

Audit Committee

30 June 2021

Compliance with CIPFA Financial Management Code

Ordinary Decision



Report of Paul Darby, Corporate Director of Resources (Interim)

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To provide Members with information about the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code) which has been designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets, for the first time, the standards of financial management for local authorities.

Executive Summary

- 2 The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide a strong foundation to:
 - financially manage the short, medium and long-term finances of a local authority
 - manage financial resilience to meet unforeseen demands on services
 - manage unexpected shocks in their financial circumstances.
- 3 The FM Code builds on the already established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing, and investments.

- 4 It is a requirement of the FM code that each local authority must demonstrate that the requirements of the code are being satisfied and whilst CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation must be the preferred response to financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting.
- 5 To this end, the Internal Audit Plan 2021/22 included a review that sought to evaluate the Council's compliance with CIPFA's Financial Management Code and to identify any improvement opportunities.
- 6 The review was undertaken in April and May 2021 and concluded that the **Council's arrangements comply with CIPFA's Financial Management Code**. The review identified three improvement opportunities, captured within an action plan and to which the management responses provided agreed to implement each in full.

Recommendation

- 7 It is recommended that Members note the contents of this report.

Background

- 8 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code) was designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 9 The FM Code was introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future within existing funding levels.
- 10 The FM Code sets, for the first time, the standards of financial management for local authorities. In recognising that one of the strengths of UK local government is its diversity, with authorities varying by size and type and organisational culture and having differing requirements in relation to reliance on local tax income or the scope to utilise additional grant or in generating trading income, the code is not prescriptive.
- 11 The FM Code is based on a series of principles by which authorities should be guided in managing their finances and supported by specific standards which are considered necessary to provide the strong foundation to:
 - financially manage the short, medium, and long-term finances of a local authority
 - manage financial resilience to meet unforeseen demands on services
 - manage unexpected shocks in their financial circumstances.
- 12 The FM Code is designed to be flexible to the nature, needs and circumstances of individual authorities. It is up to each authority to determine the extent to which it complies with the FM Code and to identify what action it may wish to take to better meet the standards that the FM Code sets out.
- 13 Each local authority must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the

section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

- 14 While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting.
- 15 The FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments.
- 16 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. The FM Code acknowledges that good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management.
- 17 The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The six principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. The principles are the benchmarks against which all financial management should be judged, and it is CIPFA's view that all financial management practices should comply with the principles which for reference are outlined below:
 - Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with transparency at its core using consistent, meaningful, and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

- 18 To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into 17 financial management standards. These financial management standards have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.
- 19 The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, it is CIPFA's judgement that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.
- 20 The FM code identifies the following 17 standards:
- The leadership team is able to demonstrate that the services provided by the authority provide value for money
 - The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2016)
 - The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

- The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)
- The financial management style of the authority supports financial sustainability
- The authority has carried out a credible and transparent financial resilience assessment
- The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
- The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities
- The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans
- The authority complies with its statutory obligations in respect of the budget setting process
- The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves
- The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
- The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions
- The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability
- The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom
- The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

Internal Audit Review of Durham County Council's Compliance with the CIPFA Financial Management Code

- 21 The Internal Audit Plan 2021/22 included a review that sought to evaluate the Council's compliance with CIPFA's Financial Management Code and to identify any improvement opportunities.

- 22 The review undertaken in April and May 2021 considered the financial management arrangements in place for each of the 17 standards. The review utilised a set of key questions prepared by CIPFA within a practitioners' guidance that accompanied the FM Code itself. For each standard suitable evidence was gathered by the Finance Team and was submitted to Internal Audit for review.
- 23 The review concluded that **'Durham County Council's arrangements comply with CIPFA's Financial Management Code, with only three improvement opportunities identified'**. These were that:
- A record is not maintained of the experience, skills and qualifications of each member of the Finance Team.
 - An external peer review of the authority's financial style has not been carried out since October 2012.
 - The authority's asset management plan is out of date.
- 24 Each improvement was captured within an action plan as part of Internal Audit Report and to which the management response provided agreed to implement each action in full.

Appendix 1: Implications

Legal Implications

Preparation of annual accounts in compliance with the Accounts and Audit Regulations 2015 and the latest CIPFA Code of Practice on Local Authority Accounting which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

Finance

There are no direct financial implications associated with this report.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

The key risk is that the Council is not operating in Compliance with CIPFA Financial Management Code.

Procurement

None.