

# INTERNAL AUDIT REPORT



## FINANCIAL MANAGEMENT CODE 2020/21

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# Financial Management Code 2020/21

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## 1. Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management Code (FM Code) in October 2019. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It sets out the standards of financial management for local authorities.

Each local authority must demonstrate that the requirements of the 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.

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. However, CIPFA has considered the ambition within this code, the timescale and the wider resource challenges facing local authorities and considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22, although earlier adoption was encouraged.

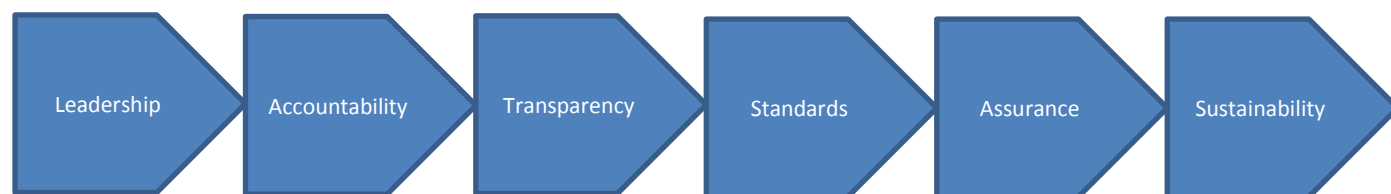
CIPFA Bulletin 06 issued in February 2021 provides guidance concerning the impact of the Covid-19 pandemic on governance in local government bodies and takes into account the introduction of the FM Code during 2020/21. The guidance refers to the impact of Covid-19 on financial resilience in 2020/21 and coming years and emphasises that implementation of the Code in the shadow year remains a critical task, particularly with its focus on achieving sustainable outcomes. For these reasons, the guidance states that Annual Governance Statements for 2020/21 should include the overall conclusion of an assessment of the organisation's compliance with the principles of the FM Code. Furthermore, where there are outstanding matters or areas for improvement, these should be included in the action plan.

The Director for Corporate Services has undertaken a self-assessment against the FM Code principles and has requested Internal Audit to review and comment on the assessment and to share good practice from other Internal Audit clients wherever possible. This report provides a summary of the review carried out by Internal Audit and identifies potential areas for improvement for the Council to consider.





## 2. Summary of findings

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that a local authority demonstrates 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 FM Code identifies the risks to financial sustainability and introduces an over-arching framework of assurance which builds on existing financial management good practice.






The principles are set out below and 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.



The FM Code and associated guidance has been used by Internal Audit to develop a framework document against which to review the Council's current level of compliance. The Council's self-assessment has been used to inform this assessment together with the cumulative knowledge and experience of Internal Audit from our ongoing work at Melton and other local authority clients. The detailed assessment has been provided to the Director for Corporate Services and the key areas of potential improvement are summarised in the table below.

Principal / Standard	Level of Compliance	Potential areas for improvement
<b>Leadership</b>		
A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.	 Satisfactory	<ul style="list-style-type: none"> <li>• More explicit statement of approach to VFM and communication of this with stakeholders. For example: committee report templates and delegated decision records could include a standard section on VFM; addressing VFM explicitly in the annual governance statement and annual financial statements; providing VFM information on the Council's website.</li> <li>• Strengthen the culture of compliance with contract procedure rules and contract management arrangements.</li> <li>• Complete the proposed update of the consultation strategy (including an approach to identifying and engaging with hard to reach groups) and ensure that the outcome of all consultations is published on the Council's website.</li> </ul>
B. The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	 Good	<ul style="list-style-type: none"> <li>• Scope to develop wider finance team capacity and skills, particularly during periods of absence to ensure key financial controls continue to operate effectively.</li> <li>• Scope to improve debt management and recovery and better reporting of revenue collection and historical debts to SLT.</li> <li>• Development of a clear and explicit role for finance staff in the new project management framework.</li> </ul>
O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	 Good	<ul style="list-style-type: none"> <li>• Scope to improve arrangements for monitoring debt levels and effectiveness of recovery action.</li> </ul>
<b>Accountability</b>		
D. The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	 Substantial	

