

Huntingdonshire District Council

Use of Resources Judgements 2005-06

April 2006

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1 Executive Summary

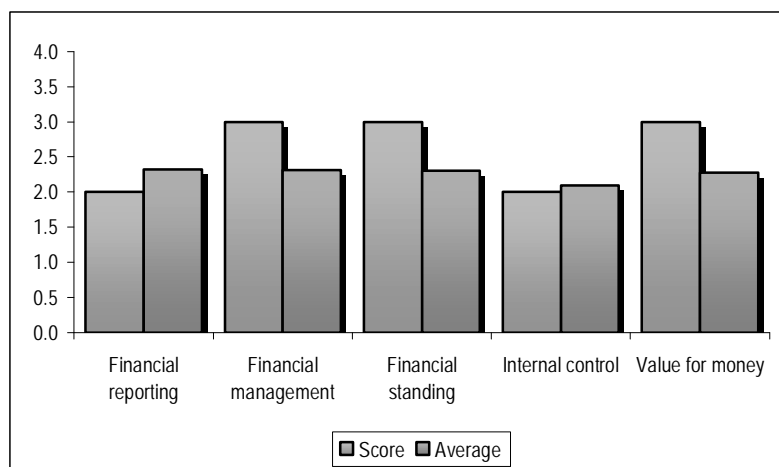
Introduction

- 1.1 The use of resources judgement, designed by the Audit Commission, assesses how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the council's priorities and improve services.
- 1.2 Specifically the assessment covers five themes, as follows:
- Ø Financial reporting;
 - Ø Financial management;
 - Ø Financial standing;
 - Ø Internal control; and
 - Ø Value for money.
- 1.3 Each of the above themes is scored by ourselves on a 1-4 basis, 1 equating to inadequate performance, 2 representing adequate performance, 3 good performance and 4 innovative practice.
- 1.4 We commenced our fieldwork in accordance with the Audit Commission's timetable in November 2005 with a view to reporting our five individual judgements to the Audit Commission by 6th February 2006.
- 1.5 The Audit Commission then released the overall judgement to the Council on the 13th March at which point the Council is given the opportunity to request a review of the judgement if it is felt that it has been awarded the incorrect score overall.
- 1.6 The Audit Commission are currently in the process of carry out a consultation exercise following the first round of judgements. Should the proposed changes to the framework be accepted then there will be a number of specific areas effected prior to next years judgements. The Council should therefore consider the potential impact of these changes prior to commencing any follow up action in response to the content of this report.

Results

- 1.7 Overall the Council achieved a score of 3 for the 2005-06 judgements, which represents an assessment of good performance on the Audit Commission's scoring system.
- 1.8 The five individual results are given in the exhibit overleaf, along with an indication of the Council's performance when compared to the average position of Unitary Authorities for 2005/06, as the data for District Councils was not available at the time of writing.

Exhibit One: Individual Scores against the average for District Councils



- 1.9 The above exhibit shows that overall the Council's performance was above average for financial management, financial standing and value for money and around the average for both financial reporting and internal control.
- 1.10 There were no areas where the Council failed to achieve Level 2 performance and therefore the Council should target the various Level 3 requirements, which were not met, all of which are outlined in the body of this report.

Key Messages

- 1.11 The Council whilst achieving a high level of performance overall should consider the potential benefit to the organisation of strengthening its overall arrangements with regards to internal control (where only a level 2 was achieved), in particular:
- Ø Effective embedding of risk management across the organisation;
 - Ø The implementation of a formalised assurance framework to support the Statement on Internal Control;
 - Ø An assessment of the standards of ethical conduct across the organisation should be undertaken; and
 - Ø A risk assessment process should be introduced to evaluate the need for (and quantity of) proactive counter fraud work.
- 1.12 In addition to the above, there is scope to evidence more effective member challenge both in relation to the scrutiny of the accounts and the evaluation and monitoring of information in relation to performance and quality which feeds into the Council's financial reporting and value for money scores respectively.

The Way Forward

- 1.13 This report outlines the actions that the Council should consider taking in order to build on its current good performance in readiness for the 2006/7 judgements. Where additional work will be required to advance to the next level of judgements consideration should be given to the resource implication that this may have.

Acknowledgements

- 1.14 We would like to take this opportunity to thank the Head of Financial Services, the Head of Policy, and the other officers involved in our review for their help and support during the course of our work in this area.

RSM Robson Rhodes LLP

March 2006

2 Approach and Context

Background

- 2.1 The use of resources judgement was designed by the Audit Commission to assesses how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 2.2 Specifically the assessment covers the following five themes:
- **Financial reporting;**
 - § Considers the arrangements in place to produce the annual accounts; and
 - § Assesses the extent to which the Council promotes external accountability
 - **Financial management;**
 - § Considers the Council's medium term financial strategy, budgets and capital programme and whether these are soundly based and designed to deliver strategic priorities;
 - § Assesses whether the Council effectively manages its performance against budgets; and
 - § Considers the way in which the Council manages its asset base.
 - **Financial standing;**
 - § Focuses on whether the Council manages its spending within the available resources.
 - **Internal control;**
 - § Assesses how effectively the Council manages its significant business risks;
 - § Considers whether the Council has arrangements in place to maintain a sound system or internal control; and
 - § Focuses on the Council arrangements to promote and ensure probity and propriety in the conduct of its business.
 - **Value for money;**
 - § Assesses whether the Council currently achieves good value for money; and
 - § Considers whether the Council manages and improves value for money.

