



**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**

**21 September 2021**

**Report of the Director of Finance & ICT**

**Financial Management Code**

**1. Purpose**

- 1.1 To provide Audit Committee with an update of the Council's progress towards complying with the Financial Management Code standards.

**2. Information and Analysis**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published The Financial Management Code (FM Code) in October 2019. The FM Code provides guidance for good and sustainable financial management in local authorities, giving assurance that authorities are managing resources effectively.
- 2.2 The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable.
- 2.3 The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management.
- 2.4 Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

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- 2.6 The FM Code builds on elements of other CIPFA codes, such as The Prudential Code for Capital Finance, the Treasury Management in the Public Sector Code of Practice and the Code of Practice on Local Authority Accounting in the United Kingdom.
- 2.7 By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements.
- 2.8 The first full year of compliance will be 2021-22. This recognises that organisations will require time to reflect on the contents of the FM Code and allows them to use 2020-21 financial year to demonstrate how they are working towards compliance. However, in February 2021, the Chartered Institute of Public Finance & Accountancy issued clarification on compliance with the FM Code to reflect Covid pressures. It concluded that whilst the first full year of compliance will remain at 2021-22, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the FM Code will demonstrate a direction of travel.
- 2.9 The Council considers that it has strong levels of compliance and this is further enforced by addressing the areas where further work had previously been identified.

### **Progress**

- 2.10 Cabinet received a report on 23 April 2020, informing them of the contents of the FM Code. In this report it was noted that Audit Committee would receive reports on the Council's progress towards achieving the requirements of the FM Code by 1 April 2021. Audit Committee received a report on 8 December 2020.
- 2.11 The report highlighted that the Council already has a strong level of compliance with many aspects of the FM Code, however, there were significant areas where further work was required to document how the Council is compliant with the FM Code relating to governance and financial management. These are shown at Appendix One together with an update of progress against these areas.

### **Financial Resilience Assessment**

- 2.12 The FM Code requires the completion of a financial resilience assessment which was completed as part of the Council's submission of its pre-audit Statement of Accounts 2020-21 to the external auditor, Mazars, for consideration. This comprised of a short report to support External Audit in arriving at their Value for Money (VfM) opinion.

### **Finance Review**

- 2.13 The Council has undertaken a review of its Finance function during the last 12 months with a revised operating model implemented on 5 July 2021.
- 2.14 The revised model will bring:
- Improved collaboration, processes and workflow
  - Enhanced communication
  - Development of career pathways
  - Regular training and knowledge sharing for finance staff
- 2.15 There are three underlying principles of simplify, standardise and share which are fundamental in helping to shape the revised operating model for the finance function. The Council will utilise modern technology to support the transformation of the service, providing not only finance colleagues, but also other key stakeholders, with a suite of reporting tools providing analysis and insight from good quality data delivered through analytics and visualisation tools.
- 2.16 The revised operating model will see the introduction of a Finance Business Partnering approach which is a fundamental shift from the current financial monitoring activity. Budget holders and key stakeholders must understand their responsibilities in terms of monitoring budgets and good financial management practice as defined in the Council's Financial Regulations.
- 2.17 There will be a period of transition to ensure that the SAP upgrade, planned to be implemented in autumn 2021, delivers the enhanced financial reporting to support both finance officers and budget holders. Finance officers will be equipped with a diverse range of core skills and knowledge to support this revised approach.
- 2.18 Prior to the implementation of the revised structure, several key deliverables have already been achieved to support improved collaboration and knowledge sharing. These include:
- Training offered to all finance officers in respect of Financial Regulations, Standing Orders and Risk Management awareness.

- Implementation of a Finance Teams site with all finance officers having access to the site offering a platform for communication across the whole finance function, file sharing and a knowledgebase for finance.
- Development of an e-learning module in respect of Financial Regulations and Standing Orders which will be mandatory for all relevant Council employees.

2.19 The move to the revised structure requires a period of significant transition and transformation. A detailed plan has been devised to ensure a smooth transition to the revised model. Recruitment to roles is complete and employees have been actively involved in preparing for the change with 'task and finish' groups established to manage the change process. The Finance Teams site has been utilised to communicate key messages during this period of change.

2.20 The revised operating model builds on the solid platform of strong financial management which is currently in place, but focuses on the development of systems and processes, and improved financial reporting.

### **Summary**

2.21 Actions have been taken to address the areas where there is a need for improvement which were reported to Audit Committee on 8 December 2020, which reinforce the Council's strong financial management. However, the Council must not become complacent and will continually monitor its financial management practices. The recent Accountancy and Budgetary Control and Financial Resilience Audit Services Review concluded with an audit opinion of substantial assurance, underpinning robust financial procedures that are embedded across the Council.

2.22 The financial resilience assessment completed for the external auditor also supports the strong delivery of value for money.

2.23 The move to a revised operating model across the Finance function, together with the introduction of enhanced reporting and workflow will enhance current practices, procedures and system processes.

## **3. Alternative Options Considered**

3.1 Do Nothing – whilst the FM Code is not a legislative requirement, it applies to all local authorities. The Council's external auditors from 2021-22 will consider the requirements of the Code and the Council's standing against the principles in reaching its value for money opinion.

## **4. Implications**

4.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

## **5. Consultation**

5.1 None.

## **6. Background Papers**

6.1 Cabinet 16 April 2020 - CIPFA Financial Management Code  
Audit Committee 8 December 2020 – CIPFA Financial Management Code

## **7. Appendices**

7.1 Appendix 1 – Implications.

## **8. Recommendation(s)**

That Audit Committee:

a) notes progress against the requirements of the Financial Management Code.

## **9. Reasons for Recommendation(s)**

9.1 The Council is required to ensure that it has proper practices and arrangements in place to support good financial management and financial resilience over the short and medium-term. Ensuring compliance with the principles of the FM Code supports good financial practice, internal control and governance measures.

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**Implications**

**Financial**

1.1 None.

**Legal**

2.1 None.

**Human Resources**

3.1 None.

**Information Technology**

4.1 None.

**Equalities Impact**

5.1 None.

**Corporate objectives and priorities for change**

6.1 None.

**Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)**

7.1 None.

