

FINANCIAL ASSURANCE – CIPFA FM Code

Lead Officer: Executive Director Resources and Corporate Services, Jason Vaughan

Author: Jason Vaughan

Contact Details: jason.vaughan@somerset.gov.uk

Summary

1. Somerset Council Audit Committee has been extremely busy in its first year with signing off a significant number of statement of accounts from the predecessor councils and has also looked at a number of areas concerning financial assurance. The CIPFA FM Code is another part of the financial assurance framework.
2. The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a Financial Management Code (FM Code) in 2019. The Code, which set out seventeen standards of financial management for local authorities to assess themselves against and had an implementation date of 1st April 2021.
3. CIPFA considers application of the Code to be the collective responsibility of each authority's organisational leadership team, not just the responsibility of the Director of Finance or the finance team. For the purposes of the Code the 'Leadership Team' is defined as the collective group of elected members and senior officers.
4. Every Council should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them. It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance.

5. The FM Code is based on six principles of good financial management as set out below:

- 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.

6. There are minimum standards which must be adhered to in the FM Code to demonstrate compliance.

7. The FM Code is principle based and not prescriptive. The Financial Management Standards are grouped into 7 sections:

1. The responsibility of the chief finance officer and leadership team
2. Governance and financial management style
3. Long to medium-term financial management
4. The annual budget
5. Stakeholder engagement and business plans
6. Monitoring financial performance
7. External financial reporting

8. This report sets out the Council's assessment of its compliance with the code for the new Somerset Council for 2023/24.
9. The summary of the assessment is set out in Table 1 below with the more detailed assessment in Table 2 and action plan in Appendix 2.

Table 1. Summary of Assessment against CIPFA Financial Management Code

RAG Rating	Progress Report	Number of Financial Management Standards
GREEN	Compliance is being demonstrated	9
AMBER	Minor to Moderate improvements are required to demonstrate compliance	6
RED	Moderate to Significant improvements are required to demonstrate compliance	2
TOTAL		17

10. The following table summarises the self-assessment RAG Rating for each standard.

Table 2. Financial Management Standard Self-Assessment

Standard Reference	Financial Management Standard	RAG Rating (March 2024)
Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team		
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	AMBER

B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	AMBER
Section 2: Governance and Financial Management Style		
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	AMBER
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	AMBER
E	The financial management style of the authority supports financial sustainability.	RED
Section 3: Long to Medium-Term Financial Management		
F	The authority has carried out a credible and transparent financial resilience assessment.	GREEN
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	GREEN
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	GREEN
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	RED
Section 4: The Annual Budget		
J	The authority complies with its statutory obligations in respect of the budget setting process.	GREEN
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	GREEN
Section 5: Stakeholder Engagement and Business Plans		
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	GREEN
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	AMBER
Section 6: Monitoring Financial Performance		

N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	GREEN
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	AMBER
Section 7: External Financial Reporting		
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	GREEN
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	GREEN

Recommendations

11. The Audit Committee is asked to review the assessment against the CIPFA Financial Management Code and action plan.

Financial and Risk Implications

12. The report sets out the financial implication in the action plan.

Legal Implications

13. There are no direct legal implications arising from this report.

Background Papers

14. CIPFA FM Code and guidance.

Appendices

Appendix 1 – CIPFA Financial Management Code Assessment

Appendix 2 – Action Plan