Process

- 2.3 The use of resources assessment in District Councils forms part of interim activity assessment prior to the new framework for CPA in district councils. Future CPA arrangements for Districts will be subject to Consultation in April 2006. The Use of Resources score is not used in CPA for district councils in 2005/06 but will form part of the evidence available in future years.
- 2.4 Furthermore, the Audit Commission is currently consulting on proposed changes to a number of specific criteria within the Use of Resources framework. At the time of writing the consultation is yet to be finalised, however, we have included the potential changes in Appendix B, so that the Council can at least consider the changes that may occur before embarking upon addressing any issues flagged in this report.
- 2.5 The use of resources assessment will be conducted annually in all councils. It has been significantly revised from that used in previous CPA assessments. The revised assessment is designed to offer stronger judgements on financial reporting, financial management, internal control, and financial standing. The questions on which the judgements will be based are broader and more strategic in their nature and reflect the impact of financial arrangements as well as the adequacy of those arrangements. The value for money judgement draws on a self-assessment by the Council and represents a new dimension of auditors work, one where historic evidence and comparability are difficult to assess.
- 2.6 The higher standards reflect a widespread view that the previous criteria did not sufficiently differentiate between varied levels of performance. They also reflect the principle of continuous improvement and will help establish clear minimum requirements that are intended to provide the foundation for reducing regulation in the future.
- 2.7 The value for money element is designed to complement the work completed by councils in producing their annual efficiency statements and in doing so avoid unnecessary duplication of effort.
- 2.8 We were required to review, as part of the value for money assessment, the Council's annual efficiency statements setting out the efficiency gains delivered under the 'Gershon' efficiency review but not to provide specific assurance on the annual efficiency statement. However, in reporting back to the Council on the results of their value for money assessment, we will, from 2006, report by exception should we have specific concerns about the process followed by the Council in compiling the efficiency statement, or where the statement is not consistent with the auditor's knowledge of the Council obtained through other audit work.
- 2.9 From 2005/06 our reviews of the process followed by the Council in compiling the annual efficiency statement will help to inform the conclusion on its arrangements to secure economy, efficiency and effectiveness in the use of resources as required under the new Code of Audit Practice (the Code).

Scoring

- 2.10 The overall use of resources score will be based on combining auditors' scores for each of the areas covered. The score will be on the following scale:

4 = Well above minimum requirements and equates to those councils which are performing strongly. *A level 4 would be achieved where a Council can demonstrate that arrangements are innovative and beyond what might have been traditionally considered to be best practice for any given area.*

2 Approach and Context

3 = Consistently above minimum requirement, equating to those councils who are considered to be performing well. *A level 3 would be achieved where appropriate arrangements were in place and could be demonstrated to have been operating effectively and fully embedded within the culture of the Council.*

2 = At only minimum requirements which equates to adequate performance. *A level 2 would be achieved where appropriate arrangements were considered to be in place but could not yet be demonstrated to be embedded in the culture of the Council and operating effectively.*

1 = below minimum requirements and equates to inadequate performance.

- 2.11 Each judgement area consists of a number of key lines of enquiry and areas of audit focus and evidence. There are also descriptions of performance against each key line of enquiry showing performance levels 2, 3 and 4 against which we were required to assess the Council's performance.

Timing

- 2.12 The Audit Commission issued the Council with the value for money self-assessment in early June. The Council was then required to complete this self-assessment and submit it to us by the end of October 2005.
- 2.13 We undertook our fieldwork between November 2005 and January 2006 and submitted our results to the Audit Commission by the deadline of the 6 February 2006. Following this submission, the Audit Commission embarked upon a process of quality assurance to ensure consistency of judgements across all audit suppliers before confirming that we were able to share the results with the Council on the 6 March 2006.

Scope and nature of this report

- 2.14 This report summarises the results of our work in reaching a conclusion of the Use of Resources auditor judgements. It is not intended to cover every issue which has come to our attention, but rather provide an overview of the key issues which we have identified during the course of our review.
- 2.15 This report is presented for consideration by the Council and its officers and is for the Council's use only and should not be relied upon by any third parties.

3 KLOE 1: Financial Reporting

Introduction

- 3.1 The Financial Reporting Key Line of Enquiry is built up of two individual KLOEs as follows:
- Ø The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers; and
 - Ø The Council promotes external accountability.
- 3.2 The first of the above KLOEs carries a higher weighting than the second and thus the Council's score on the annual accounts production process is fundamental in maximising the theme score for Financial Reporting overall.

KLOE 1 Results

- 3.3 The table below gives the scores which the Council achieved for Financial Reporting during the 2005-06 judgements in this area:

Table 1: KLOE 1 Results

Reference:	Key Line of Enquiry	2005-06 Judgement
1.1	The Council produces annual accounts in accordance with relevant standards and timetables, supporting by comprehensive working papers	2
1.2	The Council promotes external accountability	2
KLOE 1	Combined Score for KLOE 1: Financial Reporting	2

- 3.4 The narrative below draws out the main achievements and key barriers for the Council in being awarded the next level for each of the KLOEs given above.

Key Findings: KLOE 1.1 – Annual Accounts

- 3.5 KLOE 1.1 focuses on the arrangements that the Council has in place to produce its annual accounts in accordance with relevant standards and timetables and supporting by comprehensive working papers.
- 3.6 The council scored level 2 for this KLOE based on the audit of the 2004/05 accounts. The following key features were identified by the previous auditors (the Audit Commission) assessment in this area:
- The accounts approved by the Corporate Governance Panel and submitted to the auditors on time;
 - Adequate working papers were received and information requirements and requests were dealt with in a timely manner; and
 - The closedown timetable and guidance were complied with.

The Way Forward

3.7 The council achieved a strong Level 2, meeting all of the compulsory criteria. In terms of barriers to achieving a Level 3 improvements in one area are required to be demonstrated and evidenced as follows:

- Ø The accounts should be subject to robust member scrutiny/discussion either at the formal approval meeting or at another appropriate forum prior to approval.

Key Findings: KLOE 1.2 – External Accountability

3.8 KLOE 1.2 focuses on the arrangements that the Council has in place to promote external accountability.

3.9 The Council also achieved a strong Level 2 against KLOE 1.2 with the following key findings identified:

- The accounts were published in accordance with the requirements of the Accounts and Audit regulations 2003;
- The Annual Audit Letter was published in accordance with the requirements of the Accounts and Audit Regulations 2003;
- 2004/05 Accounts have been published on the Council website;
- 2003/04 Annual Audit Letter has been published on the Council website;
- All Agendas and Minutes are available on the Council's website and are put on the website in a timely manner; **but**,
- No process of consultation was carried out with a range of stakeholders to establish their requirements in respect of summary accounts or an annual report;
- No summary accounts are currently produced; and
- No annual report has been prepared.

The Way Forward

3.10 The Council were able to meet all of the required Level 2 criteria and all but one of the Level 3 criteria. The only real barrier to achieving a Level 3 in this area in the judgements next year is around the following area:

- Ø A process of consultation to be carried out with a range of stakeholders to establish their requirements in respect of the publication of summary accounts or an annual report.

3.11 The Council has also failed to meet a non-compulsory Level 3 requirement requiring the publication of summary accounts that are intelligible and accessible to members of the public.

3.12 Before embarking on a consultation exercise, the Council should consider that at the time of writing, the Audit Commission were consulting as to whether to amend criterion around summary accounts and the publication of an annual report. Therefore this criterion may be subject to change before the next round of judgements.

