

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 27 OCTOBER 2022

THE CIPFA FINANCIAL MANAGEMENT CODE – UPDATE AND SELF ASSESSMENT

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

ABSTRACT

This report provides information to the Committee on best practice guidance which applies to the Council's financial management arrangements. A self-assessment of the Council's compliance with this best practice has also been undertaken and is included in this report.

1. RECOMMENDATIONS

It is recommended that the Committee:

- (i) note the best practice guidance published by CIPFA known as the Financial Management (FM) Code;
- (ii) note the results from the recently undertaken self-assessment against the FM Code which shows strong compliance and only a small number of actions being required;
- (iii) scrutinise the self-assessment undertaken; and
- (iv) note that updates to the self-assessment will be undertaken periodically (every 3-5 years) in the future for reporting to this Committee.

2. ALIGNMENT TO THE COUNCIL PLAN

2.1 This report contributes to the following strategic priorities in the Angus Council Plan, we want:

- Angus Council to be efficient and effective

3. BACKGROUND

3.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) is a professional institute for accountants working in the public services, national audit agencies, in major accountancy firms, and in other bodies where public money needs to be managed. It is the only professional accountancy body in the UK that specialises in public services and aims to advance public finance and best practices. CIPFA publishes many codes of best practice some which such as the Prudential Code for Capital Finance in Local Authorities are backed by legislation and must be followed.

3.2 In October 2019 and partly in response to the significant financial pressures being faced by local authorities throughout the UK CIPFA published its first ever Financial Management (FM) Code. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Code sets out the standards of financial management for local authorities because good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

4. FM CODE REQUIREMENTS

- 4.1 The Code has six principles which are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.
- 4.2 To enable authorities to test their conformity with the Principles of Good Financial Management, the FM Code translates these into financial management standards. These standards have different practical applications according to the different circumstances of each local authority so a non-prescriptive approach is adopted. There are 17 standards in total, numbered A to Q and each of these standards fits into one of 6 high level principles.
- 4.3 The 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 its fiduciary duties (its duties to manage public money properly on behalf of taxpayers). Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory. Beyond that, CIPFA members of which the Council's Director of Finance is one, must comply with it as one of their professional obligations.
- 4.4 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead a local authority must demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.
- 4.5 The six principles of the FM Code are:-
1. Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 2. **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.
 3. 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.
 4. Adherence to professional **standards** is promoted by the leadership team and is evidenced.
 5. 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.
 6. 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.
- 4.6 Although the Code does not have legislative backing CIPFA view that it applies to all local authorities and that the Code represents best practice which in Scotland Section 95 officers (Chief Financial Officers - CFOs) should follow. The Code clarifies CIPFA's view of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional.
- 4.7 CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team. Authorities have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code.
- 4.8 The implementation date for the FM Code was April 2020 but in view of the impact of the COVID-19 pandemic financial year 2020/21 was considered to be a shadow year. The first full year of compliance is therefore 2021/22 and the self-assessment in this report therefore covers that financial year.

- 4.9 The Code states that good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this. It is important to note that while section 95 of the Local Government (Scotland) Act 1973 requires the Council to appoint a suitably qualified officer responsible for the proper administration of its financial affairs, responsibility for proper financial administration still rests ultimately with elected members.
- 4.10 The Code also emphasises that good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team as well as the CFO.
- 4.11 CIPFA's view is that the strength of financial management within an organisation can be assessed by a hierarchy of three 'financial management (FM) styles':
- delivering accountability
 - supporting performance
 - enabling transformation.

They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk

5. SELF-ASSESSMENT RESULTS

- 5.1 A self-assessment covering the 17 standards set out in the FM Code has been undertaken split into the 6 principles set out in the Code and this is attached as Appendix 1. Subject to the further scrutiny and any comments from members of the Committee the self-assessment shows strong compliance with all of the standards and only a small number of actions considered to be required as set out in the Appendix.
- 5.2 The self-assessment results are in line with the generally positive findings from internal and external audits over many years regarding the Council's governance and financial management arrangements. Nevertheless there is no room for complacency so further self-assessments against the FM Code will be undertaken periodically in future to ensure the Council continues to meet best practice. The action related to compliance by the Council with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government will be the subject of a separate report to the Committee in due course.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no additional financial implications for the Council arising from this report.

7. EQUALITY IMPACT ASSESSMENT

- 7.1 An Equality Impact Assessment is not required.

NOTE: No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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List of Appendices

Appendix 1 – FM Code Self-Assessment and Actions