategy and internal resource allocation with changes in allocations determined in accordance with policies and priorities.

(5) The States' medium term financial strategy is linked to other internal strategies as appropriate (such as human resources and IT).

(6) The key messages from the States' medium term financial strategy are communicated to staff and stakeholders as appropriate.

(7) Budgets are linked to the medium term financial strategy and high level budgets in future years within this.

(8) There are project appraisals, business plans and affordability tests for new policy and capital development.

Criteria Group Three

(1) All of the criteria listed in Groups One and Two above with the following additions:

(2) The medium term financial strategy models balances and resource requirements over a minimum of three years.

(3) The States identify future developments that may impact upon its financial management arrangements and proactively manages them.

Question Two: How well do the States manage performance against budgets?

Criteria Group One

(1) Budgets are input to the main accounting system on a timely basis at an appropriate level of detail.

(2) There is a formal scheme of budget delegation.

(3) There is guidance available to budget holders which includes a description of their responsibilities, an outline of the budget process and a budget process timetable.

(4) Budgets are approved before the start of the year and monitored regularly throughout the year.

(5) Actions plans are developed when material variance arises or a deficit is forecast.

(6) The appropriate people (including ministers and members of the States) receive budget monitoring information that is accurate, relevant, understandable and consistent with underlying records and data as up to date as it is possible when reported.

(7) Relevant non financial information in addition to the budget it is reported to and used by senior officers.

(8) There is a line of professional accountability between those with principal functional responsibility for finance within business groups and the Treasurer of the States to ensure compliance with professional standards and objectivity and advice on financial matters.

(9) The budget shows the resources allocated to major spending activities and programmes with user friendly summaries and separate identification of revenue and capital items to ensure focus on use of resources.

(10) The States regularly test financial systems to ensure their processes are secure.

(11) Where any significant departmental overspends have occurred, they have been managed with no adverse impact upon service delivery.

(12) Poor financial performance of significant units or partnerships is regularly reviewed linked to outputs and acted upon.

Criteria Group Two

(1) All the criteria listed in Group One above with the following additions:

(2) The States produce accurate and meaningful profiled financial monitoring reports for all budget holders within ten working days of the month end.

(3) There are regular training programmes providing training on financial issues for members and non finance staff.

(4) Relevant non financial and financial information in addition to the budget is reported and acted upon.

(5) The States use agreed processes to adjust and approve budgets in year if major programmes are varied by more than pre-set tolerances.

(6) The States' budget monitoring is predictive rather than backward looking, focussed on high risk volatile budgets, related to operational activity that are lead indicators of spend and informed by a risk assessment.

(7) Progress in achieving planned savings and efficiency gains is regularly reported to senior management with development action plans.

(8) No significant departmental overspends or under spends have occurred that were not identified as a risk which was taken into account in developing the States' reserve strategy and the associated underlying budgetary pressures are being managed effectively over time.

Criteria Group Three

(1) All the criteria listed in Groups Two and Three above with the following additions.

(2) The States ensure through regular testing of financial systems that the report outputs are timely accurate reliable clear in a convenient format and readily understood by the recipients.

(3) There is a traffic light (or a similar) system in place to focus attention on key variances and there is evidence that these are acted on.

(4) Savings and efficiency gains are profiled over the year and there is monitoring throughout the period to ensure their achievement.

Question Three: How well do the States manage their assets?

Criteria Group One

(1) The States have an up to date corporate capital strategy linked to its corporate objectives and medium term financial strategy.

(2) The States have an up to date asset management plan, detailed existing asset management arrangements outcomes and planned action to improve corporate asset use.

(3) The States maintain an up to date asset register.

(4) The States have a designated corporate property function.

(5) The States reporting arrangements to members are sufficient to ensure that they fulfil their responsibilities in relation to the States' land and buildings portfolio.

(6) The States have an annual programme of planned maintenance based on a rolling programme of property surveys.

(7) The States have assessed the level of backlog maintenance.

(8) The States capital programme gives priority to potential capital projects based on a formal objective approval process.

Criteria Group Two

(1) All the criteria listed in Group One above together with the following additions.

(2) States Members are aware of the level of the backlog maintenance and have approved a plan to address it as appropriate.