4 KLOE 2: Financial Management

Introduction

- 4.1 The Financial Management Key Line of Enquiry is built up of three individual KLOEs as follows:
- ∅ The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities;
 - ∅ The Council manages performance against budgets; and
 - ∅ The Council manages its asset base.
- 4.2 The above KLOEs each carry an equal weighting in determining the overall theme score in this area.

KLOE 1 Results

- 4.3 The table below gives the scores which the Council achieved for Financial Management during the 2005-06 judgements in this area:

Table 2: KLOE 1 Results

Reference:	Key Line of Enquiry	2005-06 Judgement
2.1	The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities	3
2.2	The Council manages performance against budgets	2
2.3	The Council manages its asset base	3
KLOE 2	Combined Score for KLOE 2: Financial Management	3

- 4.4 The narrative below draws out the main achievements and key barriers for the Council in being awarded the next Level for each of the KLOEs given above.

Key Findings: KLOE 2.1 – Medium Term Financial Strategy

- 4.5 The KLOE in relation to the Council's medium term financial strategy is perhaps one of the harder KLOEs to satisfy. The KLOE is designed to ensure that there are the appropriate links between financial planning and key corporate objectives, and at the higher levels, that these processes are tied back to the associated outcomes.
- 4.6 Our experience of auditing this KLOE both at this and other councils was that providing the evidence base to support these links proved to be quite challenging even at Level 2.
- 4.7 The Council scored a Level 3 against this KLOE, fulfilling all of the compulsory and non-compulsory requirements as follows:

4 KLOE 2: Financial Management

- The council has in place a medium term financial strategy, linked to key strategic objectives and taking account of both local improvement priorities and national priorities;
- This strategy models income and expenditure over 5 years and is reviewed on an annual basis;
- A comprehensive balanced budget has been set based on appropriate projections;
- The financing of expenditure is transparently explained;
- Budgets are reviewed annually and go to Cabinet for approval;
- An affordable capital programme has been agreed and the funding built into revenue planning.
- Budget holders are involved in the budget setting process. The budgets are subject to review by senior officers and are assigned to the individual manager best able to use and control it;
- Cash flow forecasts are prepared on a regular basis;
- The budget includes a positive assurance statement from the Chief Finance Officer;
- There is use of prudential indicators in assessing the affordability of projects;
- Business planning is adequately integrated with financial planning;
- The Corporate Plan priorities drive the medium term plan;
- The Corporate plan appears to take account of a wide range of factors;
- The Council's medium term financial strategy is linked to other internal strategies;
- The medium term plan is communicated to staff and stakeholders through the website;
- The budget is integrated with the medium term plan. It is also linked to business and activity plans through service plans and scorecards. Risk assessments are completed for material items of expenditure;
- Financial management arrangements are reviewed annually to ensure they remain appropriate; and
- Projects are appraised as part of the medium term plan process;

The Way Forward

4.8 Looking forward to the next set of judgements, if the Council is to be in a position to achieve a Level 4 score then the following must be provided:

- Ø Evidence showing that all joint plans with partners are taken into account in the medium term financial strategy. The creation of a partnership register would help evidence the fact that all agreed plans had been taken into account;
- Ø The medium term financial strategy should model balance sheets and cash flows over a minimum of three years; and
- Ø Evidence showing that the Council monitors and can demonstrate how it's financial plans and strategies have contributed to the achievement of their corporate objectives.

4.9 The Council will need to consider the cost benefit analysis of addressing the issues noted in paragraph 4.8 above which are required if a level 4 is to be achieved.

Key Findings: KLOE 2.2 – Performance against Budgets

4.10 KLOE 2.2 is largely process driven and requires the Council to have a series of budget management and monitoring techniques in place.

4.11 Our review identified that all of the compulsory Level 2 requirements were in place; however, only three of the five compulsory Level 3 criteria were met.

- Whilst profiling is not used, forecast budgets are prepared each month to enable a meaningful comparison between actual and budget. This mechanism is considered a suitable alternative for profiled budgets;
- A scheme of budget delegation is prepared;
- Guidance is made available to budget holders;
- Budgets are approved prior to the start of the year and monitored regularly;
- Analysis of budget monitoring confirmed that no action plans were required;
- Budget monitoring reports are presented to the Cabinet each quarter;
- Relevant non-financial and financial information is reported to senior officers through BVPI update reports and corporate performance monitoring reports;
- A line of professional accountability exists between business groups and the Chief Finance Officer;
- Resources can be tracked to major spending activities and there is a clear split between revenue and capital;
- Departmental overspends have been managed with no adverse impact on service delivery;
- Suitable arrangements for financial training and support appear to be in place;
- Agreed processes are in place with preset tolerance to adjust and approve budgets;
- Members receive sufficient financial and non-financial information;
- No significant departmental overspends have occurred;
- A traffic light system is in place to focus the Executive on key variances;
- Management have put in place consultation processes to ensure that the finance systems, training and support are appropriate;
- Business Objectives software enables specialist reports on the finance system; **but**
- Budget holder reports tend to take around 20 days. This is in excess of the 10 day requirement (note this is currently a non-compulsory criteria);
- There is insufficient evidence to show that risk assessments inform the budget monitoring process; however
- Reporting on planned savings and efficiency gains only commenced in 2005/06 and no action plans have been developed;
- There is insufficient evidence of regular testing of the financial system report outputs;

4 KLOE 2: Financial Management

- No balance sheet reporting is provided for the Executive;
 - Savings and efficiency gains are not profiled over the year.
- 4.12 Auditor judgement was exercised on one of the Level 2 criteria. Whilst profiling is not used, forecast budgets are prepared each month to enable a meaningful comparison between actual and budget. Internal audit have not found any significant weaknesses in the budget monitoring process and, therefore, this mechanism is considered an acceptable alternative for profiled budgets.
- 4.13 The non-compulsory Level 2 requirement relating to the performance of significant partnerships was not met. This was due to a lack of evidence available to support a process of results sharing.

The Way Forward

- 4.14 At the next set of judgements, for the Council to be in a position to achieve a Level 3 result, the following improvements are required:
- Ø Risk assessments should be produced to inform the budget monitoring process; and
 - Ø Action plans should be developed to support the reports on planned savings and efficiency gains.
- 4.15 In addition to the compulsory Level 3 requirements listed above, there is one non-compulsory Level 2 requirement and one non-compulsory Level 3 requirement that have not yet been met. The future requirements for these are:
- Ø Evidence of regular review of significant partnerships. The review should be linked to outputs the results shared with partners and acted upon.
 - Ø Budget holder reports should be produced within the required ten days.

