

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

24 MARCH 2010

REPORT OF THE DIRECTOR OF FINANCE

THE ROLE OF THE CHIEF FINANCIAL OFFICER

1. EXECUTIVE SUMMARY

- 1.1. In June 2009 CIPFA issued a statement on the Role of the Chief Financial Officer in Public Services which was reported to this Committee on 23 September 2009. CIPFA has now issued a consultation draft on the Role of the Chief Financial Officer in Local Government.

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 be a member of the senior team that exercises management leadership, with a status equivalent to other members.
- 2.4. In June 2009 CIPFA issued a statement on the Role of the Chief Financial Officer (CFO) in Public Services and then commenced work to update the 2003 statement on the Role of the Finance Director in Local Government.
- 2.5. A consultation draft has been issued in December 2009, which is based on five principles. For each of these principles there are proposed governance requirements which are relevant to the role of this Committee.

3. THE PRINCIPLES

3.1. 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.

3.2. 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 these are subject to regular review to confirm the continuing relevance of assumptions used.
- Ensure that professional advice on matters that have financial implications is available and recorded well in advance of decision making and used appropriately.
- Ensuring that budget calculations are robust and reserves adequate, in line with CIPFA's guidance.
- 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.
- Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use.
- Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary.
- Ensure that advice is provided on the levels of reserves and balances in line with good practice guidance.
- Ensure compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code.
- Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnerships arrangements, outsourcing or where the authority is acting in an enabling role.
- Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority.

3.3. 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.
- Ensure that the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes. Ensuring that these controls are an integral part of the authority's underlying framework of corporate governance and that they are reflected in its local code.
- 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.
- Ensure that Councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills, and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities.

3.4. **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.

3.5. **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.

4. **PROPOSED IMPLEMENTATION AND COMPLIANCE**

4.1. Implementation will be effective in time for inclusion with the Annual Governance Statement for 2011. 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.

4.2. The Council complies with all of the principles.

5. **FINANCIAL AND STAFFING IMPLICATIONS**

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

6. **EQUAL OPPORTUNITIES IMPLICATIONS**

6.1. There are none arising from this report.

7. **LOCAL AGENDA 21 IMPLICATIONS**

7.1. There are none arising from this report.

8. **PLANNING IMPLICATIONS**

8.1. There are none arising from this report.

9. **COMMUNITY SAFETY IMPLICATIONS**

9.1. There are none arising from this report.

10. **HUMAN RIGHTS IMPLICATIONS**

10.1. There are none arising from this report.

11. **LOCAL MEMBER SUPPORT IMPLICATIONS**

11.1. There are none arising from this report.

12. **BACKGROUND PAPERS**

12.1. Managing Public Money - HM Treasury 2007

12.2. Role of the Chief Financial Officer in Public Service Organisations - CIPFA June 2009.

12.3. Role of the Chief Financial Officer in Local Government Consultation Draft - CIPFA December 2009.

13. **RECOMMENDATION**

13.1. That compliance with the five principles be noted.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/21/10