

## **Audit Committee**

**1 July 2022**

## **Compliance with CIPFA Financial Management Code**

## **Ordinary Decision**



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## **Report of Paul Darby, Corporate Director of Resources**

### **Electoral division(s) affected:**

Countywide

### **Purpose of the Report**

- 1 To provide Members with an update against the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

### **Executive Summary**

- 2 The FM Code sets out the principles by which local authorities should be guided in managing their finances and the specific standards that should be achieved.
- 3 The FM Code was introduced in 2020 and 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.
- 4 The FM Code is designed to be flexible to the needs, nature and circumstances of individual local authorities and therefore does not determine the extent and format to which an authority complies with

the code. It does however guide local authorities towards achievement of specific standards of financial management practice.

- 5 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 concluded that the Council's arrangements comply with CIPFA's Financial Management Code.
- 7 The review identified three improvement opportunities which were reported to Audit Committee in June 2021, as part of the 2020/21 year end reporting. This report provides an update on the identified improvement areas.
- 8 A further self-assessment was undertaken during 2021/22 by the Revenue, Pensions and Technical Finance Manager. This review identified two further improvement opportunities, details of which are included in the report.

### **Recommendation**

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

## Background

- 10 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 11 The FM Code was introduced in 2020 and sets out the standards of financial management for local authorities. The code takes in consideration the varying nature, circumstances and needs of individual authorities and is therefore not prescriptive, rather enabling each authority to determine individual levels of compliance.
- 12 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.
- 13 Demonstrating 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 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.
- 15 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.

- 16 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.
- 17 The series of principles focus on an approach that assists in determining whether, in applying specific standards of financial management, a local authority is financially sustainable. The six principles are as follows:
- 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 These principles further translate into 17 financial management standards. These standards are as follows:
- 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 and subsequent update**

- 19 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.
- 20 The review undertaken and reported its findings to the Audit Committee in June 2021.
- 21 This review concluded that 'Durham County Council's arrangements comply with CIPFA's Financial Management Code, with only three improvement opportunities identified as Medium Priority'.
- 22 The following updates are provided in terms of addressing the three improvement opportunities identified:

- **Improvement Opportunity 1 - A record is not maintained of the experience, skills, and qualifications of each member of the Finance Team**

A review was undertaken in December 2021 of the job description and role profiles within the Corporate Finance function in order to ensure consistency at each level and throughout the hierarchy.

Further to this, the experience, skills, and qualifications of the Corporate Finance staff have been recorded, and in line with the service workforce plan, further opportunities for learning, growth and development via the qualification and developmental mentoring schemes and learning pathways have been introduced.

- **Improvement Opportunity 2 - An external peer review of the authority's financial style has not been carried out since October 2012.**

A peer review of DCC financial prospects, key financial risks it faces and the use of objective measures on resilience and sustainability was undertaken by the Corporate Director of Business and Resources at South Tyneside Council in September 2021.

The review concluded that the financial management at DCC is strong and the financial foundations of the Council robust. The assumptions underpinning its financial planning are generally reasonable and prudent with key risks identified related to its ongoing financial resilience and sustainability.

A small number of areas where the Council may wish to assure itself that its approach continues to be robust and appropriate account has been taken of financial risk were highlighted

The Head of Corporate Finance and Commercial Services has considered these areas and has concluded that the Council's approach remains robust and considers the financial risks involved are being managed.

- **Improvement Opportunity 3 - The authority's Asset Management Plan is out of date.**

The Corporate Asset Management Plan has been updated and a 2 year interim plan was approved by the Corporate Property Board on 17 May 2022.

## **2021/22 Self - Assessment**

- 23 Following discussion with the Chief Internal Auditor and Corporate Fraud Manager, the Revenues, Pensions and Technical Finance Manager undertook a self -assessment review in April 2022. This approach was agreed as appropriate by our external auditors, Mazars.
- 24 The 17 financial management standards and previous Internal Audit findings were re-visited, and the outcome/ updates documented.
- 25 The self-assessment review identified two further improvements for consideration. These are as follows:

- **2021/22 Improvement Opportunity 1 - A review of Reports and Oracle BI Dashboards should be undertaken to ensure relevance.**

Any review should be in conjunction and should complement the Corporate BI review in the interim whilst a corporate solution is completed

- **2021/22 Improvement Opportunity 2 – Review of Budget Managers local government finance knowledge**

To further complement the Corporate Budget Manager Training Programme, a review via service management teams to identify service Budget Manager local government finance knowledge and, where required, provide further consistent training would add value across the authority.

- 26 The Self-Assessment has sought to further evaluate the Council's compliance with CIPFA's Financial Management Code and to identify any further improvement opportunities
- 27 The review has concluded **Durham County Council's arrangements continue to comply with CIPFA's Financial Management Code**

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## **Appendix 1: Implications**

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### **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 Standards.

### **Procurement**

None.