Key Findings: KLOE 2.3 – Management of the Asset Base

- 4.16 The KLOE in relation to the Council's asset base is concerned with the effectiveness of the arrangements that the Council currently has in place to manage its asset portfolio.
- 4.17 Level 3 performance was achieved on KLOE 2.3. The lack of benchmarking and an integrated asset management system prevented the achievement of a Level 4 in this area. However, the findings were as follows:
- A capital strategy is in place;
 - An asset management plan is in place;
 - An asset register is maintained;
 - There is a designated corporate property function;
 - Council arrangements for reporting to Members are sufficient to ensure that they fulfil their responsibility in relation to land and buildings;
 - An annual programme of planned maintenance is in place;
 - The level of backlog maintenance has been assessed;
 - The capital programme gives priority to projects based on a formal, objective approval process;

4 KLOE 2: Financial Management

- A Member has been allocated portfolio responsibility for fixed assets;
- Backlog maintenance is covered by the Medium Term Plan.
- Local performance relating to fixed assets are in place;
- Investment and disposal decisions are based on detailed option appraisals and costings; **but**
- No benchmarking process is in place in relation to asset management outcomes; and
- There is no co-ordinated approach for asset management information and its integrated with relevant organisational financial information.

The Way Forward

4.18 Looking forward, to be in a position to achieve a Level 4 criteria, the following improvements are required:

Ø A process of benchmarking should be put in place to evaluate how the asset base contributes to the achievement of corporate and service objectives. In addition, the results of performance management and benchmarking should be communicated regularly to stakeholders.

Ø An approach should be developed to enable the coordination of asset management information and its integration with relevant organisational financial information.

4.19 As is the case with KLOE 2.1, the Council will need to consider the cost benefit analysis of addressing the issues noted in paragraph 4.18 above if a Level 4 in this area is to be achieved.

5 KLOE 3: Financial Standing

Introduction

5.1 The Financial Standing Key Line of Enquiry is built up of just one KLOE as follows:

- Ø How well does the Council safeguard its financial standing.

5.2 Despite there being only one KLOE in relation to Financial Standing it does count for one fifth of the overall score.

KLOE 3 Results

5.3 The table below gives the score which the Council achieved for Financial Standing during the 2005-06 judgements in this area:

Table 3: KLOE 3 Results

Reference:	Key Line of Enquiry	2005-06 Judgement
3.1	How well does the Council safeguard its financial standing	3
KLOE 3	Combined Score for KLOE 1: Financial Standing	3

5.4 The narrative below draws out the main achievements and key barriers for the Council in being awarded the next Level for the KLOE 3.1.

Key Findings: KLOE 3.1 – Financial Standing

5.5 KLOE 3.1 focuses on how well the Council safeguards its financial standing.

5.6 For the Financial Standing KLOE the Council has achieved a Level 3 result. Arrangements are not considered sufficient on budget monitoring and opportunity costs to enable a Level 4 result at this time, however our findings are as follows:

- A balanced budget is set, taking into account cost pressures and the impact on Council Tax and Rents;
- A managed underspend against budget was achieved;
- A policy on reserves has been agreed by Members and is reflected in the budget and medium term strategy;
- Reserves are monitored and maintained with the target range;
- The budget includes a positive assurance statement from the Chief Finance Officer;
- A Treasury Management Strategy is in place and meets CIPFA requirements;

5 KLOE 3: Financial Standing

- The budget is monitored and any appropriate action taken;
- Targets are set and monitored for income collection;
- Spending is maintained within budget, without significant over and under spends;
- Target levels for reserves and balances have been identified based on a thorough understanding of needs and risks;
- Monitoring information is available to show the effectiveness of debt recovery; but
- Budget monitoring by Members is only based on forecast budget and does not include any commentary on the current level of spend. There is no evidence of any specific targets being set by Members for monitoring purposes;
- The Council does not formally consider the opportunity cost of its current policy on the level of reserves, nor is there any consideration of the linked benefits to holding such reserves (although we appreciate that the current strong financial position mitigates against the need for such a process to a point).

The Way Forward

- 5.7 The Council was able to sufficiently meet the Level 2 and Level 3 criteria. In order to achieve a Level 4, the following improvements are required:
- Ø Budget monitoring should include commentary on the current level of spend. Members should set targets for monitoring purposes; and
 - Ø Consideration should be given to the potential benefits of formally considering the opportunity cost of the current policy on the required level of reserves. Consideration should also be given to the linked benefits of holding such reserves.
- 5.8 The Council will need to consider the cost benefit analysis of addressing the issues noted in paragraph 5.7 above if a Level 4 in this area is to be achieved.

6 KLOE 4: Internal Control

Introduction

6.1 The Internal Control Key Line of Enquiry is built up of three individual KLOEs as follows:

- ∅ The Council manages its significant business risks;
- ∅ The Council has arrangements in place to maintain a sound system or internal control; and
- ∅ The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.

6.2 The three KLOEs are weighted equally and hence the score for Internal Control overall is built up as an average of the three individual scores.

KLOE 4 Results

6.3 The table below gives the scores which the Council achieved for Internal Control during the 2005-06 judgements in this area:

Table 4: KLOE 4 Results

Reference:	Key Line of Enquiry	2005-06 Judgement
4.1	The Council manages its significant business risks	2
4.2	The Council has arrangements in place to maintain a sound system of internal control	2
4.3	The Council has arrangements in place that are designed to promote and ensure probity in the conduct of its business	2
KLOE 4	Combined Score for KLOE 4: Internal Control	2

6.4 The narrative below draws out the main achievements and key barriers for the Council in being awarded the next Level for each of the KLOEs given above.

Key Findings: KLOE 4.1 – Risk Management

6.5 The risk management KLOE is designed to form a view as to the effectiveness of the Council's risk management arrangements, and in particular is concerned with the extent of senior officer and member involvement.

