

## **Appendix H: CIPFA Financial Management Code**

### **Initial Compliance Assessment – Islington Council**

#### **Objectives and Principles**

The CIPFA Financial Management Code (CIPFA FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The CIPFA FM Code sets a standard of financial management for local authorities.

The Code is based on a series of principles supported by specific standards and statements of practice to provide the strong foundation to:

- Financially manage the short, medium and long-term finances;
- manage financial resilience to meet foreseen demands on services; and
- financially manage unexpected shocks in their financial circumstances.

Each local authority must demonstrate that the requirements of the Code are being satisfied. Demonstrating this compliance with the CIPFA FM Code is a collective responsibility of elected members, the Chief Finance Officer and professional colleagues in the leadership team.

The CIPFA 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 demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. 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 principles focus on an approach which will assist in determining whether, in applying standards of financial management an authority is financially sustainable:

- Organisational **leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into culture
  - **Accountability** - based on medium term financial planning which 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 and includes political scrutiny and the results of both external audit, internal audit and inspection.
  - The long-term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.
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## Initial Assessment of Compliance with Statements of Standard Practice

	Section/Financial Management Standard/Statement of Standard Practice	Level of Compliance (H/M/L)	Current Treatment	Further Action (if required)
	<b>Section 1 The Responsibilities of the Chief Finance Officer</b>			
<b>A</b>	<b>The leadership team demonstrates that the services provided by the authority provide value for money.</b>	H	Compliance is demonstrated by the application of other Standards and Statements in the FM Code	
<b>B</b>	<b>The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government</b>			
B1	The Chief Finance Officer in a public service organisation is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.	H	The Corporate Director of Resources (CDR, S151) is a key member of the Corporate Management Board.	Keep under constant review and seek continuous improvements to processes and practice.
B2	The Chief Finance Officer must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy.	H	All key and material financial decisions that require the approval of senior officers or Members must have first been considered by the CDR.	Keep under constant review and seek continuous improvements to processes and practice.
B3	The Chief Finance Officer must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. The Chief Finance Officer should regularly review the skillset of elected	H	Good financial management is promoted throughout the Authority through regular communication.	Keep under constant review and seek continuous improvements to processes and practice.

	Section/Financial Management Standard/Statement of Standard Practice	Level of Compliance (H/M/L)	Current Treatment	Further Action (if required)
	members and all officers with budget/financial management responsibility and ensure appropriate support is provided.		All managers with budgetary responsibility receive financial training from Heads of Finance and there are regular Member training sessions/briefings.	
B4	<p>The Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose.</p> <p>The Chief Finance Officer should regularly review the skillset of all finance staff with senior budget/financial management responsibility and ensure ongoing appropriate support is provided.</p> <p>The ratio of qualified staff as a proportion of total finance staff ensures that the finance function has the necessary financial competence.</p>	M	<p>The Finance function is fit for purpose. A finance restructure is being undertaken at present. A training needs analysis is undertaken annually. The professional team are either qualified or actively studying for a qualification.</p>	Finance restructure to be finalised and implemented by 2022/23.
B5	<p>The Chief Finance Officer must be professionally qualified and suitably experienced.</p> <p>The Chief Finance Officer must be able to demonstrate adherence to professional CPD requirements on an annual basis.</p>	H	<p>The CDR is CCAB qualified with extensive experience in local government finance. CPD is demonstrated as part of CCAB membership obligations.</p>	

	Section/Financial Management Standard/Statement of Standard Practice	Level of Compliance (H/M/L)	Current Treatment	Further Action (if required)
B6	The Chief Finance Officer should promote the highest standards of ethical behaviour in the conduct of financial management. Professionally qualified staff should evidence an ongoing commitment to the principles of objectivity, integrity professional behaviour, professional competence, dues care and confidentiality.	H	Professionally qualified staff are required to adhere to the ethical standards of their professional bodies. Finance staff are also bound by ethical requirements in their Job Description and those within the Council's code of conduct.	
B7	To enable financially informed decision making: The Chief Finance Officer should be able to provide the leadership team with sound advice on the key principles of local government finance; and The Chief Finance Officer should be able to demonstrate a sound system which ensures the authority has access to high standards of technical financial advice.	H	The CDR is an integral part of the leadership team and provides sound advice as part of this role. The authority employs a capable and experienced workforce and also has access to technical advice through external experts for funding, taxation, audit and pensions, as well as many forums to discuss London and national issues.	
B8	The chief finance officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions.	H	The affordability of the capital strategy is an integral part of the budget and MTFS.	
B9	The chief finance officer must establish the reporting and monitoring processes and integrate the treasury management indicators into the overall financial planning process.	H	There is an established process for reporting and monitoring. Treasury Indicators are	

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			approved within the budget papers each year.	
B10	The Chief Finance Officer of Local Government Pension Scheme (LGPS) administering authorities satisfies the requirements of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013 edition).	H	Fully complies. This organisation recognises the importance of ensuring that it has the necessary resources to discharge its pensions administration responsibilities and that all staff and Members charged with financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.	
	<b>Section 2 Governance and Management Style</b>			