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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.	● Good	<ul style="list-style-type: none"> <li>CFO responsibilities in relation to the statement of accounts should be included in the job description and personal objectives.</li> </ul>
Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	● Good	<ul style="list-style-type: none"> <li>Some budget variances do not become apparent until year-end and budget holder information can be patchy, indicating scope to improve financial management. Potential to undertake a skills audit and offer further training where required.</li> <li>Capital outturn reports show significant slippage in both the general fund and HRA, indicating potential for improved management of the capital programme.</li> <li>Scope for service managers to better promote and emphasise the importance of financial and project management competencies in job descriptions and as part of staff appraisals and personal objectives.</li> </ul>
<b>Transparency</b>		
L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	● Satisfactory	<ul style="list-style-type: none"> <li>Complete the proposed update of the consultation strategy including proposals to develop and expand stakeholder consultation on annual budgets and longer term financial plans.</li> </ul>
M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	● Good	<ul style="list-style-type: none"> <li>Ensure the new project management framework and approach to option appraisal is consistently applied across the Council.</li> </ul>
<b>Standards</b>		
H. The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	● Satisfactory	<ul style="list-style-type: none"> <li>Ensure the capital strategy is supported by the necessary asset data such as stock condition surveys, asset management plans and up-to-date HRA business plan (planned to be addressed by 2022).</li> <li>Ensure the Council's proposed approach to non-treasury (commercial property) investments complies with professional best practice and risk management.</li> </ul>
J. The authority complies with its statutory obligations in respect of the budget setting process.	● Substantial	
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.	● Substantial	
<b>Assurance</b>		
C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	● Good	<ul style="list-style-type: none"> <li>Development of a corporate policy/strategy for governance of partnerships.</li> </ul>

Principal / Standard	Level of Compliance	Potential areas for improvement
		<ul style="list-style-type: none"> <li>Promotion of good governance and management of persistent non-compliance issues (e.g. contract procedure rules) through staff performance appraisals, personal objectives and development plans.</li> </ul>
F. The authority has carried out a credible and transparent financial resilience assessment.	 Good	<ul style="list-style-type: none"> <li>Consider commissioning an independent financial resilience assessment, taking account of key financial risks and current signs of financial stress (reducing reserves, budget variances, lack of asset condition data etc.). Preferably to be undertaken by peers from a different authority or external partner/specialist.</li> <li>The financial resilience assessment should be based on testing the Council's financial plans against a broad range of alternative (best and worst case) scenarios.</li> </ul>
N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	 Satisfactory	<ul style="list-style-type: none"> <li>Integration of financial and operational performance and activity information in monitoring reports.</li> <li>Explicit monitoring of savings plans and targets.</li> <li>Robust monitoring of any future commercial investments as part of capital strategy and treasury management performance reports, in accordance with CIPFA/MHCLG recommended performance indicators.</li> </ul>
<b>Sustainability</b>		
E. The financial management style of the authority supports financial sustainability.	 Good	<ul style="list-style-type: none"> <li>Consider undertaking a self-assessment against the CIPFA Financial Management Model to provide additional evidence of compliance with this aspect of the FM Code.</li> <li>The self-assessment could focus on the key areas of uncertainty and/or weakness, such as: L5 Leadership (Supporting Performance), L6 Leadership (Enabling Transformation), P5 People (Supporting Performance); P6 People (Enabling Transformation); and PR5 Processes (Delivering Accountability).</li> </ul>
G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	 Good	<ul style="list-style-type: none"> <li>Seek to develop a long-term financial strategy (10+ years) in broad terms based on scenarios rather than forecasts.</li> </ul>
I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	 Good	<ul style="list-style-type: none"> <li>Further develop the capital strategy (see H above).</li> <li>Development of integrated service and financial plans (see A above).</li> <li>Inclusion of sensitivity analysis in the published MTFS.</li> </ul>

Principal / Standard	Level of Compliance	Potential areas for improvement
		<ul style="list-style-type: none"> <li>Transformation projects should have clear efficiency savings targets at the outset which feed into the MTFS and are tracked in financial monitoring reports.</li> </ul>

The leadership team should consider the findings of this review and develop an action plan for improving the level of compliance with the FM Code (commensurate with the size and nature of the authority) over the next year. The action plan should be included in 2020/21 Annual Governance Statement.

### **3. Limitations to the scope of the audit**

This is a consultancy review and, as such, is not designed to provide assurance over the adequacy of controls. It is the responsibility of management to ensure that controls are designed and operated in a way which ensures that the Council achieves its objectives, whilst minimising the risk of fraud and error. The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.