6.6 The Council achieved a Level 2 for this KLOE with none of the Level 3 requirements being met, our findings can be summarised as follows:

- A risk management strategy has been approved by Members;

6 KLOE 4: Internal Control

- The risk management strategy highlights the risks, their likelihood, their impact, the mitigating controls and the responsibility;
- Individual risk registers are produced. There is no separate explicit link to corporate objectives, but the existence of the service risk registers and the generally sound overall financial governance and focus on risk management is considered sufficient to meet the level two requirements;
- The Corporate Governance Panel has specific responsibility for risk management;
- Risk assessments are carried out to support reports on policy decisions; **but**,
- The Risk management process has not been reviewed and updated;
- No system is in place to specifically identify risks in relation to partnership;
- Not all staff have received appropriate training;
- Specific risk management training for Members was not delivered until after the year-end;
- Corporate business risks are yet to be presented to the Corporate Governance Panel;
- Whilst a senior officer has been appointed as a risk management champion, the Member appointment was not until December 2005, which was outside the year of assessment.
- The Council's risk management policy is yet to be embedded into its corporate business process;
- There is potential to strengthen the current procedures in relation to considering both positive and negative risks.

6.7 All required Level 2 criteria were met, with audit judgement being exercised on one requirement. There is no explicit link between the risk register and objectives, but the existence of the service registers and the generally sound overall financial governance is considered sufficient for Level 2 requirements.

The Way Forward

6.8 As none of the Level 3 requirements were met, the following improvements are required in order to meet the compulsory Level 3 requirements:

- Ø The risk management process should be reviewed annually. This review needs to be evidenced;
- Ø Risks in relation to partnerships should be specifically identified;
- Ø Members with specific responsibility for risk management should received detailed risk management awareness training; and
- Ø Corporate business risks should be presented to the Corporate Governance Panel and quarterly risk reports should be produced.

6.9 In addition to the compulsory Level 3 requirements above, there is also a non-compulsory requirement that all staff are given appropriate training and guidance to enable them to take responsibility for managing risk within their own working environment.

Key Findings: KLOE 4.2 – Systems of Internal Control

- 6.10 The KLOE in relation to Internal Control encompasses a series of individual topics such as the Statement on Internal Control (the SIC), the effectiveness of the Audit Committee, the quality of the Internal Audit function and the completeness of procedures notes and other standard documents which when considered together constitute the main elements of the Council's control environment.
- 6.11 As is the case in KLOE 4.1, there is a particular focus on the extent to which senior officers and members are involved in these processes.
- 6.12 Overall the Council scored a Level 2 on this KLOE. Auditor judgement was exercised in one area. Although there appears to be an opportunity for any legal issues to be highlighted, there is no formal acknowledgement on the report stating that legal issues have been considered. Given that this is the only requirement missing and that there are compensating arrangements in place, auditor judgement has been used and KLOE 4.2 scored as a Level 2 overall.
- The SIC is reviewed and approved by the Corporate Governance Panel;
 - The system of internal control is reviewed by internal audit, senior management and Members;
 - Monitoring and review of the SIC is carried out by both Members and senior management;
 - The role of the audit committee is filled by the Corporate Governance Panel;
 - Internal audit appears to operate in line with the CIPFA code of practice;
 - Procedure notes are in place;
 - The Council Constitution includes standing orders, standing financial instructions and a scheme of delegation;
 - Partnership agreements are in place;
 - Standing orders, standing financial instructions and the scheme of delegation are reviewed annually;
 - There appears to be corporate involvement in the process of preparing the SIC;
 - The Corporate Governance Panel is a full committee of the Council and is independent of the Executive and Scrutiny functions;
 - The Constitution is in place to ensure compliance with laws and regulations; **but,**
 - There is no formal acknowledgement or process for considering all reports for legal issues before presentation to Members. This is a level two failure. However, due to the fact that compensating legal review arrangements are in place to ensure that any legal issues should be picked up, auditor judgement has been used to score KLOE 4.2 as a level two overall.
 - A detailed and comprehensive assurance framework is yet to be put in place;
 - The ongoing review of procedure notes is not formally evidenced but does occur as part of the Internal Audit process;
 - There is no evidence available to show the monitoring of compliance with standing orders, standing financial instructions and the scheme of delegation;

6 KLOE 4: Internal Control

- Some training has been provided for the Corporate Governance Panel, although not sufficient to achieve a level four;
- There is not sufficient evidence of review of the Corporate Governance Panel Terms of reference to meet a level four criteria;
- Review of the standing orders, the standing financial instructions and the scheme of delegation found no specific reference to partnerships; and
- No evidence is available to confirm that partnership agreements are subject to regular review.

The Way Forward

- 6.13 Due to the point noted above, the following should be considered:
- Ø Evidence that all reports presented to Members have been formally considered for legal issues, perhaps through a formal sign off being included on completed reports.
- 6.14 In order to meet the Level 3 requirement going forward, the following is required:
- Ø An assurance framework should be put in place. This framework should provide information to support the SIC; and
 - Ø Monitoring of compliance with standing orders, standing financial instructions and the scheme of delegation should be evidenced.
- 6.15 In addition to the compulsory Level 3 criteria above, one of the non-compulsory requirements has also not been met. This requires that an annual review of the authority's procedure notes be carried out and evidenced.

Key Findings: KLOE 4.3 – Probity and Propriety

- 6.16 KLOE 4.3 is designed to evaluate the Council's arrangements for ensuring that probity and propriety are promoted within the conduct of its business. This particular KLOE therefore focuses on arrangements across the Council as a whole and hence although many Council's could demonstrate appropriate arrangements in relation to benefit fraud, many found demonstrating the same strength of arrangements in the rest of the organisation more challenging.
- 6.17 Overall the Council scored a Level 2 in this area with the following findings being noted:
- A code of conduct is in place. All Members are signed up to the code; failure to do so prevents them from becoming a councillor;
 - A code of conduct for staff is in place;
 - Arrangements for monitoring compliance with the standards of conduct are in place;
 - The standards committee is in line with the requirements of the local Government Act 2000;
 - A counter fraud and corruption policy is in place and communicated through the Council. Arrangements are in place to support this policy;
 - A whistleblowing policy is in place and Communicated through the Council;
 - The required data for the National Fraud Initiative was provided;

- The register of gifts and hospitality is used appropriately. Reminders are provided for staff and members;
- The Corporate Governance Panel promotes a strong counter fraud culture;
- The Council ensure that financial redress is sought wherever possible;
- The whistleblowing policy is publicised throughout the Council;
- NFI data matches have been identified and reviewed. Data matches are passed over to DWP wherever appropriate;
- Training and review is in place to ensure that statutory requirements are met;
- A strong counter fraud culture appears to be in place. Training and compulsory testing ensure that staff remain aware of fraud issues;
- The Council is proactive in raising the standards of ethical conduct;
- There is evidence to show a proven track record in response to whistleblowing disclosures;
- All NFI matches are followed up and prosecution policies are in place to maximise returns; **but**
- No formal assessment of standards of conduct has been carried out;
- Linked to the above point, there is a lack of available evidence to confirm that Members and staff exhibit high standards of conduct;
- There is no formal documented risk assessment in place driving proactive work against fraud and corruption;
- The risk of fraud and corruption does not appear to have been covered in any great detail within the overall risk management guidance and processes;
- There do not appear to be processes in place to communicate the results of fraud cases with staff members; and
- There is not sufficient evidence to show that weaknesses revealed are reviewed and appropriate action taken to strengthen internal controls.