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<b>C</b>	<b>The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.</b>	H	CMB have hosted sessions on good financial management. An organisation wide internal controls board was established and internal controls are tested annually as part of the work of Internal Audit.	
<b>D</b>	<b>The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework(2016)</b>			
D1	The authority maintains an effective audit committee.	H	The Audit Committee meets at regular stages throughout the financial year. It has two knowledgeable and experienced independent members.	
D2	The audit committee receives and monitors the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors the audit committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team's response.	M	The audit committee receives details of all recommendations made by External Audit. The Committee receive an overview of assurance of all internal audit reports and the implementation progress of those.	A practice of referring all financial sustainability related recommendations to management and the consideration of their response will be put in place.
D3	The authority has a PSIAS conformant internal audit function	H	Fully complies.	The implementation of any recommendations from the External Quality Assessment (EQA)

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<b>E</b>	<b>The Financial Management Style of the authority supports financial sustainability</b>			
E1	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front-line service managers.	H	Financial Regulations and Instructions provide a clear and understandable framework for financial accountability.	
E2	Finance teams and the organisation they support are actively committed to continuous improvement focused on efficient and effective delivery and organisational performance.	M	Finance act as effective business partners, working closely with budget managers and Corporate Directors. This will be strengthened in new finance structure.	Await implementation of new finance structure to strengthen key areas including business partnering.
E3	Enabling transformation: the finance team have input into strategic and operational plans taking into account pro-active risk management, clear strategic directions and focus-based outcomes	H	Finance act as effective business partners, working closely with budget managers and Corporate Directors. Transformation and finance are aligned and within finance structure. The transformation process is established within the budget process.	

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E4	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	H	Budgets and financial cash limits are clearly delegated to cost centre managers. Business partners and budget holders ensure implications of decisions are understood and that departments /managers are responsible for those decisions.	
E5	The financial management of the authority has been critically evaluated	H	Internal Audit reviews core financial controls and systems on a cyclical basis.	
	<b>Section 3: Long to Medium Term Financial Management</b>			
<b>F</b>	<b>The authority has carried out a credible and transparent Financial Resilience Assessment.</b>			
F1	Financial resilience is tested against best and worst case scenarios which cover a wide range of financial demographic and social challenges.	M	Financial resilience is tested against key risk scenarios when planning the MTFS.	Strengthen the budget setting process with the inclusion of scenario planning and sensitivity analysis.
F2	The authority uses independent objective quantitative measures to assess the risks to its financial sustainability.	H	Key quantitative measures are used to assess financial stability and risks. For example, analysing the level of general fund balances and reserves.	



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F3	Decision making by the authority demonstrates a sound understanding of the risks associated with its strategic business partners.	M	Key partners are evaluated before entry into formal arrangements.	Potential to review and strengthen especially since the impact of the pandemic on partners.
<b>G</b>	<b>The authority has a Long-Term Financial Strategy for financial sustainability.</b>	H	Fully embedded within the rolling MTFS and long-term capital programme.	
<b>H</b>	<b>The authority has a capital strategy aligned to its long term financial strategy</b>			
H1	The authority has an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the Medium - Long Term Financial Strategy.  The plan should evidence rigorous assessment of asset portfolio in relation to service delivery.	H	The Council operates a corporate landlord model and is constantly evaluating the best use of its assets. A condition survey is carried out on a regular basis by external consultants, which provides a total cost and prioritisation to inform the capital programme and strategy.	
H2	The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	H	Information regarding whole-life cost of assets is maintained within the financial system and accounts.	
<b>I</b>	<b>The authority complies with the CIPFA Prudential Code</b>	H	Compliance is reported annually within the budget report. The Council is compliant.	

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<b>J</b>	<b>The authority has a rolling multi-year Medium Term Financial Plan</b>	H	The MTFS is approved and updated annually within the budget report for a 3 year period.	
<b>K</b>	<b>The authority has sustainable service plans that are consistent with its long-term financial strategy and the medium term financial plan.</b>			
K1	The Medium-Term Financial Plan should make reference to other organisational plans (e.g. workforce planning) and performance measures to demonstrate an alignment between service and financial planning.	M	Whilst other plans (e.g., workforce planning) are central to the MTFS, this link isn't explicit in published documents.	Explicit and written linking of the MTFS to all key organisational plans is recommended going forward.
K2	The authority has benchmarked the performance of its services against appropriate comparators.	H	The Authority uses CIPFA and other benchmarking services to analyse financial and service performance.	
K3	To inform the Leadership Team's decisions the authority has a single document tracking progress in the delivery of planned savings over the period of the Medium-Term Financial Plan.	H	A savings tracker is maintained and monitored regularly as part of in-year budget monitoring with ongoing implications picked up in the rolling MTFS.	
K4	The authority publishes its plans for the use of reserves over the period of the Medium-Term Financial Plan The level of reserves at 31st March in any one year should not be fall below the level previously agreed. The authority should demonstrate adherence to the most recent guidance on reserves from CIPFA's Local Authority Accounting Panel	H	The Authority has an approved Reserves document that details plans for reserves over the period of the rolling MTFS - compliant with CIPFA guidance.	

