

INTERNAL AUDIT REPORT



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

Financial Management Code 2021/22

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Author:	T Croote		Anne Wareham – Senior Accountant
			John Hill – Chief Executive (<i>final only</i>)



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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 were required to apply the requirements of the FM Code with effect from 1 April 2020. However, CIPFA considered the ambition within this code, the timescale and the wider resource challenges facing local authorities and decided 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 is therefore 2021/22.

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 remained a critical task, particularly with its focus on achieving sustainable outcomes. For these reasons, the guidance stated 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.

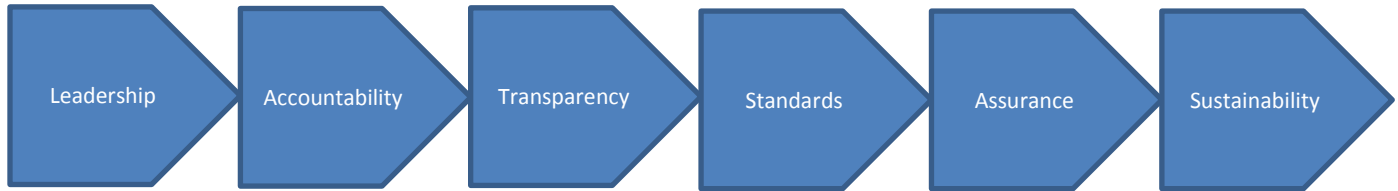
The Council's Finance Manager & S151 Officer initially reviewed the Council's compliance against the consultation version and identified that the only area of non-compliance related to the reporting of reserve account details to committee and action was taken to include details in reports to the Finance and Assets Committee during the financial year 2020/21. For 2021/22 the Finance Manager has carried out a further self-assessment against the final published version of the Code and associated guidance notes. Internal Audit has undertaken a review of the self-assessment to provide independent confirmation of compliance. 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 largely relied upon for this assessment together with the cumulative knowledge and experience of Internal Audit from ongoing work at East Cambridgeshire and other local authority clients and review of supporting evidence, where possible. The assessment has been discussed with the Finance Manager and the level of compliance and potential areas for improvement are summarised in the table below. It is for the Council and managers to determine whether any action to address the areas for improvement would be appropriate and proportion to the nature and risk profile of the authority.

Principal / standard	Level of compliance	Potential areas for improvement
Leadership		
A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.	● Good	<ul style="list-style-type: none"> It was noted that service planning and associated performance reporting was suspended during the pandemic but is being reinstated from 2022/23. This was reported in the 2020/21 annual governance statement and should also be included in the 2021/22 statement. Consider periodic benchmarking exercises and/or peer review to provide additional independent evidence of VFM.
B. The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	● Substantial	<ul style="list-style-type: none"> None identified.
O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	● Substantial	<ul style="list-style-type: none"> None identified.
Accountability		
D. The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	● Substantial	<ul style="list-style-type: none"> None identified.
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.	● Substantial	<ul style="list-style-type: none"> None identified.



Principal / standard	Level of compliance	Potential areas for improvement
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"> Consider undertaking a survey of senior managers and Members to obtain views on the adequacy of financial reports to support effective decision making.
Transparency		
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"> In addition to the current statutory business community consultation, consider developing wider periodic consultation with local residents and other stakeholders on the Council's budget and financial strategy. Particularly if decisions are required on service changes as a result of the need to address future budget gaps.
M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	● Satisfactory	<ul style="list-style-type: none"> Develop a standard approach to option appraisal based on best practice guidance.
Standards		
H. The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	● Substantial	<ul style="list-style-type: none"> None identified.
J. The authority complies with its statutory obligations in respect of the budget setting process.	● Substantial	<ul style="list-style-type: none"> None identified.
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.	● Good	<ul style="list-style-type: none"> Consider inclusion of sensitivity analysis showing the financial impact of any potential errors in key assumptions. This may be more appropriate in future if/when the Council's revenue reserves decrease to such an extent that the accuracy of key assumption represents a key risk to the Council's overall financial standing.
Assurance		
C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	● Substantial	<ul style="list-style-type: none"> None identified.
F. The authority has carried out a credible and transparent financial resilience assessment.	● Satisfactory	<ul style="list-style-type: none"> Consider commissioning an independent financial resilience assessment, taking account of key financial risks. This may be more appropriate in the future if/when revenue reserves have reduced to the extent that the Council is in the position of having to consider service changes in order to balance the budget.



Principal / standard	Level of compliance	Potential areas for improvement
N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	● Good	<ul style="list-style-type: none"> Consider the need for greater integration of financial and operational performance and activity information in monitoring reports.
Sustainability		
E. The financial management style of the authority supports financial sustainability.	● Good	<ul style="list-style-type: none"> Consider undertaking a self-assessment against the CIPFA Financial Management Model to provide additional evidence of compliance with this aspect of the FM Code. Consider the need for additional financial management training for budget holders and managers (see 2021/22 Internal Audit review of budgetary control).
G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	● Satisfactory	<ul style="list-style-type: none"> Whilst accepting the considerable uncertainties in respect of future government funding levels, the Code strongly encourages development of a long-term financial strategy, at least in broad terms.
I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	● Substantial	<ul style="list-style-type: none"> None identified.

The leadership team should consider the findings of this review and, where appropriate, 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. Where actions are considered necessary these should be included in 2021/22 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. The Auditor has sought to review the Council's self-assessment and verify the responses through review of evidence, where possible, providing an independent view of potential areas for improvement. Internal Audit has not conducted a full assessment against every element of the Code.

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.