

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

23 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

THE ROLE OF THE CHIEF FINANCIAL OFFICER

1. EXECUTIVE SUMMARY

- 1.1. Following discussions between HM Treasury, the Audit Commission and CIPFA and a consultation exercise, CIPFA has issued a statement on the role of the Chief Financial Officer in Public Service organisations. The paper contains five principles all of which are already met in this Authority.

2. BACKGROUND

- 2.1. A Public Limited Company (PLC) would not be allowed to operate without a professionally qualified Finance Director on its main board. The same situation does not apply throughout the Public Sector, although it is essential for a professionally qualified Finance Director to sit on a NHS board.
- 2.2. In Local Government this situation has traditionally prevailed but in recent years an increasing number of local authorities have implemented management structures which break from this tradition. This has been the cause of increasing concern to the Government and the Audit Commission. The Government has now clarified its position.
- 2.3. In recognition of the centrality of financial issues to organisational success it is Government policy that all Government Departments should have a professional Finance Director reporting to the permanent secretary with a seat on the departmental board, at a level equivalent to other Board members. In Managing Public Money, HM Treasury recommends 'It is good practice for all other public sector organisations to do the same, and to operate the same standard'. This means the Finance Director should be professionally qualified, report directly to the paid head of the organisation, and a member of the senior team that exercises management leadership, with a status equivalent to other members.

3. CONSULTATION

- 3.1. Following discussions between HM Treasury, the Audit Commission and CIPFA, CIPFA issued a consultation paper in December 2008.
- 3.2. A response to the consultation paper was prepared for the Cabinet on 5 February 2009 and agreed by the Leader of the Council under delegation.
- 3.3. Following the closure of consultation on 28 February 2009, CIPFA issued a statement on the role of the Chief Financial Officer (CFO) in June 2009. This consists of five principles which are listed below together with the governance requirements attached to each principle.

4. THE PRINCIPLES

4.1. Principle 1

The CFO 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.

Governance Requirements

- Set out a clear statement of the respective roles and responsibilities of the Leadership Team and its members individually.
- Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members.
- If different organisational arrangements are adopted, explain the reasons publicly, together with how these deliver the same impact.
- Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the Board, and ensure that it is monitored and updated.
- Ensure that organisation's governance arrangements allow the CFO:
 - to bring influence to bear on all material business decisions; and
 - direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit.
- Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised.
- Assess the financial skills required by members of the Leadership Team and commit to develop those skills to enable their roles to be carried out effectively.

4.2. Principle 2

The CFO in a public service organisation 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 overall financial strategy.

Governance Requirements

- Establish a medium term business and financial planning process to deliver the organisation's strategic objectives, including:
 - a medium term financial strategy to ensure sustainable finances;
 - a robust annual budget process that ensures financial balance; and
 - a monitoring process that enables this to be delivered.

- Ensure that professional advice on matters that have financial implications is available and recorded well in advance of decision making and used appropriately.
- Ensure that those making decisions are provided with information that is fit for the purpose – relevant, timely and giving clear explanations of financial issues and their implications.

4.3. **Principle 3**

The CFO in a public service organisation 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.

Governance Requirements

- Make the CFO responsible for ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control.
- Ensure that systems and processes for financial administration, financial control and protection of the organisation's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.
- Address the organisation's arrangements for financial and internal control and for managing risk in Annual Governance Reports.
- Publish annual accounts on a timely basis to communicate the organisation's activities and achievements, its financial position and performance.
- Maintain and resource an effective internal audit function.
- Develop and maintain an effective Audit Committee.
- Ensure that the organisation makes best use of resources and that taxpayers and/or service users receive value for money.
- Embed financial competencies in person specifications and appraisals.
- Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out effectively.

4.4. **Principle 4**

The CFO in a public service organisation must lead and direct a finance function that is resourced to be fit for purpose.

Governance Requirements

- Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.
- Ensure there is a line of professional accountability to the CFO for finance staff throughout the organisation.

4.5. **Principle 5**

The CFO in a public service organisation must be professionally qualified and suitably experienced.

Governance Requirements

- Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.
- Ensure that the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role.

5. **PROPOSED IMPLEMENTATION AND COMPLIANCE**

- 5.1. Implementation will be effective in time for inclusion with the Annual Governance Statement for 2010. The Annual Governance Statement for 2009 was submitted to the Audit and Risk Management Committee for approval on 31 March 2009. The Annual Governance Statement is signed by the Leader of the Council and the Chief Executive prior to audit by the Audit Commission. Any local authority which does not comply with the five principles will have to provide an explanation in the Annual Governance Statement.
- 5.2. The Council complies with all of the principles.
- 5.3. It is recommended that the principles and governance requirements are presented to the Audit Committee.
- 5.4. CIPFA is now preparing detailed guidance for each sector of the public services and expects to issue a consultation paper on revisions to the role of the CFO in local government by the end of 2009.

6. **FINANCIAL AND STAFFING IMPLICATIONS**

- 6.1. As Wirral already complies with all the principles there are no additional financial or staffing implications.

7. EQUAL OPPORTUNITIES IMPLICATIONS

7.1. There are none arising from this report.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1. There are none arising from this report.

9. PLANNING IMPLICATIONS

9.1. There are none arising from this report.

10. COMMUNITY SAFETY IMPLICATIONS

10.1. There are none arising from this report.

11. HUMAN RIGHTS IMPLICATIONS

11.1. There are none arising from this report.

12. LOCAL MEMBER SUPPORT IMPLICATIONS

12.1. There are none arising from this report.

13. BACKGROUND PAPERS

13.1. Managing Public Money - HM Treasury 2007
Role of the Chief Financial Officer in Public Service Organisations - CIPFA June 2009.

14. RECOMMENDATION

14.1. That compliance with the five principles be noted.

IAN COLEMAN
DIRECTOR OF FINANCE