The Way Forward

6.18 In order to move forward to a Level 3 result, the following improvements are required:

- Ø An assessment should be undertaken of the standards of conduct, including details on compliance with the code of conduct, complaints made and action taken; and
- Ø Proactive fraud and corruption work should be undertaken. This should be determined by a formal risk assessment as appropriate.

6.19 In addition to the compulsory Level 3 requirements above, one non-compulsory requirement was also missed. This requires that it can be demonstrated that the fraud and corruption work is adequately resourced. Given the lack of staff availability for proactive work and the lack of a formal risk assessment, it appeared difficult to demonstrate that there are adequate resources in place.

7 KLOE 5: Value For Money

Introduction

- 7.1 The Value for Money Key Line of Enquiry is built up of two individual KLOEs as follows:
- Ø The Council currently achieves good value for money; and
 - Ø The Council manages and improves value for money.
- 7.2 The first of the above two KLOEs carries a higher weighting than the second and thus the Council's score on whether or not value for money is currently achieved is fundamental in maximising the theme score for Value for Money overall.
- 7.3 The Value for Money judgement is perhaps the most difficult for auditors to assess both due to the fact that this is the first time auditors have been asked to consider this area and also that comparability with other authorities performance can be difficult to determine. However, in our view this assessment is both accurate and complies with the Audit Commission's requirements and criteria in this particular area.

KLOE 5 Results

- 7.4 The table below gives the scores which the Council achieved for Value for Money during the 2005-06 judgements in this area:

Table 5: KLOE 5 Results

Reference:	Key Line of Enquiry	2005-06 Judgement
5.1	The Council currently achieves value for money	3
5.2	The Council manages and improves value for money	3
KLOE 5	Combined Score for KLOE 5: Value for Money	3

- 7.5 The narrative below draws out the main achievements and key barriers for the Council in being awarded the next Level for each of the KLOEs given above.

Key Findings: KLOE 5.1 – Current Value for Money

- 7.6 KLOE 5.1 is designed to form a view on whether the Council currently achieves Value for Money in its activities both with regards to the back office and also the provision of front line services.
- 7.7 The Council achieved a Level 3 for KLOE 5.1 with the following main findings:
- A variety of forms of information is available on both costs and quality;
 - Two base budget reviews have been carried out in the last three years;

7 KLOE 5: Value For Money

- The Corvu Performance Management system (web based) links corporate priorities through to individual appraisal targets;
- The above information is used by officers and reported to members on a regular basis;
- The Council is relatively high cost at a global level but spend is in line with corporate priorities and high outcomes are achieved when compared to others key areas (as evidenced by users surveys, PI results, inspections and CPA);
- The Council has a low council tax rate and stable reserves position;
- BVPI performance is favourable for key indicators as are recent CPA & inspection reports;
- Strong capital information is available on both performance against budget and slippage;
- Some examples of benchmarking were provided; and
- There is evidence to suggest that achieving value for money is built into officers appraisals.

The Way Forward

7.8 The Council needs to consider the cost benefit trade off of working towards a level 4 in this area, however should this be the objective then the following should be considered:

- The Council is relatively high spend when compared to others; and
- Some capital projects do incur slippage and are not completed to budget.

7.9 In addition to the above, the Audit Commission require level 4 performers to display innovative practice in the relevant area. The Council would also need to consider whether such practices exist and how they could be evidenced if a level 4 were to be achieved going forward.

Key Findings: KLOE 5.2 – Management and Improvement of Value for Money

7.10 KLOE 5.2 has more of a forward looking focus than 5.1 and is concerned with the arrangements that the Council has put in place to both manage and improve Value for Money.

- Processes are in place to review both costs and performance with some examples of more innovative practice such as the bright ideas scheme, financial service survey, the consultation website customer first programme and the use of the corporate score card;
- Financial management arrangements and financial standing have been assessed as strong overall (level 3);
- Information on both cost and quality is regularly reported to members and in a variety of formats;
- A number of targets are set by the Council (in addition to those which are set for national BVPIs);
- The Council is working towards exceeding the required 2.5% efficiency savings;
- Evidence has been provided to support the fact that the Council has adequate procurement arrangements in place;
- Best value reviews are carried out on a rolling programme basis and are in line with guidance and linked directly to corporate priorities;

7 KLOE 5: Value For Money

- Several examples of external funding have been provided in addition to which the Council has a dedicated external funding officer in place and links through to priorities are evident;

The Way Forward

7.11 As is the case with KLOE 5.1, the Council needs to consider the cost benefit trade off of working towards a level 4 in this area, however should this be the objective then the following should be considered:

- There is scope for more evidence of effective member challenge.

7.12 In addition to the above, the Audit Commission require level 4 performers to display innovative practice in the relevant area. Whilst some were identified during the course of our review it was felt that these were insufficient to justify a level 4 at this time and hence the Council would also need to consider whether such further practices could be developed and how they could be evidenced if a level 4 were to be achieved going forward.

Appendix A: Action Plan

This action plan includes only recommendations intended to assist the Council in achieving sufficient improvements to demonstrate compliance with the requirements of the next level within the Use of Resources framework. As such the plan does not include recommendations around those criteria considered as Level 4 within the framework other than in those areas where the Council is already assessed as being at Level 3. Where recommendations have been made relating to achieving Level 4 the Council should consider the costs and benefits of implementing procedures. Our grading system gives a priority 1 grading to significant issues whilst priority 3 equates to the achievement of best practice.