(3) The States have developed a set of local performance measures in relation to assets that evaluate assets in relation to corporate objectives.

(4) The States make investment and disposal decisions based on thorough option appraisal and whole life costing.

Criteria Group Three

(1) All the criteria listed in Groups One and Two above together with the following additions:

(2) Performance measures and benchmarking are being used to describe and evaluate how the States' asset base contributes to the achievement of corporate service objectives (including improvement priorities).

(2) The results of performance measurement and benchmarking are communicated to stakeholders where relevant.

SECTION THREE ~ HOW WELL DO THE STATES SAFEGUARD THEIR FINANCIAL STANDING?

Criteria Group One

(1) The States set a balanced budget that takes account of cost pressures and the impact of housing rents.

(2) The States maintain their overall spending within budget.

(3) The States have a policy on the level and nature of reserves and balances that has been approved and reflected in the budget and medium term financial strategy.

(4) The States monitor and maintain the levels of reserves of balances within the range determined by its agreed policy.

(5) The budget reported to the States includes a positive assurance statement from the Treasurer of the States on the accuracy of the proposed financial reserves.

(6) The States have a treasury management strategy that reflects the requirements of the CIPFA Code of Practice for treasury management in public services.

(7) The States monitor the budget and underlying assumptions throughout the year and takes appropriate action to deal with any deterioration in the financial position.

(8) The States set and monitor targets for all material categories of income collection and recovery of arrears based on age profile of debt.

Criteria Group Two

(1) All the criteria listed in Group One above together with the following additions.

(2) The States consistently maintain spending within overall budget without significantly over-spends or under-spends.

(3) The States policy for reserves and balances is based on a thorough understanding of needs and risks and is properly and clearly reported.

(4) Monitoring information is available that evaluates the effectiveness of debt recovery actions associated costs and the cost of not recovering debt promptly for material categories of income.

Criteria Group Three

(1) All the criteria listed in Groups One and Two above together with the following additions:

(2) The States monitor key financial health indicators and set challenging targets for example for income collection, levels of variances from budget, prudential framework indicators, capital programme management.

(3) The States have a good record in achieving these targets.

SECTION FOUR ~ HOW WELL DOES THE INTERNAL CONTROL ENVIRONMENT ENABLE THE STATES TO MANAGE THEIR SIGNIFICANT BUSINESS RISKS?

Criteria Group One

(1) The States have adopted a risk management strategy and policy that has been approved.

(2) The risk management strategy/policy requires the States to identify corporate and operational risks, assess the risks for likelihood impact, identify mitigating controls and allocate responsibility for the mitigating controls.

(3) The States maintain and review a register of its corporate business risks linking them to strategic business objectives and assigning ownership for each risk.

(4) Reports to support strategic policy decisions and project initiation documents include a risk assessment.

Criteria Group Two

(1) All the criteria listed in Group One above together with the following additions:

(2) The risk management process is reviewed and updated at least annually.

(3) The risk management process specifically considered risks in relation to significant partnerships and provides assurances to be obtained about the management of those risks.

(4) All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own working environment.

(5) Members with specific responsibility for risk management have received risk management awareness training.

(6) Members with responsibility for corporate risk management receive reports on a regular basis and take appropriate action to ensure that corporate business risks are being actively managed including reporting to the States as appropriate.

Criteria Group Three

(1) All the criteria listed in Groups One and Two above together with the following addition:

(2) A senior officer and States member champion and take responsibility for embedding risk management throughout the States.

Question Two: Have the States maintained a sound system of internal control?

Criteria Group One

(1) The States have conducted an annual review of the effectiveness of internal control and reported on this in the SIC.

(2) The sources of assurance to support the SIC have been identified and are reviewed by senior officers.

(3) There are action plans in place to address many significant internal control issues reported in the SIC.

(4) The core functions of an audit committee are being undertaken.

(5) The States have an internal audit function that operates in accordance with the relevant codes of practice.

(6) The States have arrangements in place to ensure that it has a sound system of internal financial control for example, carrying out regular bank reconciliations and reconciliations of major feeder systems.

(7) The States have arrangements in place to ensure compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful, internal control and business risks.

Criteria Group Two

(1) All the criteria listed in Group One above together with the following additions:

(2) The States have put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances.

(3) The assurance framework supports the SIC.