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	<b>Section 4: The Annual Budget</b>			
<b>L</b>	<b>The authority complies with its statutory obligations in respect of the budget setting process</b>	H	All statutory obligations are fulfilled within the annual budget report.	
<b>M</b>	<b>The budget report includes an assessment of its consistency with the current medium term financial plan and long-term financial strategy.</b>			
M1	The annual report proposing the budget includes an analysis of the success/failures in achieving the spending plans of the previous year and of departures from the planned use of reserves and balances.	M	This is monitored and reported on an ongoing basis with reporting picked up in the budget report as appropriate where it relates to the rolling MTFS. The budget report addresses the long term impact of in year variances.	The budget monitoring process will be strengthened going forward to include the longer term impact of in year variances.
<b>N</b>	<b>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.</b>	H	This is included within the annual budget report.	
	<b>Section 5: Stakeholder Engagement and Businesses Cases</b>			

	Section/Financial Management Standard/Statement of Standard Practice	Level of Compliance (H/M/L)	Current Treatment	Further Action (if required)
<b>O</b>	<b>The authority has engaged with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.</b>	H	The annual budget report and rolling MTFS is subject to full consultation including with key stakeholders (e.g., Council Management Board, political leadership and the business community).	
<b>P</b>	<b>The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions</b>			
P1	Option appraisal complies with IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal (Annex B to CIPFA FM Code)	M	Option appraisal complies with the principles, but this is not formally documented.	Ensure process makes explicit reference to these principles.

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P2	The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process.	H	The accounting treatment and impact is determined and documented within formal financial implications.	
<b>Q</b>	<b>The authority applies the principles contained in the CIPFA Service Reporting Code of Practice and utilises appropriate costing techniques in the development of business cases</b>	H	SeRCOP principles are utilised consistently.	
	<b>Section 6: Performance Monitoring</b>			
<b>R</b>	<b>The authority takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.</b>			
R1	Timely time financial and performance information is available to managers via the appropriate systems. The systems are engineered to provide relevant data at a sufficiently accurate level. The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'.	H	Managers are able to access information on demand. Reports have been developed with budget holders to provide them with the correct level of information.	
R2	All Financial monitoring reports include: <ul style="list-style-type: none"> <li>• The name of the budget holder responsible for the information presented</li> <li>• Accruals based financial information</li> <li>• Include the approved budget against which monitoring is taking place.</li> <li>• A forecast for the remainder of the budget period,</li> <li>• Service performance information and</li> </ul>	M	Complies with the exception of an exhaustive level of performance information within monitoring reports.	A fuller analysis of performance information needs to be embedded within monitoring reports.

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	- is shown, for instance by reconciliations, to be consistent with the aggregate position for the authority.			
R3	<p>Financial monitoring reports for high risk budgets are:</p> <ul style="list-style-type: none"> <li>• Scrutinised by the leadership team of the organisation on (as a minimum) monthly basis.</li> </ul> <p>Financial monitoring reports for steady state/low risk budgets are:</p> <ul style="list-style-type: none"> <li>• Received by budget holders on a monthly basis</li> <li>• Received (in aggregate) by the leadership team on a regular basis (in aggregate) by the leadership team.</li> </ul>	H	Fully compliant.	
R4	The authority has arrangements which allow annual service budgets to be recalibrated in response to unforeseen developments.	H	In-year budget realignments can be approved in line with the council's financial regulations.	
R5	At the financial monitoring period end the leadership team receives a set of financial statements with forecast outturn for the year ahead	H	Fully compliant.	
R6	There are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation's delivery partnerships and collaborative arrangements.	H	Yes, to the appropriate officer and Member meetings/bodies.	

	<b>Section/Financial Management Standard/Statement of Standard Practice</b>	<b>Level of Compliance (H/M/L)</b>	<b>Current Treatment</b>	<b>Further Action (if required)</b>
R7	There are appropriate arrangements in place for the project management and cost control of capital projects.	H	Capital projects and programme monitored on a monthly basis.	
<b>S</b>	<b>The authority monitors the elements of its balance sheet which pose a significant risk to its financial stability</b>			
S1	Unplanned and planned use of reserves are reported [quarterly] to the management team of the organisation and to Council.	H	Picked up on a regular basis as part of in-year budget monitoring.	
S2	Management accounts include either a full balance sheet or an appropriate level of balance sheet information to meet business needs and evidence of monitoring of material items	H	Yes – where appropriate.	
	<b>Section 7 External Financial Reporting</b>			
<b>T</b>	<b>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.</b>	H	The annual accounts are reviewed and signed by the CDR.	
<b>U</b>	<b>The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.</b>	H	An annual report is presented that informs strategic decision making.	