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
KLOE 1.1: Annual Accounts					
3.7	The accounts should be subject to robust Member scrutiny/discussion either at the formal approval meeting or at another appropriate forum prior to approval.	2	Robust discussion will be encouraged at the meeting of the Corporate Governance Panel which approves the accounts for audit.	Head of Financial Services	June 2006

KLOE 1.2: External Accountability					
Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
3.10	<p>A process of consultation should be carried out with a range of stakeholders to establish their requirements in respect of the publication of summary accounts or an annual report.</p> <p><i>Note this is potentially subject to changes following the Audit Commission's consultation exercise</i></p>	2	<p>The requirement has now been amended to "The council can demonstrate that it is considering the views of a range of stakeholders in making its decision whether to publish an annual report" The Huntingdonshire Strategic Partnership will therefore be consulted and the position reviewed in the light of their response.</p>	Heads of Policy and Financial Services	October 2006
3.11	<p>The publication of summary accounts that are intelligible and accessible to members of the public.</p> <p><i>Note this is potentially subject to changes following the Audit Commission's consultation exercise</i></p>	2	<p>The requirement has now been amended to "The council publishes summary financial information that meets the needs of a range of stakeholders". A brief summary of the 2005/06 accounts will be included in the September edition of Districtwide and on the Council's website. Views of stakeholders, in relation to future years, will be sought in October (see above).</p>	Head of Financial Services	September 2006
KLOE 2.1: Medium Term Financial Strategy					
4.8	<p>Evidence showing that all joint plans with partners are taken into account in the medium term financial strategy. The creation of a partnership register would help evidence the fact that all agreed plans had been taken into account.</p>	3	<p>Development of a partnership framework is underway</p>	<p>Head of Policy</p> <p>2007</p>	<p>Adoption – October 2006</p> <p>Implementation – October 2006-March</p>

Appendix A: Action Plan

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
4.8	The medium term financial strategy should model balance sheets and cash flows over a minimum of three years.	3	The requirement has now been amended to “The medium-term financial strategy models balances and resource requirements over a minimum of 3 years” . This requirement is already met.		
4.8	Evidence showing that the Council monitors and can demonstrate how its financial plans and strategies have contributed to the achievement of their corporate objectives.	3	This will form part of the enhancement of the Comprehensive Management Framework	Head of Policy and Financial Services	December 2006
KLOE 2.2: Performance against budget					
4.14	Risk assessments should be produced to inform the budget monitoring process.	2	To some extent these exist but they have not been recorded or formalised. This will be done.	Accountancy Manager	October 2006
4.14	Action plans should be developed to support the reports on planned savings and efficiency gains.	2	A major exercise is currently underway to identify the savings required over the current and future years. This should result in the creation of action plans.	COMT	February 2007
4.15	There should be a regular, evidenced review of significant partnerships. The review should be linked to outputs and the results shared with partners and acted upon (note: this is currently a non-compulsory requirement).	2	Development of Partnership Framework underway. Review will take place	Head of Policy	Adoption – October 2006 Review and Implementation – October 2006 – March 2007

Appendix A: Action Plan

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
4.15	Budget holder reports should be produced within the required ten days (note: this is currently a non-compulsory requirement).	2	Agreed	Accountancy Manager	10 August 2006
KLOE 2.3: Asset Management					
4.18	A process of benchmarking should be put in place to evaluate how the asset base contributes to the achievement of corporate and service objectives. In addition, the results of performance management and benchmarking should be communicated regularly to stakeholders.	3	This is a level 4 item. The Council is not convinced of the cost-effectiveness of this approach, but will review these processes	Head of Legal and Estates	December 2006
4.18	An approach should be developed to enable the coordination of asset management information and its integration with relevant organisational financial information.	3	This is a level 4 item. This approach will be developed as part of the introduction of a new G&S/Assessment Management System which is underway	Head of Legal and Estates	March 2007

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
KLOE 3.1: Financial Standing					
5.7	Budget monitoring should include commentary on the current level of spend. Members should set targets for monitoring purposes.	3	Our basis of budgetary control is focussed on expected year-end variations so spend to date is not reported in summary reports to Cabinet though it is included in most reports to service managers. The main thrust of the item is about member targets, which are a level 4 item, and these will be considered in relation to the review and development of the Council's scorecard.	Head of Financial Services	October 2006

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
5.7	<p>Consideration should be given to determining and documenting the opportunity cost of the current policy on the required level of reserves. Consideration should also be given to the linked benefits of holding such reserves.</p>	3	<p>Requirement has been amended to:</p> <p>Level 3</p> <p><i>The council's policy for reserves and balances is based on a thorough understanding of its needs and risks, and is properly and clearly reported to members.</i></p> <p>Level 4</p> <p><i>Where target levels for reserves and balances are exceeded, the council has identified and reported to members the opportunity costs of maintaining these levels and compared this to the benefits it accrues.</i></p> <p>The financial position that the Council is in means that this subject is formally reviewed each year and the amended requirements should be achieved by minor changes to existing processes. The eventual level of minimum balances will also be considered in more detail this year and in future years.</p>	Head of Financial Services	February 2007

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
KLOE 4.1: Risk Management					
6.8	The risk management process should be reviewed annually. This review needs to be evidenced.	2	Agreed. Already completed for 2006. RM Group will review each May.	Risk Management Group	In place
6.8	Risks in relation to partnerships should be specifically identified.	2	This approach will be a key element of Partnership Framework	Head of Policy	March 2007
6.8	Members with specific responsibility for risk management should receive detailed risk management awareness training.	2	Risk Management awareness training will be provided.	Audit and Risk Manager	October 2006
6.8	Corporate business risks should be presented to the Corporate Governance Panel and quarterly risk reports should be produced.	1	Reports will be made on a regular basis.	Audit and Risk Manager	September 2006
6.9	All staff should be given appropriate training and guidance to enable them to take responsibility for managing risk within their own working environment (note: this is currently a non-compulsory requirement).	2	Requirement has been amended to " appropriate staff ". Agreed	Audit and Risk Manager	March 2007

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
KLOE 4.2: Systems of Internal Control					
6.13	Evidence that all reports presented to Members have been formally considered for legal issues, perhaps through a formal sign off being included on completed reports.	2	Enhancement of existing processes will be developed.	Heads of Legal and Estates, Administration and Policy	December 2007
6.14	An assurance framework should be put in place. The framework should provide information to support the SIC.	1	Investigation of methodology and assessment criteria will be undertaken and a decision taken on a process of assessment	Head of Administration	December 2006
6.14	Monitoring of compliance with standing orders, standing financial instructions and the scheme of delegation should be evidenced.	2	Enhancement of existing processes will be developed.	Heads of Legal and Estates, Administration and Policy	December 2007
6.15	An annual review of the authority's procedure notes should be completed and evidenced.	2	Requirement has been amended to " <i>The procedure notes/manuals for key financial systems are reviewed and updated as appropriate</i> ". A system will be set up to formalise and record reviews.	Audit and Risk Manager	March 2007