(4) The procedural notes/manuals for key financial systems are reviewed and updated as appropriate.

(5) The standing orders, standing financial instructions and scheme of delegation are reviewed and updated as appropriate.

(6) Compliance with standing orders, standing financial instruction and the scheme of delegation is monitored by management and any breaches are identified and appropriate action taken.

Criteria Group Three

(1) The States can demonstrate corporate involvement in and ownership of the process for preparing the SIC.

(2) An audit committee has been established that demonstrates an appropriate independence of the executive function with terms of reference and working practices that are consistent with the relevant codes of practice.

Question Three: Do the States have adequate arrangements to promote and ensure probity and propriety in the conduct of business?

Criteria Group One

(1) The States have adopted a Code of Conduct for staff.

(2) The States have put in place arrangements for monitoring compliance with standards of conduct including registers of interest, registers of gifts and hospitality and complaints procedures.

(3) There is a counter fraud and corruption policy applied to all aspects of the States' business which has been communicated throughout the States.

(4) The States have arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct and of fraud and corruption.

(5) There is a whistle blowing policy which has been communicated to staff and those contracting with the States.

Criteria Group Two

(1) All the criteria set out in Group One above together with the following additions:

(2) The States are proactive in raising the standards of ethical conduct amongst members and staff including the provision of ethics training.

(2) The States have undertaken an assessment in standards of conduct including how effectively members are complying with the Code of Conduct, the number and types of complaints received and takes action as appropriate.

(3) Members of staff are aware of the need to make appropriate disclosures of gifts, hospitality and pecuniary interests. There is evidence that members of staff are making appropriate disclosures in the registers and that they are regularly reviewed.

(4) The strong counter fraud culture is supported and promoted senior officers.

(5) The States undertake proactive counter fraud and corruption work which is determined by a formal risk assessment.

(6) The States can demonstrate that counter fraud and corruption work is adequately resourced.

(7) Investigations into allegations of fraud and corruption are conducted in accordance with the normal lawful requirements.

(8) The whistle blowing policy is publicised within the States and demonstrates the States' commitment to providing support to whistle blowers.

Criteria Group Three

(1) All the criteria listed in Groups One and Two above together with the following additions:

(2) The States can demonstrate that its members of staff exhibit high standards of personal conduct.

(3) The States can demonstrate a strong counter fraud culture across all departments. Staff have clearly acknowledged and accepted their responsibility to prevent and detect fraud and corruption.

SECTION FIVE ~ HOW WELL DO THE STATES ACHIEVE GOOD VALUE FOR MONEY?

Question One: How well do the States currently achieve good value for money?

Criteria Group One

(1) There is a positive relationship between costs and the range, level and quality of service provided, including overheads and capital costs.

(2) Overall costs and unit costs for key services are not significantly higher than other Councils providing similar levels and standards of services allowing a local context.

(3) Significant unintended spending is identified and there are plans in place to address it.

(4) Areas of higher spending are in line with States' priorities.

Criteria Group Two

(1) All the criteria listed in Group One above together with the following additions:

(2) The States ensure that a range of quality services is delivered appropriate to the States' duties under the Law while marinating relatively low overall costs including overheads and capital.

(3) Overall costs and unit costs for key services demonstrate best value compared to other Councils providing similar levels and standards of services after making due allowance for the local context.

(4) Unintended high spending is identified and is addressed.

Criteria Group Three

(1) All the criteria listed in Groups One and Two above together with the following addition:

(2) The States ensure that the range of services delivered effectively addresses duties under the Law and is delivered to a high quality standard. Overall spending including overheads and capital consistently demonstrates best value from resources.

Question Two: How well do the States manage and improve value for money?

Criteria Group One

(1) There is some information on costs and how these compare to others and to the quality of services but this is not fully understood. Managers use this information and review value for money and report to members.

Criteria Group Two

(1) The criterion listed above together with the following addition:

(2) There is clear information on costs and how these compare to others and to the quality of services achieved currently and over time. Members and managers routinely use this information to review and challenge value for money throughout the services and corporately.

Criteria Group Three

(1) The criteria listed in Groups One and Two above together with the following additions.

(2) The States have a track record of using high quality information and benchmarking on costs and quality to actively manage performance and prove value for money and target resources.