



**Audit & Standards Advisory
Committee**
26 July 2021

Report from the Director of Finance

CIPFA Financial Management Code

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	None
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	<p>Minesh Patel Director of Finance Tel: 020 8937 4043 Email: Minesh.Patel@brent.gov.uk</p> <p>Rav Jassar Deputy Director of Finance Tel: 020 8937 1487 Email: Ravinder.Jassar@brent.gov.uk</p>

1.0 Purpose of the Report

- 1.1 This report is to inform the Audit & Standards Committee of the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code and outline how the Council will work towards full compliance with the code in 2021/22.

2.0 Recommendation(s)

- 2.1 That the Committee notes the requirements of the CIPFA Financial Management Code.

2.2 That the Committee notes the work plan with regards to full compliance with the code in 2021/22.

3.0 Detail

3.1 The FM Code was launched in October 2019 as the first professional code for general financial management in local authorities. It sets out the principles by which local authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve.

3.2 The FM Code has been introduced because the exceptional financial circumstances faced by local authorities has revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future.

3.3 The FM Code outlines six principles of good financial management, these six principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these six principles. The underlying six principles that inform the FM Code 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.

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.

3.4 The FM Code translates the six principles of good financial management into a series of 17 standards. These 17 standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

3.5 The areas covered by the 17 standards are:

- the responsibilities of the chief financial officer and leadership team

- governance and financial management style
 - long to medium-term financial management
 - the annual budget
 - stakeholder engagement and business plans
 - monitoring financial performance
 - external financial reporting.
- 3.6 These 17 financial management standards will 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 the FM Code and reflects a non-prescriptive approach.
- 3.7 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. The 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.
- 3.8 Each local authority must demonstrate that the requirements of the FM 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.
- 3.9 CIPFA considered the ambition within this Code, the timescale and the wider resource challenges facing local authorities. Consequently, the first full year of compliance with the FM Code is 2021/22.
- 3.10 It is for the individual authority to determine whether it meets the 17 standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the 17 standards and that they have taken such action as may be necessary to comply with them.
- 3.11 Officers are currently undertaking a full self-assessment against the 17 standards set out in the FM Code to fully understand where the Council is already compliant but to also identify any areas where further improvements can be made to achieve and/or enhance compliance. This will both evidence and demonstrate the Council's direction of travel with regards to achieving full compliance with the FM Code in 2021/22.
- 3.12 The self-assessment, work plan and progress will be presented to the Committee at its next meeting.

4.0 Financial Implications

- 4.1 The financial implications are set out throughout the report.

5.0 Legal Implications

5.1 Section 20 and 21 of The Local Audit and Accountability Act 2014 requires auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”.

6.0 Equality Implications

6.1 None.

7.0 Consultation with Ward Members and Stakeholders

7.1 None.

8.0 Human Resources

8.1 None.

Report sign off:

Minesh Patel
Director of Finance