

Report to: **Audit Committee**

Date: **17 September 2021**

By: **Chief Finance Officer**

Title of report: **CIPFA Financial Management Code**

Purpose of report: **To provide the Audit Committee with an overview of the CIPFA Financial Management Code requirements, compliance and next steps.**

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**RECOMMENDATIONS: The Committee is asked to note the report**

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**1. Background**

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), attached at Appendix A, sets out for the first time the expected standards of financial management for local authorities. It is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 1.2 Local authorities should be able to demonstrate that they are working towards full compliance with the FM Code from 2021/22. While the FM Code is not statutory, CIPFA would encourage councils to adopt its principles into practice and should be considered as a resource to support improvement internally. There is currently no formal form of assessment of the FM Code.
- 1.3 CIPFA are clear that the FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making. It is planned to incorporate the FM Code within the annual assessment of the Corporate Governance Framework and Annual Governance Statement process.

**2. Principles, Standards and Compliance**

- 2.1 In determining financial sustainability and sound decision making the code looks at evidence that demonstrates 6 standards; organisational **leadership** and **accountability**, that financial management is undertaken with **transparency**, the promotion of professional **standards**, sources of **assurance** (including political scrutiny and the results of external audit, internal audit and inspection) and that the long-term **sustainability** of local services is at the heart of all financial management processes, evidenced by the prudent use of public resources.
- 2.2 Compliance to these standards is then focused on 7 key areas, which are converted into compliance statements A to Q (see pages 15-16 of the FM Code in Appendix A). The 7 areas are summarised below :-

- **The responsibilities of the Chief Finance Officer** – evidence that the authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government and that the leadership team can demonstrate service Value for Money.
- **Governance and Management** – that the process is understood and that internal controls are in place.
- **Medium to long term financial management** - The authority has carried out a credible and transparent Financial Resilience Assessment, it has a Capital Strategy, it complies with the Prudential Code and it has a multi-year Medium Term Financial Plan (MTFP).
- **The annual budget** - The authority complies with its statutory obligations in respect of the budget setting process and setting a balanced budget.
- **Stakeholder engagement and business cases** - The authority has engaged with key stakeholders in developing its long-term financial strategy, MTFP and annual budget.
- **Performance monitoring** - The authority acts using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
- **External financial reporting** - 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.

2.3 The evidence to demonstrate compliance to the areas set out above is wide ranging, including, but not limited to:

- Financial regulations and schemes of delegation;
- Governance procedures and the roles of the relevant Committees;
- Training, including member training;
- The outcomes of internal and external audits, including the annual Value for Money (VfM) audit;
- The Reconciling Policy, Performance and Resources (RPPR) process, together with the annual Budget Summary, the annual Statement of Accounts and various benchmarking activities carried out by services.

### 3. Outcomes and next steps

3.1 The County Council is working with Surrey, Kent, Essex and Hertfordshire County Councils to develop a consistent approach for evidencing compliance. The group has been able to learn from the outcome of a review of FM Code compliance by CIPFA for Kent County Council. In addition, the group will also look to peer review one another's compliance to provide external assurance.

3.2 Table 1 provides a summary and detail of compliance areas. In line with the CIPFA review carried out at Kent CC, compliance with the code standards has been initially scored from 1-5, with 3-5 being compliant.

**Table 1 ESCC compliance assessment score**

| <b>FM Code 6 standards</b> | <b>Relevant compliance statement/criteria</b> | <b>ESCC Average score</b> |
|----------------------------|---|---------------------------|
| Leadership                 | <b>A+B+O</b>                                  | <b>4</b>                  |

|                                     |              |            |
|-------------------------------------|--------------|------------|
| Accountability                      | <b>D+P+Q</b> | <b>4</b>   |
| Transparency                        | <b>L+M</b>   | <b>3.5</b> |
| Adherence to professional standards | <b>H+J+K</b> | <b>4</b>   |
| Sources of Assurance                | <b>C+F+N</b> | <b>3.7</b> |
| Long Term Sustainability            | <b>E+G+I</b> | <b>4</b>   |

3.3 Overall, the authority is able to establish that documents, processes and procedures are in place that provide the evidence for all 6 FM Code standards have been met, with scores of 3 and above. In areas of weaker compliance, focused work will be undertaken to see where improvements can be made.

#### **4. Conclusion and Recommendation**

4.1 The Audit Committee is asked to note the report, which provides an overview of the CIPFA Financial Management Code. Assessment has been undertaken against the FM Code and the authority has been able to evidence that it has met the six FM Code standards.

4.2 The FM Code will be incorporated within the Corporate Governance Framework and Annual Governance Statement process.

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Local Member(s): All