Appendix A: Action Plan

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
KLOE 4.3: Probity and Propriety					
6.18	An assessment should be undertaken of the standards of conduct, including details on compliance with the code of conduct, complaints made and action taken.	2	Investigation of methodology and assessment criteria will be undertaken and a decision taken on a process of assessment	Head of Administration	December 2006
6.18	Proactive fraud and corruption work should be undertaken. This should be determined by a formal risk assessment.	2	Risk assessment underway. Once completed the use and availability of resources will be considered. Any extra resource will be dependent on a corporate view of relative priority.	Audit and Risk Manager	September 2006
6.19	It should be possible to evidence that fraud and corruption work is adequately resourced. Given the lack of staff available for proactive work, it seems difficult to demonstrate that there are adequate resources in place.	2	See 6.18 above		
KLOE 5.1: Current Value for Money					
7.8	Continued analysis should be undertaken to evaluate and justify the reasons as to why the Council is relatively high spend when compared to others.	3	This and most other Value for Money items to be reviewed in more detail given the more significant changes in this area.	Head of Policy Head of Financial Services	Report to September Panel.

Ref	Recommendation	Priority:	Management Response	Responsibility	Timescale
7.8	<p>The Council should continue to monitor slippage and variances from budget in relation to the capital programme with a view to minimising them as far as possible.</p> <p><i>This may be more relevant going forward in light of the pathfinder house decisions.</i></p>	3	The last review of the MTP was intended to ensure that capital spending targets were realistic. This and the current scheme of monitoring will continue. No additional action required.		
KLOE 5.2: Management of and Improvement in Value for Money					
7.11	There is scope to evidence more effective member challenge going forward.	3	This and most other Value for Money items to be reviewed in more detail given the more significant changes in this area.	Head of Policy Head of Financial Services	Report to September Panel.

Appendix B: Proposed Changes to Criteria for Judgement February 2006

Table 1 - Summary of proposed changes to criteria

KLOE	Nature of proposed modification
Financial reporting	
1.1	Make a clearer progression between levels of performance in relation to the quality of accounts approved and submitted for audit.
1.1	Delete the criterion at level three relating to earlier closedown of accounts as these deadlines are now in place.
1.2	Modify the need to consult with stakeholders in relation to establishing their requirements for an annual report and include consideration of whether to publish an annual report.
Financial management	
2.1	Modify the criteria relating to cash-flows from 'preparing forecasts' to 'undertaking monitoring' and replace three year models for cash flow with 'resource requirements'.
2.1	Expand consideration of financial management arrangements at level three to keeping under review capacity, resourcing and training needs of the financial services function.
2.2	Include at level four a criterion in relation to the Executive reviewing its effectiveness and the leadership it provides with regard to financial management.
2.2	Remove the requirement from level two in relation to profiling budgets.
2.2	Modify the requirement at level four for accrued financial reporting.
2.3	Modify the requirement in relation to responding to levels of backlog maintenance
Financial standing	
3.1	Make clearer the distinction between levels of performance in relation to criteria regarding reserves and balances.
3.1	Clarify that criteria in relation to collection and recovery are for material categories of income.
Internal control	
4.2	Include a criterion in relation to effective arrangements for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems
4.2	Include a criterion at level two in relation to business continuity plans as required by the Civil Contingencies Act (2004) and replace the reference to business critical systems with key financial systems in relation to ensuring procedures are documented.
4.2	Modify the criteria in relation to audit committees to reflect guidance issued by CIPFA in December 2005, and to place more emphasis on the impact and effectiveness of a council's arrangements.
4.3	Remove the criterion at level three in relation to seeking redress in cases of proven fraud or corruption and include ensuring instances of fraud are reviewed in order to strengthen internal control arrangements.
Value for money	
5.1 and 5.2	Remove overlap between the two KLOE so that 5.1 is clearly focused on outcomes and 5.2 considers the capacity to manage and improve value for money. Some descriptors have accordingly been moved from 5.1 to 5.2.

5.1 and 5.2	Make the distinction between levels of performance clearer.
5.1 and 5.2	Include additional descriptors at level four to provide clearer information 5.2 on assessment criteria and help promote excellence.

Changes to criteria in bold type ('must haves')

For the first four themes (financial reporting, financial management, financial standing and internal control) the criteria include elements that are shown in bold type and indicated with an asterisk. These represent 'must haves' for that level and were introduced to phase in those criteria where achievement is considered to be more demanding or requires significant investment and lead in time for authorities. The general requirement is that failure to meet any of those in bold type would prevent that level being achieved for that key line of enquiry. The descriptors are cumulative, for example a council that met criteria at level three could not be given a score of 3 unless it also met the criteria for level two.

Table 2 - Changes to criteria in bold type ('must haves')

This table summarises criteria that were previously included in the KLOE but were not in bold type and did not have 'must have' status, which are now proposed to have such status.

KLOE	Summary of Criteria
Financial reporting	
1.1	Requests for information from audit are dealt with promptly.
1.2	Summary financial information that meets the needs of a range of Stakeholders is published.
Financial management	
2.1	There are arrangements for monitoring cash flow.
2.1	The medium-term financial strategy is communicated to staff and stakeholders.
2.2	Profiled financial monitoring reports are produced within ten days of the month end.
2.2	The financial performance of significant partnerships is reviewed.
2.2	There is a training programme in place for members and staff on financial issues.
2.3	A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed.
Financial standing	
3.1	Collection and recovery of material categories of income is monitored.
Internal control	
4.1	Appropriate staff are trained in risk management.
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
4.2	Governance arrangements are in place for significant partnerships.
4.3	The council is proactive in raising standards of ethical conduct among members and staff and can demonstrate that counter fraud and corruption work is adequately resourced.

The proposals for upgrading these criteria to 'must have' status are based on the Audit Commission's experience in carrying out the first year's assessments. If they were adopted for the 2006 assessments, the arrangements to which they relate would need to be in place at 31 March 2006 to be counted for this year. The Audit Commission are seeking views in each case on whether it is reasonable to upgrade the criteria for 2006 or give notice that they will be upgraded in 2007.